Which? Mortgage Advisers

The Mortgage Guide

Helping you find the right mortgage for you

Hello.

We're the Which? Mortgage Advisers team.

Buying a house is the biggest financial commitment most of us ever make. And it can be stressful. But we can take some of the stress away by helping you find the mortgage that's right for you.

This guide is for anyone who wants to know a bit more about mortgages and how to get one. Whether you're buying your first home, moving to a new one, or just reviewing the mortgage you've got, it'll take you through the process step by step. And it will explain some of the things you'll need to think about before you make any decisions.

CALL US When you're ready to look for a mortgage, or if you'd just like more information, give us a call on 0117 981 1624.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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What's a mortgage?

Few people can afford to buy a house outright. Extending or improving a house can be a stretch too. So, whether you're buying your first home, moving to a new one or looking to pay for building work on the house you live in, borrowing the money is usually the answer.

This kind of loan is called a mortgage. You can get one from banks, building societies, and some other non-high street financial institutions often simply called 'mortgage lenders'. They lend you the money you need, and then you agree to pay it back, plus interest, over an agreed period of time.

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A mortgage is a kind of loan. You borrow an amount of money – called the **capital** – then pay that amount back over a set period of time. This period is called the **mortgage term**.

You may pay fees to the lender for setting up the loan. You also pay **interest**. This is what the bank or the building society will charge for lending you the money. How much interest you pay depends on the lender, the kind of mortgage you choose and what's happening to interest rates at the time.

With some mortgages the interest you pay is fixed, which means you always know what your payments will be each month. With other mortgages, the interest you pay can vary from month to month.

A mortgage is secured against your home. That means that, if you can't repay your mortgage as and when you said you would, the lender may sell your home to get their money back. They don't always do this, and they're unlikely to do it if you miss just one mortgage repayment. But they have the right to do it at any time during the mortgage term.

As you pay off more and more of your mortgage, and if the value of your house goes up, your equity goes up in value. **Equity** is simply the difference between what the house is worth and what you still owe the lender. Once you have repaid all the capital and the interest, your mortgage is finished and the lender no longer has any rights over your home.

Why would I need a mortgage?

There are three main reasons why you might need a mortgage: if you're buying your first home, if you're moving home or if you want to get a better mortgage deal.

When you've already got a mortgage, getting a new one is known as **remortgaging**, or getting a **remortgage**.

Where do I go to get a mortgage?

You've got two options. You can either go to banks or building societies, who will recommend mortgages from their own range. Or you can speak to a mortgage broker or independent financial adviser.

Brokers and advisers are sometimes called **intermediaries**. If you want to find an intermediary you could visit unbiased.co.uk, or ask your friends and family for recommendations.

You could call Which? Mortgage Advisers and speak to a member of our team. Our number is 0117 981 1624. We'll take time to listen to what you want, we'll go and search the market and then we'll come back and recommend a mortgage that's right for you. We'll look at every mortgage deal made available to us, including those lenders that will only deal directly with you.

Please visit mortgageadvisers.which.co.uk for fees and information

Your home may be repossessed if you do not keep up repayments on your mortgage.

The broker or adviser will help you find a mortgage by looking at a number of different lenders. Some look at a limited selection of lenders, while others look at the whole of the market. When they say 'whole of market' they're usually only talking about deals that are available through intermediaries. This won't include banks and building societies who usually only deal with customers directly. So, ask your adviser upfront how many lenders they're able to search, and whether they'll recommend mortgages that are only available to you direct from the lender.

Do I pay for advice?

If you go direct to a bank or building society they probably won't make a charge for their services, however most direct to customer lenders operate a 'Non-Advised' service and only give you sufficient information on their own products for you to make up your own mind – this is called 'Informed Choice'. There could also be other fees, such as arrangement fees (see page 19 for more information).

Advisers may charge a flat fee or an hourly rate for their time. Or they may charge nothing. If that's the case, they usually receive a commission from the lender for arranging the mortgage. Some people feel happier paying a fee, because that way they can be sure they're not being recommended a mortgage just because it pays the adviser commission.

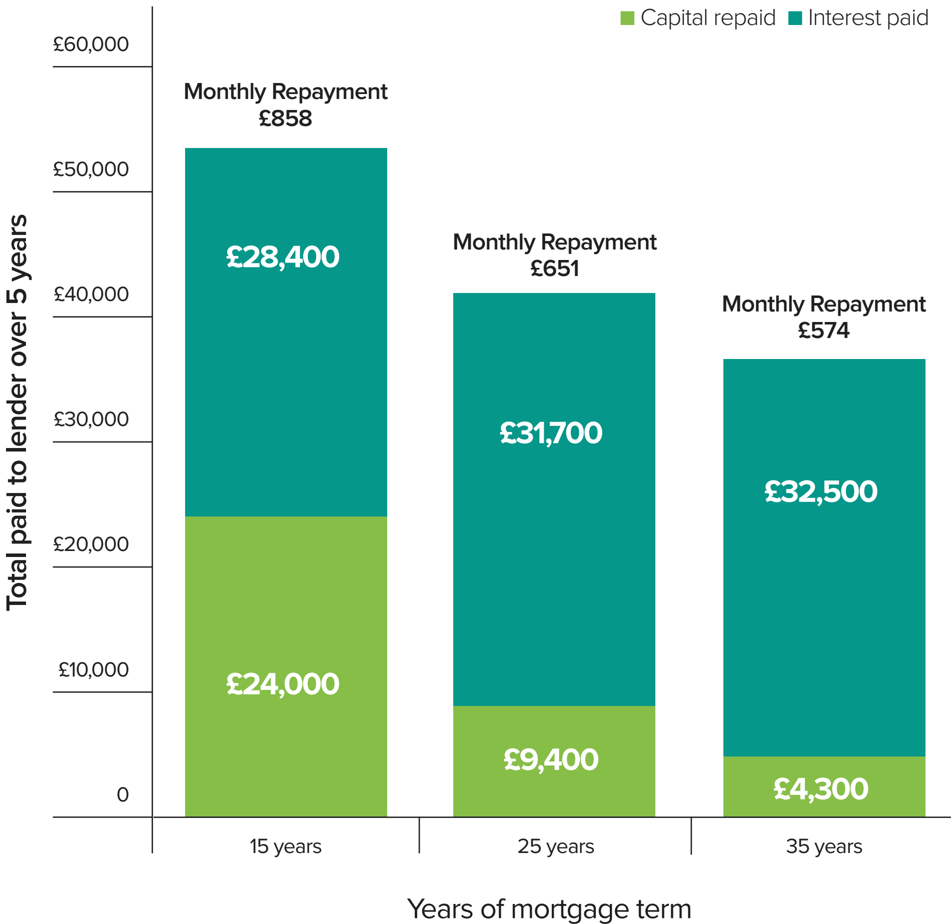
How long does it take to pay back a mortgage?

