Is it time to spread your wings?

MORTGAGES

A mortgage is a loan from a bank or building society that, because it is so large, is secured against the property you are using it to buy.

A mortgage is rarely 100% of the purchase price as you normally pay a deposit towards the purchase. The mortgage term is based upon how much you are able to pay back monthly.

You have a fixed period of time to pay the amount back; this can be up to 40 years but is usually around 25 years.

You can organise a longer or shorter-term deal, or even vary the length of the repayment schedule as you progress. You also have numerous choices in paying your loan back.

What type of mortgage?

There are many different types of mortgages and you have to look carefully and understand what each offers. With the economy ever-changing, lenders and borrowers have to consider different approaches to interest rates. Most lenders offer a range of different mortgages with varying interest rates.

We have outlined the main type of mortgage loans below:

In certain circumstances, lenders can offer a family mortgage which is a new way to combine your family's financial strength and share the load to help family members take the next financial step.

Discount mortgage

This offers a certain percentage off the lender's Standard Variable Rate (SVR) for a set period, usually between one and five years.

As the SVR moves, so does the pay rate on a discount mortgage, so you need to be able to cope if your monthly repayments increase.

Tracker mortgage

This also has a variable rate, this time linked to the Bank of England base rate. Sometimes this lasts for the length of the mortgage; sometimes it is only for a short period at the beginning of the loan.

Fixed-rate mortgage

This allows you to fix the rate of interest you pay on your loan for a set period of time, usually between one and five years, although longer term fixes are available.

Offset mortgages

This is a kind of flexible mortgage with an extra feature: you combine your borrowing with your savings to reduce the amount of interest you pay over the mortgage term.

So, for example, if you have £10,000 in savings and a mortgage debt of £240,000, you will only pay interest on the remaining debt of £230,000.

Help to Buy

A mortgage supported by the Help to Buy: mortgage guarantee scheme works in exactly the same way as any other mortgage except that under the scheme the Government offers lenders the option to purchase a guarantee on mortgage loans.

Because of this support, lenders taking part are able to offer home buyers more high-loan-to-value mortgages (80-95%). You will still be fully responsible for your mortgage repayments.

How much can you borrow?

It's important to understand exactly what you are able to borrow and how it's worked out. You may need to put a deposit down – that makes the amount you need to borrow less, so have you been saving regularly?

How much you can borrow depends on your personal circumstances (for example whether you are buying alone or jointly with others) and of course it is up to the lender as to how much they are willing to lend.

How to pay?

A mortgage has two parts – the amount borrowed (capital) and the interest that is charged on top by the lender until all the loan amount is paid back. Once you've decided on the type of mortgage loan, your main decision will be whether to choose an interest-only or repayment mortgage.

Interest-only

An interest-only mortgage does what it says on the tin - each month you repay just the interest incurred on your borrowing.

The capital is only repaid the day the mortgage ends, and can be paid off using whatever money you choose - this might be cash from an inheritance or money built up in a separate investment.

However, this approach is not without risk. If you have not worked out how to pay off the mortgage by the end of the term you could be forced to sell off your home to settle the debt. Even if you use an investment to repay the mortgage it might not grow as much as you expect and you could end up with a shortfall at the end of the term. Many lenders now restrict the size of the loan you can have on an interest-only mortgage.

Repayment (capital and interest)

Most people now go for a repayment mortgage, whereby both the interest and capital is repaid to the lender each month.

This way you are guaranteed to have paid off the debt at the end of the mortgage term and you will own the house outright.

Part and part

You can also have a mortgage split into part interest-only and part repayment, for example, if you have taken a top-up loan or want to keep the monthly repayments down on part of the debt.

ADDITIONAL COSTS

Lender Costs

Deposit

Mortgage providers may need you to save at least 5 per cent of the cost of the home you want to buy, but the more you save the better your mortgage choice and the better the rate you get.

Mortgage set-up fees

These will depend upon the lender. They may charge a booking fee (or equivalent), to reserve funds on a fixed or tracker deal.

Mortgage arrangement fee

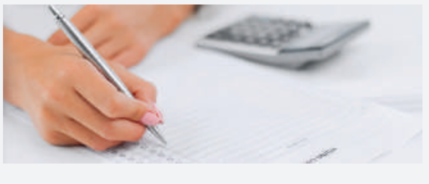
Some mortgage lenders may charge an upfront fee, which they call an 'arrangement fee'. This may be in addition to a separate mortgage set-up fee.

Valuation and survey fee

This may be charged by a lender to value the property you are buying. Costs depend on the value of the property and level of the survey you choose. Typical costs are £250 - £550.

Mortgage account fee

This is a single fee that is usually charged by the lender when you take out your mortgage to cover set up, maintenance and closing down costs of your account.



Solicitor Costs

Legal costs

You will need to pay your solicitor to carry out the legal work. This may cost between £500 - £750 plus VAT.

Building insurance fee

Some lenders will cheekily charge their customers if they choose to take out buildings insurance with a different company. This will cost around £25.

Stamp duty

With house prices rising rapidly, more and more homebuyers are having to pay stamp duty land tax, though what exact rate you pay depends on the property's price.

Searches

You can incur a fee for searches to the local council to check whether there are any planning or local issues that might affect the property's value. They may also instruct a drains search at the same time. These are usually done by your solicitor. This can cost between £250 - £600.

How much can you really afford?

It's all very well getting approved for a mortgage, but you need to have a realistic idea what your income and outgoings are going to be so you are able to work out what you can really afford to pay out on a mortgage – without overstretching yourself.

There are lots of budget templates available on the internet to help you add up all of your income and all of your costs, to help you work out what you can afford.

Applying for a mortgage

You need a job or a regular income to apply for a mortgage. To prove this, you will typically need to show the lender three months' of bank statements.

Lenders will need to know that they are lending responsibly in providing you with a mortgage. They will carry out an assessment to decide whether they can lend to you, which is known as 'credit scoring'.

Individual lenders use their own criteria when deciding whether to lend you their money. They use the information you supply in your application, but they also rely heavily on data supplied by credit reference agencies. It takes into account your history of borrowing and repaying and also takes into account any financial assets and liabilities you might have.

Help get yourself a mortgage

There are a number of ways to improve your chances of getting the mortgage you want.

- **Check your credit file and check for accuracy.** Contact the agency to change anything that is incorrect.
- **Register to vote.** If you are not on the electoral roll you may find it more difficult to get credit.
- **Cancel unused credit cards or accounts.** Unused credit cards will increase the amount of overall credit you have available and may reduce your credit score.
- **Keep up payments and never be late.** It sounds simple and it is. Your credit score will be higher if you maintain all payments on every credit agreement you have. Late or missed payments will negatively impact your credit score.
- **Establish a pattern of regular savings.** Financial assets will improve your standing and give you a buffer against unexpected events.

For help and advice, please call one of our branches

Borehamwood: 020 8238 6363	Camberley: 01276 23333	London: 020 7483 4488	Newcastle: 0191 468 2500
Northallerton: 01609 760960	Richmond: 01748 825971	Swanley: 01322 666000	West Wickham: 020 8777 5993

Email our specialist advisers

enquiries@GaleandPhillipson.co.uk

galeandphillipson
mortgage advice centre

GaleandPhillipson.co.uk

V3 Nov 2020

Mortgages_A4_4pp_2020.indd 1-2