RIGHT CLICK'S

GUIDE TO MORTGAGES

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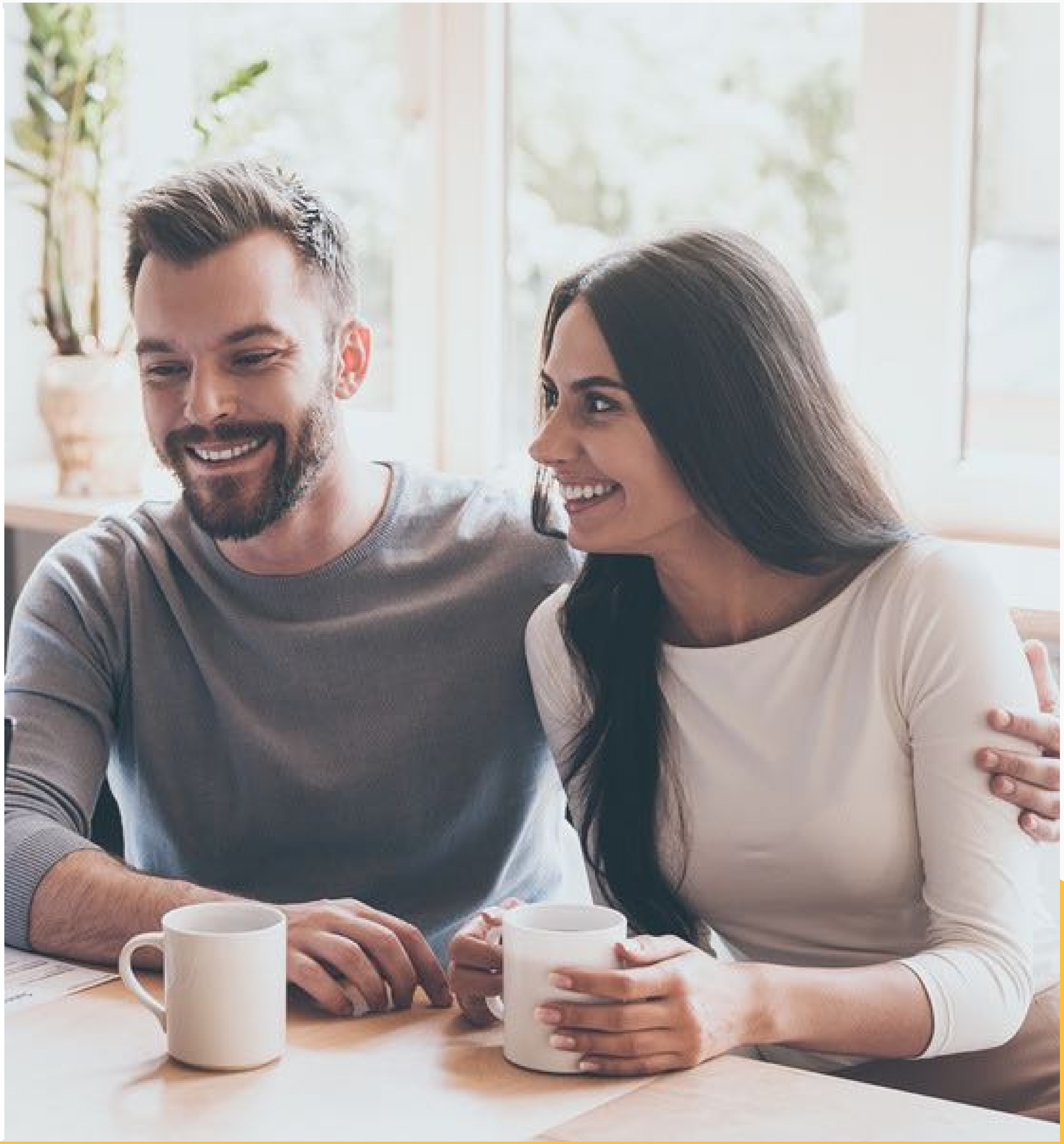
Starting You Search for a Mortgage

can be overwhelming and you may not know where to start. You'll want to pick the best mortgage rate but you this doesn't necessarily mean going for the cheapest because other factors can affect your choice.

