An Introduction to Mortgages

LONSDALE
Mortgages

Contents

I really enjoy working with our customers and providing them with appropriate mortgage advice. I can work to tight deadlines and always offer excellent customer service.

Amy Kadir
Mortgage Broker
Lonsdale Mortgages

What is a mortgage?

A mortgage is a long-term loan taken out to buy property or land. You repay the loan plus interest over a period of anything up to 35 years. A mortgage is likely to be the biggest, most expensive financial product most people ever take out, so it's important to understand how it works.

Also, since a mortgage is 'secured' against the property, if you don't keep up with your mortgage repayments your lender can repossess your home. It is important to take out the right type of mortgage for your financial circumstances, so you don't pay any more than you need to in interest and fees.

Professional and friendly service. They kept us informed throughout our house buying process and explained anything we didn't understand clearly and concisely. Highly recommend.

Mr C
Mortgage for House Purchase in Kent

Different types of mortgages

Fixed rate
With a fixed rate mortgage, your interest rate is set for a period, usually two, three, five or ten years. This means that your interest rate stays the same so your monthly payments will not alter during the fixed rate period, even if the Bank of England base rate goes up or down. These mortgages are best suited to people who are prepared to pay slightly more for the security of knowing exactly how much they will pay each month.

Variable rate
With a variable rate mortgage, your interest rate can go up or down each month, depending on external factors. There are two main types:

Tracker
These have an interest rate that 'tracks' either the Bank of England base rate or your lender's own standard interest rate. If you choose a mortgage that tracks the base rate, your interest rate, and the amount you repay each month, will change if the Bank of England changes the base rate.

For example, a tracker mortgage might be set at 1.5% above base rate. If the base rate is 0.5%, you will pay 2.0%. However, if the base rate rises from 0.5% to 2%, you will pay 3.5%. If your mortgage tracks your lender's standard rate - known as the 'Standard Variable Rate' or SVR - what you pay is based purely on your mortgage lender's decision. In general, SVRs go up and down in line with the base rate and the lender is allowed to change the rate whenever it sees fit.

Discount
This is a variable rate mortgage that tracks the lender's SVR, but several percentage points lower. For example, the discount might be a 2% reduction off the SVR. So, if the lender's SVR is 5%, you pay 3%.

A variable rate mortgage may suit you if you want to pay less now but are prepared to risk the chance of your monthly repayments rising if the interest rate you are tracking moves upwards.

Offset

An offset mortgage lets you link your savings account, and sometimes your current account as well, to your mortgage so you only pay interest on the difference between the two balances. For instance, if you have a mortgage of £150,000 and savings of £50,000 and £10,000 in your current account, you will only pay interest on £90,000 of your mortgage if you linked it to these accounts. Offset mortgages are ideal for anyone with a large amount of savings.

The advantage of offset mortgages is that while you benefit from lower interest charges (as you would if you paid off a proportion of your mortgage), you can also access your savings whenever you like, giving you more flexibility. Offset mortgages can be an ideal option for anyone with a large amount of savings, or self-employed workers who build up money to pay their tax bill each year.

If that's you, then an offset mortgage could save you more money in unpaid interest on your mortgage than you could earn with a traditional savings account.

Buy-to-let

Buy to Let (BTL) mortgages are specifically designed for landlords who want to buy a property to rent out to tenants. They are more expensive than ordinary residential mortgages because banks see rental property as higher risk, but if you are going to rent out a property using a mortgage you must have a BTL mortgage.

BTL mortgages are virtually identical to normal mortgages, for example you can choose between a variable or a fixed-rate interest rate. But, how much you can borrow will depend on the potential rental income of the property rather than your personal income. Also, BTL mortgages generally require a larger deposit than other types of mortgages.

Key mortgage phrases you need to know

First-Time Buyers

If you have never owned a house before, you are a first-time buyer (FTB). Many lenders offer special deals for FTBs to help you onto the property ladder (and turn you into a long-term customer).