When you choose a mortgage, you choose how long you want to take to pay it back. It will depend on what you can afford, and what you'll be able to afford in the future. This length of time is called the **mortgage term**, and the usual mortgage term lasts 25 years. Most people arrange for their mortgage term to end before they retire, since at that point their income will get smaller, making it more difficult to make the repayments.

The shorter the mortgage term, the lower the overall costs are likely to be. That's because, the longer you're repaying your mortgage, the longer you're paying interest on it. At the same time, you'll end up with higher monthly repayments if you choose a shorter mortgage term.

The effect of mortgage term on your payments

The graph below shows the costs of a £100,000 repayment mortgage with an interest rate of 6% over five years. You can see how the payments are affected depending on whether you choose a 15, 25 or 35 year term. Although a shorter mortgage term means higher monthly payments, more of your money goes towards paying off the capital you owe and less in interest.



Source: The Which? book Buy, Sell & Move House, 2010

How much can I borrow?

Lenders work out how much they're willing to lend you by looking at your finances, your credit history, your future plans and the property they're lending the money for. If you're buying a home you'll probably need to pay a deposit. Lenders will take the size of your deposit into account too.

You'll pay back your mortgage through regular payments, usually monthly. You'll need to think about how much you can comfortably afford to pay – now and in the future, if things were to change for you or mortgage interest rates were to increase.

Your home may be repossessed if you do not keep up repayments on your mortgage.

The amount of money you borrow is called the **capital**. The amount of capital a lender is willing to loan you depends on a number of things:

- How much money you (and the person you're buying with) have got coming in each month
- How much money you spend each month
- The value of the property you want to buy or remortgage
- Your credit history
- The age you're planning to retire

If you're buying a property, lenders will also look at:

- How much you can afford to put down as a deposit

But if you're remortgaging, they'll want to know:

- How much **equity** you've got in your property – that's the difference between how much your property is worth and how much of your mortgage you've still got to pay off.

The bigger the deposit, or the more equity you have, the better the mortgage deal you're likely to get.

Lenders use a formula called **loan to value (LTV)** to compare the amount they're lending you with the value of the property. It's the mortgage expressed as a percentage of the property value. So, if you want to buy a house costing £100,000 and have a £30,000 deposit, they need to lend you £70,000. This is 70% of the value of the property, which makes the LTV 70%.

Usually, you get the best mortgage deals with an LTV of 60% or less - in other words, when your deposit or your equity covers 40% of the property price. If you need a LTV of 75% or more, you might have to pay a **higher lending charge**. Mortgage lenders use these higher charges to buy insurance for themselves, in case you can't make the repayments. This insurance protects the lender, not you. The lender's insurer – or the lender themselves – can still come to you to try and recover their money.

How do I repay the money?

When you get a mortgage you agree to make regular payments, usually monthly. By the end of the mortgage term you'll need to have repaid all the capital plus the interest on it.

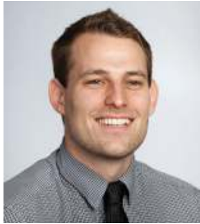
With a **repayment mortgage** you pay off part of the capital plus interest with every payment. So by the end of the term, if you've made every payment, you'll have paid back your mortgage. But with an **interest-only mortgage** your payments only pay off the interest, and you need

Example of deposit

When thinking about the deposit, subtract everything you owe from everything you're prepared to spend.

Mark wants to move into a new house. He's got £10,000 saved in the building society, and is happy to spend £6,000 of it. He's also got £3,000 in shares, but only wants to cash in £1,000 of them. And his existing home is worth £200,000. This gives him a total of £207,000.

However he expects to spend £11,000 in the process of moving house. He's also got £141,000 left to pay on his existing mortgage. This means he owes a total of £152,000. Deducting what he owes from what he owns gives Mark £55,000. This gives him a rough idea of the deposit he could afford.



David Blake
Which? Mortgage Executive

Be realistic with your budget

Deciding how much you can commit to your mortgage each month will determine how much you can spend on your house. And one of the main questions any lender will ask when they look at your application is whether or not you can afford the repayments. It's tempting to stretch yourself to get your dream home. But your home could be repossessed if you're not able to make the mortgage payments. Be realistic about what you can afford now, and what you'll be able to afford in the future.

to plan another way of paying off the capital by the end of the mortgage term. There's more about how these different mortgages work on page 12.

Can I choose to increase or decrease the payments if I need to?

Many lenders will let you increase your monthly payments, so that you're paying off a bit extra each month. These are called **overpayments**. By doing this you can repay your mortgage before the end of the term, which will reduce the overall interest you pay. It's worth thinking about if you have a bit of extra money some months, or if you get bonuses at work.

If on the other hand your income falls temporarily, and if you've already made some overpayments, your lender might let you make **underpayments** for a short time. Your regular payments are smaller, but your mortgage could take longer to pay off unless you balance them out later with some more overpayments.

If you know that your income will definitely be reduced at some stage – for example, if you want to take time off work to start a family – some lenders will give you the option of a **payment holiday**. For a limited time, you won't need to make any payments. Again, you'll usually have to make some overpayments before you're allowed to do this.

