



## MORTGAGES4REAL LIMITED

We know that taking out a mortgage will probably be the biggest financial commitment you can ever make, so it's not surprising the whole process can seem pretty daunting. We can guide you through the entire process, explain all the options available and the costs involved, so that you can be confident that the Mortgage that we arrange for you will be the right one.

We are here to help you throughout the process, giving advice and ensuring that you understand every aspect of taking out a mortgage. We will provide a recommendation for the right mortgage to suit your individual financial needs. We arrange hundreds of mortgages each year for our customers, people just like you, each one with their own unique needs and circumstances, so we are confident that we will be able to help you. So whether you are a first time buyer, a home owner looking for a new property or a remortgage, a landlord looking for a buy to let mortgage or a council tenant looking to buy your council house we have the experience and expertise to provide you with a first-class service.

We know that many borrowers have more complex personal circumstances, which may make arranging a mortgage less straight forward, and in these situations it is a real advantage to have more than one lender to choose from. We use a wide range of lenders from which we select your mortgage so you can be confident that we will be able to cater for your needs, whatever your circumstances.

We do not normally charge a fee for our services; however we reserve the right to charge a fee, payable on completion of the mortgage of £299, for those with more complex personal circumstances.

## PAYMENT METHODS

How you repay your mortgage depends on your individual circumstances and how long you will own the property you're buying. Essentially, there are two ways to repay the money that you have borrowed – here's how they work:

### REPAYMENT MORTGAGE

With this method, you make monthly payments to the lender over an agreed number of years, called the mortgage 'term'. Most people choose a term of around 20 to 25 years for their first mortgage, but you can have a longer or shorter term. Your payments cover the interest on the loan and gradually pay off the amount you borrowed (sometimes called the 'capital' or the 'principal').

**There is no built-in life cover with this method and you will need to take out a life assurance policy to cover the mortgage should you die during the mortgage term. Your mortgage adviser can help you with these arrangements and provide advice on a suitable product.**

### WILL IT PAY OFF MY MORTGAGE

As long as you make all the payments agreed with the lender and there are no arrears, you will repay the loan by the end of the term. Please remember your monthly payments could increase if interest rates rise.

### MOVING HOME AND REMORTGAGING

If you move home you can normally transfer the remaining loan to the new property. If you want to switch lenders, because you're moving, or simply remortgaging without moving home, you will need to repay the outstanding balance with the first lender and start a new mortgage with the new lender. You should, whenever possible, choose a mortgage term that matches the remaining term of your old mortgage.

### IS IT FOR ME?

As long as you make all the payments agreed with the lender and there are no arrears, you will repay the loan by the end of the term. Please remember your monthly payments could increase if interest rates rise.

### INTEREST CALCULATIONS ON A REPAYMENT MORTGAGE

Most lenders used to recalculate the amount on which they charged interest only at the start of each year. They didn't give you any credit for the fact the amount you owed was reducing each month. These days, many lenders calculate interest on a daily or monthly basis. What difference does this make? See the example below...

On a 25 year £50,000 repayment loan, if the lender recalculates the balance just once a year, you would pay £357 a month if the interest rate was 7%. If instead, the lender recalculates the balance daily your repayment would be £353 a month. That's a difference of only £4 a month. If you paid the higher amount every month you could repay your mortgage off after only 24 years and three months, saving you £2,038.

## INTEREST ONLY MORTGAGE

With this method your monthly payments to the lender only cover the interest on the loan and the original loan remains outstanding. This is why you usually pay separately into a savings scheme each month to build up a lump sum to pay off the loan at the end of the mortgage term or sooner if you can afford it. Your monthly savings scheme payment is set at a level that assumes your investment will grow at a certain rate each year. You can use various types of savings schemes to build up the money you need to repay your mortgage:

### ENDOWMENT POLICY

A regular savings investment plan, which is designed to provide a lump sum payment on maturity, you use to help repay your mortgage. It usually includes built-in life cover to protect the mortgage if you die during the term of the mortgage. However, there is no guarantee the maturity lump sum will be enough to pay off the mortgage in full.

### INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

A more tax-efficient savings plan with a wider range of investment choices, including stocks, shares, and cash. There is no built-in life cover so you will need to arrange this separately at extra cost. The government limits how much you can invest each year, which could mean your savings might not be enough to pay off your mortgage at the end of the term. Also, like the endowment, there is no guarantee the lump sum at the end will be enough to pay off the mortgage in full.

### PERSONAL & STAKEHOLDER PENSIONS

You could use the lump sum part of your pension to repay your mortgage at the end of the term. This is a very tax-efficient mortgage repayment method but is restrictive as the lump sum is only available between the ages of 50 – 75 when you're able to retire. By using part of your pension fund to repay your mortgage, you will have less to live on in retirement. As with most types of investments there is no guarantee of the lump sum available and therefore no guarantee you can repay your mortgage in full. Don't forget that you can 'mix and match' by using a combination of interest only and repayment methods to repay a mortgage loan.

### OTHER MEANS

With an interest only mortgage, you alone are responsible for repaying the mortgage at the end of the term. However, this also gives you the flexibility to repay your loan in a way that suits your circumstances. For example, you might wish to use a mix of investments, or you might be expecting money from an inheritance.

**If you need advice on investments to repay an interest only mortgage, you should seek independent advice.**

## WILL IT PAY OFF MY MORTGAGE

**All interest only loans involve some investment risk in building up a sum of money to repay the loan.**

With an interest only loan it is your responsibility to make sure you have enough money set aside to repay the loan in full at the end of its term. As long as your investment grows as expected the mortgage will be repaid. You need to review how your savings are performing regularly to make sure you're on track to repay your loan. If your investment grows more slowly than expected, you may need to increase your monthly payments, top up your savings in other ways or find an extra lump sum at the end of the term.

## MOVING HOME AND REMORTGAGING

With an interest only mortgage, if you pay off the loan, for example when you move home or remortgage, you can carry over the accompanying savings plan to your new mortgage. It is not a good idea to stop an existing investment savings plan and start a new one. If the new mortgage is larger than the existing one, you will need to choose a way of repaying the extra borrowing. You might do this part repayment and part interest only.

## IS IT FOR ME?

Whether an interest only mortgage suits you depends mainly on whether you're comfortable with taking the risk of repaying your mortgage with a savings plan linked to the stock market. Investments used to build up a lump sum **rarely guarantee** to repay your loan at the end of the term. If you're not comfortable with this risk then a repayment mortgage is likely to be a better choice for you. An interest only mortgage will only turn out to be 'better value' than a repayment mortgage if the savings plan you use to repay the mortgage loan grows at a higher rate than the mortgage interest rate you're charged. Of course, at the time you take out your mortgage, you have no way of knowing whether this will happen.

## NEVER FORGET:

With an interest only loan it is your responsibility to make sure you have enough money to repay the mortgage at the end of the term, otherwise you could lose your home.

## MORTGAGE TYPES

When looking for a mortgage, it's essential to understand the different products that are available so you can be sure you get the right one for you. Lenders offer different interest rate options and this will affect your monthly payments. So choosing the right deal could save you money.

Some lenders allow you to bring together the benefits or features of more than one product type, more accurately meeting all of your requirements. Please be aware some products, especially those offering attractive terms, may carry an early repayment charge. This means if you repay your mortgage before a certain date, you will have to pay a charge. With so many product choices available it is essential you get professional advice. The following is a brief explanation of the types of mortgage products available:

## STANDARD VARIABLE RATE MORTGAGE

With this mortgage, your payments will go up and down as the lender's standard variable rate goes up and down. Usually any changes in the lender's variable rate will be in line with movements in the Bank of England base rate. The Bank of England Monetary Policy Committee reviews this rate monthly.