Our qualified Advisers have a solid understanding of how mortgages work and which of the various different kinds of mortgage will be available to you and reflect your personal circumstances.

As a starting point, we thought we’d share how mortgages work. All mortgages work in the same basic way: you borrow money to buy a property, pay interest on the loan and eventually pay it back. Then they start getting complicated, so let's guide you through the world of mortgages.



TYPES OF MORTGAGES

Repayment Mortgages

This is the standard way of repaying all mortgages, however specialised they are, apart from interest only loans which are different.

GOOD FOR

Buyers who want to be certain their house will be paid for at the end of the mortgage.

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With repayment mortgages, each month you repay some of the interest you owe plus some of the capital you've borrowed. At the end of the period, which can vary to suit your age and circumstances, you'll have paid back everything you owe and you'll own your home fully.

Of course you're likely to move within the mortgage period. In this case, you might be able to take the mortgage with you (called 'porting' your mortgage) or you can repay the original loan and take out a new one.

It could be that, by the time you move, your house has gone up in value and anyway you will have repaid some of the capital. So next time you can put down a bigger deposit and possibly find a new mortgage at a better rate of interest, it’s always worth talking to a qualified adviser as well as your current Lender at any point of change.

TYPES OF MORTGAGES

Interest-Only Mortgages

With Interest-Only Mortgages, you pay just the interest month by month and repay the capital at the end of the period with money you've saved elsewhere.

GOOD FOR

Buyers who want the lowest monthly repayments and are confident they will have enough money to repay the debt at the end of the mortgage.

rightclick

This differs significantly from a repayment mortgage as at the end of the loan, you'll have to find enough money to repay the whole debt. You can save any way you want or use money from an inheritance but you must be confident of having the cash to hand when the mortgage period ends. If you don't, you might have to sell the house to pay off the mortgage.

You could be lucky and find that your home has increased so much in price that the extra value is enough to remortgage and pay off the debt, however, in the property crash of 2008 the opposite happened and some mortgages were higher than the property value, also known as negative equity.

There's still a risk that won't be able to repay the mortgage on time so, before granting an Interest-Only Mortgage, Lenders can insist you show them how you intend repaying the loan at the end.

The big advantage of Interest-Only Mortgages is that your monthly repayments are lower than with any other mortgage because you are paying only the interest due, should your circumstances change you may be able to switch to a repayment loan at a later date.

TYPES OF MORTGAGES

Fixed-Rate Mortgages

Fixed-Rate Mortgages are popular, particularly with first time buyers, because your mortgage rate is fixed for a set number of years.

GOOD FOR

Buyers who are budgeting carefully and want to know exactly how much they'll be paying over the next few years.

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Fixed-Rate Mortgages are often set for 2, 3 or 5 years but sometimes they can even extend to 10 years. The benefit is that you know exactly what you'll be paying each month for that period, regardless of what happens to interest rates.

The downside is that you'll be stuck on a higher rate if other mortgage rates go down. You can switch from a Fixed-Rate Mortgage but there'll be an early repayment charge to pay for switching before the end of the period.

When the mortgage comes to an end, you'll be put on the Lender's Standard Variable Rate (SVR) which will probably have a higher interest rate than you've been paying. In that case you can apply for another fixed rate deal with any Lender, again it’s the time to speak to a qualified Adviser.

TYPES OF MORTGAGES

Variable-Rate Mortgages

A Variable-Rate Mortgage will mean that your monthly repayments could go up or down. The rates are set by your Lender but are determined by other economic factors.