Not every lender will give you this flexibility, and none of us knows what the future holds. That's why you should think seriously about **insurance** to cover your mortgage in case you can't make the payments because of problems with your health or your employment. See page 30 for more about the different kinds of insurance you can get.

What kind of property can I afford?

The kind of property you can afford will depend on lots of things, like the area you want to live. Your mortgage adviser can give you an idea of how

Example of loan to value

The house Mark wants to buy is worth £225,000. Taking his £55,000 deposit, his LTV will be 76%.But if he decides to cash in an extra £1,500 of shares he'll have a deposit of £56,500, making his LTV 74.9%. With an LTV of 75% or less, he might be offered better mortgage deals to choose from.

much you can borrow, and you can then start looking in estate agents' windows or in the local papers to see what you could get for your money.

It can be a good idea to get an **agreement in principle** from a mortgage lender. This is a document showing how much, in theory, they'd be willing to lend you. If you've got your eye on a particular property it shows the seller that you're a serious buyer. And if you can't borrow what you need to from the lender, it's better to find that out early on, before you've gone to the trouble of looking round properties and making applications for mortgages you can't afford.

To get one, you'll need to give the lender some financial details, along with a rough idea of the property you're after – how many bedrooms, for instance, and whether you're looking for a house or a flat. It's free, you're not obliged to take the offer, and you can use it to compare offers from other lenders.

> "If you know that your income will be reduced at some stage some lenders will give you the option of a payment holiday"

Sheryl Hunt
Which? Mortgage Supervisor

Will an agreement in principle affect my credit history?

Some people are worried how an agreement in principle might look on their credit history. The reality is that the implications are very small, and are much the same as if you applied for a credit card. Having an agreement in principle on your credit history is much better than a string of failed mortgage applications.

What kind of mortgage is right for me?

There are different kinds of mortgage to choose from, and they charge interest in different ways. It means you'll pay more or less interest depending on which one you pick, and how long you take to pay it back.

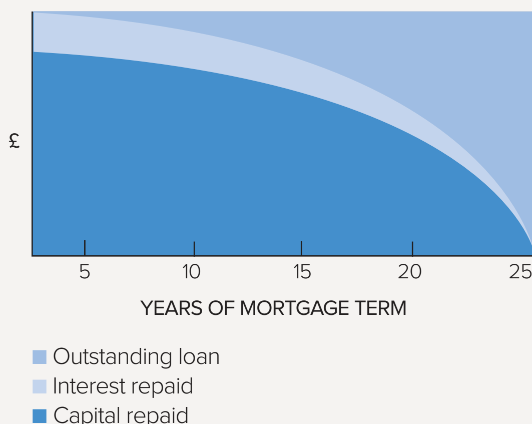
Lenders offer special deals to encourage you to buy. But many deals that are cheap now can work out more expensive in the long term. Make sure you think about the overall costs, and what will happen when the deal runs out.

Your home may be repossessed if you do not keep up repayments on your mortgage.

The right mortgage for you depends on lots of things, such as your attitude to risk and what you can afford now and in the future. That's because what happens in the coming years – to the economy, to your career prospects and to your family plans – will affect how comfortably you can make the repayments. So it's really important to get independent financial advice about all your options.

To pay back your mortgage you can choose between two methods: **repayment** and **interest-only**. With both, you need to pay off both the capital and the interest by the end of the mortgage term.

Illustration: Repayment mortgage



Repayment mortgages

These can also be called **Capital & Interest Repayment Mortgages**. That's because, as well as paying interest, you pay off part of the capital with each regular payment. This reduces the amount you owe bit by bit until, by the end of the term, you've paid back the whole thing.

Advantages:

- They're low risk. As long as you keep up the repayments, you're guaranteed to have repaid your mortgage by a certain time.
- They can be flexible. For example, the lender could extend the term if you run into difficulties and need to make your repayments smaller.
- If you're paying back the capital, you're building up equity in your home. This will help if you want to borrow more money in future for home improvements, or if you want to remortgage.

Disadvantages:

- The way they work means that, at first, you're mainly paying off the interest - it's only later that much of the capital itself gets paid off. If you want to remortgage after only a few years you won't have repaid much of what you originally borrowed, and that could affect the kind of new mortgage deal you can get.

Interest-only mortgages

With an interest-only mortgage, you're only paying the interest on the capital you owe – you don't pay off the capital itself. Instead, you repay the capital in one go at the end of the term. There are lots of ways you might get this money together: savings, investments or an inheritance, for example. But these aren't guaranteed to pay you as much money as you hope, and it's a risk to rely on them.

If you want to get an interest-only mortgage, lenders will probably ask you to prove how you're planning to pay off the capital when the time comes.

Advantages:

- If your savings or investment plan does well you could pay off your mortgage ahead of schedule, meaning that you'll pay less interest overall. Or you

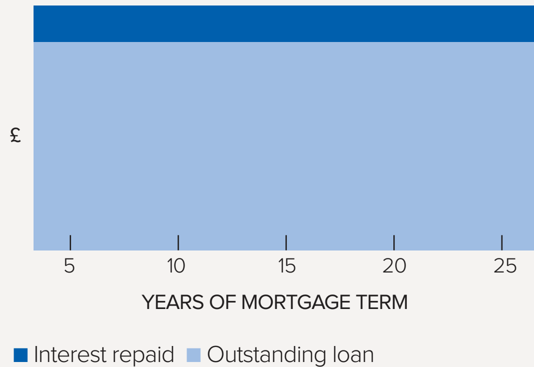
might end up making more than you owe, leaving you with a lump sum once the capital is paid off.

- Your regular repayments could be lower than with a capital repayment mortgage

Disadvantages:

- Usually you will end up paying more interest overall because the interest is calculated on the whole loan amount for the whole term, rather than on a decreasing loan amount with a repayment mortgage.
- If your savings or investment plans don't do as well as you'd expected, they might not cover the capital you need to repay. You'll then have to make up the difference, which could be a lot of money.
- Typically, you can only get interest only mortgages with a lower LTV (in other words, if the mortgage is less than 60% of the property value.

