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Mortgages

A whole world of choice all available in one place

Mortgages are one of the largest single transactions in most people's lives. Buying a property can be a stressful and time-consuming experience, although nowadays the financing of a mortgage is a case of finding and selecting the most suitable mortgage, rather than simply accepting a lender's offer.

Banks, building societies, and smaller niche lenders compete for your business, all offering a variety of interest rate deals, associated fees and other enhancements to attract borrowers.

There are main methods of repaying a mortgage, capital and repayment and interest only. It is also sometimes possible to set this up using a combination of the two. A description of these methods is provided below.

Repayment (capital and interest)

Under the repayment method your monthly repayments consist of both interest and capital hence, over time, the amount of money you actually owe will decrease. In the early years your repayments will be mainly interest and therefore the capital outstanding will reduce slowly in the early years.

This method ensures that the mortgage is repaid at the end of the term providing all payments are made on time and in full.

Interest-only

As the name suggests, with the interest only method you only repay the interest on the amount borrowed. At the end of the term the capital is still outstanding, therefore you will usually need to take out some kind of separate repayment method to repay the mortgage at the end of the term.

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Mortgage Products
There are several terms used to describe the interest rates you pay on a mortgage, and the key terms are as follows:

Standard Variable Rate (SVR) - The SVR is the lenders standard rate. With a variable rate mortgage, you are normally able to switch lenders at any time without being penalised. If you take out a mortgage that has a fixed, tracker or discounted rate once the set period of time ends the loan will usually revert to the Lenders SVR.

Fixed Rate - A fixed rate mortgage allows you to repay interest at a fixed rate, irrespective of any interest rate fluctuations. Your monthly repayments will remain the same every month for a time period agreed between you and your lender.

Tracker - A tracker mortgages usually tracks any movement in an index specified by the lender, this for example could be the Bank of England Base Rate for a set period, so you will benefit from any falls in interest rates, but will also have to pay more each month should the rate increase.

Discount - The discount mortgage rate is another variation of the standard variable rate. It provides a discount from the lenders SVR for a set period of time. The variable interest rate still fluctuates, meaning your monthly repayments may differ slightly from month to month, but the discount remains constant until the end of the discount period.

Fixed, Tracker and Discount rate mortgages often have early repayment charges, so you need to be sure this is suitable for you for the foreseeable future. Furthermore, the lender may also charge a 'booking/arrangement fee' to apply for these types of mortgage. You should ask your adviser to explain these in more detail or ask for an illustration.

As a mortgage is secured against your home, it could be repossessed if you do not keep up the mortgage repayments