A guide to mortgages

your **money** your **life** your **future**

Contents

The information in this booklet is of a general nature and specific advice about your own circumstances should be sought before taking any action, or refraining from taking any action. The Financial Conduct Authority does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. This publication represents our understanding of law and HM Revenue & Customs practice as at 31 October 2015.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it. Buy to let (pure) and commercial mortgages are not regulated by the FCA. Think carefully before securing other debts against your home.

An Introduction to mortgages

Taking a mortgage is one of the biggest financial commitments most people will make. It is a decision that should be given serious consideration and thought. Although applying for a mortgage may seem daunting it needn't be complicated.

Receiving the right impartial and independent advice is crucial but having a good level of understanding of the products and processes is also vital. This guide is designed to help you gain a basic level of knowledge and give you the confidence to take the first steps towards securing the right mortgage for you.

What is a mortgage?

A mortgage is a loan taken out to buy property. The loan is secured on the property and the borrower is required to repay the loan and the interest applied over an agreed period or "term" by monthly instalments.

Most UK banks and building societies offer mortgages. In addition there are many specialist mortgage lending companies.

Choosing a mortgage – where to start

With thousands of mortgage deals available it can be hard to know where to start. This guide is designed to provide you with information prior to starting your search for the right mortgage.

It is imperative that when seeking guidance on mortgages or any financial product you receive the best and most appropriate advice, so you should always confirm that your adviser is suitably qualified and regulated.

Square One is a firm of Financial Planners authorised by the Financial Conduct Authority (FCA) to provide professional mortgage advice. We will explain the mortgage process from start to finish, provide you with products to meet your individual needs and apply for a mortgage on your behalf where appropriate. We can also take any other financial planning needs into account.

When taking out a mortgage you will usually fall into one of the following categories:-

1. First Time Buyers - Those who do not own a property and are looking to take their first step onto the property ladder.
2. Home Movers - People who currently own or have recently owned a residential property that are now looking to move to a new home.
3. Re-mortgage - If you already have a mortgage on your home and are looking to change lender or product or simply want to cut the cost of your mortgage.
4. Buy to Let - If you want to buy an investment property to rent out.

What to consider before getting a mortgage?

With so many mortgage products on the market it is important to shop around. Square One can provide advice from a qualified professional to help you make the right choice. Below are some useful tips to bear in mind when considering your mortgage choices:

- Choose a mortgage type that suits your income, existing financial resources and personal circumstances.
- Never borrow more than you can afford.
- Consider the implications of future changes – redundancy, market changes and illness can all result in you losing your income and interest rates can go up as well as down.
- Consider the interest-rate type and carefully calculate how much you will have to pay each month.
- Consider the implications of remortgaging by changing lenders, for example to reduce the cost of your repayments or pay off your mortgage earlier.
- Consider the costs associated with setting up your mortgage such as solicitor's fees, stamp duty, lenders fees and financial advice fees and how this might affect your deposit.
- The loan to value, i.e. the value of the mortgage against the property value, will define which deals you will be able to access. Generally, the lower the loan to value the better the mortgage deal.
- Remember most residential mortgage lenders will require a loan to value of 90% or less. This means a first time buyer / remortgager will need a deposit / equity of at least 10% of the value of the property after solicitor's fees and other costs have been considered.
- Most buy-to-let mortgages will have lower loan to value ratios; so higher deposits will be required. In addition the costs will usually be more expensive than the equivalent residential mortgage.

- Any mortgage application will be subject to the lenders criteria. Your credit score and existing debts may affect your ability to borrow.
- If you are self-employed and unable to prove your long-term income, some lenders may look at your application differently. It is important to find a lender that is comfortable to consider applications from clients of this type.

Are you employed?

If you are employed the application should be a little more straightforward as the supporting documentation required is reduced. Typically a lender will request proof of income and copies of recent bank statements.

Are you self-employed?

For self-employed applicants the process can from time to time be a little more complex. Proof of income from either company accounts or personal tax returns will be required as well as business and personal bank statements. Most lenders will require at least 3 years trading history although it may be possible with less depending on the other factors.