Illustration: Interest-only mortgage



Example of a combined mortgage

Karen wants to take out a £250,000 mortgage, and would like to be sure that most of it will be paid off through her monthly repayments. She already has a savings plan that she expects will be worth £90,000 by the end of the mortgage term.

She could use an interest-only plan to pay for £90,000 of her mortgage, and a repayment plan to pay for the remaining £160,000. This combined mortgage will make her repayments less expensive than if she took out a repayment mortgage for the whole £250,000. But it will still give her the security that much of the loan will be paid off when her term comes to an end.

Look back to page 10 for a reminder of how LTVs work).

Combined mortgages

These are sometimes called part and part mortgages, and they split your mortgage so that part of it is paid off through capital repayment and the rest is an interest-only plan. It can be a good idea if a repayment plan is too expensive for you but you want to know that at least part of your mortgage will definitely be paid off by the end of the term.

You might struggle to get a combined mortgage if your LTV is quite high. And you'll probably need to give the lender some evidence of how you're going to pay back the capital on the part that's interest-only at the end of the mortgage term.

Offset mortgages

These combine your savings, and often your current account, with your mortgage. The idea is that you only

pay interest on the difference between them. For example, if you've got a mortgage of £100,000 and savings of £10,000 'offset' against it, you'd only pay interest on £90,000.

You can still spend the money in your savings or your account – it just means that the amount of interest you pay will go up. And for some people, there will be tax benefits to an offset mortgage. It's a complex arrangement though, because your savings won't earn their own interest if they're offset against your mortgage. Your mortgage adviser will be able to work out whether this is right for you.

What deals will I be able to choose from?

As well as deciding whether you'd prefer a repayment or interest-only mortgage, you'll also be able to choose from a number of interest rate deals.

To encourage you to get your mortgage from them, lenders will offer you a special deal for a certain number of years. They all come with different fees and different rules, making it tricky to compare one with another. This is one of the reasons why it's important to get financial advice when choosing your mortgage.

After the deal comes to an end you'll usually be put on the lender's standard variable rate. The **standard variable rate** is simply the lender's own interest rate, which is set using the Bank of England base rate as a guide.

These interest rate deals fall into two categories: variable rate or fixed rate. You can switch from one deal to another if you want to. But, depending on the deal you've already got, you might face **early repayment charges** if you switch during the special deal period. These charges can run into thousands of pounds, so make sure you speak to your mortgage adviser about whether they'll apply to you.

Rupert Swetman
Head of Which? Mortgage Advisers

Here's the deal

To attract new customers, many lenders offer mortgage deals with special interest rates for the first few years. Once the period of that deal is over you'll go on to their standard interest rate, which is usually higher than the initial deal. You can always switch to a better deal at that point if you want. But, you might be charged for moving your mortgage. Many of the cheaper deals today might not be the cheapest in the long run. For instance, you might have to pay larger fees now, or end up paying more interest further down the line. Make sure you know how each deal works before you choose your mortgage.

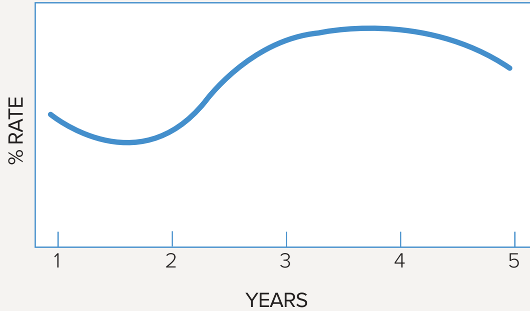
Variable rate mortgages

These have monthly payments that can change from time to time dependent upon the lenders Standard Variable Rate (SVR) of interest. The reason your payments can change with a variable rate mortgage is that lenders generally use the Bank of England's base rate as a guide to their own Standard Variable Rates to work out how much interest you have to repay. These rates can change at any time, but usually only when the Bank of England Rate changes. When they go down your payments will be cheaper, but when they go up, your payments will be more expensive. There are different variable rate mortgages to choose from: standard variable; discounted; tracker; and capped.

Fixed rate mortgages

These have monthly payments that stay the same for a certain period of time as the interest rate charged is fixed for an agreed period.

Illustration: Standard variable rate



■ Lender's standard variable rate

With fixed rate mortgages you know exactly how much each payment will be, and your payments won't be affected if interest rates go up or down. After the agreed amount of time is up, you may be offered another fixed rate or another mortgage product or you'll be put on the lender's standard variable rate (SVR).

Standard variable rate mortgages

The standard variable rate is the lender's own rate, set using the Bank of England base rate as a guide.

Standard variable rates don't follow the base rate exactly. In fact, they're influenced by competition from other mortgage lenders as much as the base rate itself. For instance, lenders don't have to lower their standard variable rate if the base rate goes down, but they probably will if other lenders are lowering theirs.

You can start with a standard variable rate mortgage if you like. But it's usually higher than other special rates, so it's more likely that you'll end up on this rate once you've had a deal for a few years. When your lender moves you from a deal onto a standard variable rate, it can be a good time to look around for a better mortgage deal.

Advantages:

- If interest rates fall, you'll end up paying less interest on your mortgage.
- There aren't any early repayment charges. So, if you're planning to pay off your mortgage early it makes sense to be on the standard variable rate.

Disadvantages:

- You can't be sure how much interest you'll pay from one payment to another, which can make it difficult to budget.
- A lender's standard variable rate can be more expensive than their other deals.
- Lenders do have the right to change their SVR at any time, they don't have to pass any reductions in the base rate on to you. And they can be slower to reduce their rates than they are to increase them.

Discounted rate deals

These give you a discount on the lender's standard variable rate for a

set period of time. It could be anything from a few months to a few years and, generally, the shorter the time the bigger the discount. After the agreed amount of time is up, you may be offered another mortgage product or you'll be put on the lender's standard variable rate.

As an example, a 2% discount on a 5% standard rate means you'll pay 3%. If the standard rate rises to 6% you'll pay 4%, and if it falls to 4% you'll pay 2%.

