Mortgage matters

Understanding the different schemes available

Compton Financial Services

FACTSHEET

A mortgage is a loan used to buy a property, but one which is secured on that property. This means that the mortgage provider (a bank or building society) retains an interest in the property until the entirety of the loan is paid back.

There are different types of mortgages, classified by the way the interest on them is charged, or how the interest rate changes over time. Each has its own advantages and disadvantages. If you do not keep up repayments on the mortgage, they have the right to repossess the property.

REPAYMENT MORTGAGES

This is the basic way of repaying all mortgages, however specialised they are, apart from interest only loans which are different. With repayment mortgages, each month you repay some of the interest you owe plus some of the capital you've borrowed. At the end of the period, often 25 years, you'll have paid back everything you owe and you'll own your home outright. Of course, you're likely to move within the 25 years. In this case, you might be able to take the mortgage with you (called 'porting' your mortgage) or you can repay the original loan and take out a new one. It could be that by the time you move, your house has gone up in value, and anyway you will have repaid some of the capital. So next time, you can put down a bigger deposit and possibly find a new mortgage at a better rate of interest.

INTEREST-ONLY MORTGAGES

With interest-only loans, you pay just the interest month by month and repay the capital at the end of the period with money you've saved elsewhere. This is quite different from a repayment mortgage because at the end of the loan you'll have to find enough money to repay the whole debt. You can save up any way you want or use money from an inheritance, but you must be confident of having the money to hand when the time comes to repay. If you don't, you might have to sell the house to pay off the mortgage. There's still a risk that won't be able to repay the mortgage on time so, before granting an interest-only mortgage, lenders can insist you show them how you intend repaying the loan at the end. The big advantage of interest-only mortgages is that your monthly repayments are lower than with any other mortgage because you are paying only the interest due. If you find you're getting nervous about being able to repay the loan on an interest-only basis, you may be able to switch to a repayment loan at a later date.

FIXED RATE MORTGAGES

A fixed rate mortgage enables you to fix the rate for a set number of years - usually 2, 3 or 5 years and sometimes 10 years. You know exactly how much you'll be paying each month for that length of time, regardless of what happens to interest rates on other mortgages.

However you'll remain on a higher rate if other mortgage rates and schemes go down. You can exit a fixed rate mortgage, but there'll be an early repayment charge to pay for switching before the end of the period.

When the mortgage comes to an end, you'll be put on the lender's standard variable rate (SVR) which will probably have a higher interest rate than you've been paying. In that case, you can apply for another fixed rate deal.

VARIABLE RATE MORTGAGES

Every lender has a standard variable rate (SVR) mortgage. The interest rate goes up and down as mortgage rates generally change. They are partly influenced by the Bank of England base rate, but other factors come into play as well. The interest rate you pay on an SVR mortgage can change even without base rate moving, and similarly base rate might come down but your mortgage rate stays the same.

TRACKER MORTGAGES

Tracker mortgages move in line or track a nominated interest rate which is usually the Bank of England base rate. The actual mortgage rate you pay will be a set interest rate above or below the base rate. When base rate goes up, your mortgage rate will go up by the same amount. And it'll come down when base rate comes down. Some lenders set a minimum rate below which your interest rate will never drop, but there's no limit to how high it can go.

DISCOUNT RATE MORTGAGES

The discount is a reduction on the lender's standard variable rate (SVR). Mortgages with discounted rates are some of the cheapest around but, as they are linked to the SVR, the rate will go up and down when the SVR changes. The deal lasts for a fixed period of time, typically 2 to 5 years.

CAPPED RATE MORTGAGES

This is a variable rate mortgage but one with a ceiling (a cap) on how high your interest rate can rise. You have the comfort of knowing that your repayments will never exceed a certain level while you can still benefit when rates go down. As mortgage rates generally have been low in recent years and there are better deals around, lenders don't often offer capped rate mortgages at the moment.

CASHBACK MORTGAGES

This is a marketing incentive sometimes offered by lenders. When you take out their mortgage, they give you money back, typically a percentage of the loan. You need to look carefully at the interest rate being charged and any additional fees as you'll likely find cheaper mortgages without cashback.

REQUIRE FURTHER INFORMATION?

