



A GUIDE TO BUYING YOUR HOME

Which Mortgage is Suitable for You?

Navigating your way through the mortgage market may seem an overwhelming and intimidating process, especially given the abundance of available mortgages and mortgage providers.

However, finding the right mortgage means finding a mortgage tailored to meet your needs, taking into consideration your lifestyle, age and financial situation.

Nevertheless, even after taking these factors into account, you will almost certainly be faced with an enormous variety of mortgages and differing interest rates.

There are three major types of mortgage available on today's market:

1. Capital & Interest / Repayment
2. Interest only
3. Flexible

1. Capital & Interest / Repayment

A *Repayment Mortgage* is structured so that the monthly mortgage payments, comprising partly of capital and partly of interest, pay off the original amount borrowed as well as the interest that would be accrued over the mortgage term, by the end of the term.

Points to Note:

- ✚ A *Repayment Mortgage* is clear-cut and uncomplicated.
- ✚ It is a surefire way of repaying the loan, provided that you make all your monthly payments.
- ✚ The total amount owed decreases as time goes on.
- ✚ As interest rates go up in later years, it will not have as much of an influence on the amount owed due to the fact that the capital has decreased.
- ✚ It is not compulsory to arrange life cover to repay the mortgage.
- ✚ Even though life cover is not always required, it is worthwhile to arrange at least term assurance to ensure the loan can be repaid in the event of your death and to avoid the house having to be sold in order to repay the mortgage.

2. Interest Only

As the name would suggest, you pay only interest to the lender each month and the original loan amount remains the same for the term. Therefore, suitable investments are required in order to repay the loan at the end of the term. These investments are arranged at the beginning of the term and typically include Pensions, Endowment and ISAs.

The amount originally borrowed on *Interest Only* mortgages does not change because you only pay off the capital at the end of the term. This is done by contributing towards an appropriate investment product / repayment vehicle, i.e. ISA or pension, which is designed to produce a lump sum sufficient to repay the mortgage at the end of the term.

Although there appear to be many different types of *Interest Only* mortgages, this is only due to the fact that the name is associated to the relevant investment. Even though the investments vary, the general nature of the *Interest Only* mortgages remains the same.

Points to Note:

- ✚ Investments are not guaranteed to appreciate so there is a certain amount of risk involved with the *Interest Only*.
- ✚ If the investment does not provide as good a return as was expected, it may not cover the loan. The onus is then on you to ensure that you can repay the loan at the end of the term.
- ✚ Investments associated with *Interest Only* mortgages are portable meaning that you can keep the investment, add to them and link them to a new mortgage if you move house.
- ✚ As a result of the original amount borrowed never going down, if you sell your house that amount will need to be repaid.

3. Flexible

This is a relatively new type of mortgage which, as the name suggests, is flexible. It is structured so that you can overpay, underpay and even take payment holidays without incurring any penalties. Most *Flexible Mortgages* have their interest calculated daily, bringing about the full benefits of overpaying. Regularly overpaying the *Flexible Mortgage* without later underpaying it could lead to the mortgage being paid off sooner and save you thousands of pounds in interest.

Although *Flexible Mortgages* fall into either Repayment or Interest Only Mortgages, they have been included here due to all the options that come with them, e.g.: overpaying/underpaying, payment holidays, pay loan off sooner, etc.

Points To Note:

- ✚ Permits overpayments and underpayments on mortgages and allows all overpayments to be drawn back.
- ✚ Gives you the option to repay your loan before the end of the term by overpaying.
- ✚ Usually interest is calculated daily giving the benefit of saving you money when overpayments are made, even if the money is drawn back at a later date.
- ✚ Allows you to vary the amount you pay, either overpaying it, under paying it or taking payment holidays as long as you do not exceed your original mortgage threshold.

- ✚ Some *Flexible Mortgages* enable you to use your mortgage account as a current account also, giving you the ability to pool your money with the standard current account options of a cheque book and debit card.

- ✚ There are generally no early repayment charges.

Main Benefits:

- ✚ You can vary your payments to adjust to your current financial situation and lifestyle.

- ✚ Has the potential to supply you with substantial interest payment savings.

- ✚ Permits you to repay the loan before the end of the term using regular overpayments, if you would like to.

- ✚ Provides an excellent place to house spare money, e.g.: annual bonus. This is due to the fact that interest saved on your loan will normally outweigh the amount you would normally receive from a savings account, even prior to income tax which usually affects savings account.

Advice

We are Independent mortgage brokers which means that we have access to the whole mortgage market and can provide advice on which mortgage(s) are most suitable for a customer's needs. Most mortgage brokers, including ourselves, have links to a range of life insurance companies to ensure that you and your family are fully protected in the event of death, long term sickness or diagnosis of a critical illness.

Most mortgage lenders can advise only on the loan but some are tied to a life company and can therefore only arrange the associated investment and insurances through that company.

IFAs can provide advice on all areas of financial planning, including pensions and investments.

The Different Interest Rate Types

Variable

Usually known as the Standard Variable Rate (SVR). This rate normally fluctuates in line with the Bank of England base rate.

Discounted

This is a variable rate but set at a fixed percentage below the lender's standard variable rate. If you wish to pay back your loan before the end of the discounted rate, you may have to pay a charge known as an early repayment charge. In some cases these charges apply for a short time after the discount rate has ended – known as an early repayment charge overhang.

Fixed

The rate is static for a set period of time, usually a number of years. Once this period has ended, the rate goes back to the lender's variable rate. Even though you can usually choose the length of the fixed period, the selection will be limited to current offers. There are often early repayment charges on these rates if you wish to repay the loan before the fixed rate is up and occasionally a short time after.

