A Guide to Mortgages

www.mortgageap.co.uk

Mortgage Advice Point

Congratulations! You have made your first step towards getting the right mortgage to help you buy your first home, become a buy-to-let landlord or simply find a better deal on your existing mortgage.

Each year we help many people across the UK find the most cost-effective and appropriate mortgage deal for their individual financial circumstances, so you'll find us knowledgeable, approachable and friendly to deal with.

These days, there's a lot to think about when taking out a mortgage. It's not just about taking on a sizeable loan - it's about getting the most suitable deal for your money too. The good news is that we're on hand to help.

About this guide

Taking out a mortgage is a big financial commitment, so it helps to know a little more about what's on offer, what your options are, and how the process works.

Finding the right deal is important. Whether you're new to the mortgage market, or you've had a mortgage for a while but are considering a move, this brochure sets out a few facts and gives important information to help you make the right choices.

We'll also explain how we can help you successfully navigate the mortgage market and ensure you get the right deal for your financial circumstances.

How much can I borrow?

Before you start arranging property viewings, the big question is always "How much can I borrow?" In the past, the answer to this would have been a rule-of-thumb multiple based on your salary, or your joint salaries if you were buying with someone else.

Post credit crunch and the financial crisis, mortgage lenders were required by the Financial Conduct Authority (the regulator of the financial services industry), to adopt an affordability based approach to lending. This means that banks and building societies are now required to scrutinise borrowers' incomes, outgoings and credit history closely and apply strict affordability criteria, ensuring that borrowers can comfortably afford their repayments now, and in the foreseeable future.

This is where your mortgage adviser fits in. Although lenders are all bound by the same general principles and criteria, there are slight variations in the way they apply them. So it really pays to work with a mortgage adviser. Their knowledge of the market and understanding of the approach adopted by individual lenders means they can help you present your application in a positive light, to the right lender, saving you time and stress.

The bigger the deposit, the better the deal

Having a large deposit really matters in the current market. Typically the more you can put down, the lower the interest rate you are likely to be offered.

While lenders may be prepared to lend purchasers up to 95% of the property price, with the borrower putting in the remaining 5% as a deposit, better deals and rates are available to those who can put down, say, 20% or even more.

If you're thinking of remortgaging, and the equity in your property (the difference between the value of your property and the amount of mortgage you have left to repay) has increased, then you can use it as a larger deposit and secure a lower mortgage rate.

This is where our adviser's knowledge of the marketplace really helps. They will be able to provide examples that illustrate what you'd pay, depending on how much deposit you're able to provide.

How mortgages work

A mortgage is a loan made by a bank or building society to enable you to buy a house or other type of property. The length of the mortgage will usually be anything up to 40 years for a standard repayment mortgage. The shorter the term, the more you will repay each month, but you will obviously pay off the mortgage more quickly and pay less in interest on the term of the loan. When you sign the mortgage agreement, you are agreeing to give the property as security for the loan.

The amount you borrow is referred to as the capital sum. The lender then charges you interest on the amount you have borrowed.

When it comes to monthly repayments, these can be interest and capital, referred to as a repayment mortgage, or just interest, referred to as an interest-only mortgage. In addition, some lenders offer mortgages on a part-repayment and part interest-only basis.

Repayment mortgages

Each month, you pay back part of the mortgage capital and the monthly interest. At the outset, most of your monthly payment will be interest; later on, more of your monthly payment will be repaying the capital. At the end of your mortgage term, you will have paid off the entire loan plus the interest.

Interest-only mortgages

Here, each month you only pay the interest outstanding on the loan, meaning that the capital sum remains the same throughout the term of the mortgage. These mortgages are not as widely available as they once were. Lenders will now only lend money in this way if the borrower can clearly demonstrate how they propose to repay the capital sum at the end of the mortgage term.

