Mortgage Advice

Q: What types of mortgage are there?

A: Your mortgage is usually the largest financial commitment you will have during your lifetime and it's crucial for it to be bespoke and tailored to your financial requirements.

There are two types of mortgage repayment and interest only repayment. A lump sum is taken as a loan over a course of years usually 25 years, with a repayment mortgage the interest and capital are repaid monthly whereas an interest only mortgage only the interest is paid monthly.

First Time Buyers

First time buyers are currently in a strong position as interest rates are currently low and first-time buyers are quite attractive to sellers as they are not in a chain and there would be no delays. However, a 20% deposit is the required amount for most lenders.

Help to Buy Scheme

In April 2013 when house prices began to rise again after the credit crunch the government introduced the Help to Buy Scheme which applies to first time buyers and existing homeowners and only applies to the purchase of new build properties.

The scheme is being offered in England until 2020. Under this scheme the government will provide a loan of 20% of the property value with the borrower providing a deposit of 5%. The remainder would be a mortgage of 75% from the lender.

Remortgaging

Remortgaging is the transfer of your current mortgage to a new lender.

This is usually to decrease the monthly payments on your mortgage.

Most people remortgage many times due to their current mortgage having a fixed term rate, therefore moving to another lender with a lower interest rate could save thousands over the course of your mortgage.

You do not need to be buying a new home to remortgage. However, early repayment charges may be applicable by your current lender so it's important to have advice before remortgaging.

Moving Home

If you wish to move home, you will need to have a 5-10% deposit for the new property which ideally you should get from the sale of your current property however if this isn't possible you will need to make up any difference with savings. Many mortgages are transferable to your new property.

There will most likely be fees to transfer to a new property.

Moving home is the ideal opportunity to look around lenders for a better mortgage deal. Like remortgaging you will need to check terms and conditions and ascertain if there are any exit penalties with your current provider.

Buy-to-Let Mortgage

A buy to let mortgage is for people who wish to buy a residential property which they plan on renting out to tenants for a monthly income.

The amount you can borrow depends on the potential rental income of the property rather than the salary of the owners. Most lenders expect a 20-30% increase on the mortgage payment.

There are several differences between a regular mortgage and a Buy-to-Let mortgage:

- Terms and conditions can vary considerably for example some lenders may enforce an upper age limit on the term of the mortgage, a minimum age of 25 years and earning above £25,000
- Interest rates are much higher for Buy to Let mortgages,
- Credit history – considering any current mortgage and credit cards
- A minimum deposit of 25%, some lenders could require as much as a 40% deposit.
- The fees tend to be higher for Buy-to-Let mortgage

New Build Homes

The government is placing a real focus on new build homes as we are struggling with a national shortage of property. The government are enticing buyers with the help to buy scheme.

However, there are some disadvantages with a new build:

- It may be harder to get a mortgage for a new build as some lenders put tighter limits on maximum value of a property.
- Most mortgage offers will only be valid for 6 months which if your house new build hasn't been built in this time you would need to reapply.

Some new builds are sold as lease hold meaning you own the property but not the land that its built on, meaning you could be paying for ground rent and service charges in addition to your mortgage. This may be harder to sell in the future.

Some advantages of a new build include a blank canvas, with most new builds you can choose or upgrade certain interior features, it's very unlikely to have any major structural problems, the building company will complete any snagging within the first year.

Equity Release

Lifetime mortgage

A mortgage is secured on your property and you retain ownership. Borrowers can choose to protect some of the value and use as an inheritance for your family. Repayments can be made or rolled up and the loan amount and interest is paid back when you die or move into long term care. The minimum age you can take out a lifetime mortgage is 55. You can normally borrow 60% of the value of the property.

Home reversion

This allows you to sell all or some of your home to a reversion provider. In return you will receive either a lump sum or regular payments. The amount you will receive will usually be between 20% and 60% of the market value. There is a minimum age at which you can take a home reversion plan out and some providers set this at 60-65.

Both the lifetime mortgage and the home reversion have a no negative equity guarantee which means that even after all fees are paid and the property is sold if there is not enough money to pay back the loan you or your estate will not be liable to pay anything back. Under both plans you have the right to remain in the property until you die or move into long term care provided it is your main residence and you abide by the terms and conditions which will usually include inspections of the property every couple of years.

However, if you do release equity from your home you may not be able to depend on your property for income you may require later in your retirement.

What You Should Be Aware Of

Things you need to know about equity release.

Equity release might seem like a good option if you want some extra money and don't want to move house.

However, there are important considerations:

- Equity release can be more expensive in comparison to an ordinary mortgage. If you take out a lifetime mortgage you will normally be charged a higher rate of interest than you would on an ordinary mortgage and your debt can grow quickly if the interest is rolled up. It is worth pointing out house price growth might also be evident. Your plan provider needs to factor in the safeguards they are providing you with (such as the no negative equity guarantee and a fixed interest rate for the life of the plan) in their calculations and can, therefore lend you at a different interest rate to an ordinary mortgage.
- For lifetime mortgages, there is no fixed “term” or date by which you’re expected to repay your loan. The rate of interest of a lifetime mortgage will not change during the life of your contract, unless you take any additional borrowing and it will only be applicable to that cycle of extra borrowing.
- Home reversion plans will usually not give you anything near to the true market value of your home when compared to selling your property on the open market.
- If you release equity from your home, you might not be able to rely on your property for money you need later in your retirement. For instance, if you need to pay for long-term care.
- Although you can move home and take your lifetime mortgage with you, if you decide you want to downsize later on you might not have enough equity in your home to do this. This means you might need to repay some of your mortgage.
- The money you receive from equity release might affect your entitlement to state benefits.
- You will have to pay arrangement fees, which can reach approx. £1,500-£3,000 in total, depending on the plan being arranged.
- If you’ve taken out an interest roll-up plan, there will be less for you to pass onto your family as an inheritance.
- These schemes can be complicated to unravel if you change your mind.
- There might be early repayment charges if you change your mind, which could be expensive, although they are not applicable if you die or move into long-term care.

For more information or advice on Mortgages please contact us.