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FACTSHEET MORTGAGES

CONSIDERING YOUR MORTGAGE OPTIONS

Why picking the right mortgage can often seem totally baffling

Buying a home is the largest purchase you're likely to make. There is so much choice when it comes to picking a mortgage that it can seem totally baffling. Not only do you have to work out which mortgage will be the cheapest for you, which means looking at interest rates and fees, but there are also different types of products available and how you pay back the capital you borrow and how you pay the interest on it.

PAYING BACK THE CAPITAL

You can either pay a little at a time as you go (repayment mortgage) or pay it all off at the end (interest only or endowment mortgages).

Repayment mortgages – Each monthly payment pays off a little of the underlying debt, as well as interest on the loan. At the end of the term, the mortgage is cleared. This is widely considered to be the most easy to understand and least risky mortgage type. But remember: if you do not keep up with repayments, the lender can repossess the property.

Interest only mortgages – With this type of mortgage, you pay off the interest on the loan but not the capital. At the end of the mortgage term, you are expected to repay the capital; how you fund this is your business.

Endowment mortgages – You use an endowment policy to provide life insurance and save funds to repay the loan at the end of the term (usually 20-25 years). If the investment under performs, you could face a shortfall on your loan at the end of the repayment period. Relatively few endowments are recommended to people today.

PAYING THE INTEREST

You have to pay interest on any debt, and mortgages are no different. They differ only in the range of options offered.

Variable rates – This means you pay the going rate on your loan. The mortgage rate changes every time interest rates change or, as in most cases, the overall effect of any interest rate changes is calculated once a year and payments are altered accordingly. Whatever kind of mortgage you start with, it is likely to change to variable rates at some point.

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Fixed rates – The interest rate is fixed for the period agreed, often two to five years. These are ideal for budgeting or if you think rates might increase. You do not benefit if rates fall, and you will face penalties if you try to quit. Very low rates may tempt you, but they can be used to trap you into paying over the odds at a future date. Check how long you will have to stay with the lender before you can switch without penalty.

Capped rates – These are fixed, but if rates fall, you pay the lower rate. Such deals can be a good for budgeting.

Cash back deals – This is when lenders offer money back if you take out a particular product. However, nothing comes free in life, and cash back mortgages may be weighed down with hefty penalty charges if you later want to switch lender.

Discounted rates – Under this type of mortgage, the borrower is offered a discount off the lender's variable rate. The rate paid will fluctuate in line with changes in the variable rate. The discount applies over a set term.

Tracker – The interest rate on a tracker mortgage is linked to the Bank of England base rate. So if the base rate changes, your mortgage rate will change. You can also get lifetime (or term) trackers, and these are often completely penalty free, so they are very flexible and can be a great option if you don't want to be tied into your mortgage.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

There is no need to spend hours searching mortgage comparison sites – we'll give you whole of market independent advice. Simply contact us now by phone or by email and our mortgage adviser will be happy to help. We look forward to hearing from you.

This factsheet relates to England and Wales. Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of and reliefs from taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.

YOUR HOME MAY BE AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.