Part-repayment, part interest-only mortgages

As the name suggests, this type of mortgage is a combination of a repayment and an interest-only mortgage as outlined above. With this type of mortgage, as with an interest-only mortgage, at the end of the mortgage term, some of the mortgage capital will still be owed and you will need to have a plan in place to repay it.

What happens if I can't pay?

Lenders secure your mortgage against your property through a legal charge, so if you fall behind with payments and no other solution can be found, then the lender can repossess your home.

If you get into arrears or find it a strain to keep up with your monthly payments, you should seek advice as soon as possible. Your adviser may be able to find you a mortgage deal that is more affordable, perhaps with a lower interest rate or one that can be repaid over a longer period of time.

Buying to let

Rising property values and a booming lettings market has meant that many lenders have developed mortgage deals tailored to the needs of would-be landlords. For investors seeking rental yield or capital growth, property has proved a good investment at a time when returns on other types of asset have been comparatively low. Landlords can buy property in their own name or through a limited company.

Market changes

From 21 March 2016, the categorisation of buy-to-let mortgages changed under the Mortgage Credit Directive. They are now categorised as either consumer or business buy-to-let mortgages. This change has affected the products offered by individual lenders. So, if you're thinking of becoming a landlord, talk to your adviser about the various buy-to-let mortgage deals currently available.

From April 2016, there has been a new stamp duty charge on the purchase of additional properties such as buy-to-lets and second homes; these buyers will pay an extra 3% in stamp duty.

From 2007, those with buy-to-let mortgages can no longer deduct all finance costs (such as mortgage interest, interest on loans taken out to furnish the property, and fees) in arriving at their rental income. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

In addition, from April 2017, the 10% wear-and-tear allowance has gone. Landlords are only be able to deduct costs they have actually incurred.

For higher rate tax payers, the group most affected by the changes in tax treatment, there are ways they can reduce the impact, such as setting up a company and putting their buy-to-let properties into it.

We do not give this advice for landlords. We recommend you always talk to an Accountant before choosing how to buy your buy to let.

Types of mortgage available

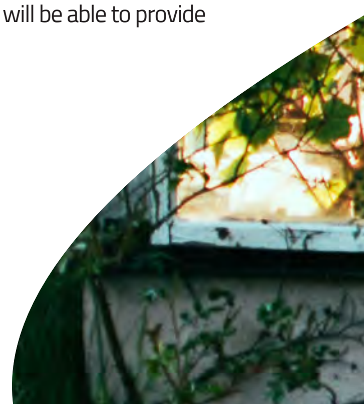
Choosing the right sort of mortgage to meet your needs and circumstances can seem a bit overwhelming. There are many different types to choose from, all meeting the needs of different types of borrowers. Your adviser will be able to help you by explaining what's on offer, what the key features are, and what type of mortgage best meets your individual circumstances.

Here's a selection of what's available in the marketplace:

Mortgage type	
Fixed rate mortgage	The interest you pay remains the same for a set period of time, so your mortgage repayments will remain the same, even if rates rise.
Variable rate mortgage	As the name suggests, the rate applied can change at any time, meaning that your monthly repayments could do so too.
Standard variable rate mortgage	The interest rate used here is the lender's default rate, their standard variable rate (SVR). This can change at any time, meaning that your monthly repayments could go up and down.
Tracker mortgage	A type of variable rate mortgage. Here the interest rate usually tracks the Bank of England base rate at a set margin above or below it, for the period of the deal.
Discount mortgage	A type of variable rate mortgage where the interest rate is set at a discount below the lender's SVR for a fixed period of time.
Capped-rate mortgage	The rate you will be charged moves in line with the lender's SVR, but the cap means that the rate won't move above a certain level.

As you can see, there are plenty of options, all designed to meet particular borrower requirements. Your adviser will also explain the fees and charges associated with each different type. (See the 'Fees and Charges' page).

In addition, lenders package their mortgages to suit borrowers on different rungs of the housing ladder. So, for example, there are specific deals aimed at first time buyers, those who are buying property to let, or those who want to release the equity tied up in their existing property. Your adviser will be able to provide the details.



