# Mortgage Advice. The Complete Guide

## Table of contents

# Choosing a Mortgage

A house is the biggest purchase most of us will make. So sorting out a mortgage quite early on in the process of buying a home is most defiantly a priority. Having your mortgage ready to go will make a lot of difference when you are bidding on a property. Having a mortgage in place will signal to the seller that you are ready to move and serious about it too!

Most mortgage lenders will let you know that they are willing to offer you a mortgage up to a certain level as you start looking; this is called a mortgage in principal and will depend on your income? The application is finalised upon deciding which house you want to buy. However, it is still possible to sort it all out once your offer has been accepted.

The total amount of revenue you are allowed will depend on your income, who you are buying a home with (if you are buying a home alone then this is self explanatory,) a partner, friend or an associate. These factors will all contribute to the amount you can borrow.

There are a number of ways to find a mortgage. The two best and well known ways are, Direct through a bank or building society, or a mortgage broker. These two ways can be done either, over the phone, on the internet and in person. As this is probably the largest purchase of your life, I do like to speak to someone face to face, this way you can ask as many questions as you see fit.

Some people feel save and more comfortable obtaining a mortgage from a high street name, and also find it convenient to have their mortgage with the same bank they have their other financial dealings with e.g. Direct debits and personal accounts. Alternatively, going through a mortgage broker does ensure you get a choice of a wider range of mortgage products and deals.

There are thousands of mortgage products to choose from, and the market can get very confusing. Do a little research before you decide to take out a mortgage and find the best one that is suitable for you.

Have a think about what you find would be the most appropriate mortgage suited to you:

- Would you like to take 'payment holidays' if your financial circumstances change i.e. you need some holiday spending money, or some extra Christmas money, or alternatively pay off extra if you have more money at the end of the month.

- Cash back incentives mortgage offers you an extra cash sum when you take it out. This way you can use your cash incentives to pay for any house hold peripherals you may need or you may use the incentive for solicitor’s fees.

- Interest rate on the mortgage is guaranteed to be fixed for a period of time? This is a safe bet, if you mange your funds on a monthly basis and like to know exactly what is to come out of your account.

When you come to make your decision, always review the mortgage code. The mortgage code sets out minimum standards that mortgage lenders and intermediaries have to meet.

## Affordability

There are a lot of considerations to take into account when you come to make the decision to take a mortgage over x amount of years. You have to be realistic to yourself ! Lets face it all lenders what to give you a mortgage, why? Because they make a fortune from you! Trust your feelings when you come to make the decision, be true to yourself and remember how you want to live after you have signed for your mortgage. Do try to leave yourself with some spending money.

### Affordability

As mentioned before the main factor is affordability. Think of borrowing around three times your gross annual salary. Couples can generally borrow three times the larger salary plus one times the smaller, or two and a half times the joint salary. Some of the lenders today will allow you to borrow up to six time your salary. This is all good for you to buy the house of your dreams. However if the interest moves up by 1-2% you could find yourself in a spot of trouble with regard to repayments.

You should look at the family or household circumstances regarding how much you can afford to spend. The house of your dreams could slowly become the house of horror. It is nice to be able to go out with your wife or partner for a meal or drinks, and not have to worry about paying the mortgage.

The repayment on your mortgage should not be greater than 40% of your net monthly income. If it is more than this, then you could be borrowing too much and payback and money problems can arise.

### More cost implications

Getting a mortgage is not the end of financial side of things. You also need to have enough cash to pay for all the extras that come with buying a house e.g. stamp duty, solicitor's fees, removal costs, surveys, estate agents fee's. A list of all the extra's can be obtained from your mortgage lender.

### Surveys Fees and Searches

- Mortgage valuation survey - from £170

- Homebuyer's survey - from £250
- Full building structural survey - from £350
- Arranging the mortgage £200
- Legal Fees £400
- Land registry fee £100
- Other searches from £70

**Stamp duty**

Stamp duty must be paid on all property transactions over £60,000. There are exceptions in some disadvantaged areas of the UK where the level is £150,000. Also some stamp duty exempt places around Britain. The Inland Revenue website lists all the areas that qualify.

£60,000 0%

£60,001-250,000 1%

Over £250,000 3%

Over £500,000 4%

The amount of duty paid on the house purchase, is for the full amount of the purchase, not the amount over the Taxable amount.

