

## **Types of mortgage and other mortgage information**

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### **What is a mortgage?**

A mortgage is a loan secured on a property.

Most homes are purchased using a mortgage secured as a charge against the title to the property. Lending institutions are in competition for your business and there is a vast selection of different mortgages on the market, it is therefore best to consult an Independent Financial Adviser before making your final decision. Your financial adviser will also be able to advise you on your upper limit as well as helping you choose the best mortgage to suit your personal circumstances.

Most lenders will agree a mortgage offer in principle before you find a suitable property and many potential buyers prefer to have such an offer in place before they start to look at properties.

### **How much can I borrow?**

The amount you can borrow is based on your income; status and equity in your property together with affordability of proposed monthly repayments both now and in the future.

Most lenders work on income multiples in determining how much you can borrow. Usually, 3 to 3.5 times single salary or 2.5 to 3.75 joint salaries, if two people are purchasing a property. Additional income e.g. commissions; overtime and bonus depending on the permanency and regularity may be taken into consideration.

### **Will I need a deposit?**

You will need to provide a deposit this will be the difference between how much you are borrowing and the purchase price of the property.

### **Mortgage Types**

Like all interest rates, mortgage rates can go up as well as down, and each change will make your monthly mortgage repayments fluctuate. Most lenders instead of charging interest at the Standard Variable Rate (SVR) may offer various options to help you stay in control.

#### **Standard Variable Rate Mortgage**

Monthly mortgage repayments can go up and down in accordance with changes in the Lenders interest rate. Mortgage interest rates tend to move in line with the base rate set by The Bank of England.

#### **Base Rate Tracker Mortgages**

Similar to the Standard Variable Rate Mortgage however the rate guaranteed to be a set amount/percentage above The Bank of England Base Rate, this will immediately alter once the base rate is changed.

#### **Fixed Rate Mortgages**

With this type of mortgage your interest rate is fixed for a stated period. This can be extremely useful for budgeting as your monthly mortgage payments are effectively 'frozen' for the fixed rate period. Please remember that fixed rate loans often have redemption penalties attached to them if the mortgage is redeemed during or even after the fixed rate period. You should also note that if interest rates fall below your fixed rate during the fixed period, you would continue to pay the higher monthly payments.

### **Discounted Rate Mortgages**

With this type of mortgage the lender will offer a discount off their standard variable rate for a stated period. This is a good method of keeping monthly repayments in the initial years of your mortgage. With a discounted rate mortgage there may be financial penalties if the mortgage is redeemed early. Please note that the discount is for a limited period only. The lenders standard variable rate on which the discount is based may rise or fall and allowances should be made for this in future budgeting.

### **Capped Rate Mortgage**

With a capped rate mortgage although monthly repayments fluctuate they will not exceed an agreed limit. Once this limit has been reached, if mortgage interest rates increase your repayments will remain static. If mortgage interest rates fall so will your repayments. A variation to this mortgage is to include a 'collar', an agreed rate below which your mortgage interest rate cannot fall. Please note that at the end of the capped rate period the interest charged will be the lenders standard variable rate. This rate could be higher than the capped rate.

### **Cashback Mortgage**

The lender will offer a cash incentive to new borrowers. In some cases this sum can be quite large and can be used in any way you wish e.g. new carpets, new kitchen, etc. etc. Although care should be taken to ensure that you are aware when the cashback will be made, upon completion or a set period after?

### **What happens when my application is submitted to the lender?**

Upon receipt of a completed application form most lenders will in the first instance carry out a credit search and pass the case on to their initial underwriting department where necessary checks will be carried out and any additional information supplied with the application will be assessed. Upon satisfactory underwriting, references may be requested and a standard valuation report instructed. Upon receipt of both satisfactory references, if necessary, and the valuation report the case will be passed to the offer department for a formal offer of advance to be issued. It should be noted that the underwriting process differs from lender to lender.

### **What is a credit search?**

Also known as a credit score lenders use Credit Reference Agencies, organisations, licensed under the Consumer Credit Act 1974, which hold information about individuals in order to assist in making decisions about granting consumer credit. Credit scoring uses statistical techniques to measure the likelihood that an application for credit will be a good risk.

### **Additional Information**

- Proof of Identification (e.g. Passport, Drivers Licence)
- Proof of Residency
- Evidence of your income (e.g. Pay advice, P60 and Bank Statements)
- Proof of how you handle your financial affairs

### **What is a Standard Mortgage Valuation Report?**

All lenders are required by law to undertake a valuation before making a mortgage offer on a property. They will need to check the condition and marketability of your chosen property. This type of valuation is known as a standard valuation report and is arranged for the lenders benefit. They will instruct a qualified surveyor to view the property and make a report of their visit. This fee is normally dictated by the purchase price of the property and varies from lender to lender.

### **Mortgage Indemnity Guarantee (MIG)**

Should you borrow a relatively high percentage of the properties purchase price (usually over 75%) your lender may impose a one off insurance premium however, this varies from lender to lender. This insurance does not protect you but insures the lender in the event of your property being repossessed.