Mortgages… Things You Should Know

Moving and Money
So you're starting to talk about moving out of London or perhaps you've made the decision already and you've started the search in earnest. One of the first things you'll need to do is navigate your way around the mortgage market.

Buying a house is one of the biggest decisions you'll make and it's important to get the finances right and think about not only current but future requirements for you and your family.

- Are you looking to borrow more and buy your dream house?
- Or you're looking to downsize and reduce your outgoings?
- Perhaps you want to keep your property in London as a Buy to Let and release some of the equity to purchase a place in the country.
- Maybe you're looking for a commercial property following a change in career?

The changing face of the mortgage market

There has been a lot in the press recently on the subject of the Mortgage Market Review and the impact this has had on applying for a mortgage. These changes were implemented in April 2014 and the purpose was to ensure that borrowing is based on how much is left after regular expenditure, rather than on income, and lenders have to check that people would still be able to afford repayments if interest rates rise.

How has this changed the process or applying for a mortgage?

Lenders are now fully responsible for assessing mortgage affordability and as a consequence they are now asking for full details on any outgoings in order to assess. Additional information is required and questions are asked during the application process.

If you are thinking about purchasing a property it is worth getting prepared:

- scrutinize your budget
- have all your paperwork in order
- make sure you have your deposit in place
- and have plans in place in the event of a rate rise.

Mortgages - the basics

Different mortgages come with very different repayment options and interest rates. Below is a section of some common types.

- **Fixed rate mortgages** mean you agree on a rate of interest that stays the same for a set period of time, typically 2, 3, or 5 Years. After this point you either move onto the lenders Standard Variable Rate or you would remortgage to another deal.

- **Variable rate mortgages** mean your payments go up or down depending on the interest rates set by your lender.

- **Tracker mortgages** mean your payments can go up or down since they're linked to an interest rate, often set by the Bank of England.

- **Capped rate mortgages** are a type of variable rate mortgage, which have a cap or ceiling on the amount that you will have to pay. Your payments may go up or down under that amount, as interest rates increase or decrease, but you wouldn't have to pay more even if the interest rates rise higher,

- **Collared mortgages** are usually found in combination with a capped or tracker mortgage – it means there's a set limit on how low interest rates may go (the 'collar'), so your payments would never fall lower than a certain level.

- **Cashback mortgages** give you an extra lump sum of money, often at the beginning of your mortgage.

- **Offset mortgages** allow you to cut down on the interest you pay on your mortgage by sacrificing interest earned on your savings (held with the same lender in a savings account).

Ways to repay your mortgage

There are three ways you can repay your lender, depending on what they offer and your financial circumstances:

- **Repayment (capital and interest)**

This is the most common and also the lowest risk option. Your regular repayment is made up of some of the amount borrowed plus interest every month. It means your mortgage will be repaid in full by the end of the term providing all payments are maintained in full and on time.

- **Interest-only**

This means each month you only pay the interest on what you've borrowed, which usually means lower monthly repayments. However, at the end of the agreed 'mortgage term' you still owe the whole amount borrowed and you have to find a way to pay that back. You'll need to be paying into another investment to accumulate the money needed to repay the mortgage at the end of the term, such as an endowment policy, ISA, or pension, or have an alternative repayment plan in place, and be confident that you have in place the means to repay the full loan mount at the end of the term. Many lenders now restrict the size of the loan you can have on an interest only mortgage to a certain percentage of the property value (e.g. a maximum loan of 50% of the property value).

- **Part and part mortgage**

This is an option that lets you repay part interest-only and part repayment each month.

How to find the best mortgage deal

When you start looking for a mortgage the choice can be bewildering. The main factors that will influence your choice of mortgage are:

- the amount you need to borrow
- the deposit you have
- the amount you can afford in monthly repayments.

Online mortgage calculators and price comparison sites can be a good way to get a feel for the types of mortgages that are available, what the current best mortgage rates are, and how much you're likely to be able to borrow.

It is also worthwhile contacting an independent mortgage adviser. You often won't pay anything for their service up front – instead, they'll be paid a fee if you take out a mortgage through them, either by the lender or by you. Advisers have comprehensive information on the mortgages currently on the market – often including lenders that don't put their products on price comparison sites. An independent mortgage adviser has access to products across the whole of the market. They are working for you, not the lender, and they have in depth knowledge of:

- Up to date rates and fees across all lenders, including some intermediary only or exclusive products
- Each lender's criteria
- Affordability calculations
- Processing times and which lender may have unnecessary delays

If you approach a particular lender on your own, you may or may not qualify. You will only know when they review your loan information and notify you. If they reject you, you would need to start over with a new lender. This process can be time consuming.

