The Exchange

Property Services
Mortgage Services
Letting & Management Services
Conveyancing Services

Your Mortgage Guide

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Introduction

Choosing the best mortgage package for your particular circumstances is very important, but with so many product providers and so many offers available, finding the right products can seem complicated. We want you to be as happy and secure with your mortgage as you are with your home.

So, whether you are buying your very first home, selling one to buy another, buying a holiday home or investment property or just looking for a better deal on your present mortgage arrangements, we will help you to find the ideal mortgage and protection for your needs.

We have produced this guide to help you understand the different mortgage and associated products available.

The Financial Conduct Authority (FCA)

The FCA has the responsibility for regulating most mortgage sales through Authorisation, Supervision and Enforcement.

The FCA regulation means that:

They act to ensure that a firm has its customers at the heart of how it does business, giving them appropriate products and services, and putting their protection above profits or remuneration.

To make sure consumers are protected and treated fairly, monitor which firms and individuals are able to enter the financial markets, making sure that they meet their standards before authorisation.

Supervise how they work and stop those that are not meeting our standards from carrying out the activities that they regulate.

Where they find that firms are not following the rules, they intervene. This can mean stepping in to impose penalties, to stop them from trading or to secure redress, and ensure that consumers receive the information they need in the right way, so they can make the best decisions for themselves.

What is a 'Mortgage'?

A mortgage is a loan secured on your home.

How does this work? You borrow a sum of money – the capital – which you either pay back on a monthly basis over a set period of time (the term) or the whole amount at the end of the term.

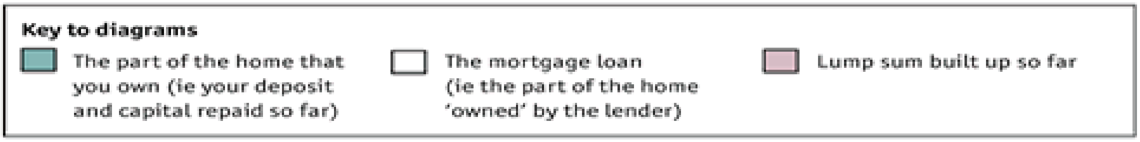
During the term you also pay interest to the lender. The amount paid is calculated on the capital sum borrowed and is usually expressed in percentage terms e.g. A 4.49% means that you would pay £4,490 in interest per year on a £100,000 mortgage loan.

The 'Repaying your mortgage' section below explains this further.

As the mortgage is secured against your home it is important to protect yourself and your home against the unexpected. In the event of you being unable to keep up your loan repayments, the lender can repossess your home. We cannot predict the future for you but we can help give you peace of mind. The section 'Insurance for you and your home' gives you more information but ask your adviser for advice on appropriate products for you and your home.

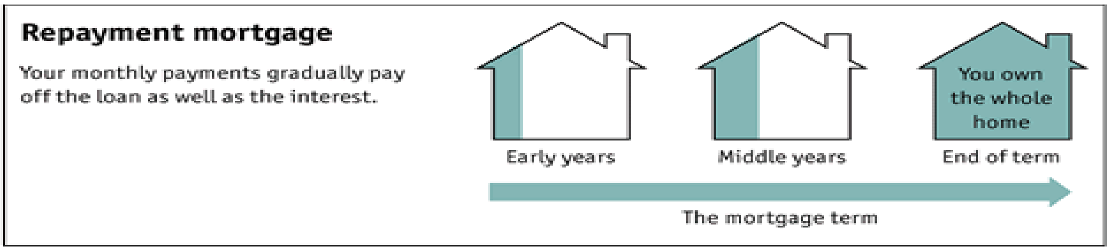
Repaying your mortgage

There are two basic ways of repaying the amount you borrow:



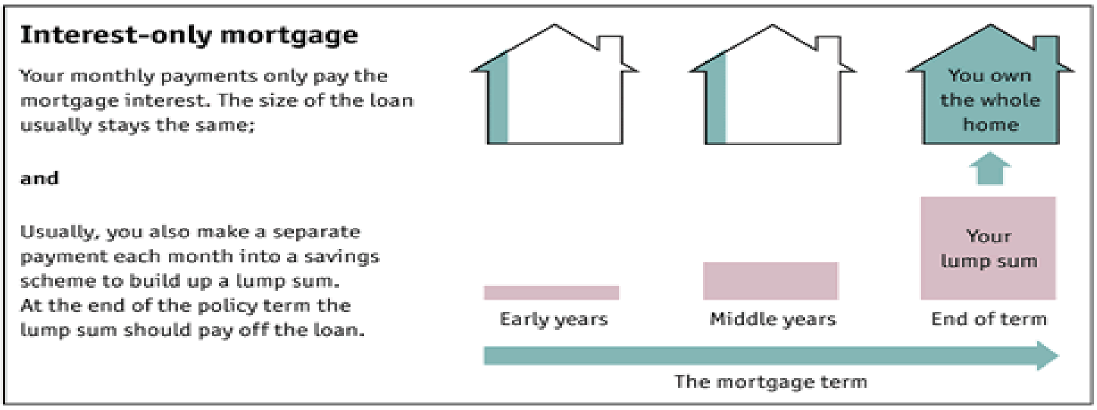
1 Repayment or 'capital and interest' mortgage

Similar to a personal loan, your monthly payment is made up of part interest and a varying proportion of the capital so the mortgage loan amount is gradually paid off year by year throughout the term of the mortgage. Provided you make all the agreed payments, the loan will be fully paid off by the end of the mortgage term.



2 Interest only

The amount which you pay to the mortgage lender each month consists only of interest. The original amount that you have borrowed remains outstanding for the term of the mortgage and has to be repaid in full at the end. You will therefore need to build up a suitable capital lump sum over the mortgage term to repay this amount. It is your responsibility to ensure that you have enough money to repay the mortgage at the end of the term, otherwise you could lose your home. The 'Repayment/Investment plans available for repayment of a mortgage' are explained in the next section.



Part repayment/Part investment backed

This is a combination of the two payment methods, where part of the original loan is fully repaid over the mortgage term, with the other part being based on an interest only basis with the capital sum remaining at the end of the term to be repaid from the proceeds of a repayment/investment plan or other sources.

Repayment/Investment plans available for repayment of mortgage

The repayment/investment plan is designed to accumulate a fund which will be used to repay your mortgage loan amount remaining at the end of the term, subject to investment performance. The following is a brief description of the different types of investment vehicles currently available. Your adviser will be able to recommend an appropriately qualified financial adviser who can provide you with a more detailed explanation.

- **Endowment**

  An endowment is a combination of savings and life assurance which is used to repay the capital at the end of the mortgage term. The monthly premium is mainly used for investment purposes, but also pays for life cover (and critical illness cover if this option has been included) for the loan amount.

- **Individual Savings Account (ISA)**

  An Individual Savings Account (ISA) mortgage will be on an interest only basis, where the capital will be repaid from cashing in the ISA. Subscriptions are usually paid on a monthly basis, at a level designed to fully repay the mortgage the end of the term. The ability to repay the mortgage depends on investment performance of the ISA. Because these types of account are open ended, you will be able to cash it in without any penalties on the investment contract if the account reaches the targeted fund earlier than expected. (Care should be taken that you do not incur any early repayment charges from your lender for repaying the mortgage early.) In the event of lower than projected investment performance it may be necessary to increase your monthly subscription to a level designed to fully repay the mortgage, or the term of the mortgage would have to be extended.

- **Pension**

  A pension mortgage will be on an interest only basis where the capital will be repaid from the tax-free cash sum that can be received from the pension fund at maturity. Your pension contributions are set at a level designed to achieve the required fund at your chosen retirement, to produce the tax-free cash sum needed to repay the mortgage. Again this is subject to investment performance and in the event of lower than projected investment performance it may be necessary to increase your pension contributions to a level designed to achieve the necessary fund at your chosen retirement age.

Note: If you choose an interest only mortgage and fail to make suitable arrangements to repay the mortgage loan at the end of the term, the lender may have no option but to undertake proceedings to repossess your property. It is your responsibility to ensure that an adequate repayment method is in place.