### IS IT RIGHT FOR ME?

Yes – If you can afford to pay more when mortgage interest rates go up and want to take advantage of lower payments if rates fall.

No – If during the early years you would be unable to cope if repayments increased because of rising interest rates.

## BASE RATE TRACKER MORTGAGE

This is similar to a variable rate mortgage, but the interest rate will go up and down exactly in line with any change in the Bank of England base rate. Your mortgage payments will go up and down too as the interest rate changes. The tracker period is usually for a specified time, which can be from one year up to the lifetime of the loan. At the end of the tracker period, your mortgage interest rate will change to the lender's standard variable rate. This product may carry an early repayment charge.

### IS IT RIGHT FOR ME?

Yes – If you want to be sure your mortgage rate falls by the same amount as the Bank of England base rate falls, but the drawback is the mortgage rate also rises in step when the base rate increases.

No – If you find yourself locked into a rate above the base rate, which may be higher than the standard variable rate.

## FIXED RATE MORTGAGE

Your mortgage interest rate is fixed for a set period only, during which your mortgage payments will stay the same. At the end of the fixed rate period, your mortgage interest rate will change to the lender's standard variable rate. Fixed rate mortgages are usually available for between one and ten years, however they can be available for longer periods depending on market conditions. This product may carry an early repayment charge.

### IS IT RIGHT FOR ME?

Yes – If you need to budget with certainty for the next few years, or you think mortgage interest rates will raise, or both.

No – Probably not if you think mortgage interest rates will fall.

## DISCOUNTED RATE MORTGAGE

The lender offers a discount off their standard variable rate for a set period, normally one or two years. Your mortgage payments will still vary in line with changes in the standard variable rate. At the end of the discount period, your mortgage interest rate will be the same as the lender's standard variable rate. This product may carry an early repayment charge.

## IS IT RIGHT FOR ME?

Yes – If money is tight when you first take out the mortgage, but you're confident your income will increase.

No – If you won't be able to cope if interest rates rise later on, increasing your payments.

## CAPPED & COLLAR RATE MORTGAGES

With a capped rate mortgage the interest rate can go up or down in line with movements in the lender's standard variable rate, but cannot go above a set upper limit, known as the 'cap' or 'ceiling'. This type of mortgage can also have a set lower limit, known as the floor or 'collar'. For these mortgages the interest rate can move between these limits but cannot fall below the collar or go above the cap. This product may carry an early repayment charge.

## IS IT RIGHT FOR ME?

Yes – If you like to budget with some certainty, think mortgage interest rates might rise above the cap, or you want the security of knowing your payments cannot rise above a set level and would like to benefit from any fall in interest rates.

No – If your mortgage adviser can find you a fixed rate set at a lower rate than the capped rate, and you think rates are unlikely to fall below the level of the fixed rate deal.

## CASHBACK MORTGAGE

The lender pays you a cash lump sum after completion, which you can use for any purpose. This product may carry an early repayment charge.

## IS IT RIGHT FOR ME?

Yes – If you need a cash lump sum, for example to do up your home, or you expect the cash back to more than compensate for any rises in interest rates during the period when an early repayment charge may apply.

No – If you can manage without cash back now and can get an alternative deal.

## FLEXIBLE MORTGAGE

This can take many forms and offers extra features so you can manage your mortgage and the payments more effectively. The following features are usually available:

**Overpayments** - Allows you to pay more than your normal monthly payment whenever you choose. Any overpayment can immediately reduce your mortgage balance and so lower your future monthly payments. Or you may want to carry on your monthly payments at the original higher level and so pay off your mortgage more quickly.

**Underpayments and Payment Holidays** - Once you have built up a 'credit' of overpayments, you can reduce or, in some circumstances even stop your mortgage payment at times to suit you. You can do this until the interest charged on the amount outstanding uses up the 'credit' of overpayments.

## IS IT RIGHT FOR ME?

Yes – If you're likely to experience significant variations in your income so you're able to increase your mortgage payments and would also benefit from being able to reduce, or even stop them for a time.