As you can see from the fees above, getting a mortgage is just the tip of the iceberg. With all the arrangement fees, building fees, search fees, legal fees and stamp duty, your mortgage and expenditure has just gone up over £1000, this is without adding on the stamp duty for your potential home. If you decided to buy a home for £200,000, you will have pushed your moving expenses into the region of £3000, before you have even received the keys to your property.

You should take all these hurdles into consideration when looking for a new home and try to save a little to help pay for these extra expenses. Not only do you have the legal side of things, but there is also the moving side and decorating to consider. All these factors should be taken into account when deciding to buy your new dream home.

## Types of Mortgage

As I mentioned before and will again , buying a home is one of the biggest commitments you will ever undertake. So choosing your mortgage does take thought.

Take some time to consider what mortgage is right for you? After all it's your money you will be spending so, I would recommend utilizing it in the best way possible.

**The kinds of mortgage available to you**

There are thousands of different mortgages on the market at the moment, all offering something different, something similar but essentially offering one of two types:

- Repayment and Interest, with a repayment and interest mortgage you (the lender) you will have to payback the specified mortgage amount plus the interest in a specified time. For example if you borrowed £100,000 over 25 years, the total plus interest is £190,000 over 25 years, this is what you will repay. You will see the balance becoming increasingly smaller over the term of the loan.

- Interest only, with an interest only mortgage you only pay the interest on you mortgage, however when the term of your mortgage is over you are still left with the initial buying fee of your house. Using the above example this would be £100,000 still left to pay. When you take an interest only mortgage you will need to take out an alternate savings plan, in the form of a pension, I.S.A, or an endowment. These alternate plans run alongside your mortgage to accumulate the final sum to zero your balance after the term is over.

**Advantages of a repayment and interest mortgage**

- It is possible for you to pay off lump sums of your mortgage to minimize the balance and make term shorter. However do be careful as some lenders do charge for a early settlement. If you do decide to repay early it is better to do upon the changing period of your mortgage i.e. when you are eligible to start another discounted term with another lender.

- You do not always have to take out life insurance with a repayment mortgage. Some pension plans that are in place do cover for unfortunate events such as death.

- You know the full balance of your mortgage and also the term of the repayment, so you always know when your mortgage will be paid in full.

**Disadvantages of a repayment and interest mortgage**

- In the early years of a repaying your mortgage the majority of the monthly repayment is interest rather than capital. For lenders who move house regularly, this can mean that little of the capital is paid off.

- If no life insurance, pensions or assets are in place to cover the repayment of the house. In the unfortunate event of a death the house will still have to be repaid. If payments are not kept up to date then the house will be sold.

- There may be financial penalties for making additional payment into your mortgage account.

**Interest only mortgage**

With this type of mortgage, only the interest is paid off with each mortgage payment. After the term of the mortgage elapses e.g. 25 year period, the lender is left with the full balance for the initial purchase of the house. To combat this problem (if you do not have the money to repay after the term is over) you the lender can take out another policy to run along side the mortgage payment? These policies are an ISA, pension plan or endowment policy. When you find a policy to suit you? The policy will grow along with your mortgage to accumulate the balance of you initial payment over the same term as your current mortgage. So at the end of the specified lending term you have the correct amount of funds to pay your balance.

**Pension Plan**

Using a pension plan to accumulate the balance of your mortgage is a tax free saving scheme. The balance of your house will be saved over a period of time until you can pay your final balance. If you do intend to use a pension fund to save for the balance of your house, consideration should be taken into account to open another pension fund for retirement purposes too.

**ISA Plan**

With an ISA plan you invest in stocks and shares via an Individual Savings Account (ISA) - which is a tax-free method of saving. This method of saving may not be suitable for most borrowers. Before considering this option you should consult with an independent financial adviser.

**Endowment**

An endowment is still the most common type of interest only mortgage which also provides life assurance cover and a fixed payment for investment. The endowment policy along with the interest only mortgage should in effect end at the same time, leaving you with the ownership of your home and nothing to pay. Endowments have undergone much criticism; this is due to investors being promised high returns from their investments. However lately this has not been the case, borrowers have found their investments have been as good as expected and a shortfall in the end amount of invested cash will not match the amount owed on the current property.

