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MORTGAGE FACTSHEET

CHOOSING THE RIGHT MORTGAGE

Should I choose a fixed, tracker or variable rate mortgage?

Whether it's your first home or the next rung on the property ladder, one of the most important things you'll need to consider is the type of mortgage that's right for you.

Choosing the right mortgage can make a big difference to the repayments you make for years to come, so it's important to understand the advantages and disadvantages of the various options.

When shopping for a mortgage, many of us may assume the best thing to do is call a list of lenders, ask them for their interest rates, compare the results and go with the cheapest option – but there are far more factors to consider.

Whether you are buying a new property or just remortgaging, it's worth looking at the different types of mortgages available to you and learning how they work.

FIXED RATE MORTGAGES

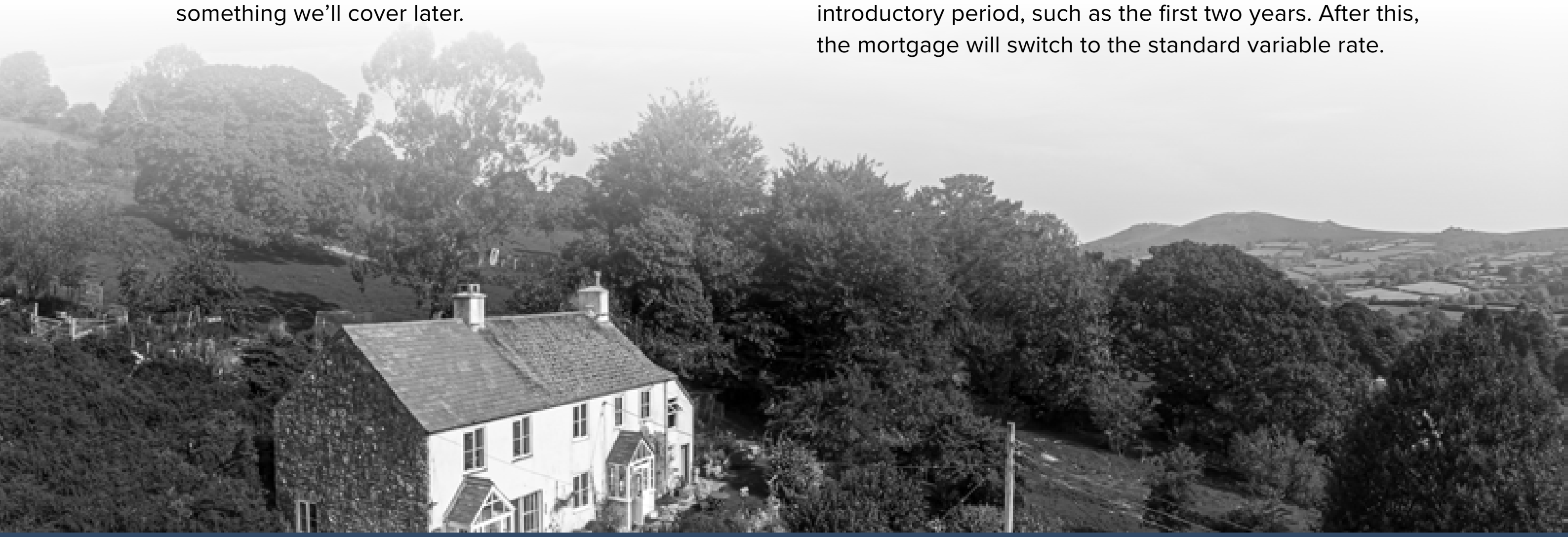
Fixed rate mortgages have set monthly repayments. You'll have an agreement with your lender to pay that exact amount each month for a number of years (usually between two and five years). At the end of this period, your mortgage will switch to the standard variable rate – something we'll cover later.

Advantages:
- You know exactly how much you're expected to repay, with no surprises.
- If the Bank of England interest rate rises, you're protected from increases.

Disadvantages:
- The interest rate your lender offers for a fixed rate mortgage is likely to be higher than the starting rate they offer for a variable rate mortgage.
- If the Bank of England interest rate falls, you won't benefit from a decrease.
- There can be expensive penalties if you want to get out of your mortgage before the end of the agreed period.

TRACKER MORTGAGES

Tracker mortgages have monthly repayments that rise and fall according to the fluctuations of the Bank of England base rate. Sometimes this continues for the full term of the mortgage, but more frequently, it's for an introductory period, such as the first two years. After this, the mortgage will switch to the standard variable rate.



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Advantages:

- In times of low interest rates, tracker mortgages have lower repayments than fixed rate mortgages.
- While your repayments will change, they will only rise if the Bank of England base rate rises (or, in the case of some rarer mortgages, a different rate called the Libor rate). You don't need to worry about rises for any other reason.

Disadvantages:

- It's impossible to know at the start of your mortgage how much your repayments might rise or fall by in future. You can get stuck with high repayments.
- If you need to get out of the mortgage early, you might have to pay an expensive penalty.

VARIABLE RATE MORTGAGES

Standard variable rate (SVR) mortgages are repaid at a rate set by the lender, which goes up and down as they decide. It tends to move in relation to the Bank of England base rate but – unlike a tracker mortgage – the two aren't directly linked.

Advantages:

- When the standard variable rate goes down, so will your repayments.
- You can usually get out of an SVR mortgage at any time by fully repaying your debt. So, if the rate goes up and you can't afford the repayments, you can look at remortgaging.

Disadvantages:

- Even if Bank of England interest rates fall, there's no guarantee that your mortgage repayments will go down.
- Frequent, unpredictable changes to your mortgage repayments can make it difficult for you to plan your household spending and live within your means.

CHOOSING A FIXED, TRACKER OR VARIABLE RATE MORTGAGE

The best type of mortgage for you will depend on your personal and financial situation.

Fixed rate mortgages are most suitable for people who would struggle to make repayments if these were suddenly to rise. They're less suitable for people who plan to move in the near future.

Tracker mortgages are suitable for people who can afford to take a risk that their mortgage repayments will rise, for the chance that they'll fall. They're less suitable for people who plan to sell before the end of the tracker period.

SVR mortgages may appear to offer a better rate than other mortgage types but can be more expensive over the full term. If you originally chose a fixed rate or tracker mortgage which has now switched to the SVR, you might want to consider remortgaging. However, think carefully about how long you plan to stay in your property before committing to a new fixed term. ■

IT'S TIME TO GET STARTED

If you would like help in choosing the right mortgage, or would like to find out more about mortgages, for further information or to discuss your requirements please contact us.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.