GOOD FOR

Buyers who think mortgage rates are going down but better deals are probably available elsewhere.

rightclick

Every Lender has a Standard Variable Rate (SVR) Mortgage. The interest rate goes up and down as mortgage rates generally change. They are partly influenced by the Bank of England base rate but other factors in the economy which come into play as well.

The interest rate you pay on an SVR mortgage can change even without base rate moving and similarly base rate might come down but your mortgage rate stays the same. The advantages of opting for a Variable-Rate Mortgage is that the monthly payments could, at times, be lower than a standard fixed-rate offer and most Lenders allow clients to make over-payments without having to pay any extra fees.

However, one of the main disadvantages is that you will have fluctuating monthly payments which could rise, not great for those on a strict budget.

TYPES OF MORTGAGES

Tracker Mortgages

A type of Variable Rate Mortgage that moves in line with a nominated Interest Rate, usually the Bank of England's base rate. Never matching the rates that they track but are usally slightly higher.

GOOD FOR

Buyers who can afford to pay more if rates go up but believe that rates will go down.

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With Tracker Mortgages, the actual mortgage rate that you pay will be a set interest rate above or below the base rate. Some Lenders set a minimum rate below which your interest rate will never drop but there's no limit to how high it can go.

As a type of Variable-Rate Mortgage, the advantages and disadvantages remain the same. When base rates go down, so do your mortgage repayments, however, when they go up, you can expect a higher monthly bill. Despite your monthly payments being higher, the extra payments go towards paying off the interest not the mortgage itself.

Lenders usally offer this type of mortgage for a set period of time and once complete, will automatically transfer you to a Standard Variable Rate Mortgage.

TYPES OF MORTGAGES

Discount Rate Mortgages

Mortgages with discounted rates are some of the cheapest around, but, as they are linked to the Standard Variable Rate (SVR), the rate will go up and down when the SVR changes.

GOOD FOR

Buyers who want a low rate of interest but can afford to pay more if rates go up.

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Discount Rate Mortgages are offered at a lower, or discounted, rate than the Lender's Standard Variable Rate. Most popularly offered as an introductory rate, they tend to be for a shorter period of time than other mortgage deals.

Unlike other Variable-Rate Mortgages, the rate is set by the Lender, meaning that regardless of the rate set by the Bank of England, the Lender could increase or decrease rates at any time. Rates on this type of mortgage, however, will never be higher than the Lender's SVR.

Taking out this type of mortgage means that you could save a lot by avoiding high interest rates. This means that monthly payments could fluctuate depending on the set rate, so make sure you are financially able to accommodate the extra cost.

TYPES OF MORTGAGES

Capped Rate Mortgages

This is a Variable Rate Mortgage but one with a ceiling (a cap) on how high your interest rate can rise. You are secure in the knowledge that your repayments will never exceed a certain level while you can still benefit when rates go down.

GOOD FOR

Buyers who believe mortgages rates are going to get a lot higher.

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Capped Rate Mortgages are different to other Variable-Rate Mortgages, although those who take this type of mortgage out are still affected by fluctuating monthly payments, the rate is capped so you know that you will never be paying more than that amount.

The advantages of this type of mortgages means that you could get a really low rate but even if rates did rise, the cap allows you to better control your budget.

However, as mortgage rates generally have been low in recent years and there are better deals around, Lenders don't often offer Capped Rate Mortgages at the moment.

TYPES OF MORTGAGES

Cash Back Mortgages

When you take out a Cash Back Mortgage, the Lender gives you money back, typically a percentage of the loan.

GOOD FOR

Buyers who need a lump sum of money to help with moving house or refurbishments.

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Cash Back Mortgages tend to be a marketing incentive offered by Lenders to entice clients in. Getting a percentage of the loan back when you take your mortgage out, this type of mortgage can be useful to clients who perhaps need to buy new furniture for their new home.

However, it isn't always as attractive as it first sounds. Like with any mortgage that offers additional benefits, Cash Back Mortgages come at a price. You should look carefully at the interest rate being charged and any additional fees as you'll likely find cheaper mortgages without cashback.