Advantages:

- Interest rates tend to be lower than a fixed or capped (see page 18) rate deal of a similar length.
- Discounts can keep your payments low in the early years, when your finances could be stretched because of moving and making home improvements.

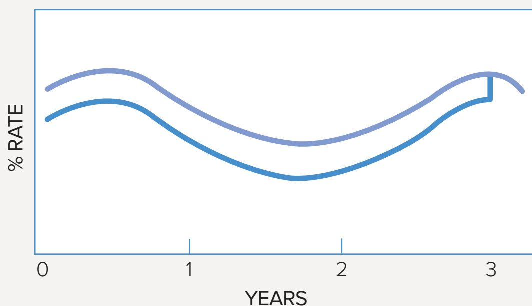
Disadvantages:

- If your payments are heavily discounted in the first few years, they could get much more expensive when the deal ends and you're put on the standard variable rate. You'll need to make sure you're prepared for the increased cost, and look to move to a better deal if possible when the time comes.

Tracker deals

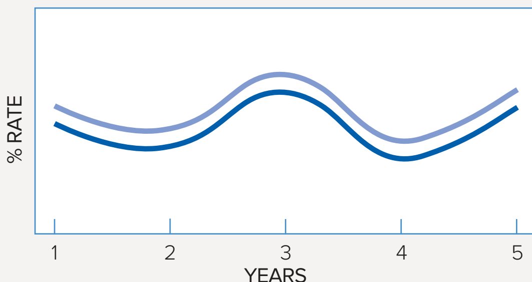
Base rate tracker mortgages – or 'trackers' - generally follow the Bank of England base rate, although some do follow a specified bank's own base rate, and will be at a set percentage above or below that base rate.

Illustration: Discounted rate



- Lender's discounted rate (3 years)
- Lender's standard variable rate

Illustration: Tracker mortgage



- Bank of England base rate
- Tracker deal (0.5%) above the base rate

For example, if the base rate is 4% and you have a tracker that's 0.5% above the base rate, you'll pay 4.5% interest. And if the base rate rises to 5%, you'll pay 5.5%. Most trackers last for a couple of years, but they can be anything from a few months to the whole mortgage term.

Advantages:

- If the base rate falls, your payments will definitely fall too. That's because your rate moves with the base rate, not when your lender says so.

Disadvantages:

- Some deals come with a 'collar', meaning that your rate will never fall below a certain level (so, a base rate tracker collared at 3% means you'll never pay less than 3% interest, however much the interest rate falls).
- Some mortgage lenders reserve the right to delay passing on any changes in the base rate, and could take thirty days to follow any base rate cuts.

Illustration: Capped & collared rate

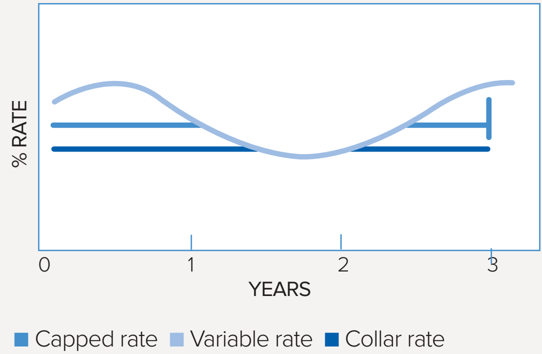
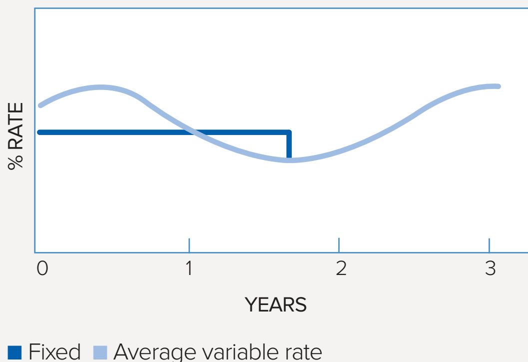


Illustration: Fixed rate



Capped rate deals

These mortgages set a 'cap' on a standard variable rate or tracker for a certain period, generally three to five years. This means that, while your interest rate will still go up and down, it won't go above a certain point.

Advantages:

- It gives you security that even if the base rate rises, your own rate won't rise past a certain level.
- You still get the benefit if the base rate falls.
- If you've budgeted to pay the maximum amount, you'll have extra money to play with if your interest rate goes below it.

Disadvantages:

- Because of the extra security capped rates give you, they tend to cost more than fixed or other variable rate mortgages.
- Like trackers, some deals come with a 'collar', meaning that your rate will never fall below a certain level. So, they'll never go extremely high – but they'll never go extremely low either.

Fixed rate deals

With fixed rate deals, the level of interest you pay is fixed for a certain amount of time. It will usually be between two and five years, but some mortgages will fix it for a specific time period. Your payments stay the same during this time, whether interest rates go up or down. Once the time is up you'll be put on the lender's standard variable rate. Generally speaking, the longer your interest rate is fixed the higher it will be.

With around half of borrowers choosing to fix their interest rates, these are the most popular kind of deal. Lots of people choose them if they think interest rates are going to rise over the next few years.

Advantages:

- You know exactly how much your payments will be, and can budget for them. This is especially helpful if your finances are already stretched because of moving home.

Disadvantages:

- The interest rates may be higher than the variable rate offers available to you at the time.
- If the interest rate falls you'll be left paying interest at the higher rate you're fixed to.

What are the different mortgage fees I might have to pay?

Arrangement fee: This is what lenders charge to cover the cost of the special deals they offer.Arrangement fees can be anything from £300 to 3% of the mortgage value, which could be thousands of pounds (for instance, 3% of a £130,000 mortgage is £3,900).

Booking fee: This is a fee for completing the application. It's the cost of the lenders setting aside the money that they're going to lend you.

Early repayment charges: These will apply if you want to switch or pay off your mortgage during the special deal period. They can run into thousands of pounds. Your adviser will be able to explain whether these apply to you.