Types of interest rate available from most mortgage lenders

- **Standard variable rate**

  Most lenders have a standard variable rate. This is the rate before any 'special offers' or discounts are applied. It is set by the lender and will fluctuate roughly in line with the Bank of England base rate. It is up to the lender to decide if they wish to change the rate when the bank base rate changes, and if so by how much.

- **Fixed rate**

  Here the rate is guaranteed to stay fixed for a specific period, after which it can be expected to revert to the lender's normal standard variable rate, or you may have the option to transfer to a new fixed rate. It has the advantage of providing stability, but has the disadvantage that if the standard variable rate falls you may be paying a higher rate of interest.

- **Tracker rate**

  This kind of mortgage has an interest rate which based on the Bank of England’s base rate. This means that your monthly repayments go up when the base rate goes up, and go down when the base rate goes down.

- **Discount**

  This is a discount to the lenders standard variable base rate, lasting for a guaranteed period of time. Your monthly payment will fluctuate with any changes in the standard variable rate, and will revert to the standard variable rate at the end of the period.

- **Capped**

  This is a form of variable rate where the rate is capped at a specified level over a specified period of time, i.e. it is guaranteed not to exceed the capped rate during the period. The rate may full during the period, and at the end of the period will revert to the lenders standard variable rate at the time.

- **LIBOR**

  London InterBank Offered Rate is the rate at which banks notionally buy and sell money to each other. It varies from day to day and is closely linked to the base rate.

  The relationship of LIBOR to the base rate can give you an indication of these possible future direction of base rates. If LIBOR is significantly above the base rate it indicates that the money market believes interest rates are about to increase. If it is significantly below, the reverse is true. The key LIBOR rate is three month LIBOR. However, rates are also quoted for one, six and 12 month periods.

Flexible mortgages

A flexible mortgage allows you to under pay or over pay the agreed monthly mortgage payments. This will either shorten the term of the mortgage or, in the case of under payments, increase the total interest paid throughout the mortgage term. For individual scheme variations please ask for further information from your adviser.

What happens after your interest rate period?

At the end of a fixed, discounted, tracker or capped rate period, the interest rate payable on the mortgage will normally revert to the lenders standard variable rate at the time. Even if there is no change in the current variable rate, you may find yourself paying a higher monthly payment.

For example, if you take out an interest only mortgage of £60,000 at a fixed rate of 4.5% for three years, your monthly interest payments will be £225.00 per month for the three years. If, after the fixed rate ends, the standard variable rate is then 6.5% your monthly payments will become £325.00 per month.

Remember, if you have a capital and interest (repayment) mortgage, the future monthly payments will be based on the reduced loan amount at that time, not on the original loan amount.

Mortgage term

People often assume that the normal mortgage term is 25 years, but there is no reason why you cannot choose a different term if it suits your needs and the lender agrees. If you take a repayment mortgage, the shorter the term, the higher the monthly repayments will be, but the total repayments over the term will be less as you will pay less in interest.

What can you afford?

Your adviser will help you work out how much you can afford to pay for your mortgage and associated costs. He/she may ask you to complete an income and expenditure analysis form where you write down what money you have coming in and what you spend each month. Be realistic as it is very important to establish what you can afford now and in the future. Think about any changes that may affect this e.g. new child, or retirement.

Calculate how much money you have available to pay for the costs associated with buying a house and to put towards the property purchase (your deposit). Remember to allocate funds for any work that you may want to do to your new property. Normally the bigger your deposit the better the choice of mortgages available to you.

Protecting you …..

Taking out a mortgage is a substantial long term financial commitment and the repayments on it will remain your responsibility, whatever your situation, until the mortgage is cleared. Those repayments can become a problem if you face an unpredictable event which affects your ability to pay e.g. an accident, unemployment, long term sickness or even death.