Mortgage Features

Repaying your mortgage

Once you have a mortgage in place, you'll be making regular monthly repayments until the end of the mortgage term, or until you decide to move or take out a new loan.

However, lenders do offer a certain amount of flexibility when it comes to the amount you pay each month; your adviser will be able to explain the options available to you.

Making larger or smaller repayments

If you're looking to repay your loan faster, you may be able to increase your monthly payments. Some lenders impose a limit, and there may be an early repayment charge attached to your mortgage. You can also make overpayments if affordable.

Depending on your circumstances, some lenders may be prepared to let you make smaller monthly payments. You should be aware that this will increase the amount outstanding and the time it will take to repay the loan in full.

Repayment 'holidays'

Some lenders are prepared to allow borrowers to take a temporary break or 'holiday' from making repayments, sometimes for up to a year. However, you may need to have overpaid your mortgage for a period of time in order to qualify.

If you are temporarily struggling to meet your repayments, because you've been made redundant or are going on maternity leave, you may be able to negotiate a break for a few months until you are in a position to resume making repayments.

Lenders vary in their policy towards borrowers wishing to suspend their payments. Your adviser will be able to tell you more about the criteria operated by individual lenders.

Normally the decision to take a payment holiday will affect your credit rating, so the decision should not be taken without advice.

Offset mortgages

An off set mortgage links your savings, and in some cases your current account, to your mortgage. This means that instead of earning interest on your savings, you pay less interest on your mortgage. So, for example, if you have a mortgage of £125,000 and you have £25,000 in your linked accounts, then your monthly interest would be calculated on £100,000 instead of the balance of £125,000.

Portable mortgages

A portable mortgage is one that can be transferred from one property to another while avoiding the early repayment penalties that would typically be incurred on the property sale.

Porting means repaying your existing mortgage when you sell your current property, and using the same mortgage to purchase your new one. This will be on the same terms as your existing mortgage, including the end date of any deal period.

If you need to borrow more, or you're looking for a better deal

A further advance from your existing lender

If your current mortgage represents less than the maximum value that your current lender will advance you, then you could apply to increase the amount of money you borrow. Homeowners often consider this route if they want to fund home improvements, or to raise cash to provide a deposit for a second home, or to give funds to another family member to help them get onto the property ladder.

Your adviser will be able to explain the terms on which your lender would be prepared to do this, and go through the pros and cons.

Remortgaging

If your current mortgage deal is coming to an end, or if you've been with your existing lender for a while, this could be a very good time to think about switching to get a better, more cost-effective mortgage deal, and at the same time increase the amount you're borrowing.

In some cases, homeowners can save hundreds of pounds a year by moving their mortgage to a more attractive rate with a different lender. Remortgaging can also work if your property has increased in value and you want to free up some cash from the equity tied up in your home, or if you want to make higher repayments to shorten your mortgage term.

Rate switch

For some mortgage holders who come to the end of their initial special offer rate, this lender may offer another special rate to encourage customers to stay with them.

Your advisor can help work out what's the best course of action to take when this offer is made.

Secured loans

Secured or second charge loans are separate from your existing mortgage. With this type of loan, you're in effect taking out a new and separate mortgage in addition to your existing one, using your property as security for the repayment of the loan.

Unsecured loans

If you want to borrow money, but don't want to use your property as security, then you may be able to borrow money on an unsecured basis by taking out a personal loan.

Your adviser will be able to explain the different options to you, and provide up-to-date details of what's on offer in the marketplace.

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Incentives offered with mortgages

Mortgages come in all shapes and sizes, and from time to time, lenders offer borrowers a range of added extras.

A Free Valuation

Some lenders offer a fee-free standard valuation carried out by their chosen surveyor as part of their mortgage deal. This could save around £200 in upfront costs when purchasing a property. These deals are often available both to purchasers and those remortgaging their property.