Completion fee: This is charged on the date you start your mortgage (completion date). This is the date when the lender transfers the money to your solicitor. They tend to be between £200 and £400. Usually lenders will charge either an arrangement fee or a completion fee, but occasionally they can charge both.

Exit fee: Applies when you pay off or switch your mortgage, to cover administration and legal costs. They're different to early repayment charges, which are owed if you pay off or switch your mortgage during your special deal.

Can I add these fees to my mortgage? Lenders might suggest adding these fees to the mortgage, so you build them into your monthly payments rather than paying them in full. But if you do, remember, you're likely to pay more interest in the long run. When buying a property there are other fees you'll have to pay, such as stamp duty and solicitors' fees. See page 28 for a full list of what you'll need to budget for, and a rough guide to an overall cost.

Higher Lending Charge fee (HLC): This is the fee a lender may charge you if you borrow over a certain limit. This usually starts when you borrow more that 75% against the value of the property.

Deciding which mortgage is right for you

There's no such thing as the best mortgage. There's only the mortgage that's right for you. And it will depend on things like your income, your plans for the future, whether you're planning to start a family and if you might move home in the near future. For some people, a fixed rate might be best. For others, it might be a tracker mortgage. Everyone needs different things. Here are some of the questions you need to start thinking about before you speak to a mortgage adviser:

- Do you want to know that your mortgage payments will stay the same each month, or would you rather they had the chance to go down as well as up?
- Would you like an upper limit on the payments, to guarantee you won't have to pay more than a certain amount?
- Do you want to be able to review all this when your deal is up?
- Do you want the freedom of overpayments, underpayments and payment holidays?
- Do you want to be certain that your payments will have paid off your whole mortgage by the end of the term, or would you prefer to make your own savings plan to repay the loan?

Which? Mortgage Advisers will help you to think about all these questions when you call. We'll use the answers you give us to find a mortgage that matches what you need. Have a think about what your answers to these questions would be. If you're getting a mortgage with someone else, talk it over with them too. Then speak to us. We'll help you understand your options and make the right decision.

Your home may be repossessed if you do not keep up repayments on your mortgage.

> **"The mortgage with the cheapest initial interest rate might not necessarily be right for you, and it might not be the cheapest mortgage in the long term."**

- How quickly do you want to get your mortgage?
- Do you think you might move or sell your house within the mortgage term?
- Do you think your income could be increased or reduced over the next few years, due to career changes or family plans?

Shouldn't I just pick the deal with the cheapest interest rate?

The mortgage with the cheapest initial interest rate might not necessarily be right for you, and it might not be the cheapest mortgage in the long term. All mortgages come with fees, but these could be higher for the cheapest deals.

Once I've got a mortgage, can I change my mind?

You're not tied into a mortgage forever. You can switch to another one if you want to. If you've got a fixed rate mortgage, it might actually be a good idea to look around for a better deal once your fixed rate deal is up and you're put on the standard variable rate.

Just be careful that, if you do switch, you don't get caught out by early repayment charges (page 19).

What happens to my mortgage if I move home?

Most mortgages are portable. That means that a lender can move your mortgage to a new property if you want to move house. They'll do this as long as you and the property still meet their criteria. You might have to pay for a survey of the new property, and there may be some administration charges too.

Steve Morris
Which? Mortgage Supervisor

Think about what you can realistically afford.

If you've already decided to spend as much as you can on your monthly repayments, then a variable rate mortgage might be a bigger risk than you want to take. If the interest rate goes up, your repayments will be more expensive and you might not have the money to cover them. A fixed rate deal might be more expensive than the variable rates on offer, but you're paying for the certainty that your repayments will stay the same from month to month. Only think about a variable rate deal if you can manage the repayments whether rates go up or down.

How do I get my mortgage?

Whether you're getting your first mortgage or remortgaging for the umpteenth time, there are a few things you'll need to do to get the deal you want. First of all, you'll need to get all your financial paperwork in order.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Whether you go to a bank, building society or an intermediary, you'll start by speaking to your mortgage adviser about what you need. They'll search the options that suit you, and tell you what they think is best. It's then up to you whether you go ahead with their recommendation.

Whichever lender you choose, you'll need to provide some information about yourself and your finances. Make sure you (and the person you're buying with) have the following:

- **Proof of identity** – usually your passport, or a photo driving licence.
- **Proof of address** – utility bills, council tax bills, bank statements or credit card statements are all fine, as long as they're dated within the last three months. Lenders don't accept mobile phone bills.
- **Proof of income** – ideally, your last three payslips and your latest P60. If you're self-employed, you'll probably need to show your accounts from the last three years.
- **Bank statements** – these will be from the past three to six months.

The steps you take to get your mortgage will be slightly different depending on whether you're buying a property or getting a remortgage.

If you're buying a home...

Start looking around for the right property. An agreement in principle could come in handy when you're speaking to sellers, as it shows them you're serious about buying, and tells you what kind of property you can afford (go back to page 11 to see how an agreement in principle works).

> **"When you've found the right property, contact the estate agent and let them know what you would be willing to pay for it"**

Lots of mortgage advisers only consider mortgages that they can arrange for you but Which? Mortgage Advisers also look at the ones you can only get direct from banks and building societies. We'll then recommend the one we think is right for you, and if you want to go ahead we can help you with what to do next.

Please visit mortgageadvisers.which.co.uk for fees and information

Your home may be repossessed if you do not keep up repayments on your mortgage.

When you've found the right property, contact the estate agent and let them know what you would be willing to pay for it. If they accept your offer you'll need to get your mortgage, which means filling in and submitting an application.

The lender will carry out financial checks, and will ask you to pay for a valuation on the property. This valuation is to check that the house is worth what you're paying for it, because if it's not you might have trouble repaying the mortgage. But the valuation is just that; 'a valuation'; not a structural survey. So you should seriously consider arranging a survey for yourself, to give you more information about the property and check if there are any problems you haven't spotted.