We can help you with your mortgage needs. Whether you're a new client or we've previously arranged a mortgage for you, please contact us to discuss your requirements.

Email: info@comptonfinancial.co.uk
Call our London Office: 0208 611 2521
Call our Surrey Office: 01252 411 851

OFFSET MORTGAGES

Offset mortgages are linked to a savings account and combine savings and mortgage together. Each month, the lender looks at how much you owe on the mortgage and then deducts the amount you have in savings. You pay mortgage interest just on the difference between the two. This cuts the amount of interest you pay, but the mortgage rate is likely to be more expensive than on other deals. You can still access your savings if you need to, but the more you offset, the quicker you'll repay your mortgage. When you use your savings to reduce your mortgage interest, you won't earn any interest on them, but you won't pay tax either.

95% MORTGAGES

These are for people who can afford only a 5% deposit. With such a small deposit, you are at risk of falling into negative equity if house prices go down. Because of the risk, lenders will charge a comparatively high mortgage rate. There's more information for people with 5% deposits in the government's Help to Buy scheme (http://www. helptobuy.gov.uk/) and our Help to Buy guide.

FLEXIBLE MORTGAGES

Flexible mortgages give you more leeway with making repayments. You can choose to pay in more than your regular amount when you can afford it (this option is also available on many other types of mortgage). And, unlike other mortgages, if you have already overpaid you can pay less if you hit a difficult patch or even take a payment holiday and miss a few payments altogether. In return for this flexibility, the mortgage rate will be higher than on other deals.

FIRST-TIME BUYER MORTGAGES

First-time buyers can apply for any of the types of mortgages listed above. The Government also has schemes to help people struggling to get on the mortgage ladder with its Help to Buy schemes.

BUY-TO-LET MORTGAGES

Buy-to-let mortgages are for people who want to buy a property and rent it out rather than live in it themselves. The amount you can borrow is at least partly based on the amount of rent you expect to receive. First-time buyers are unlikely to be allowed a buy- to-let mortgage.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME.
YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

FACTSHEET

First-time buyer

Getting onto the property ladder can be a big step

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FACTSHEET

Buying a home is the largest purchase you're likely to make. Getting onto the property ladder can be a big step. Where should you live? Which property should you make your home? How will you pay for it?

SAVING FOR A DEPOSIT

If you're a first-time buyer, you need to save for a deposit before looking at properties. Generally, you need to try to save at least 5% to 20% of the cost of the home you would like. Saving more than 5% will give you access to a wider range of cheaper mortgages available on the market. As a first-time homebuyer, the most important thing to bear in mind is whether you can really afford to take this step. It's wise to put together a budget before you start looking for a property. There are now also strict checks when you apply for a mortgage.

LOCATION, LOCATION, LOCATION

It's a good idea to write down what you want from a home and order it in terms of priority. You need to think about where you want or need to live, what type of area you'd prefer, and the size of the property you want or need. You also need to get a feel for an area to check it suits your lifestyle. Find out about transport links and parking, where shops and green spaces are, how busy the area is, and how far you'd be from friends and relatives. In addition, consider how critical the location is relative to local schools, the hospital, commuting distance to your work, accessibility to public transport, and closeness to family and friends. Think about what's going to be most important to you in an area: a low crime rate? Proximity to pubs, restaurants and entertainment?

MAKING AN OFFER

Before you make an offer on a property, you should ask the estate agent if the seller is ready to move. Have they found another property to move to and secured a mortgage? Have they received any other offers? Which fixtures and fittings are included in the price? In Scotland, before you express an interest in a property, you appoint a conveyancer. Once you find a property you're interested in, your conveyancer registers a 'note of interest' on your behalf so you're kept informed of any closing date for submitting an offer.

The seller must give you a copy of the Home Report which outlines what the property is worth, its condition, the repairs required and its energy-efficiency rating. In Wales, England and Northern Ireland, you can make an offer directly to the estate agent. You can let them know you're serious about buying the property by having a mortgage approved in principle, and want to move quickly. If the seller rejects your offer, if you can afford to, you can increase your offer. Once you offer is accepted, ask the estate agent to confirm it in writing and take the property off the market.

