TYPES OF MORTGAGE

There are many different types of mortgage on offer to suit many different purposes. Here is a guide to the most popular options. Remember we can give you full details and provide all the help you need to choose the mortgage that's best for you by arranging a mortgage consultation appointment with a Mortgage Consultant from "The Exchange Mortgage Services".

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

STANDARD VARIABLE RATE

With a variable rate mortgage, the interest rate goes up and down during the lifetime of your mortgage, broadly in line with interest rates in the economy as a whole. This means that when the interest rate goes up, the amount you pay also goes up. When the interest rate falls, your payments come down. When interest rates change, some lenders immediately adjust the amount they charge borrowers. Others wait until the end of their financial year before making the change. Some lenders offer a way of levelling out interest rate changes over the year. The interest rate goes up and down in exactly the same way, but your payments change only once a year. This usually doesn't save you any money (or cost any more) in the long run, but does make it easier to budget for the year ahead.

CAPPED RATE

A capped rate mortgage is a variable rate mortgage with a difference. Your mortgage rate still goes up and down, but you have the comfort of knowing that when the rate goes up it will not go over a certain figure. This is known as the 'capped rate'. Sometimes the rate cannot fall below a minimum level, known as the 'collar' rate. A capped rate mortgage is likely to have a higher interest rate in the short term than a variable rate mortgage.

DISCOUNTED RATE

Some lenders offer a discount on the standard variable rate of interest. This applies for a limited period which the lender will decide at the start of the mortgage. At the end of the discounted period, the interest rate usually changes to the lenders standard variable rate. You may have to pay an early repayment charge to your mortgage lender if you switch from a discounted rate mortgage to a different type of mortgage. This might also happen if you pay off all or part of your mortgage early.

FIXED RATE

A fixed rate loan gives you a guaranteed rate of interest for an agreed period of time. This can be very comforting if you have a large loan or a tight budget, because it guarantees that the payments won't rise. But if interest rates fall, your payments will stay the same until the end of the fixed term, so you should think carefully about how long you want to be locked into the same rate. Most of the larger lenders will have several deals available, offering fixed rates over anything from one to ten years, or even longer. When the fixed rate period ends, the mortgage usually changes to the lender's standard variable rate. Some lenders will guarantee to offer another fixed rate option, usually for an arrangement fee, but cannot say beforehand what the new rate will be. Fixed rate mortgages often have early repayment charges if you want to switch to a different type of loan, or repay your mortgage during the fixed term.

FLEXIBLE MORTGAGES

With flexible mortgages, you can pay extra amounts to reduce your outstanding loan or build up money you can draw down on in the future. Some mortgages allow you to vary or even stop payments for periods of time. Interest is worked out each day (or each month, in some cases) so you can see the benefits of overpayments immediately. This means you could end up paying less on your mortgage. You may even be able to pay it off early. The flexibility of being able to take a payment holiday can also be very useful, especially for example, when you've just had a baby or plan to renovate. Lenders may differ with payment holiday criteria. You may still incur interest charges during a payment holiday period.

CASH BACK FEATURE

Some lenders offer 'cashback' mortgages where you receive a percentage of the loan shortly after completing your purchase. These deals can be very appealing particularly to first time buyers who may need to buy carpets, furnishings and so on. You may have to pay an early repayment charge to your mortgage lender if you switch from a discounted rate mortgage to a different type of mortgage. This might also happen if you pay off all or part of your mortgage early.

EARLY REPAYMENT CHARGES

For certain mortgages (such as capped, fixed or discounted loans) you may have to pay an early repayment charge if you pay off your mortgage early. These charges may apply throughout the term of the mortgage, or for only a few years at the start. You can get details from your lender and they will be confirmed in your mortgage offer. You should make sure you read the offer carefully.

'BUY TO LET'

This is a mortgage for property you want to buy and then let out, for rent. The amount you receive in rent may be over and above the mortgage payment and will help cover the management and maintenance costs of the property. Remember, you are responsible for making the mortgage payments even if you have not received the rent, so it's important to consider the following:

- How will you repay the mortgage if the property is unoccupied for anytime?
- What if the interest rates rise and the rental income is no longer enough to cover the payment? (Consider having a savings account where you can hold the deposit and any spare rent money.)
- You may have to evict your tenants. This can take time and may mean going to court.
- As well as normal 'wear and tear' the property may suffer damage from tenants.
- Renting out a property may also affect the income tax you pay.

Lenders will have their own special conditions such as having a formal short term tenancy agreement and appropriate insurance. A managing agent can deal with tenants for you and look after administration, but they can be an additional cost. Do some research into this area and speak too 'The Exchange Letting and Management Services' for additional information. Many lenders will not expect your existing income to meet both commitments, but the rental income must be more than the mortgage payment (usually between 20 and 30% more), and a suitably qualified valuer may need to confirm this.