As an alternative to free valuations, some lenders will charge the valuation fee upfront, but will then refund the fee in full on completion. Furthermore, certain lenders will refund your valuation fee if for any reason your house purchase falls through, and you go on to purchase another property with a mortgage from the same lender.

Cashback

This type of mortgage arrangement means that you receive a cash sum once your purchase has been completed and your mortgage is in place. This incentive sometimes requires the borrower to have a current or savings account with the lender. The amount you receive is normally expressed as a percentage of the amount you have borrowed and is designed to help out with costs associated with moving house.

Free conveyancing

Here, the lender will choose the conveyancer on your behalf and pay the basic legal fee to those who are remortgaging their existing property. This incentive can also be offered by some lenders to those who are purchasing a property.

Mortgages with special offers attached may not always represent the best deals on the market; your mortgage adviser will be able to help you choose the most appropriate deal for your financial circumstances.

Fees and costs associated with your mortgage

Not only is taking out a mortgage a big financial commitment, there are also other fees and charges that you may be required to pay as part of the process of putting your mortgage in place.

Opposite you will find information about some of the likely costs you can expect to incur. These costs come under a variety of headings and the exact amount you will pay will, of course, depend upon your circumstances and the type of property you're mortgaging.

It's a good idea to discuss this with your adviser. They will be able to help you draw up a budget to cover all the likely costs you can expect to incur.

Your lender

Here are some examples of fees and costs that could be charged by your lender.

Type	Scope
Deposit of between 5% and 40%	Based on the purchase price of your property.
Valuation fee	This could be anywhere between £150 and £1,500 depending on the value of your purchase.
Arrangement fee	This charge is for the mortgage product you are taking out and can vary from nil to over £2,000 and sometimes expressed as a percentage.
Booking fee	If this is charged by the lender it is normally payable on application and is non-refundable. It's a way for lenders to cover expenses for cases that cancel during the application process.
Mortgage account fee, also referred to as a Redemption Administration Fee	This administration fee is charged by some lenders for the running of your mortgage account, and is often deferred until full redemption of the mortgage.
Early repayment charge	As the name suggests, this is a charge made to cover a lender's costs if you repay all or part of your mortgage before the end of your mortgage deal.

Stamp duty

The higher the purchase price of a property, the more stamp duty you will pay. Furthermore, if the property you are buying is a buy-to-let or second home the stamp duty increases further. Please see the below table and accompanying examples:

England, Wales & Northern Ireland

Property Value	Standard Rate	Buy-to-let /Second Home Rate
Up to £500,000	0%	3%
The next £425,000	5%	8%
The next £575,000	10%	13%
Above £1.5m	12%	15%

Source: HMRC

Example A
Primary Residence

If you buy a house for £280,000, the stamp duty land tax (SDLT) you owe is calculated as follows:

- 0% on the first £280,000 = £0
- Total SDLT = £0

Example B
Buy-to-Let and Second Homes

If you buy a Buy-to-Let or Second House for £280,000, the SDLT you owe is calculated as follows:

- 3% on the first £280,000 = £3,750
- Total SDLT = £3,750

Example C Primary Residence

If you buy a primary residence for £750,000, the stamp duty land tax (SDLT) you owe is calculated as follows:

- 0% on the first £500,000 = £0
- 5% on the next £250,000 = £12,500
- Total SDLT = £12,500

These figures are for example only. Any calculation of Stamp Duty due must be agreed by your solicitor. We do not give tax advice as part of the mortgage advice process.

Scotland

Property Value	LBTT Rate	Additional Dwelling Supplement (ADS)
Up to £250,000	0%	4%
The next £75,000	5%	9%
The next £425,000	10%	14%
Above £750,000	12%	16%

Source: Revenue Scotland

** For additional dwellings (e.g. Buy-to-Let and Second Homes) if the total property price is £40,000 or less, it will attract zero tax. If the total property price is over £40,000, the ADS rates will apply based on the full property price.*

Example A
Primary Residence

If you buy a house for £280,000, the stamp duty land tax (SDLT) you owe is calculated as follows:

- 0% on the first £280,000 = £0
- Total SDLT = £0

Example B
Buy-to-Let and Second Homes

If you buy a Buy-to-Let or Second House for £280,000, the SDLT you owe is calculated as follows:

- 3% on the first £280,000 = £3,750
- Total SDLT = £3,750

These figures are for example only. Any calculation of Stamp Duty due must be agreed by your solicitor. We do not give tax advice as part of the mortgage advice process.