Lots of legal work comes with getting a mortgage, such as checking that the contracts are filled out properly and making sure that money is exchanged on time. This is called **conveyancing**.You'll need to find a solicitor orconveyancer to do this for you. If everything looks OK, the lender will offer you a mortgage. Your solicitor will finalise the contracts and arrange an **exchange date** with the person who's selling the house or their solicitor. This is the date when contracts are exchanged between buyer and seller. From this point you're legally and financially committed to the agreement. You'll need to have building insurance in place by the exchange date, and it's a good idea to have your life insurance by then too. Have a look at page 30 to find out more about the kinds of insurance you need.

Your solicitor will arrange a **completion date**. This is the date when the lender transfers the money to your solicitor, and the solicitor sends this along with the deposit to the seller's solicitor. It might be the same day as the exchange date, or they could be months apart. There are no rules – it's a date you'll need to agree with the seller. But once you've completed, your mortgage begins, and the property is now officially yours. You can pick up the keys and move into your new home.

As a very rough guide, the time between making an offer and collecting the keys to your house can be between two and six months.

There can be a huge amount of work for the lender between receiving your mortgage application and offering you the deal you want.

If you're remortgaging...

Just as with any other mortgage, you'll need to fill out an application form and give it to your lender. There'll also be credit checks and a valuation, just as before.

You'll still need a solicitor or conveyancer to help you with the legal work. But some remortgage

Steps to buying a home

deals come with 'free legal fees', where the lender's own in-house solicitors will be doing the work. On the completion date, your existing mortgage lender is paid off, and you begin your new deal with your new mortgage lender.

It won't always be possible for you to switch your mortgage, even if you're beyond your special deal period.

I want to get a remortgage, but the value of my home has fallen. What does this mean for me?

What this means for you depends on how much the value of your house has fallen, and how much of the mortgage you've paid off already.

You might not have enough equity in your house to get a better deal. At worst, you might have **negative equity**. This is when your property is worth less than your mortgage.

For example, imagine you took out a £90,000 mortgage to buy a house worth £100,000. After a few years, you'd paid off £5,000 of your mortgage, but the house value had fallen by £20,000. That leaves you owing £85,000 on a house that's only worth £80,000.

If you're not happy with your existing mortgage deal but are in negative equity, it will be impossible for you to get a remortgage. If you are unable to wait, speak to your mortgage adviser, they may just be able to suggest alternatives that you haven't considered.

Is there anything that could stop me getting my mortgage?

Unfortunately, yes. Some things affect whether a lender will give you a mortgage, and how much they're prepared to lend:

Credit history: Lenders will ask a credit reference agency for details of your credit history. This can include anything from bankruptcies or county court judgments to missed credit card payments and catalogue debts. They'll assess the information, and if they're not happy with any part of it they may reject your mortgage application. Each lender has their own way of assessing customers, so you might be rejected by one but accepted by another. It only costs a couple of pounds to get a copy of your credit history (Equifax, Experian

Remortgaging? Things to bear in mind

Brian Donovan
Which? Mortgage Senior Adviser

If you're applying for a remortgage, bear in mind that you might not necessarily be able to borrow the same amount as when you first got a mortgage. It all depends on what's changed since then. For instance, if your earnings have gone down or the amount you want to borrow has gone up, it might be more difficult for you to get the loan you want this time around. That's something we can help you to work out.

or Callcredit are all companies who can help you with this). So if you think there could be a mistake on your file, you can request a copy and see for yourself.

If something is wrong, you should write to the agency with evidence showing why they should change their records.

Being self-employed: Lenders want to be sure you can make the repayments on any mortgage they give you. Depending on the lender they are likely to want to see 'accredited' evidence as proof of your income for the past 2 or 3 years, such as; records from your accountant or statements from the tax man. If you haven't been self-employed for this long you might have few mortgages to choose from, and you might have to find a larger deposit or pay a higher interest rate. In some cases you could find it difficult to get a mortgage at all.

Not having a permanent job: Again, lenders want to be sure you've got enough money coming in to repay any mortgage they might give you. So, if you don't have a permanent job it could be very difficult to get a mortgage. Lenders might ask you for a letter from your employer, confirming that they'll give you work. Or they might ask for other evidence that your earnings will stay the same.

Bankruptcy: If you've ever been declared bankrupt, lenders might be worried about whether you'll be able to repay a mortgage. They might only offer you more expensive mortgages with higher interest rates, or they might not be willing to lend to you at all. Bankruptcies stay on your credit record for a minimum of six years. Speak to your mortgage adviser about what to do in this situation.

What's the difference between freehold and leasehold?

Usually, houses are freehold. That means that, when you buy one, you become the freeholder. You then own the property and the land it's built on, and are fully responsible for it. Flats (and some houses) are different, because lots of properties are built on the same land. They're often leasehold, and the person who owns the whole block of flats – the freeholder – will grant you a lease to live there. This makes you the leaseholder, and you own the property for as long as the lease lasts. Lenders usually want you to have a lease of at least 60 years before they'll give you a mortgage on the property. But lots of freeholders will grant leases up to 999 years (which, hopefully, will be enough for you!) If you're buying a leasehold property, you might have to pay rent every year to the person who owns the land. Check before you sign any contracts, and make sure you've budgeted for it if necessary.

Are there any other costs I need to think about?

There are other costs you'll have to pay when you get a mortgage, and you'll need to bear these in mind when you decide what you can afford. If you're remortgaging, some of these won't apply.

Adviser's fee: 'No fee options' – there may be different fee structures for mortgage advice. With Which? Mortgage Advisers you won't pay for your initial consultation. If you decide that you'd like us to help with your application, we'll charge a fee of £499* to cover our administration costs. This is paid in two parts:

1. A first instalment of £299* when we start.
   This fee is non-refundable and payable on application.
2. A second instalment of £200* once you complete your mortgage. If you're a full Which? member when you first get in touch, this is £100* (this does not include temporary or trial membership).

*These amounts are subject to change. These charges apply to each mortgage contract you enter into through us. Once you've spoken to an adviser and provided details on your specific requirements, we'll confirm the exact fee to be paid and when it will be collected. On most mortgage applications we receive a commission fee from the lender on completion. This is separate from our administration fee and is an additional fee we receive.