Taking into account the recent problems that have arisen regarding endowment policies it is worth remembering that returns on endowment policies have been pretty good, however you do need to see the term out in full. Also endowments do provide life assurance as part of the actual policy, so in the unfortunate event of a death the mortgage balance is paid in full.

**Advantages of an interest only mortgage**

- Your investments and savings could accumulate more than the required amount to cover the final payment; this could leave you more cash for your own personal use.

- Some plans have good tax benefits and help reach the required amount it a quicker and cheaper rate. .

**Disadvantages of an interest only mortgage**

- In the unfortunate event of your investments not acquiring the designated amount of cash to cover the loan repayment, the investor could face a shortfall which they will then need to pay. If you are worried about a shortfall on your investment, you should keep in touch with your investor and request regular updates on the situation of your endowment. If the worst comes to the worst, you can increase payments to compensate for the loss of investment.

- Cashing in your endowment, ISA or pension could have adverse effects on the amount of money you have saved over the past however many years. If you do decide to cash in any existing policies you may be subjected to a penalty, this could be a cash amount specified by the investment company/lender. Please seek professional advice if you are worried about the end results of your finances, don't be too hasty as most policies accumulate more of the cash in the final year.

## Types of Interest Rate

When you have researched into all the different mortgage types and found a suitable one for you. Now is time to look into what type of interest rate you wish to pay? The type of interest you wish to pay will depend on your circumstances and how much you are willing to pay out every month. You will find out below that not all interest rates/types are the same.

**Discounted rate**

A discounted rate allows the buyer to pay a reduced payment for a fixed amount of time. After the fixed term is aver the rate usually increases to the national base rate. Discounted rates are attractive for first time buyers and also home buyers who require extra cash for renovations. The term of discount does give you time to get used to having a mortgage payment.

**Fixed rates**

With a fixed rate mortgage you are guaranteed the same rate of interest every month for a fix period or term. This rate will not fluctuate as long as you are in an agreement for a fixed term. The fixed term can be anywhere from 1 to 7 years. Do be careful when taking a fixed rate mortgage term don't forget to ask the lender if you have any obligation to stay with the lender after the fixed term is over?

**Variable rate**

Variable rate mortgages do tend to fluctuate around the base rate, and are generally higher then the discounted, fixed and capped rates that are also available. Usually, after you have been at a discounted rate, your interest rate will move up to a variable rate. This could be for a specified time you have agreed to with the lender.

**Capped rate**

With a capped rate mortgage, the lender will cap the mortgage rate to a specific amount, which allows the interest rate to never rise above this level for a fixed term. However if the interest rate decreases? So will your rate.

**Tracker mortgages**

A tracker mortgage actually tracks the Bank of England base rate. This means your mortgage stays in line with interest rates. The way a tracker reflects on your monthly mortgage interest payments is that they go up when the base rate goes up and go down when the base rate goes down.

Similar to a standard variable rate mortgage a tracker follows the percentage rate imposed by the Bank of England. Unlike the standard variable rate mortgage changes annually or monthly a tracker mortgage guarantees to follow changes in the Bank of England base rate within 2 weeks of the interest rate changing, allowing the borrower to benefit from both falls and rises of the interest rate quicker.

However, there are disadvantage to tracker mortgages. If interest rates were to rise sharply, so too would the cost of a tracker, so in situation like this you would lose out and find yourself paying more per month that you did the previous month. In this type of situation a fixed rate or a capped rate mortgage would have been advantageous to the borrower.

Trackers do work better for the borrower when interest rates are falling but if you look at the bigger picture, they give you clear insight to whatever the Bank of England does with rates. With a tracker both the borrower and the lender know exactly what they are getting.

**Flexible Mortgages**

With a flexible interest mortgage, you the lender can usually pay more if you have extra cash available, pay less if you need to save a little, maybe even take a holiday from your payments. Flexible is what it is, flexible. Also the interest on a flexible mortgage is calculated daily instead of annually. So you reduce the interest amount with every payment.

**Checking the APR**

Always remember to check the Annual Percentage Rate (APR) of the mortgage you are considering taking out for a specified term. Usually the lower the APR the cheaper the rate at which you will pay back every month. However do be careful, some lenders will offer you the opportunity to take a very low APR over a fixed period and then a standard rate for a further fixed term. Situations like this can potentially turn to disaster for some people. If you have discounted mortgage rate for two years at 3.9% which totals a monthly payment of £300 per month, after the 3.9% term has ended, you are still in a contract with the lender for a further two years at a rate of 5.9% you will find that the payment will increase substantially.