A mortgage adviser will have a contact at each lender who they can call prior to submitting the mortgage to check that the case fits their criteria, which will ensure that you have the best chance the mortgage is accepted.

They will aim to understand not only your current needs but future requirements to ensure they find the best product to suit you and your family. This may not necessarily be the lowest rate in the short term but the overall product that fits your needs.

Following submission of the application a mortgage adviser will help to smooth the whole process through to completion. From knowing what documents are needed in advance, handling the paperwork, dealing with the lengthy calls that need to be made to estate agents, lenders and solicitors, to talking direct to the underwriters and deciphering any jargon.

A good mortgage adviser is a problem solver and if any questions arise along the way they will ask the right questions to help satisfy the lender.

How does being Self-employed affect my mortgage?

Securing a mortgage if you are self-employed can be more tricky than if you are on a company payroll. The same range of mortgages are available in theory and lenders will typically take earnings into account if you can produce an SA302.

Key points to bear in mind:

- Lenders will want to look at up to date accounts, signed off by a certified or chartered accountant.
- Ideally you want your company profits to be consistent or increasing!
- SA302's and accountant references are taken in preference over standard accounts.
- Retaining too much profit within the business could restrict the amount you can borrow – paying a fair dividend against the profit made each year should help
- Beware if you're thinking of switching company type (i.e. from sole trader to limited company) prior to applying for a mortgage – this could hinder your application.

Getting an adviser who can understand your situation and guide you through the process is even more key for self-employed people.

The overall cost for comparison is 6.4% APR, the actual rate available will depend upon your circumstances. Ask for a personalised illustration.

Unusual properties

An increasing number of people are looking at different and unusual types of mortgage. It may be worth looking into renting out an existing property in London, keeping this as an investment and using the equity to purchase an additional place out of town.

Self build and eco mortgages are also becoming increasingly popular. Although, this can be seen as a glamorous and niche way to build your house it can be stressful and complicated so it is worth seeking expert advice and making sure than any plans are water tight!

The type of property a mortgage is secured upon is just as important to a lender as the affordability and your income. If you are thinking of purchasing an unusual build – thatched, agricultural, a windmill or part commercial property, make sure you check the criteria of a mortgage and also any relevant insurance conditions at the outset.

Don't forget insurance

All mortgage lenders will expect you to take out Building insurance alongside your mortgage.

- **Buildings insurance**: this covers you financially for any damage to your building (e.g. from fire, flood or wind). Make sure that you look at the level of cover as well as the cost of the policy. Most mortgage lenders will insist on seeing this in place before completion.
- **Contents insurance**: this is often overlooked because it's another expense, but just think what it would cost if you had to replace everything in your home because of flood damage, fire or theft - furniture and furnishings, TV and audio, all electrical goods and appliances, and clothing and jewellery.

(For Buildings & Contents insurance, Alex de Silva offer products from a selected panel of providers).

It is also recommended you consider the implications to your mortgage and your family should you fall sick, suffer an injury or how your loved ones would cope if you died.

Critical illness, Life assurance and Income Protection are the main ways to ensure that you can safeguard your home and your ability to meet your obligations.

- **Critical illness:** this can give you a lump sum if you suffer one of the critical illnesses the policy covers. It's a way of securing some financial help at a time when you might really need it.
- **Life assurance**: this can pay a lump sum to your loved ones if you die (or with some policies if you're diagnosed with a terminal illness).
- **Income protection**: this can give you a regular monthly income if you are off work for a prolonged period because of an accident or illness.

Moving house is a big decision, particularly if you are also changing lifestyle. If the finances are expertly managed then that's one less worry and you can get ready to start your Life After London …

Alex De Silva & Co Wealth Managers has been established for over 15 years. We have extensive experience in providing professional financial and mortgage advice.

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

We specialize in offering residential mortgage advice for professionals and business people alike. We also provide investment, retirement planning, protection and inheritance tax planning advice. Our aim is to provide a high level of service to our clients.

As Financial Advisers we are free to advise on financial products available from all product providers. We research, compare and select the most suitable deals currently available. We are thus able to make arrangements to maximize the benefits to our clients.

You'll get our help to review your existing financial situation and reach a realistic assessment of your likely needs. For this, you'll need to set aside some time to talk to us - the first one-hour consultation is free. There's no charge, and no obligation, while we find out together if it's worth going ahead.

If you ask us to arrange a mortgage for you we can be paid by either commission or a fee. If you choose to pay us a fee, this will usually be £595.

Please call us on 07799 418917 to make your initial appointment.

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The FCA does not regulate Commercial mortgages and some forms of Buy to let mortgage