Have you considered a Guarantor Mortgage?

A guarantor is a third party, normally a close family member, who will "underpin" your mortgage application. This product is designed for but not exclusive to first time buyers that need a leg up to take their first step onto the property ladder. The guarantor's additional income may mean that a loan that would not usually be considered by a lender now fits their criteria. Any guarantor should take financial and legal advice prior to offering this support.

Mortgage and repayment types

Although there are thousands of mortgage products in the market place there are only two types of mortgage – Capital and Interest Repayment (Repayment) and Interest Only

1. **Repayment Mortgages –** If you choose a repayment mortgage, your monthly payments consist of repaying the initial loan as well as the interest. The advantage of a repayment mortgage is that you actively reduce your mortgage loan amount with every monthly payment. At the end of the mortgage term the mortgage will be repaid in full.

2. **Interest-only mortgages –** If you choose an interest-only mortgage, your monthly repayments only cover the interest on your loan. Although your monthly payments are lower than with a repayment mortgage, the loan amount does not reduce over the term, this means the total cost of an interest-only mortgage can be higher than a repayment mortgage and the loan will remain due at the end of the term. If you cannot repay the loan at the end of the term, you could lose your property.

Some lenders may insist that you have an alternative savings vehicle (such as an ISA or Pension) in place when lending to you in this way. Most lenders prefer to lend on a repayment basis. This means interest only mortgages can be more difficult to obtain. Interest rates on these types of loans could be more expensive.

In some circumstances it may be possible to combine both types of mortgage.

Interest rates

Once you have chosen your payment method, you must also choose a product. Mortgage interest rates can either be fixed or variable.

Lenders will use a number of different terms when designing mortgage products and may refer to different types of interest rate. These may include:-

- Standard Variable Rate (SVR) – This is the lenders own basic rate of interest before any product is applied. Most mortgage products will revert to this rate at the end of any chosen product.
- Bank Of England Base Rate – The interest rate that the Bank of England charges banks when lending money.
- LIBOR - This is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks.
- Daily Interest – Over the term of a mortgage interest applied on a daily rate will mean the total repaid will be lower. This is due to any monthly payments immediately impacting on the capital that remains outstanding, thereby reducing the applicable interest chargeable.

Mortgage products

When choosing a mortgage product it is very important that you ensure that it fits with your lifestyle, income and future plans. There are many different product types in the market place and it is worth considering the type of product, but also the length of time that it will apply to your mortgage. We have set out the basic product types in this chapter, although there are numerous variants and differences within these products.

- Variable rate mortgages - In general, if your interest rate is not fixed, your lender's rate will increase and decrease in line with the lenders standard Variable rate or Bank of England Base rate. This may mean that your monthly mortgage payments can increase and decrease during the period of the chosen scheme. Tracker and Discount rates are the two most common variable rate products. A tracker rate mortgage will "track" the lenders standard rate where as a Discount Rate will usually offer a discount off the lenders SVR for a set period.
- Fixed rate mortgages - A fixed interest rate is set at a certain level for an agreed time period and can give you the security that you will be able to afford the repayments. This may mean that should interest rates increase you will be paying less than would ordinarily be charged, conversely should interest rates decrease you may be paying more.
- Capped rate - This is a variant on a fixed rate product which offers an upper level of interest payable but should rates fall below this level you will pay a reduced rate.
- Offset – This allows borrowers to use savings to offset against the interest charged on the mortgage. There are two ways to apply an offset account, one reduces the monthly payment and the other may reduce the term of the mortgage without having to make overpayments. This is a slightly more complicated product and seeking the right advice is essential.

Most lenders will offer a mortgage deal for an initial period. For example a 2, 3 or 5 year fixed or rate on a 25 year mortgage means that the interest rate will remain fixed for the first 2, 3 or 5 years. Once the initial period has ended, unless you select an alternative deal, your loan will revert to a default interest rate specified by the lender at outset for the remainder of the mortgage term. The lender would normally charge a “Booking Fee” in order to secure the required product.