Capped

These rates limit your payments to variations between a minimum and maximum rate for a set period of time.

Cash-back

As another "Special offer", companies offer cash-back as another incentive to use their products. With cash-back the lender will give you a sum of money on completion of the mortgage. For this type of offer, you are usually restricted to the standard variable rate for a set period, and have to repay some or all the cash-back if you wish to redeem your loan sooner.

Protecting Repayments

If, for any reason, you are unable to continue your regular mortgage repayments, your home is at risk of repossession by the mortgage lender. This could be due to an accident, ill health, redundancy, etc.

Generally lenders and intermediaries can offer insurance to protect you should these circumstances arise and it is strongly recommended that you consider taking out such protection.

Paying a Mortgage Off Early

A mortgage is expected to be a long term commitment but many people find they can pay their loans off before the term is up. The most common cause of this is you moving home.

You should find out what penalties, if any, will apply should you wish to repay your loan early. Most lenders will retract the value of discounts or cashback if the loan's redeemed in the early years and fixed rates usually carry early repayment fees for the period of the fixed rate and sometimes longer.

Loans that allow you to transfer your existing mortgage amount and terms when you move and avoid any repayment charges are known as "portable". However, it usually means that you must still satisfy the status requirements of the lender when you move. There may also be added disadvantages if you need to borrow an amount that is more or less than the original amount.

Please note that not all mortgages are portable.

Mortgage Related Products

Other related products such as life assurance, payment protection and buildings and contents insurance also need to be considered.

Some lenders insist that you buy their own assurance in order to take advantage of their best loan products. A mortgage adviser will be able to help you decide if the costs of the products are competitive or whether you would do better to consider other options.

When you are not obliged to buy the lender's own insurance, they will often charge you a modest administration fee if you arrange your own cover. However, many insurance companies will pay this for you as an incentive.

Valuation

Lenders require a standard valuation to be undertaken on a property before even considering a mortgage application. This is to ascertain the true value of the property being purchased or re-mortgaged.

There are two other types of report after the standard valuation, each giving more information. These are: -

 **Homebuyer's Report**: This provides you with information about the general condition of

the property.

- ✚ **Full Structural Survey:** If the property being purchased is more than 10 years old or there are any aspects of the condition of the building that you would like investigated, a full structural survey will give you the required information prior to making a commitment.

Due to the fact that property prices vary according to market conditions, the value of your property may depreciate as well as appreciate. In future, this could mean that your mortgage loan exceeds the property's current market value. This is known as a "negative equity" situation.

Vulnerable Borrowers and Full Disclosure

A mortgage adviser can only assist you fully if they are fully aware of your situation. It is therefore imperative to disclose any credit problems, especially if you may require special consideration from the lenders. Never give misleading information and never be persuaded by your adviser to withhold or distort information that may be important to the application. This could be looked upon by the lender as mortgage fraud for which the consequences are severe. At the very least, you could rely on the fact that any fees you had paid would be forfeited if an application is found to be fraudulent.

If a mortgage adviser ever completes paperwork on your behalf, read the completed form full and ensure it is accurate before signing it. Do not sign it unless you are positive that the information contained in it is correct.

Disclosure of Personal Details

Most mortgage lenders will want to know how you have handled your financial affairs in the past. The lender may undertake credit enquiries upon receipt of your mortgage application and may also supply information to a credit agency on the way your account is managed.

Fees

There can be many fees associated with mortgages, which will be explained by your adviser. The following provides a list of the most common fees and their general explanations. Often, a lender will waive one or more of these fees as another incentive.

- ✚ **Application Fee:** This fee covers the administrative expenses incurred whilst processing an application. These include the cost of staff time involved with taking up references, credit checks, voter's roll checks and any valuation charges that apply. Some of this fee is usually deemed non-refundable from the outset and once the application process is well advanced, it is usually considered entirely spent. The adviser should explain the amount and terms of the fee required.
- ✚ **Existing / Previous Lender Reference Charges:** If you already have a mortgage and a reference is required from that lender, they will usually charge a fee for providing the reference. This can often be avoided if annual mortgage statements and bank statements prove satisfactory conduct.
- ✚ **Booking and / or Arrangement Fees:** These may be charged for specific products and be payable in advance, added to the loan or deducted from the advance on completion. The mortgage adviser should make you aware of any such fees from the outset.
- ✚ **Higher Lending Charge:** The lender may impose a charge if the amount required is higher than a certain percentage of the property value. The charge may be deducted from the advance or added to the loan. The mortgage adviser should make sure that you know

whether the charge will apply and if so, the amount and method of repayment.

Lenders use this money to indemnify themselves against any financial loss they experience, should they have to repossess a property due to a payment default(s). Although you pay this fee, it will only benefit the lender or any insurer involved from trying to recover all or part of any loss involved.

Such cover will not protect you if your property is subsequently taken into possession and sold for less than the amount you owe. You will also remain liable to pay all sums owing, including arrears, interest and your lender's legal fees and interest will continue to mount up as long as the mortgage is outstanding.

Commissions Paid to Intermediaries

It is common for intermediaries to be offered a procurement fee or commission from lenders and brokers for introducing business and doing work which would otherwise have been done by their own staff.

You will be offered the option of paying a fee, in place of the lender paying this; if you chose for the adviser to receive this commission the full amount will be disclosed on the Key Facts Illustration provided to you. See our fee statement for more details.

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

For mortgage advice you can choose how we are paid: pay a fee, usually 1% of the loan amount or we can accept commission from the lender

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