A GUIDE TO

MORTGAGES

SPF

Part of HOWDEN

A GUIDE TO MORTGAGES

For most of us, the mortgage is our biggest monthly outgoing so it's important to get the right deal. Nobody wants to pay more than absolutely necessary, plus you may also want to be protected from future interest rate rises, or need maximum flexibility with no penalties for paying off your mortgage early. Much depends on your circumstances; when it comes to mortgages, one size definitely doesn't fit all.

In the UK, we are blessed with a wide range of mortgage products, with thousands to choose from. There are fixed rates, Bank of England base-rate trackers and discounted-variable deals. Borrowers can fix for a period of two to ten years, or even longer. Some mortgages have no early repayment charges (ERCs) meaning they can be repaid in full at any time without penalty; others have ERCs during the initial offer period. Some come with fixed fees, others a percentage fee, some with no fee at all. Others are aimed at first-time buyers with capacity for parents to assist with the deposit or income for affordability calculations.

Mortgage broker or direct from the lender?

At times it can feel as though there is too much choice. How do you make sure you've picked the best deal if you haven't sifted through all the thousands which are available? This is where a whole-of-market mortgage broker such as SPF Private Clients comes in, scanning the market for the best mortgage for you.

You could take out a mortgage direct from a lender; you may think that approaching your bank will ensure you get the most competitive deal as you already have a relationship and customer loyalty must count for something. This is not necessarily the case; indeed, there is a significant chance you won't end up with the most competitive mortgage if you only approach your bank. They will only be able to offer advice on their own range of mortgages, which in theory, will only be a fraction of the total number of mortgages out there.

If your situation is more complex – you are self-employed, a day-rate contractor or an older borrower – it can sometimes be a challenge to find a mortgage by walking into a high-street bank. They may not be willing to lend to you or you may not fit within their lending criteria. A mortgage broker has access to mortgages from many lenders and will know which banks and building societies to approach on your behalf if your situation is more complex.

A whole-of-market mortgage broker such as SPF will look at all the deals on the market - excluding those only available by approaching lenders direct - and will recommend the best one for your circumstances. This gives you peace of mind of knowing that you have got the most suitable and cost-effective mortgage.

How much can I borrow?
One of the most important questions you need to know the answer to when buying a home is: how much can I borrow? Lenders work out how much they are prepared to lend by looking at your income, outgoings and credit history.

The deposit
One of the biggest barriers to home ownership, particularly for first-time buyers, is the deposit. This is the down payment you make on the purchase, taking out a mortgage for the remainder of the purchase price. Most lenders require at least a 5 per cent deposit but there isn't much choice of mortgage at this level and you will pay a higher rate of interest than if you had a bigger down payment. A buyer putting down a 40 per cent deposit will pay less interest than someone with a 10 per cent deposit.

Many first-time buyers turn to their parents, aka the Bank of Mum and Dad, or even grandparents (Bank of Grandma and Grandpa) to help with the deposit. Parents and grandparents may even release equity built up in their own homes to put towards their children's deposit. Where these monies are loaned rather than as a gift, the lender will take this into account as part of their affordability assessment.

Fixed or variable?
The next step is to decide what type of mortgage – fixed or variable.

Fixed-rate mortgages
A fixed-rate mortgage ensures you know exactly how much your monthly payments are for the duration of the initial fixed-rate. This gives you peace of mind and helps with budgeting. However, if the Bank of England reduces interest rates you won't benefit from a cheaper mortgage rate.

There is a choice of two, three, five, seven and ten-year fixes, while some lenders offer longer fixed terms. How long you fix for will depend on your circumstances and future plans as there are early repayment charges (ERCs) if you need to get out of the mortgage before the fixed period ends. In other words, try not to fix for longer than you are absolutely sure about.

Traditionally, two-year fixes have been popular as they tend to be the cheapest fixes and don't feel like an onerous commitment. Some borrowers opt for five-year fixes because they don't want to remortgage onto another deal in two years' time and want more certainty. A ten-year fix might be an option if you are very settled – perhaps you have a young family and your house is big enough so you won't need to move.

Variable-rate mortgages
There are two main types of variable-rate mortgage – a base-rate tracker, which usually follows the Bank of England base rate plus a margin, and a discounted-variable rate, linked to the lender's standard variable rate (SVR).

Base-rate trackers are the most transparent option as they track the Bank of England base rate, plus a set margin, so you know where you stand. If interest rates go up by a quarter of a percentage point, you will know that the following month your mortgage payments will go up by the same amount. If interest rates fall, so do your mortgage payments because they are directly linked, although most lenders have a 'collar' in place when rates do drop so payments will only fall so far.

