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

Mortgage Review

Could you save money by shopping around?

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A home is the most expensive purchase most people ever make. As an owner, you will benefit from expert advice on the condition of your property – whether you plan to live in it, rent it out or sell it.

Is your current mortgage as competitive as the best new deals on the market today? It's no secret that the mortgage market is a highly competitive one. New products, new rates and better deals appear all the time, meaning there could be huge potential for homeowners to get better value somewhere else. Regular mortgage reviews are an effective way of keeping an eye on the current market and could save you money in the long run.

SWITCH TO A BETTER DEAL

If appropriate to your particular situation, you could save hundreds – perhaps thousands – of pounds by shopping around, so it's a good idea to review your mortgage at least once a year to check whether you should switch to a better deal. Ideally, you should keep a regular eye out for better mortgage deals – new ones are coming onto the market all the time, and, if you're not locked into a fixed or discount rate deal with an early repayment charge, it could be worth your while changing lenders (remortgaging) at any time.

EARLY REPAYMENT PENALTIES

You should review your mortgage when interest rates change to see how your current deal compares to new deals that have come onto the market. This is because the change of interest rates will affect how competitive your current deal is when your current mortgage deal comes to an end – your rate may increase once a year if you're not tied in to deal with early repayment penalties. If you do nothing when rates change or your mortgage deal ends, you could lose out to many better deals that are available in the market. It's a good idea to set up a reminder to review your mortgage once a year – or before your current fixed deal ends. You could save yourself hundreds of pounds! Typically, it's prudent to set a diary reminder to start shopping around at least three months before your current fixed or discount deal reverts to the lender's standard variable rate.

REDUCE YOUR MORTGAGE TERM

When you make the switch (or remortgage), if monthly payments are going to be lower, you can choose either to make reduced payments or – better still – stick to your original payments and reduce the mortgage term. Although you can often reduce your payments by switching, bear in mind that there are a number of costs associated with remortgaging. There may be high early repayment charges to pay if you are leaving before the initial locked-in period of your mortgage expires. There are unlikely to be charges if you are on your lender's standard variable rate.

LEAVE YOUR CURRENT LENDER

Your new lender may charge you valuation and legal fees, although these are often waived if your remortgage is successfully completed. There is also likely to be an exit fee to pay when you leave your current lender, so factor this into your costs. There is also usually a booking or arrangement fee to pay on the new deal – you can opt for a fee free deal to avoid this, but you may end up paying a higher interest rate as a result. We will ensure that you are able to weigh up the total cost of any remortgage against the savings you'll make before you actually take the plunge and remortgage.

NEW MORTGAGE REGULATIONS

Since April 2014, lenders have to look much more closely at whether you can afford a mortgage because of new mortgage regulations. This means it may take longer than you're used to, and you'll have to provide proof of your income and all your outgoings. You could be asked for your payslips and bank statements to prove your income, or your tax returns and business accounts completed by an accountant if you're self-employed.

MORTGAGE AFFORDABILITY

Your outgoings will be set against your income to see how affordable your mortgage is. They will look at your other debt repayments, household bills and living costs such as travel, childcare and entertainment. The lender will also check how you would cope with an increase in the interest rate or changes in your lifestyle such as losing your spouse or partner's income in the case of couples.

REQUIRE FURTHER INFORMATION?

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CHECK REMORTGAGE COSTS

This means you may find it hard to remortgage to a new lender. So before you switch, we'll check your remortgage costs and contact your current lender to see what deals they will offer you. If you're on an interest-only mortgage, you will find lenders will look closely at your repayment plan to make sure it's on track to pay back the original loan at the end of the mortgage. If it isn't, you may find it difficult to switch to a new interest-only mortgage. Lenders will accept different repayment plans such as regular savings and investments, using future bonus payments with supporting evidence, and the future sale of a valuable asset backed by an up-to date valuation certificate.

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