

MORTGAGES

MEETING YOUR NEEDS

Buying a house is probably the biggest financial commitments you will make in your lifetime. The process can be complicated and stressful, not made any easier by the number of options available and the burden of information and documentation required.

When lenders have plenty of money available, they will offer all sorts of incentives to take out a mortgage with them. On the other hand, when money is tight, lenders are very particular as to whom they will provide a mortgage. Either way, it's very difficult for the consumer to find the best mortgage that suits their circumstances both at the time of the loan and later.

When taking out a mortgage you need to be sure that

- **You can afford it.** This means throughout the time of the mortgage, i.e. until you have paid it back. Many people look at initial low rates without considering how to budget for when rates increase.
- **You can get it when you need it.** Lenders might offer excellent mortgage deals, but they are of no use if they take forever to release the money. This can result in missing the purchase of the house.
- **There are no nasty surprises.** When budgeting for the purchase of a home, you need to know exactly what everything costs, including arranging a mortgage. Some types of mortgage require arrangement fees to secure special rates or terms.

YOUR MORTGAGE ADVISER

This is where your independent mortgage adviser can help. Independent means acting on your behalf, with your interests and treating you fairly as their priority. Your adviser has access to the whole of the market, which means researching all types of mortgages from all lenders to find the most suitable for your needs. Often lenders offer better rates by arrangement through your adviser. Your adviser will help you find what's best for you from those available. The value you get from your adviser is the overall advice as to what is best for you and your circumstances as well as arranging the mortgage on your behalf when agreed.

THINGS TO THINK ABOUT

Before meeting with your adviser, here is a list of things to consider:

How long are you likely to remain in your property?

The length of time you intend to live in your chosen house might affect the option that is most suitable for you. If you are planning to move to a bigger property, to another area or even abroad, the most appropriate mortgage might be different to the most suitable in other circumstances.

What is your budget likely to be over the foreseeable future?

Mortgage payments are based on your current financial situation. If you anticipate that this will change over the coming years, it might be that a mortgage is available to meet these circumstances. Reasons for change could be promotion, maternity/paternity leave or retirement.

How much will it cost?

Your adviser will agree with you the charge for advice and whether this will be paid by way of a fee or, if appropriate, paid by the lender (or a combination of both). The costs of the mortgage will be clearly laid out in a Key Facts document. If applicable, take particular care in understanding the monthly costs after any initial discounted rate, as these are the 'real' costs of the mortgage. Also, unless fixed throughout the whole term of the mortgage, the interest rate charged will vary, up and down, according to market conditions.

How much can you borrow?

This varies between lenders and the availability of money. It is generally linked to your income and that of your partner. Most lenders will agree to a multiple of your joint salary with deductions for any regular outgoings such as loan repayments. In setting your own budget, consider important outgoings such as grocery bills, council tax, running a car, fuel bills, pension contributions and insurance policies.

The costs of stamp duty and conveyancing and arrangement fees also need to be set aside in your budgeting.

What insurance should you have?

Depending on your circumstances, your adviser might recommend taking out life and critical illness cover to clear the mortgage in the event of death or contracting a serious illness. Also, in uncertain times, it is useful to take out a mortgage protection plan that covers the repayments in the event of accidents, sickness or unemployment. Consideration should be given to state and occupational benefits and their limits.

REPAYMENT METHODS

There are two methods of repayment, Capital & Interest and Interest only. Which you choose will depend on your attitude to risk – i.e. the chances of not being able to pay back the loan at the end of the term – and your circumstances at the time. Your mortgage adviser will guide you in the right direction.

Capital & Interest

This method is also known as a repayment mortgage. A portion of each monthly payment to your lender is used to meet the cost of the interest charged and the balance is used to repay the capital loan. The lender will work out an average monthly payment based on the interest rate at the time of the loan. In the early years the largest part of each monthly payment will be to pay the interest rate. Over the years, as the capital element reduces, this moves the other way. Keeping up the mortgage payments ensures that the loan will be paid off at the end of the term

Interest Only

Your monthly payment covers the interest charge only. The outstanding mortgage remains the same throughout the agreed term and needs to be paid back at the end. If the mortgage is for your home you need to ensure that you have savings or investments in place to build up the necessary capital. If the mortgage is for a holiday home or buy-to-let property, selling the property might raise the capital. As you can see, there is an element of risk in this type of mortgage as there is no guarantee that the capital will be accumulated.

TYPES OF MORTGAGE

Different mortgages have different rates of interest and the way interest applies also varies between contracts. The type that is best for you will depend on your personal circumstances and budget.

Variable Interest Rate

The interest rate payable will vary in line with the Bank of England Base Rate. Your payment will generally be adjusted within one month of the announced change.

Fixed Interest Rate

The rate will be fixed for a specified period after which the rate will adjust to the lender's standard variable rate prevailing at the time.

Discounted Interest Rate

The rate charged will be a set percentage below the standard variable rate. As rates vary so will the discounted rate, but the set percentage difference will remain the same.

Capped Interest Rate

The variable interest rate will be payable but will be capped at a maximum rate for a specified term. This ensures that, for the agreed term, there will be an upper ceiling on the interest rate you pay.

Cash-back Mortgage

Often used as an incentive for first-time buyers, the cash helps pay for incidental costs of moving into a new home. The interest rate is normally variable. Penalties are likely to be applied if the mortgage is repaid or transferred in the early years.

Flexible Mortgage

This is a type of mortgage linked to your bank or deposit account. It allows you to retain flexibility in the repayment of your mortgage throughout the term. Features include being able to increase and decrease your payments and borrowings and, in certain circumstances, temporarily cease payments. A flexible mortgage is normally arranged on a variable interest basis and current/deposit account balances can offset the mortgage outstanding, therefore reducing the overall interest payable.

Bridging Loans

A bridging loan could be used to buy a house before the sale of your existing property is complete. The purpose is to secure the purchase of the new property and save you money and stress. However, these loans are expensive and need to be approached with caution. There are two main types of bridging loan: 'closed' and 'open'. A closed bridge is available to homebuyers who have already exchanged on the sale of their existing property. As very few sales fall through after exchange lenders are happy to offer closed-bridge financing. An 'open' bridge is taken out by buyers who have found their ideal property, but may not have put their existing home on the market. A lender will need to be very certain of your affordability of sustaining the interest on the loan for the duration of the sale. It will also insist on you having lots of equity in your existing property should you have to reduce the asking price.

FLEXIBILITY WITHIN YOUR MORTGAGE

Some mortgages have more built in flexibility than others. In general, the interest rates will be slightly higher for the flexible options. If you are looking to move house in the short to medium term after purchase, many lenders will offer a portable mortgage. In addition it is possible to remortgage your property once any special terms have expired and you are free from early repayment charges.

You may also have more than one type of mortgage on your property. For example, you might have a repayment mortgage on the house and take out an extended, interest-only mortgage to pay for home improvements or a conservatory. The term of the second mortgage can be designed to coincide with the end of the first.

WHAT TO DO NEXT

Talk to your independent mortgage adviser. This leaflet can only give you an outline of the choices available to you and your adviser can help you find the mortgage that best suits your needs, circumstances and affordability. Contact us on 0117 930 2393 or e-mail: info@burnsandersonifa.co.uk.

"Your home may be repossessed if you do not keep up repayments on your mortgage".