A discounted-variable rate offers a discount to the lender's SVR, which is set at its discretion, so your monthly mortgage payments will go up and down in line with this.

Variable-rate mortgages don't have the certainty of a fixed rate in that you aren't protected from rate rises but the advantage is that they fall if the Bank of England reduces base rate, which isn't the case with a fix. They also tend to be cheaper than fixed-rate mortgages, at least initially.

Some variable-rate mortgages have no ERCs so you can make as many overpayments as you want or repay the mortgage in full at any time. This may suit borrowers who receive a proportion of their income in bonus payments so can pay down their mortgage from time to time.

Interest only versus repayment

With a repayment mortgage, you pay back a bit of the capital each month, along with the interest. At the end of the term, the debt is cleared and you own the property outright. With an interest-only mortgage you pay only the interest on the mortgage each month and at the end of the term still owe the original amount you borrowed.

Interest-only mortgages are not as readily available as they used to be, although some lenders still offer them to borrowers on higher incomes who require a relatively low loan-to-value. It is important to seek advice before opting for an interest-only mortgage so that you have a plan in place to clear the capital at the end of the term.

How long should my mortgage term be?

Traditionally, mortgage terms were 25 years but rising property prices, bigger mortgages and lack of interest-only options mean that monthly payments are too high for many borrowers. One solution is to extend the mortgage term (depending on the borrower's age as most lenders require the mortgage to be paid off by retirement), reducing the monthly payments. While a longer term means lower monthly payments, you will end up paying more in the long run as you will make more of them. There is of course the option to choose a shorter mortgage term, if desired.

How much does it cost?

Some lenders don't charge an arrangement fee but most do, ranging from a set fee of hundreds or even thousands of pounds to a percentage of the loan amount borrowed. This is paid on completion although some lenders may let you add it to the mortgage. If you do choose to add it to the mortgage, interest will be payable on that amount. Lenders may offset a larger fee against a lower interest rate or vice versa. When choosing a mortgage, it is important to work out the total cost – rate plus fees – to ensure you compare deals on a like-for-like basis.

There will also be a mortgage valuation fee to reassure the lender that the property is worth what you wish to borrow, which usually costs a few hundred pounds. However, it is not a survey and will tell you nothing about the condition of the property, so it is worth having a homebuyer's report or full building survey if the property is very old.

There are also conveyancing and legal fees. Some mortgages come with free legal fees but these conveyancers can be inundated with work so progress may be slow. It can be worth paying for a good solicitor who will respond to your queries in a timely manner.

Mortgage brokers are paid a commission by the lender for introducing your business to them. This is stated in the Key Facts Illustration (KFI). Some brokers, such as SPF, also charge a fee, which can be a fixed amount or a percentage of the mortgage amount, depending on the work involved and level of complexity. This is payable on completion and will be discussed with you upfront. Refer to page 6 of this document.

Stamp duty may be payable, depending on the value of the property you are buying and whether you are a first-time buyer or not.

When should I apply for a mortgage?

Some people find the property they wish to buy before approaching a broker or lender for a mortgage but until you know what mortgage you can get, you don't know what you can afford to buy and may be wasting everyone's time.

It's worth getting a 'decision in principle' from a lender, giving a ballpark figure as to what mortgage you can achieve. You can then go house hunting armed with this information, giving vendors and estate agents comfort that you are serious about buying as you have looked into the financial side of it. Once you have found a suitable property, you can make an offer safe in the knowledge that you can afford to buy it. When it has been accepted, you can proceed to make a full mortgage application.

First-time buyers

It's very exciting buying your first home but it can also be daunting. The important thing is not to overstretch yourself; you still have to live, so it's not realistic to budget for never going out again in order to service hefty mortgage payments. As you are new to the process, it is worth taking advice from a broker who can talk you through the options and guide you through the process.

There are a number of products aimed specifically at first-time buyers. Some lenders offer higher income multiples, or ways for parents to help with the deposit or use their income, savings or equity in their property to boost affordability and/or bolster the deposit.

There are also a number of government-backed schemes which may be worth a look, such as the mortgage guarantee scheme, shared ownership or First Homes.

How SPF can help

Our team of experienced mortgage advisers specialise in arranging mortgages for clients, whether they are first-time buyers or have moved many times before. We have access to a wide range of mortgage options, as well as deals that are not available to other brokers, so you can rest assured that you will get the right deal for your circumstances. We manage the mortgage process from start to finish and can turn things around quickly if you are in a competitive bidding scenario. Please contact us to find out more about how we can help you with your mortgage requirements.

