



Heritage Mortgages

A Simplified Guide to Mortgages

When you purchase your house or re-mortgage, you are taking on a financial commitment which can involve some complex and new issues. To help you understand the entire process, we have produced a simple overview of the home-buying / re-mortgaging process.

Types of Mortgage Rates:

Nowadays, the majority of Lenders provide two different types of rate, usually: Tracker Rates or Fixed Rates however some Lenders also feature Capped Rates, Discounted Rates or Variable Rates:

Tracker Rates

- A 'Tracker' follows the Bank of England base rate absolutely. So if Bank of England rates rise by 1%, your mortgage rate rises. If the Bank of England rate falls by 1% then your mortgage drops by the full 1% as well.
- Typical Trackers Rates run for 2 to 5 years but you can get Tracker Rates lasting the life of your loan.

Pros: You get the full benefit of all Bank of England rate falls.

Cons: You get the full cost of all Bank of England rate increases!

Fixed Rates

- Whatever happens to Bank of England interest rates, with a 'Fixed Rate' your monthly mortgage repayments are fixed for as long as the deal lasts - typically 2, 3 or 5 years.

Pros: Certainty. You know exactly what your mortgage will cost. You have peace of mind that your payments will not go up no matter how high Bank of England rates go.

Cons: Rates are usually higher than on Tracker Rate products. Remember also, if Bank of England interest rates fall, you will not see your payments drop.



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Discount Rates

- A 'Discounted Rate' is similar to a Tracker Rate however a Discounted Rate follows the particular Lender's own 'Variable Rate' (*Not the Bank of England rate*). So if a bank has a Variable Rate of 5% and this is discounted by 2.0% for 3 years, your mortgage pay rate would initially be set at 3%. If the Lender's Variable Rate falls by 1% then your mortgage drops by the full 1% as well.
- Some Discounted Rates only run for 2 or 3 years but you can get one lasting the life of your loan.

Pros: You get the full benefit of a Lender's reduction of Variable Rate.

Cons: You get the full cost of a Lender's Variable Rate increases and don't have the stability of a Fixed Rate.

Capped Rates

- These are Tracker Rates or Discounted Rates which have a maximum rate limit which would 'cap' the maximum rate that you would pay.
- You get some peace of mind as you know the maximum rate could increase to.

Pros: You know exactly what your mortgage could rise to as a very maximum cost and you may get the benefit of a Lender's or the Bank of England reduction of Variable or Tracker Rate.

Cons: Rates are usually higher than on Tracker or Discounted Rate products.

I. How Much Can I Borrow?

The amount you can borrow is dependant on your income and the value of the property.

Most lenders work on calculations of affordability rather than purely income multiples, taking into account your total household income and deducting any existing commitments you have (e.g. Loan Payments / Credit Card Payments / Vehicle Finance)

When assessing how much you can borrow, all banks and building societies will also review your credit file to decide if you are an adequate risk. This is called Credit Scoring. The strength of your score will depend on how well your existing financial accounts have been managed.



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II. Deposit

If you are buying a property you will require a deposit, this is usually at least 10% of the Purchase Price. Often, more attractive mortgage deals can be obtained with larger deposits.

Deposits are not payable until exchange of contracts, however some banks and lenders will require proof of your deposit funds from the outset.

III. Making an Offer for a Property

Once you and your Mortgage Advisor have established how much you can borrow, it will give you a clearer understanding of what you can afford in selecting a property.

To ensure there are no surprises at a later date, you may wish to secure an 'Agreement In Principle' before you make an offer on a property. An 'Agreement In Principle', is a credit-scored decision from a bank which confirms to you the amount you can borrow (subject to a satisfactory property survey in due course).

Once you have found the right property you need to make a formal offer via your Estate Agent who will pass this on to the property seller (Vendor). If the vendor accepts your offer you are ready to move to the next stage.

IV. Which Mortgage To Chose?

Once your offer for a property has been accepted, you should return to your Mortgage Advisor to talk more specifically about the mortgage types available to you and amount you will need.

Having selected the best option for you and explained why, your Mortgage Advisor will provide you with all the details of their mortgage recommendation and discuss your repayment options.

If you are happy with the Mortgage Advisor's recommendation, you are ready to progress to the Mortgage Application.



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V. The Mortgage Application

Your Mortgage Advisor will work with you to collate any relevant information so that they can submit your Mortgage Application to the Bank. Your Advisor may also request from you some supporting items e.g. your recent Payslips or Bank Statements.

Nowadays, the majority of Mortgage Applications are sent electronically to the Banks and Building Societies which means less paperwork and quicker processing.

VI. The Property Valuation

All lenders require a valuation of the property to be carried out by a qualified Surveyor who acts for the Bank or Building Society to ensure the property is in a 'mortgage-worthy' condition.

In most cases the lender will arrange the Surveyor and any necessary property access details (e.g. via an Estate Agent or via you if you are Re-mortgaging).

Ask your Mortgage Advisor if you consider you want a more detailed property survey. For an extra cost you will be able to obtain a 'Homebuyers Condition Report' which provides a more detailed survey report on the property.

If the Surveyor's report on the property is satisfactory, the Bank / Building Society will then make a formal Mortgage Offer.

VII. Solicitors and Conveyancing

As part of the Solicitors 'conveyancing' or 'remortgaging' process your Solicitor should normally carry out standard Legal Enquiries and Searches before setting a date for the 'Completion'. If you are not sure which firm of Solicitors you should use, ask your Mortgage Advisor for helping in choosing a suitable firm.



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The Solicitor carries out Legal Enquiries and Searches to check there are no factors which may have a negative impact for you and the Bank and Building Society on the state and value of the property.

VIII. The Mortgage Offer

If the Bank or Building Society is happy with the whole Mortgage Application as well as the Property Valuation, then they will then issue a Mortgage Offer for the loan. A copy of the Mortgage Offer is sent to you (the borrower), your Solicitor as well as your Mortgage Advisor.

This Mortgage Offer should be checked carefully to ensure that the details of the Mortgage, Rates and the Amounts are correct.

IX. Completion of the Mortgage (and Property Purchase)

At the Completion stage, the property changes ownership via your Solicitors. It occurs at a date pre-agreed between you and the Vendor (Seller) via the Solicitors.

Your Solicitor will arrange for your Deposit money and the Mortgage Loan to be sent across to the Vendor's Solicitor and complete all of the Legal Documentation.

If you are buying a property, you will be responsible for collecting the keys (which are usually held by the Estate Agents) and insuring the new property.

We hope this Simplified Guide To Mortgages is useful – if you have any questions please do contact us, we are here to help you in any way.