Legal costs

Your solicitor or conveyancer will charge you for carrying out all the legal work involved in your purchase. You will also have to pay for any searches that are required.

Type	Scope
Legal fees in connection with your purchase	Typically around £500 to £1,500. They will be able to provide an upfront estimate of what their fees are likely to be.
Local searches	These can be around £80 to £250.
Water/Drainage search	These can be around £30 to £60.
Land Registry fees, bank transfers and disbursements	These should be itemised in the quote provided by your legal adviser.
Environmental (inc. Flood) search	These can be around £50 to £80.

Survey fees

Depending on the type you choose, you could be paying anything from £250 for a basic report to around £1,000+ for a more detailed structural survey. Your surveyor will discuss your requirements with you.

Other costs you may incur

If you're selling a property and you use an estate agent, you will typically be charged a fee usually equating to 1% - 3% of the sale price, plus VAT.

You may need to use a removal firm. They will provide an estimate of the cost based on the amount of furniture and possessions that will need to be transported and the distance you'll be moving.

The legal process explained

England, Wales and Northern Ireland

When you've found the property you want to buy and put in an offer, you'll be asked to provide the name and contact details of the solicitor or conveyancer who will be acting for you.

If this is the first time you've bought a property then the process of conveyancing, as it's referred to, can seem daunting. As there's a lot of paperwork involved, you'll need expert advice to ensure the process goes smoothly.

Using a solicitor is generally more expensive than using a conveyancer, who may just offer an online service. While conveyancers specialise in property, they can't deal with complex legal issues that can sometimes arise. Most people make their choice of legal adviser by asking friends and family or their mortgage adviser for recommendations.

What do solicitors and conveyancers do?

They will carry out a number of searches on your behalf to check important practical details before you finally commit to your purchase. For instance, if you're buying a leasehold property, you'll need to know how much time is left on the lease and the terms for renegotiating an extension.

A Local Authority search gives information about planning permissions and building regulation consent for the property. A Water and Drainage search confirms if the property is connected to the mains water supply and the public drainage system and, if not, what the arrangements are. An Environmental search shows up if there is any land contamination and can identify flood risk too.

You'll need to check the title plan for the property carefully and be sure that it corresponds to what you see on site. Your legal adviser will make you aware of any covenants on the title. These are obligations attaching to the property and can include only using it as a single private residence or contributing to the cost of a shared driveway.

They will also check what fixtures and fittings the seller is leaving behind in the property, and obtain a copy of the Energy Performance Certificate, which gives an energy efficiency rating indicating how costly the property will be to heat and light.

Once contracts have been exchanged, the buyer is legally committed to the purchase. A date is then set for completion, at which point the balance of the purchase price is paid, stamp duty is settled, and your solicitor will register your title with the Land Registry.

Scotland

In Scotland, the process of buying and selling property works in a different way. Sellers must provide a home report for buyers, including a survey, an energy report and a property questionnaire.

Once you have decided to make an off er on a property, your solicitor prepares a formal written off er for the property. If your offer is accepted, the transaction moves to the next stage which is the negotiation of the contract or 'Missives' as it is termed in Scotland. Your solicitor will not generally be able to agree an unconditional contract until a formal offer of a mortgage has been issued by your lender.

There are two types of searches that are carried out, one is the 'Property and Personal Registers' which shows the seller has good title, the second is the 'Property Enquiry Certificate' which shows whether the property is affected by any orders or notices issued by the local council, such as road schemes which might influence your decision to purchase the property.