Paperwork: Getting mortgage ready

- Check your credit history.
- Proof of ID – a recent utility or council tax bill, as well as a driving licence or passport.
- Three months' worth of bank statements.
- Proof of income – payslips for the previous three months and your P60.
- If you are self-employed, lenders may want to see your last two or three years of accounts or SA302 year-end tax calculations, and possibly your business bank account statements.
- Proof of deposit.

How the mortgage process works

There are several stages to the mortgage process:

- Contact a mortgage adviser. They will discuss your income, plans for the future, your risk profile, and your needs and preferences.
- The adviser researches the market to find the best option for your circumstances. They obtain a 'decision in principle' whereby the lender broadly agrees to the mortgage.
- Once you have had an offer accepted on a property, tell your adviser and they will complete the application form and submit it to the lender.
- The lender will underwrite the mortgage and instruct a valuation to ensure the property is worth what you intend to borrow.
- Once the lender is satisfied with everything, a mortgage offer is issued.
- You exchange on the property and your solicitor finishes the paperwork.
- Completion. You have successfully taken out a mortgage and bought a new home. Congratulations.

CONTACT US

To find out more about how we can help you please contact:

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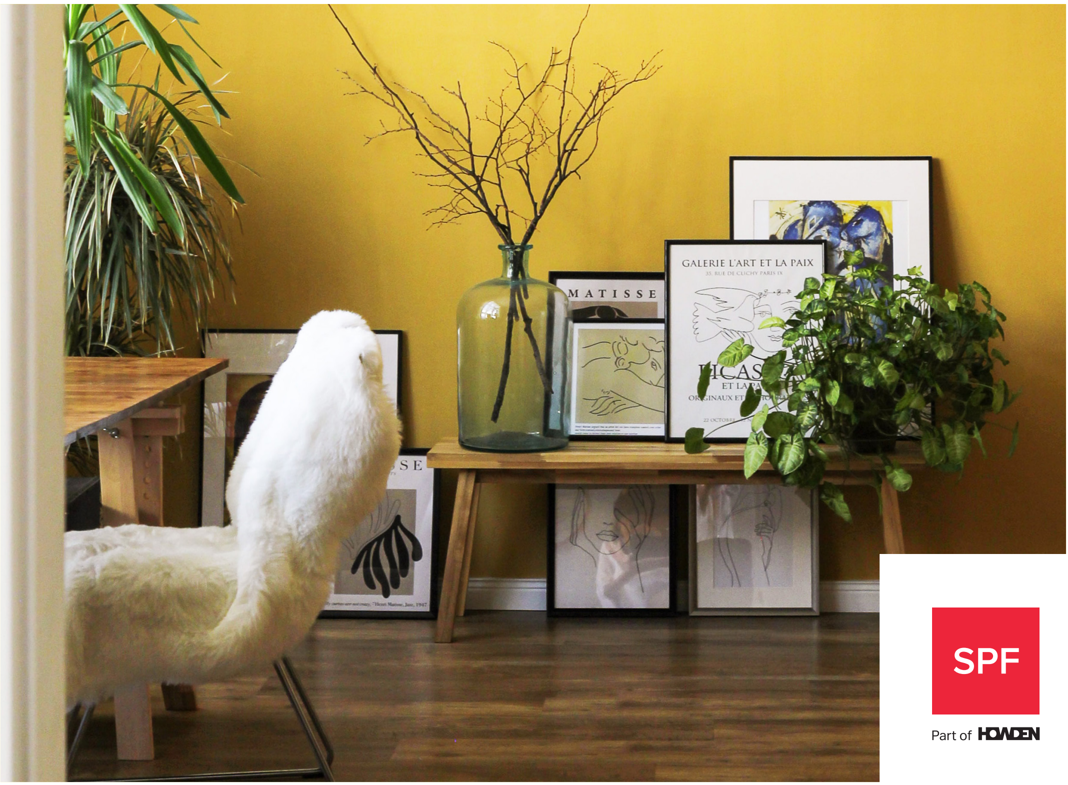
YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

A maximum fee of 1% of the loan amount is payable – for example on a mortgage of £100,000 the fee would be £1,000, the exact fee will be dependent on your circumstances.

SPF Private Clients Limited is authorised and regulated by the Financial Conduct Authority (FCA). The FCA does not regulate some forms of buy-to-let and commercial mortgages.



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