Lender's valuation: Lenders want to be sure that your property will cover the money they lent you, in case you can't pay them back. So, they'll arrange a valuation, and may ask you to pay for it. This isn't the same as a survey (see below).

Homebuyers Report: This is a more detailed report than a basic valuation, but is not a survey. The lender may offer you this as an alternative to a basic valuation but remember it is still only a valuation not a survey.

Survey: A survey is a good idea especially if the property you're buying is particularly old or unusual. It's more expensive than a valuation and/or Homebuyers report, but the surveyor can tell you about structural issues which the Valuation and/or Homebuyers may not.

Searches: A solicitor will arrange a local authority search on your behalf, which you'll need to budget for. It's to check whether anything in the area could affect the value of the property, such as planning applications.

Insurance: From the exchange date, you're responsible for the property. So, you'll need to make sure buildings insurance is in place by this time. You should also think about contents insurance when you move in, to protect your belongings. Life insurance, critical illness cover, income protection and unemployment cover can all help repay your mortgage if there are problems with your health or your job (see page 31 for more details).

Money transfer: When the lender transfers the money to your solicitor, it will all be done through a system of telegraphic transfer. There's a small fee for this.

Stamp duty: This is a tax you pay when buying a property valued at more than £125,000. The higher the property value, the more you'll be taxed.

Land Registry: The Land Registry charges a fee to register the land your property stands on in your name.

Leasehold fee: If you're buying a leasehold property, the leasehold fee is the ground rent you pay the person who owns the land where your property is built. Flats are often leasehold, but some houses are too (see page 27 for more about leasehold properties).

Removals: Whether it's hiring a van or booking a removals company, it's likely you'll need to budget.

Legal fees: You'll need to pay your solicitor or conveyancer for their services and any expenses they incur. Some remortgages come with 'free legal fees', which means the lender's in-house solicitors are doing the work. If that's the case, it may be that other fees get larger to pay for this.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Approximate costs of buying a property

You can use this table to give you an approximate idea of the costs of buying and moving home. Choose the relevant figures for your legal, mortgage valuation/survey costs and then add together for the total.

	VALUE OF PROPERTY				
	Up to £99k	£100 - £249k	£250 - £350k	£401 - £450k	£501k+
Legal costs (£)					
Fees	300	350	350	400	700
Searches	230	230	230	230	230
Stamp duty	see stamp duty guide				
Money transfer	35	35	35	35	35
Land Registry fee	130	280	280	280	550
Leasehold [1]	120	120	120	120	120
Mortgage valuation/survey costs (£)					
Arrangement fee And/or booking fee	900	950	1000	1000	1000
Valuation	250	350	375	450	800
Homebuyers Report	300	400	500	600	800
Survey fee Building	500	600	800	900	130
TOTAL					

[1] Only add this figure if you are buying a property that is leasehold

Removal cost guide

	Number of bedrooms				
	1	2	3	4	5
Hire a van	100	200	Not recommended		
Removal Company	400	500	800	1000	1200+
Add packing by removal company	150	200	250	350	400

Source: The Which? Essential Guide: Buy, Sell & Move House, 2010.
This may be dependant on geographical location.

Stamp duty guide

Current stamp duty rates	
Value of property	% of total value payable
£0-£125,000	0
£125,001-£250,000	2
£250,001-£925,000	5
£925,001-£1.5m	10
over £1.5m	12

For the tax year 2014/15

How do I protect my home and mortgage?

Having a mortgage is a big financial responsibility. You'll need to make sure it's repaid, whatever happens.

You should think about taking out insurance to cover your mortgage in case, for whatever reason, you're not able to make the payments.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Once you've got your mortgage, you need to protect your home and everything in it.
You should think about different kinds of insurance policy:

Buildings insurance: This covers the cost of rebuilding your home if it's damaged. You need to have arranged building insurance by the exchange date, as you'll be responsible for the property from then on.
Contents insurance: This covers your possessions in case they're damaged, destroyed or stolen. It's not compulsory, but you're taking a big risk if you don't have it.
Life insurance: This pays out a lump sum if you die. The money can be used to pay off your mortgage, so your family aren't left to deal with the debt.
Critical Illness cover: If you're diagnosed with a critical illness, this pays you a lump sum, which you can use however you want. Different insurers cover different illnesses, and in many cases only cover illnesses of a certain severity. Every policy should cover heart attacks, cancer and stroke, which account for around three quarters of claims. But policies won't always cover you for pre-existing conditions, so always check exactly what yours covers. People use their lump sums for mortgage payments, to pay for medical treatment or to adapt their homeif that's needed.
Income protection: If you fall ill or have an accident and are unable to work, this gives you a monthly payment. When you take out the policy you'll decide how much this payment will be, up to a maximum limit. This limit is roughly equal to your normal income after tax and National Insurance, minus an adjustment for State benefits and any other income you might be getting. You'll also choose how soon the cover will start after you stop working, and how long you want it to run for.
Unemployment cover: If you're made unemployed through no fault of your own, this gives you a monthly payment to cover essentials like mortgage repayments. It usually lasts for a limited period, so again, make sure you check the policy documents so you know what you're covered for.

Speak to a qualified adviser for more details about insurance. Visit unbiased.co.uk to find an adviser, or ask your friends and family for recommendations.

Mortgage Advisers

Get in touch

By now, we hope you'll have a good idea of how mortgages work and what you need to do to get one. But it can still be a pretty daunting task. Whether you need us to explain some complicated technical bits or whether you're ready to apply your mortgage, we can help. Not only can we help find the right mortgage for you but, if you choose a lender who we can deal with on your behalf, we will also complete the application, send it to the lender and help you through the whole process, all for an administrative fee.*

To book a phone appointment with one of the team, give us a call on **0117 981 1624**, or visit us at **mortgageadvisers.which.co.uk**

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Your home may be repossessed if you do not keep up repayments on your mortgage.