Although you will receive cash upfront, it may not be as financially beneficial in the long run so it is important to consider your long-term financial position and goals.

TYPES OF MORTGAGES

Offset Mortgages

Offset mortgages are linked to a savings account and combine savings and mortgage together.

GOOD FOR

Buyers who have a good amount of savings, especially higher-rate taxpayers

rightclick

Each month, the Lender looks at the size of your mortgage debt and then deducts the amount you have in savings. You pay mortgage interest just on the difference between the two. For example, if you have a mortgage of £100,000 and savings of £5,000, your mortgage interest is calculated on £95,000 for that month.

This cuts the amount of interest you pay but the mortgage rate is likely to be more expensive than on other deals. You can still access your savings if you need to but the more you offset, the quicker you'll repay your mortgage.

When you use your savings to reduce your mortgage interest, you won't earn any interest on them but you won't pay tax either which is particularly helpful for higher rate taxpayers

TYPES OF MORTGAGES

95% Mortgages

Saving for a deposit can be a difficult and lengthy task. 95% mortgages allow you to take out a mortgage with just a 5% deposit.

GOOD FOR

Buyers who are struggling to save for a deposit.

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The recommended 10% deposit may sound like a small sum, however, it can take years to save when other monthly outgoings and day-to-day spends must take priority. For some people, this ideal deposit is simply unachievable and that's where a 95% mortgage may be more suited to their current financial situation.

Taking out a 95% mortgage means that instead of needing the recommended 10% deposit, you can save a minimum of 5%, or anything up to 10%, with the mortgage Provider lending up to 95% of the total property cost.

Although, with such a small deposit, you are at risk of falling into negative equity if house prices go down - they need fall only 6% and suddenly your house is worth less than your mortgage. Because of the risk, Lenders will charge a comparatively high mortgage rate.

TYPES OF MORTGAGES

Flexible Mortgages

Flexible Mortgages offer more flexibility to the terms and conditions of a regular mortgage.

GOOD FOR

Buyers who suspect they will run into financial problems in future or if your income is seasonally variable.

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For some people, the standard terms and conditions of a mortgage are simply not suited to their lifestyle, perhaps they are self-employed and have variable income.

In the basic format, Flexible Mortgages give you more flexibility when making payments, although the conditions can vary depending on the Provider.

Some Providers allow you to make overpayments, great for those who find themselves with a little extra income at various times of the year. Similarly, if you have made an overpayment and then find yourself with less money, you can make an underpayment the next month or even take a payment holiday and miss a few payments altogether.

Having these flexible financial benefits means that the mortgage rate will be higher than on other deals.

DID YOU KNOW?

First time buyers can apply for any of the types of mortgages listed in the previous pages!

TYPES OF MORTGAGES

Buy-to-Let Mortgages

Buy-to-Let Mortgages are for people who want to buy a property and rent it out rather than live in it themselves.

Did You Know?

Considered to be a higher risk than a regular mortgage, Buy-to-Let Mortgages often come with stricter eligibility criteria from Lenders.

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Whether it's your first Buy-to-Let property or you're adding to your extensive property portfolio, it's important to have the right mortgage in place to achieve your aspirations.

Buy-to-Let Mortgages are an investment and to Lenders, are considered a business transaction. Because of this, Lenders have strict eligibility criteria such as minimum salary requirements and age restrictions. Lenders also often require a higher deposit than a regular mortgage - around 25%.

Although, in essence, Buy-to-Let Mortgages work the same as a regular mortgage, there are key differences including that most are Interest-Only Mortgages, so you do not repay the capital until the end of the mortgage.

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Your property may be repossessed if you do not keep up repayments on your mortgage. There will be a fee for mortgage advice. The precise amount will depend upon your circumstances and the amount of work that needs to be done. Fees will range from £99 to £1499.

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