Some schemes will allow the borrower to make overpayments on a periodic or monthly basis; this means that the outstanding balance is reduced at a higher rate, reducing the term. Typically fixed rate mortgages will allow 10% of the mortgage outstanding to be “overpaid” annually without the borrower incurring a fee. Should overpayments exceed this level an “Early Repayment Charge” may be incurred.

Again depending on the scheme, it may be possible to ask for a “Payment Holiday” or break. This means that you may be allowed to pay a reduced instalment for an agreed period. Mortgage payments will then be recalculated to spread the missed payments across the life of the loan. You may also incur administration fees and charges.

If you are looking to re-mortgage Square One can provide advice on alternative mortgage products as you approach the end of your initial deal or if they are already on the lenders reversionary rate.

Mortgage protection

Having purchased your new home and chosen the right mortgage it is just as important to ensure that, should circumstances change, you and your family are fully protected. Life assurance, critical illness cover (CIC) and income protection (IPI) are all products that, should the worst happen, will ensure that you and your loved ones will be financially more secure. In addition to these products Mortgage Payment Protection Insurance (MPPI) - not to be confused with PPI - is also available. This will assist you financially should you be unable to work due to an illness, accident or be made redundant.

Some lenders may require you to take out life assurance when agreeing to a mortgage loan.

Don't forget your buildings and contents insurance. Having insured yourself it is also important to insure your home and belongings. Remember lenders will require buildings insurance to be in place at the point of exchange of contracts. Square One can arrange all these insurances for you.

Mortgages for property investors

Buy-To-Let

Buy-to-let investment property is becoming increasingly popular and there are some specialist lenders that will offer mortgages to professional and first time landlords. A different calculation is used when determining maximum lending available to applicants dependent on their own circumstances and the property in question. Both repayment and interest-only mortgages are available and mortgage schemes such as fixed and tracker rates can also be applied. Fees are usually a little higher than for normal residential mortgages and loan to values are normally lower; typically a 25% deposit would be required.

Commercial mortgages

Commercial mortgages can be taken when buying commercial property or even for some buy-to-let property. Applications are considered in a similar way and similar products and schemes may apply. Mortgages of this type are very specialised and receiving the right advice is extremely important.

Overseas mortgages

Should you wish to buy a property overseas finance may be available. Whether you are buying an investment property or a holiday home you can apply for mortgages through UK banks that have overseas arms or local banks in the country of purchase. An application of this type may be daunting, particularly if you can't speak the language, but this doesn't need to be the case. With the assistance of a good adviser and reliable and trustworthy solicitor the process can be surprisingly simple.

The
purchase process

Applying for a mortgage is only one part of the purchase process, albeit as important as finding your new home.

Your mortgage adviser is there to guide you through each step of the way in order to make the whole process as smooth as possible. Ideally it is advisable to determine your mortgage prospects before beginning the house hunting process, this will help when pin-pointing your price range and property requirements. We can even help you find a local solicitor.

Next steps

Get the right advice from a regulated and qualified mortgage adviser. Ensure that the adviser is a "whole of market" adviser, meaning they have access to all mortgage products. A bank for example will only be able to offer their own products, usually on a non-advised basis.

Square One is a "whole of market adviser" and can advise you on the most appropriate mortgage and protection for you from the wide variety of options available. We are an experienced firm of financial planners, fully qualified to assess your specific needs and help you to decide on the most appropriate repayment methods and interest deals on the market.

We can add value by:-

- quickly sourcing a competitive mortgage product
- applying for a mortgage on your behalf
- offer an extra layer of protection when dealing with the lenders
- negotiating exclusive deals and
- negotiating on your behalf in some cases when you would not normally meet the lenders criteria
- recommending trustworthy and reliable conveyancing services

Whether you are borrowing for the first time or changing lender, Square One can guide you through the mortgage process from start to finish.

What next?

To arrange a no-obligation initial discussion with one of our qualified mortgage brokers, please call 01273 921990 today or email mortgages@squareonefinancial.co.uk

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