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MORTGAGE OPTIONS

What are the different types of mortgages to consider?

Applying for a mortgage can be intimidating, and it sometimes feels like the lender has all the power. Every lender has its own method to decide whether it wants to lend to you. If you fit a lender's criteria, you'll most probably be accepted quickly. If you're far from ideal, you'll most likely be rejected by it.

Choosing the right mortgage is a complex problem, but it's vital for your financial health that you make a sensible decision and don't get overwhelmed by the options, especially if you're a first-time buyer. To help you feel as confident as possible, we've put together the main different types of mortgages, so you know exactly what you're looking for.

REPAYMENT OR INTEREST-ONLY MORTGAGES

All mortgages are either repayment mortgages or interest-only.

Repayment mortgages, sometimes called capital mortgages, allow you to borrow enough to buy a property (minus your deposit) and then repay that total amount, with interest, over time.

Interest-only mortgages allow you to borrow enough to buy a property (minus your deposit) and then pay only interest on that amount until the end of the mortgage period. You will then repay the original amount, often by selling the property.

Buyers who plan to live in their property almost always choose a repayment mortgage. Not all lenders offer interest-only and those that do will have strict criteria such as a decent deposit and an approved repayment vehicle in place to pay off the capital at the end of the term.

Many landlords pay their mortgages on an interest-only basis and lenders generally accept this.

FIXED RATE OR VARIABLE MORTGAGES

Most repayment mortgages are either fixed rate or variable.

Fixed rate mortgages have set monthly payments that won't change for an agreed period – usually between two and five years, but sometimes longer. While the interest rate is usually higher than for variable mortgages, you have the security of knowing it won't rise.

This can save you money over the long term. For example, if the Bank of England interest rates rise during your fixed mortgage period, you'll be glad your mortgage payments aren't affected. If Bank of England interest

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rates fall, you'd probably rather that your mortgage payments fell too – but that's the price of security.

Variable mortgages have monthly payments that go up and down. They might follow the Bank of England interest rates, or they might not. This depends on which type of variable mortgage you choose, out of the following options.

TRACKER, STANDARD VARIABLE RATE AND DISCOUNTED VARIABLE MORTGAGES

Variable mortgages can be any of these types, and the difference between them is how the interest rate (and therefore the cost of your monthly repayments) is calculated.

Tracker mortgages have monthly repayments at an interest rate that's set a little higher than the Bank of England base rate. When that base rate goes up or down, so will the monthly repayments.

Standard variable rate (or SVR) mortgages have monthly repayments at an interest rate set by the lender. Your payments can go up and down as they decide.

Discounted variable rate mortgages have monthly repayments that are lower than the SVR. This discount usually lasts for an agreed amount of time, and when your time's up, you'll switch to the standard variable rate.

CAPPED MORTGAGES

Any of the types of variable mortgages can be capped, meaning that your monthly payments will never rise over a certain amount. That gives you some protection – although the cap is often quite high anyway, so think carefully before signing up.

OTHER MORTGAGES

While the above categories are the main different types of mortgage, you might want to consider some of the other special features that are available.

These can include:

Cashback mortgages, where you'll receive a lump sum when you take out the mortgage (but usually pay a higher interest rate on repayments).

Offset mortgages, where your cash savings can reduce the interest you pay on your repayments.

Current account mortgages, where your current account and your mortgage are linked, which can also reduce the interest you pay. ■

HOW CAN WE HELP?

Getting a mortgage is more than filling out an application form. Before you complete a mortgage affordability check or book a mortgage interview, you will need to make sure your finances are as healthy as possible. For further information or to discuss your situation, 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.