Remortgaging

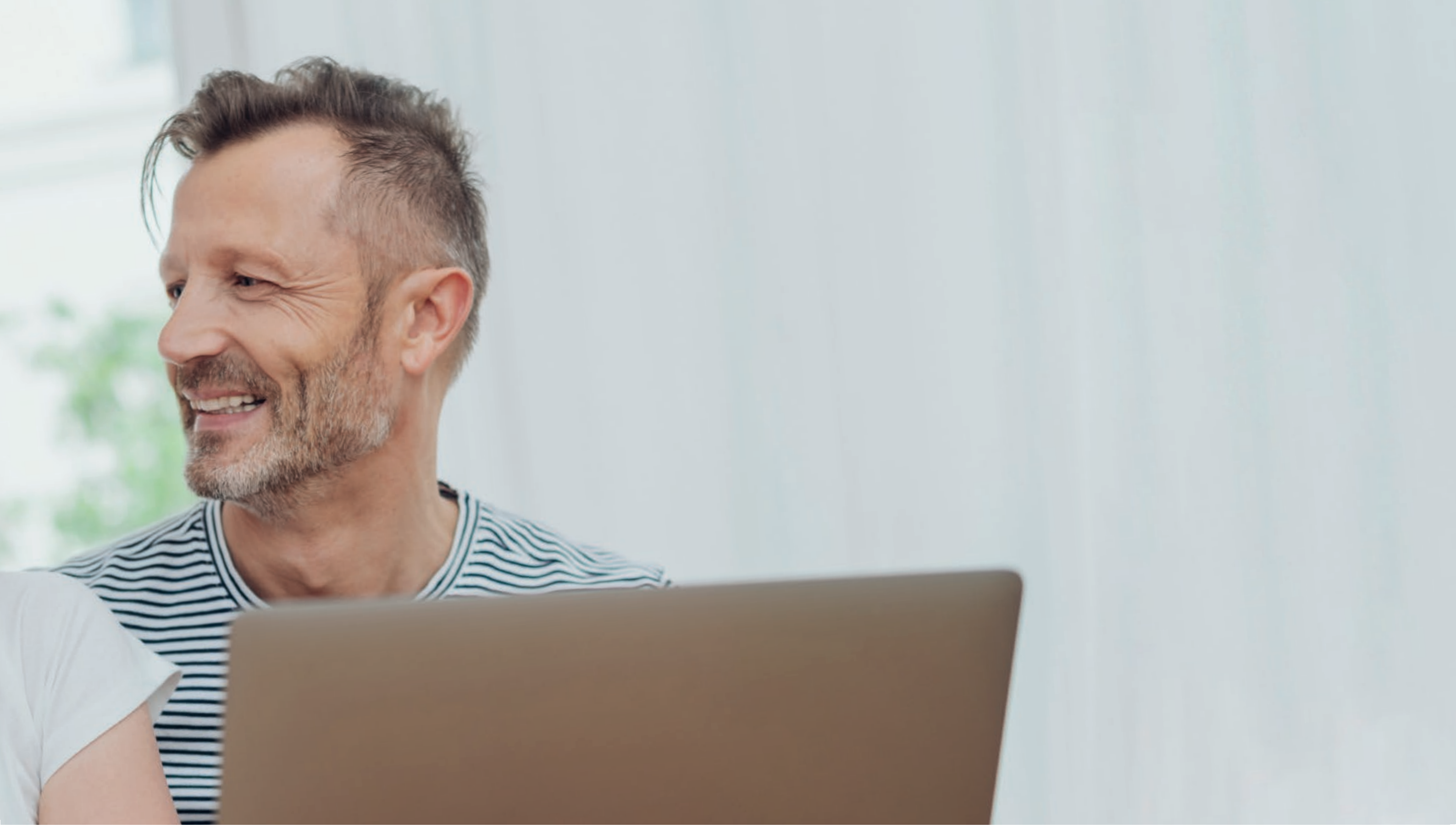
The term remortgage is used when you take out a new mortgage to pay off an existing one. The most common reason to do this is to save money. For example, you might be on a two-year fixed rate and find your payments go up (normally to the lender's SVR) after the fixed period ends. At this point you may want to consider remortgaging to get a cheaper rate. Homeowners may also remortgage to borrow a larger amount so they can pay off their debts, or pay for home improvements.

Porting

If you 'port' your mortgage it means you buy a new home but keep your existing mortgage deal. Porting allows you to move house without remortgaging. Not all mortgages allow porting, so if it is something you think you may need check the terms and conditions before you take out a mortgage.

Loan-To-Value (LTV)

LTV is the amount of money the bank is lending you as a percentage of the value of your home. So, if your home is worth £250,000 and you've got a £30,000 deposit, you need to borrow £220,000 or 88% of the value of your home. This means your LTV is 88%.



Mortgage fees – How paying mortgage fees could save you money

Whatever type of mortgage you choose, you are likely to be given the option of paying an arrangement fee of around £1,000 or more. This can be paid upfront or added onto your mortgage. If it is added to your mortgage, you will pay interest on it. Paying an arrangement fee is normally a choice you must make, as there are likely to be options that have no arrangement fee.

You might save money by paying an arrangement fee in return for a lower interest rate, but some lenders offer fee-free mortgages too. However, fee-free mortgages tend to have higher interest rates.

Whether a fee-free mortgage will work out cheaper for you depends on the size of your loan and the size of the fees you might otherwise pay. Other fees you might have to pay when you take out a mortgage include legal, booking and valuation fees.

Where to get a mortgage

In the first instance we would suggest you consider looking at Money Helper.

Money Helper

Free and impartial help with money, backed by the government

Money Helper may repeat some of the content here but provides a much wider source of material relating to mortgages, including where to search for one.