It is important to take sensible precautions to counteract the risk of losing your property in these unforeseen situations and insurance is an effective way of reducing that risk. Your adviser will outline a range of appropriate types of insurance to help protect you in the event of the following unpredictable situations:

- Death
- Long term illness
- Critical Illness
- Redundancy

The types of insurance cover that can be arranged in connection with your mortgage are:

- **Term assurance**

  This is the simplest form of life assurance. The insured person or persons are covered against death (and critical illness if this option has been included) within a fixed period (term) subject to the payment of the premiums as they fall due (normally monthly or yearly). If an insured person dies (or contracts a critical illness if this option has been included) within the policy term, the sum assured (amount of cover selected) is paid out. If all insured persons survive the term, the insurance policy ends with nothing being paid to the policyholders.

- **Critical Illness cover**

  This cover will provide a lump sum in the event of a specified serious illness e.g. cancer, stroke, heart attack, during the term of the plan. As with term assurance, there is no inherent value in the plan so if no claim is made, no benefit is paid out.

  Critical illness cover can be set up as part of a term assurance plan (see above) or on a standalone plan. The lump sum benefit is paid tax free when an insured party suffers one of the policies listed critical illnesses, subject to all premiums being up to date.

- **Income Protection**

  This insurance is designed to help replace an income that is lost as a result of accident or sickness. It will pay you a monthly income in the event of you being unable to work and can help pay mortgage repayments and any other household bills. The tax free income is limited to a maximum of 65% of your normal monthly income and once claimed will continue to be paid until you return to work or the policy end date (normally mortgage end date or retirement). Payment Protection Insurance is optional. There are other providers of Payment Protection Insurance and other products designed to protect you against loss of income.

- **Mortgage payments protection**

  This is insurance cover, arranged by the borrower, to protect against the inability to meet the mortgage payments, e.g. as a result of being unable to work due to illness or disability, or becoming involuntarily unemployed. On successful claim the benefit would be paid for 12 or 24 months.

  This type of cover should more accurately be described as accident, sickness and redundancy insurance, as unemployment cover would not include dismissal, resignation or involuntary redundancy. The accident and sickness cover would also be subject to major restrictions such as any of self-injury or any injury related to the use of alcohol or drugs. Payment Protection Insurance is optional. There are other providers of Payment Protection Insurance and other products designed to protect you against loss of income.

Note: The Government want to encourage private provision for the repayment of mortgage interest in the event of accident, sickness or unemployment. For borrowers whose mortgages commenced on or after 02.10.1995, no State benefits would be payable in relation to mortgage interest for at least 40 weeks in the event of the borrower being made redundant or being unable to work due to accident and/ or sickness, and thereafter the potential State benefit in relation to mortgage interest would be means tested. Consequently there is no guarantee that the benefit received from the state, if any, would be adequate to meet mortgage interest payments.

…And protecting your home

- **Building insurance cover**

  This is insurance covering the structure of the building. It protects the property in the event of structural damage and covers any rebuild costs (subject to the excess arrangements). Any mortgage lender will require their interest to be noted in this policy. Where the property is leasehold (as with most flats), the buildings insurance will normally be arranged by the freeholder and the cost charged on to the leaseholder within the service charges payable.

  As a general rule of thumb, any item which cannot be taken away from the property is covered by the buildings insurance. Anything which can be removed should be covered by the contents insurance. This is only a guideline and any doubts should be raised with insurers as this definition can prove problematic in some instances, e.g. fitted carpets.

- **Household contents cover**

  This is the insurance of property within a residence, e.g. furniture, clothing, personal possessions. Whilst lenders will be keen to offer contents insurance to borrowers they will not wish their interest noted in the policy. Cover is normally provided for insurance against fire, a full range of perils (e.g. water damage) and theft. Some policies offer a wider range of cover. All risks wording may be obtained.

  Contents policies normally cover goods within the home, although most will extend to include small amounts of cover outside the home, e.g. bicycles, possibly on a payment of an additional premium.

Lenders conditions assurance

Lenders may offer specific deals which have a condition attached that you take one or more of their insurance products. If this is the case your adviser will inform you. Types of conditional insurance can be: Buildings insurance, contents insurance, mortgage payment protection or term assurance (see earlier descriptions).

The cost of arranging the mortgage

When you purchase a property and apply for a mortgage, you will incur a certain amount of costs. To set up the mortgage loan, you may incur the following fees:

- **Valuation fee**

  Normally the lender will ask you to pay a fee for a surveyor to value your prospective property. This fee is usually required at application.