In Scotland, you instruct your conveyancer to make a written offer on a property on your behalf. If the offer is acceptable, the conveyancers agree the conditions of sale through the exchange of formal letters. This process is called 'concluding the missives' and may happen quickly if little negotiation is required. Once the missives are concluded, neither you nor the seller can pull out without penalty.

MORTGAGE AGREEMENT IN PRINCIPLE

When you put an offer on a property, you can show estate agents you're serious about buying by obtaining an 'agreement in principle' (AIP) from a lender. The AIP states the amount the lender is likely to lend you. It's not a legally binding agreement as it's subject to a valuation of the property and you send in any evidence the lender requires, such as payslips. You shouldn't ask many lenders for an AIP, as it requires a credit check against your credit file. The credit check leaves a footprint which can be seen by other lenders on your file and may affect your ability to get credit.

To make a full mortgage application, you'll need to provide your lender with:

- details of the property
- proof of your employment and income, e.g. your most recent payslips
- proof of your identity and address
- copies of your bank statements for the last three months

If your lender is happy with the evidence you've provided and the purchase price of the property after a valuation, they'll send you a formal mortgage offer.

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ARRANGING YOUR MORTGAGE

When considering the different mortgage deals available, we'll discuss the following with you:

- Type of loan – repayment (where you pay part of the balance and interest each month), interest-only or both
- Type of mortgage – for example, fixed-rate, tracker or schemes designed to help first time buyers
- Mortgage rate – it's important to look beyond the initial interest rate and consider what the rate will be after the deal ends
- Mortgage fees – these can be considerable, particularly if you change your mortgage before your deal ends, so make sure you check what fees apply to the mortgage you're considering

MORTGAGE 'STRESS TEST'

Mortgage lenders will check that you can afford the mortgage and also 'stress test' your ability to make your payments if interest rates were to rise or if your circumstances changed, such as a planned retirement date or if you started a family.

As part of the mortgage application process, you'll need to show the lender evidence of any outgoings you have and prove your income.

LEGAL MATTERS

A conveyancer deals with the legal side of a buying a property. They arrange the transfer of ownership by drawing up and exchanging contracts with the seller's conveyancer (or 'concluding missives' in Scotland). They also arrange the payment of Stamp Duty Land Tax or Land and Buildings Transaction Tax in Scotland, and conduct legal searches, including local authority, water drainage and environmental searches and register the property title in your name. In Wales, England and Northern Ireland, you appoint a conveyancer once your offer is accepted on a property. In Scotland, you appoint a conveyancer before you make an offer on a property, as they are responsible for placing the offer on your behalf. A survey should point out any major issues with the condition of the property. If it brings up issues you're not aware of, you could ask the seller to reduce the sale price or fix the issues before exchange of contracts. If they're not willing to do this, you may need to reconsider your options.

The different surveys available are:

- a snagging report – a survey for new builds giving an overview of defects and poor finishing
- a home buyer report – a more detailed survey giving guidance on defects and repairs that need sorting out
- a building report – a comprehensive survey for older properties giving a full breakdown on the structure and condition of a property. It can be tailored to the property

In Scotland, the seller provides you with a Home Report outlining what the property is worth, its condition, the repairs required and its energy efficiency rating. You can also choose to instruct your own survey as well.

Exchanging contracts – your conveyancer will arrange for all the paperwork to be in place before completion date.

They will exchange contracts (or conclude missives) with the seller's conveyancer, once you've:

- received your final mortgage offer
- checked through and are happy with all the legal documents
- transferred your deposit to your conveyancer
- agreed a completion date
- signed the contract

You'll need to have buildings insurance in place before you exchange in England, Wales and Northern Ireland. In Scotland, buildings insurance must be in place before the completion date known as the 'Date of Entry'.

You're legally bound to buy the property once you've exchanged contracts or concluded missives. If you decide to pull out after this point, you could lose your deposit and may face legal action from the seller.

After exchanging or concluding missives, you'll need to sign the mortgage deed and a document to transfer ownership of the property to you.

Completing – usually, completion takes around six to eight weeks but it may be longer if you're in a property chain. On the day of completion, you can move into your new home once your conveyancer confirms the money has been transferred to the seller's conveyancer.

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