No – If your monthly income generally remains constant and you're unlikely to need to vary your regular payments.

## OFFSET MORTGAGES

A more complex mortgage arrangement, where the lender can 'offset' your mortgage balance against any savings or deposits you have with them. You can opt to pay no interest on part of your mortgage, equal to the value of your savings on which you'll receive no interest. This means you could reduce the term of your loan, saving you interest or you could reduce your monthly payment. This can be a more tax-efficient way of saving, especially for higher-rate taxpayers, as the mortgage interest rate 'saved' is usually higher than the interest rate earned after tax on your savings.

## IS IT RIGHT FOR ME?

Yes – If you have a 'lump sum' amount you can deposit into the lenders savings account and have no need to withdraw it in the short term.

No – If you do not have a 'lump sum' available or if you're likely to need any savings amount for another purpose.

## CURRENT ACCOUNT MORTGAGE

This is a development on the offset mortgage that merges your mortgage and current account together. As money goes into your current account, for example your monthly salary, this is offset against your mortgage balance, so reducing the interest you owe. The lender will agree with you the minimum amount you should ideally leave in your account each month. If you leave more in, you will pay less interest and may be able to pay off your mortgage earlier. If you leave less in, you will pay more for your mortgage.

## IS IT RIGHT FOR ME?

Yes – If you're prepared to have your monthly income paid into your mortgage account, or a current account with your lender.

No – If your income is irregular or you wish to keep your mortgage and bank accounts separate.

## WHAT TYPE OF BORROWER ARE YOU?

Today, mortgages are available for all sorts of people from all walks of life and with diverse sets of circumstances. The type of mortgage, how much you can borrow and the interest rates you can get will depend on the category of borrower you fall into. The five main categories are:

### EMPLOYED

A lender will calculate your mortgage on the amount you earn; they will also consider how long you have been employed. Even if you have only been in your job for a short time, or are on a short-term contract, your mortgage adviser may still be able to find a mortgage for you.

## SELF-EMPLOYED

Normally a lender will ask to see three years company accounts but may accept two years accounts, plus a projection for the next financial year.

## SELF-CERTIFICATION

Designed for borrowers who are unable to either verify their current income or have complicated income structures for which lenders may restrict the amount that can be borrowed. These include the self-employed who have only been trading for a short time or do not have up-to-date accounts, or those who cannot provide satisfactory proof of earnings. In these cases you're able to self-certify your income to the lender. The lender may ask for an accountant's letter to confirm your ability to meet the monthly payments and may charge a slightly higher rate of interest than for a standard scheme.

## RETIRED

Borrowers who are no longer in full-time employment but who have enough pension or investment income to qualify for a mortgage and support the monthly mortgage payments. Lenders will usually offer terms to suit the borrower's retirement plans.

## ADVERSE CREDIT

Also known as impaired credit, increasingly, lenders are offering schemes to borrowers who have a current or previous adverse credit record. Whether you have arrears, County Court Judgments (CCJs), defaults or even been registered bankrupt, there are lenders who would still consider you for a mortgage or a remortgage. Remember to always be honest with your mortgage adviser when discussing your credit situation, as this will make their job easier when selecting the right mortgage for you.

## FEES AND COSTS

We explain briefly below the possible costs of taking out a mortgage. Your mortgage adviser will fully explain which of these are payable in your case and when, and whether the lenders offer any help towards the costs.

### BROKER FEE

A fee payable by the borrower to the adviser for advising on and arranging your mortgage. The maximum fee your adviser may charge is 2% of the mortgage or £3,000, whichever is the lower. For example, for a mortgage of £100,000, the maximum fee will be £2,000. For mortgages over £150,000, the maximum fee is £3,000.

### BUILDINGS INSURANCE

This is insurance on the property, and is normally a condition of the mortgage. You may also want to insure your contents. Your adviser will be able to provide you with more details of buildings and contents insurance products.