The final part of the conveyancing process is known as the 'Date of Entry' or 'Settlement' (in England it is called Completion) when the purchase price is paid.

Why it's important to have a survey

Having a survey carried out on a property before you commit to buying it makes good sense. It can save you thousands of pounds in repair bills and a lot of stress in the future. There are various options available, and your adviser will be able to offer help and advice on choosing the type that meets your needs.

It's important to note that a mortgage valuation isn't the same as a structural survey. A mortgage valuation is undertaken by your lender to assess whether or not the property is sufficient security for the loan. Whilst it will give you a rough idea as to whether the asking price is fair, it won't tell you about the state of the property or show up any underlying faults.

To be fully informed about the condition of the property, you need to engage a qualified surveyor who is a member of the Royal Institute of Chartered Surveyors (RICS). Surveys can throw up defects that could be costly to put right, especially in older properties.

Main types of surveys available:

Type	Scope
RICS Condition report	This is the most basic form of survey, and is suitable for new-build and conventional homes in good condition.
RICS Homebuyer Report	The next level up, this will identify structural problems such as subsidence or damp and other common faults.
RICS Building Survey	This is the most comprehensive survey. This will provide a full inspection and give professional advice on any repairs that may be required and the likely costs involved.

A survey provides reassurance and can also help you decide whether or not to proceed with the purchase. If the surveyor reports problems that need to be remedied, you could still decide to proceed, using the survey findings to renegotiate the purchase price.

Scotland

In Scotland, sellers are required to have a Home Report available for would-be purchasers. This must be carried out by a RICS-qualified surveyor. New-build, converted homes, or properties purchased under Right to Buy don't have to have a Home Report. However, purchasers should still consider having a survey carried out.

Protection for you and your mortgage

Having a mortgage is a huge responsibility. It brings with it a need to take a longer-term view of your finances, and think about what might happen if unforeseen events were to occur. This is where life assurance can play a major role in securing your financial future.

If your children, partner or relatives depend on your income to cover the cost of paying the mortgage and other living expenses, then it makes good sense to think about the protection and peace of mind that insurance can give.

There are a variety of plans available in the marketplace which can be tailored to your specific needs, and you can take out cover for critical illness and income protection too. Your adviser will be able to recommend the right policy to meet your specific needs.

Term life insurance policies run for a fixed period of time - such as 10 or 25 years. This type of insurance only pays out if you die during the term of the policy. There are various forms of cover to choose from, including level term insurance, where the cover remains at a constant level throughout the policy, or decreasing term insurance where the level of cover gradually reduces over the term of the policy. The latter is often taken out with a mortgage, with the sum assured reducing in line with the outstanding amount of the mortgage.

Protecting your home and contents

As well as life cover, you should think about insurance for your home and contents too. Homeowners need to have building insurance. Your mortgage lender will usually stipulate this as a condition of granting your loan, so not having a policy could put your mortgage and your home at risk.

When thinking about home contents insurance, you need to ask yourself how you would cope if you were to lose everything? Replacing all your possessions would be an expensive exercise, so contents insurance is vital to cover unexpected events like burglary or fire.

As your adviser will tell you, the key to getting the right buildings and contents cover in place is to focus on the features, not just price, when comparing policies. Your adviser will be able to help you find the appropriate product based on their knowledge of the marketplace and your particular requirements.

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We’re here to help

Choosing the right home loan or protection plan can be a big challenge. There are literally hundreds of lenders and policy providers in the marketplace, so how do you know you’ve made the right choice for you and your family?

That’s where we can help, saving you time, effort and unnecessary expenditure. As mortgage brokers, we specialise in finding our customers the right, affordable mortgages and protection plans for their individual needs.

So if you’re looking for a mortgage, or want to review your current deal, or need advice on how to protect your income, your possessions or the roof over your head, then your adviser is only a phone call away and ready to help you.

We look forward to helping you fulfil your goals.

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