In this situation you could find yourself not being able to afford the mortgage payment, also unable to transfer your mortgage to another lender due to redemption penalties for early breach of contract.

**Redemption penalties**

The various discounted mortgages available e.g. capped, discounted and fixed do tend to carry a redemption penalty. This is due to the lender operating a special rate for the fixed amount of time. Some of the standard rate periods can be for a longer period than the special rate term. So do not forget to read the small print, and always remember to ask about the redemption penalties and the standard rate period of the mortgage you are enquiring about. There are mortgages out there now that offer no fixed penalties or require you to be tied in with a lender over the discounted period.

## Flexible Mortgages

The flexible mortgage (also known as the Aussie mortgage) is becoming more and more popular in the UK. It was fist developed in Australia and the choices you have with regard to how you pay your mortgage over the 25 year period, is as the mortgage says "flexible" The flexible mortgage is said by some to make the traditional British mortgage look ancient.

**The advantages of a flexible mortgage**

If you decide to take a flexible mortgage, you the borrower can underpay, overpay, take payment holidays, borrow funds back and benefit from day to day interest calculation. This can save the lender thousands of pounds and take many years off the mortgage term. As well as all the above there are no redemption penalties to pay.

There are some flexible mortgages that allow you to double up as current account so your salary is paid in to the same and you effectively pay off your mortgage as an overdraft. Most people with a flexible mortgage make more that the required payment of their mortgage. This may seem a little strange but it makes excellent business sense. As you will be paying off your mortgage earlier and saving £1000's

Most flexible mortgage companies allow you to take a payment break for up to a year. You do however need to have built up enough payments to compensate for the time you are thinking of taking off from your payments. With most lenders the terms and conditions of the time you take away from payment will vary. Taking time away from repayment could be useful to you if you want to take some extra time saving and start a family, or invest in some renovations to your current home. However some lenders may only let you take a couple of months' payment holiday each year.

Not all flexible mortgage lenders offer the same advantages and there policies differ for different issues. So do take the time to consider what it is you require? Make sure you confirm this with the lender and seek advice to find the perfect mortgage for you.

**The disadvantages of a flexible mortgage**

If you do decide to take out a flexible mortgage, you the borrower will have to be inflexible if you intend to pay your mortgage early, or take a payment break. You could find yourself paying the minimum payment every month at an interest rate that is higher than a mortgage of fixed rate. If you do intend to pay more then the flexible mortgage could be for you? If you do not intend to pay more and would rather pay one fixed payment maybe another choice is in order. Please seek advice from a broker if you are interested in this package.

Flexibility within your mortgage does have a downside? Flexible mortgages do usually have a higher interest rate that most other mortgages. However you do have to ask yourself the question is the flexibility going to benefit you in the long term, will it help you pay your mortgage off earlier than planned. Also remember to look into some fixed rate mortgages as some lenders do allow you pay lump sums from your balance at any time during your mortgage period.

## Mortgage Check List

A house is the biggest purchase most of us will make, so do make sure that you can afford the place where you will be living? Try using this simple Check list below to give you a good idea of exactly how much you can afford to spend on a mortgage? Spending to much on a home could leave you with very little for anything else.

**Income:**

1st salary

2nd salary

Other income

**Outgoings:**

Credit cards and other loans

Contribution to pension fund

Other rental/HP agreements

Savings contributions

Household protection insurance

Food

Household goods

Clothes

Toiletries

Dry cleaning and Washing

Gas

Electricity

Water

Council tax

Telephone (including mobile)

Life assurance and protection products

Prescriptions

Eye care

Petrol/diesel

Car insurance

Public transport

Car tax

Car maintenance

Children's education (Meals, Uniform, Trips or Nursery fees)

Holidays

Gym or leisure club membership

TV license

Pets (food, Vet bills)

Socialising (Smoking, Drinking, Restaurants, Cinema)

Hobbies

Computer equipment

Anything Missed

**Total income**

**Outgoings Total**

**Estimated Mortgage Amount**

Always remember, a mortgage is one of the longest term loans you will probably have in your life. So proceed carefully, take your time to find the mortgage that suits you the best. If you are unsure then do find help from a professional broker. Thank you for reading I hope you found this guide informative. Good luck in your search for you new home.