- **Arrangement fee**

  This is charged by the lender for setting up the loan, normally paid on completion but sometimes added to the loan. It normally only applies to special offer loans, such as fixed or capped rates.

- **Booking fee**

  Charged by the lender to secure the mortgage funds, payable at the time the loan application is submitted. Normally applies only to special offer loans, such as fixed or capped rates.

- **Legal fees**

  This is charged by the solicitor or licensed conveyancer acting for you and the lender. They will also pass on to you the cost of land registry charges, local search fees and stamp duty.

- **Telegraphic transfer fee**

  Charged by the lender for transferring the funds to your solicitor for completion.

- **Broker fee**

  Charged by the mortgage broker for his professional duties in arranging the loan.

High Lending Charge

Depending on the level of deposit, you may have to pay a higher lending charge . If you borrow more than 75% of the value of the property your lender may insist you pay a higher lending charge as a one-off single premium. Some or all of this fee may be used by the lender, at their discretion, to obtain insurance to act as extra security for it's sole benefit. If this is the case, the lender will give you a written explanation, stating that;

- such insurance will not protect you if your property is subsequently taken into possession and sold for less than the amount that you owe, and that

- you remain liable to pay all sums owing, including arrears, interest and your lenders legal fees, and that

- if you claim is paid to your lender under such insurance, the insurers generally have the right to recover this amount from you.

At the end of your mortgage

On completion of the mortgage term, you may be liable for the following fees:

- **Deeds release fee**

  Fee charged by the lender for releasing its charge over the deeds of the mortgaged property and returning them to the client or his/her solicitor.

- **Mortgage discharge**

  A fee charged by the lender to release its charge over a property following the repayment of a mortgage.

Early Repayment

For certain mortgages (such as capped, fixed or discounted loans) a charge may apply if you pay off your mortgage early. These are normally called 'Early Repayment Charges'. If any early repayment charges apply to your mortgage application they will be explained to you.

If you have an interest only mortgage backed with an investment product, early surrender or cancellation of that investment may adversely affect the amount of capital you have accumulated to repay the mortgage loan. Please seek advice before you cancel or surrender any investment vehicle.

Changes in personal circumstances (for example, long term sickness or relationship breakdown) can also have adverse financial consequences.

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

Your step by step plan

Step 1	Ask your adviser for advice on the amount you can borrow and the costs of a complete mortgage package. Depending on your circumstances you may be advised to get a 'Decision in Principle' from a lender.
Step 2	Register with a selection of estate agents and let them know that you already made arrangements for your mortgage. This will put you in a stronger position when purchasing a property as you can move quickly.
Step 3	When you find the property you want, make a formal offer – subject to contract. It is now appropriate to work with your adviser to complete the formal application for the mortgage and associated insurances you have chosen.
Step 4	Instruct a solicitor or licensed conveyancer to do your legal work. Your solicitor will also do some work on behalf of the lender so check that they are acceptable to the lender.
Step 5	The lender will arrange for an approved surveyor to carry out a valuation report on your chosen property to confirm that it is suitable as security against your loan. You have the option of instructing a more comprehensive survey. Ask your adviser for more information.
Step 6	Assuming the valuation is OK you should now get a formal 'offer' of advance from the lender. If there are problems with the survey the lender may ask for further specific reports to be undertaken e.g. drains report or agree to lend subject to a retention. If this happens, ask your adviser for advice.
Step 7	Your solicitor completes his searches and checks on the property ownership before drawing up contracts.
Step 8	You exchange of contracts with the seller and pay your deposit. From this point you are legally committed to buying the property and so you should ensure that all your insurance policies are running from this date. Your 'completion' date, when you take full ownership of the property will be set at this point. You can now start packing.
Step 9	Make arrangements for your move. • Arrange redirection of your post from date of move • Arrange phone line for new house • Run down your freezer contents if you intend to defrost for moving • Read the meters at old & new house on day of move • Keep some essentials out of packing for moving day (tea, milk, bin bags, toilet rolls, light bulbs) • Settle the paper bill
Step 9	Completion Day. Collect the keys from the estate agents and move in. Congratulations.