## HIGHER LENDING CHARGE

An insurance taken out by the lender, but paid for by the borrower for high percentage advances, for example those over 75% loan-to-values (LTV). This covers the lender if you don't pay the mortgage and they have to repossess your home and the money from the sale isn't enough to cover how much you owe. Many lenders now only charge for this if you borrow more than 90% LTV.

## LEGAL FEES

The lender takes a legal charge over your property and you need to appoint a solicitor or conveyancer to carry out this work. Usually the same firm will act for you and your lender, which will help keep costs down.

## ARRANGEMENT FEE

The lender may charge an administration fee for dealing with your application. They may refund this if your application does not go beyond the initial acceptance stage.

## VALUATION AND SURVEY FEES

Before granting a mortgage a lender will carry out an inspection of your property to check it is in good condition and represents reasonable security on which to lend the money. Your lender will use a qualified surveyor to provide a current property value. The fee charged normally depends on the property value. We recommend you also obtain your own detailed Homebuyer's Report from the lender's surveyor. For older properties, or those with potentially serious defects, a full structural survey is essential. Many lenders offer special packages for borrowers to help them with some of the usual costs associated with taking out a mortgage, such as a free valuation, free legal fees or a cash payment towards them.

Although these appear attractive, the lender will usually add these into the overall cost of the mortgage, for example by increasing the mortgage interest rate.

## LEGAL COSTS AND FEES

The fees charged by a solicitor include the charge for conveyancing (the transfer of ownership of land), the costs of legal registrations and miscellaneous costs (known as disbursements). For example, Local Search fees and Land Registry fees. We recommend you obtain an estimate of these costs early on in the process.

## STAMP DUTY

Stamp duty is a 'purchase tax' and is payable where the purchase price of the property is more than £125,000. The current charge is 1% of the purchase price of the property. This increases to 3% if the price is more than £250,000 and to 4% if the price exceeds £500,000. Some post codes are exempt from this duty, check with your solicitor. (Stamp Duty is not payable for remortgages).

## PROTECTING YOUR HOME

Taking out a mortgage is a major financial commitment and you should ensure that you, your home and any dependants are fully protected if you're unable to meet the repayments or if you should die.

### LIFE COVER

Mortgage protection or term assurance - Depending on the type of mortgage and your own circumstances, you may need to take out life cover to repay the loan if you die during the term of the mortgage.

### CRITICAL ILLNESS COVER (CIC)

This cover pays out a lump sum if, during the term, you're diagnosed with a critical illness such as cancer or heart disease, enabling you to repay the loan.

### ACCIDENT SICKNESS & UNEMPLOYMENT COVER (ASU) ALSO KNOWN MORTGAGE PAYMENT PROTECTION INSURANCE (MPPI)

Designed to provide you with a monthly payment to cover your monthly mortgage payment and associated mortgage costs if you were to lose your earned income. The benefit will usually only cover your mortgage-related monthly payments, such as any life cover or building insurance premiums, as well as your mortgage payment. The benefit is usually payable for a maximum of 24 months.

### INCOME PROTECTION INSURANCE ALSO KNOWN AS PERMANENT HEALTH INSURANCE

This can replace your regular income if you can't work through illness or accident. There is often a longer deferment period before the monthly benefit starts, but it normally continues until you're fit enough to return to work.

### PROPERTY INSURANCE (BUILDING & CONTENTS)

Your lender will insist that your property has adequate buildings insurance while your mortgage is outstanding. This covers the cost of repairing or rebuilding your home if it's damaged or destroyed. Although not a condition of the mortgage you should also insure the contents. This covers the cost of repairing or replacing your possessions if they're damaged, destroyed, lost or stolen. We will be able to give you advice and help you to arrange any of these insurances, providing you with complete peace of mind.

**Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.**

Mortgages 4 Real Limited is an Appointed Representative of Mortgage Support Network Limited, which is authorised and regulated by the Financial Services Authority.

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