What you need to do to get a mortgage

A deposit

You need to save a deposit to get a mortgage, and the larger your deposit the less your monthly payments will be. If you save a 15% deposit, your mortgage will be 85% of the property's value. This is known as the loan-to-value (LTV). In general, the lower the LTV, the better the interest rate you will be eligible for.

A good credit history

A credit history is a record of your ability to pay back debts. A lender will check your credit history when you apply for a mortgage. They will want to see how you have handled borrowing money in the past and if you pay bills on time. The better your credit history the lower the interest rate you will be offered on your mortgage.

Proof of affordability

Mortgage lenders will check if you can afford your mortgage. To check this, they review your income and outgoings. If you are employed, they will want to see your payslips, and if you are self-employed, they will want to see several years of accounts. They will also review your other financial commitments before they decide how much money they will lend to you.

A potential home

Your mortgage lender could offer you a 'mortgage in principle' before you have an offer accepted on a new home, so you know how much they are prepared to lend you. But the mortgage lender won't release the funds until they have carried out a valuation of the property you want to purchase. The mortgage lender must ensure the property is worth what you intend to pay for it, so they can be sure they would get their money back if they had to repossess your home.

Repaying your mortgage

When you take out a mortgage, you agree a 'term' with the mortgage lender. This is how many years it will take to pay the mortgage back. Twenty-five years is the standard mortgage term, but most lenders allow terms of up to thirty-five years. If you can pay the loan off quicker, you can agree a shorter mortgage term. Your mortgage lender will tell you the monthly payments you need to make to repay the mortgage by the end of the term. Mortgage repayments have two parts:

- **Capital** – This is the amount of money you borrowed.
- **Interest** – This is your payment to the lender.

There are two ways you can repay a mortgage:

1. **Repayment** – With this mortgage you pay off a proportion of the capital and interest each month. So, you own your property outright at the end of the mortgage term.
2. **Interest-only** – You just pay off the interest each month so your repayments will be smaller. But at the end of the mortgage term, you will still owe the capital you borrowed. For this reason, mortgage lenders will insist you have a plan in place – such as an investment – to repay the capital.

Interest-only mortgages also work out to be more expensive in the long-run as you are paying interest on the full loan for the entire length of the mortgage. In contrast, with a repayment mortgage the amount of interest you are paying slowly falls as you repay the capital.

What to do if you can't pay your mortgage?

If you fall behind on your monthly mortgage payments, this is known as getting in "arrears". If you don't pay off your arrears when requested by your mortgage lender, they may eventually repossess your home.

If you are in that position help and guidance is available and you should read the latest guidance from Money Helper. Or contact your mortgage provider and discuss your situation. The guidance may include speaking to Citizens Advice or Shelter.

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Free and impartial help with money, backed by the government

About us?

Lonsdale Mortgages is part of Lonsdale Services and benefits from their administration, compliance, training, and marketing services. Our mortgage broking team in St Albans, Chippenham and Lichfield work alongside the Lonsdale Services Advisers.

Mortgage Advice & Protection Planning

It's a good idea to do some research and talk to experts. Lonsdale Mortgage Brokers have considerable experience of organising mortgages, and we are well placed to guide you through the mortgage and insurance protection process. Our aim is to save you time and money.

How We Add Value

Our qualified mortgage brokers and administrators deliver consistently high client service standards, and we are committed to delivering an excellent customer experience. Lonsdale Mortgages is rated 5* on Google. Call us on 01727 845500 or complete our booking consultation form.

Transparent Charging

Our mortgage brokers agree a fixed upfront fee on a case-by-case basis dependent on the mortgage and protection advice required. We deliver mortgage solutions solely created to match your specific needs enabling us to deliver solutions in cost-effective manner.

Mortgage Consultation

We offer customers quality mortgage advice to secure you the best mortgage deal whether you're a first-time buyer, remortgaging your home, buying to let, or moving up the property ladder. We guide you through the mortgage process with no hidden costs or surprises, just straightforward, honest, mortgage advice.

Vulnerable Clients

We identify clients who may be vulnerable by virtue of their age, disability, or other circumstances. For example, some first-time buyers could be deemed vulnerable if they are not financially literate. In 2021 Lonsdale Services won the Best Adviser firm for Vulnerable Client Care at the National Professional Adviser Awards.

★★★★★

Amy and Sue went ABOVE and BEYOND to ensure the purchase of my first home. Both were extremely helpful and professional during a very stressful time due to the constraints of dealing with the Government Help to Buy scheme. I would highly recommend Lonsdale Mortgages.

H. Barrow
First Home Mortgage, Ruislip

★★★★★

"Superb initial advice and service from Amy, who spent a lot of time understanding my needs to make the appropriate recommendation on my mortgage, and Sue's follow-up was similarly superb, proactive throughout in pushing the purchase through, and taking advantage of every favourable rate change to ensure I was getting the best deal possible. Can't recommend highly enough!

A. Sykes
House Purchase, St Albans

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Because you deserve independent advice and support

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