

# **A Guide For Mortgage Applicants**

**By**

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# Mortgage Types

## **Standard Variable Rate Mortgage.**

Most lenders have a basic rate which they charge, which is linked to the market rate set from time to time by the Bank of England. The mortgage will fluctuate as market rates are changed, and your monthly payments will be altered in line with the new rate.

## **Fixed Rate Mortgage.**

A lender may offer a fixed rate over a set period of time, which means that your payments will remain stable during the fixed period. Once the period expires your payments normally revert to the standard variable rate. Sometimes the lender will charge a penalty if you repay your loan early.

## **Discounted Mortgage.**

Some lenders offer a percentage discount off the variable rate for a set period of time. This means you will receive a reduced payment during the set period, and at the end of the period your payments will revert back to the standard variable rate. These mortgages still tend to fluctuate, but are normally cheaper during the initial period. Similar to fixed rate mortgages these schemes normally include a penalty if you repay the mortgage early.

## **Capped Rate Mortgage.**

A capped rate is similar to a fixed rate mortgage, but the rate will not increase if interest rates go up, but if interest rates fall your rate will reduce as well. These schemes normally include a penalty if you repay your loan early.

## **Cashback Mortgage.**

These mortgages are normally based on the standard variable rates, but if you agree to stay with the lender for a set period of time, the lender will give you a cash sum on or soon after completion of your purchase. These schemes normally include a penalty, repayment of the cashback, if the mortgage is repaid early. Sometimes cashbacks can be mixed with discounted or fixed rate mortgages.

## **Flexible Mortgages.**

With a flexible mortgage it is normally charged at the standard variable rate, but the lender allows you to overpay, thereby reducing the interest you are charged, or borrow back the overpayments should a need for the money arise. Schemes vary considerably, and the benefits must be closely examined before you proceed.

If you commit yourself to a scheme which includes a penalty do make sure that the scheme is "portable" so that you can take the mortgage with you to a new property should you move house within the scheme period.

## Repaying A Mortgage

There are two ways of repaying your mortgage.

**Capital & Interest** - With this scheme, you repay the interest plus a portion of the capital, reducing the outstanding balance monthly until the mortgage is repaid.

**Interest Only** - With this scheme, you repay the interest each month, but at the end of the term the capital borrowed remains outstanding. You will need to arrange some type of savings or investment plan to run over the same period as the mortgage, which will repay the mortgage once the plan matures. Most common types of repayment vehicle are an endowment policy, a pension plan, or an Individual Savings plan. These plans should be regularly reviewed to ensure that they will have sufficient value to repay the mortgage balance.

## Remember

*Your home may be repossessed if you do not keep up repayments on your mortgage.*

You must be sure you can make the repayments before entering into an agreement.

If you purchase with a partner you should make sure that you have sufficient life cover to repay the mortgage on the death of either partner to make sure that the surviving partner is not left with a debt they cannot afford.

You should obtain independent advice before entering into a mortgage commitment.

## Protecting payments

Sometimes you are unable to make your mortgage payments because you have suffered an accident, become sick or lost your job. As the government will not provide any assistance for the first nine months that you are unable to work, it is essential that you take out suitable insurance to meet your monthly payments for this period. Discuss the options with your adviser before you complete your mortgage.

## Mortgage Related Insurance

Besides life insurance and accident sickness and unemployment insurance, you will also be required to have adequate buildings insurance. Most schemes also offer contents insurance. Some lenders will insist that you use their panel insurer, but if you opt not to use the set scheme, they will charge a small fee for registering your insurance details.

## Impaired credit and low income.

Some borrowers may have had credit problems in the past, for example, County Court Judgements, rent or mortgage arrears, defaults, or a poor payment profile - missed or been late with some monthly payments - on existing credit. They may also have a low income. These borrowers are particularly vulnerable and are viewed by lenders as a greater risk. Inevitably the lender charges an increased interest rate and it is therefore essential that the borrower is very aware of the charges and is sure they can make the repayments. 4Most Consulting Services Ltd has special relationships with specific lenders in this market, who have agreed to abide within certain guidelines when lending to people in this portion of the market. **Borrowers must always disclose any problems they have had in the past to ensure that they receive proper and impartial advice, and do not increase their problems by having declined mortgage applications added to their poor credit rating.**

## Fees

Inevitably arranging a mortgage can be expensive, and it is essential that you make allowance for the costs that are involved.

The lender or broker will initially make a charge for the administration of your mortgage, and the valuation of the property to be offered as security.

Some special schemes involve an arrangement fee, which is normally charged on completion of the mortgage, and can sometimes be added to the mortgage. Sometimes the lender will also charge a booking fee for holding fixed rate funds.

Existing lenders charge a fee for providing a reference.

If you borrow over a certain percentage of the value of the property, say 70 or 75%, the lender will charge a Higher Lending fee, which is used to buy insurance which the lender can claim on if you default on a mortgage and the lender sells your property at a lower price than your outstanding balance of the mortgage. If a claim is made by the lender, the insurer may well pursue you for repayment of the claim.

Your adviser may also charge a fee, (commonly known as a broker or arrangement fee). This is to cover his time researching the market and ensuring you get a suitable mortgage to match your particular needs and circumstances.

## Procurement Fees & Commissions

It is common for some lenders to offer to pay a fee or commission to a broker for introducing the mortgage. Under The Financial Services Authority regulations the broker must disclose this fee to you.

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