

Mortgage essentials

Your questions answered

Professional mortgage advice

We act on your behalf and are not tied to one particular lender

Given the choice you will face when taking out a mortgage, doesn't it make sense to seek professional advice on possibly the biggest financial commitment you are ever likely to make?

We firmly believe in the benefit of advice. Our advisers are trained to a high standard and last year advised on over 100,000 mortgages.

We work closely with a panel of major UK lenders to provide a wide choice of products, including some which are designed exclusively for our customers. And we continually review all new mortgage products that lenders bring to the market.

You can get details of which lenders are on our panel by speaking to your adviser.

Your adviser will provide you with advice and a recommendation. In addition to finding the right mortgage, your adviser can help you in the other areas associated with buying your home, including ways to repay your mortgage.

This brochure contains important information that you should read before entering into a mortgage. Details on unemployment cover and building and contents insurance are available from your adviser, who can answer any questions not covered in this brochure.

Residential mortgages

Their aims

Residential mortgages are loans secured against residential property which aim to:

- enable you to own your property
- release some of the value of the property, against which the loan is secured, for another purpose.

Your commitment

- You must declare all relevant information and in particular your credit history.
- You will need to make monthly repayments to the lender for the term of your mortgage.
- You may need to make regular payments to a life assurance plan to ensure that the mortgage can be repaid if you die during the term of your mortgage.
- In the case of an interest-only mortgage you will also need to make separate arrangements to repay the mortgage. If you do not do this, at the end of the term you will have to negotiate new terms or you may risk losing your home.
- Whatever repayment method you decide on, you will need to carry out regular checks to ensure you have sufficient funds to repay your mortgage.

Risk factors

- Your home may be repossessed if you do not keep up repayments on your mortgage.
- The lender may make an early repayment charge if you want to repay your mortgage earlier than you originally planned.
- Your mortgage valuation fee and, in some cases, any initial arrangement fee that you pay the lender may be lost if your mortgage does not proceed. Even if you withdraw your application before a valuation is carried out, you may be charged an administration fee by the lender.
- While the lender will insist on a level of buildings insurance, it is your responsibility to ensure adequate home contents cover is in place.
- There may be changes in the law and HM Revenue & Customs practice, which cannot be foreseen. Tax benefits also depend on individual circumstances.
- If you are made redundant or are unable to work due to illness, you would have to wait for up to nine months before you may be entitled to any help from the State with your mortgage interest payments.

What type of interest rate schemes are there?

Variable rate

The monthly payment fluctuates in line with the lender's mortgage rate. This can cause budgeting problems in times of increasing interest rates. Some lenders offer an annual review so that the amount you pay only changes once a year with the difference adjusting your outstanding mortgage. Lenders may also offer a version where your monthly payment fluctuates in line with the Bank of England Base Rate, often referred to as a 'Base Rate Tracker'.

Fixed rate

The monthly payment is fixed over an agreed period of time and will remain the same regardless of whether interest rates rise or fall.

At the end of the fixed-rate term the interest rate usually reverts to the lender's standard variable rate or you may be offered the choice of another product, on the terms available at that time.

Discounted

The lender offers a true initial discount for a given period. At the end of the discounted period, the rate usually reverts to the lender's standard variable rate.

No interest is deferred so the outstanding mortgage will not increase.

Cashback

Some lenders offer a cash payment on completion of the loan, either based on a percentage of the total loan or a flat amount. In some cases, if the loan is redeemed early, a proportion of the cashback may have to be repaid to the lender.

Capped rate

The interest rate is guaranteed not to go above a certain level throughout the capped rate period, which can be from one to ten years, but you will benefit from any reduction in interest rates.

Collared rate

The interest rate will not fall below a certain level for the collared-rate period.

Flexible mortgages

These schemes allow you to overpay, underpay or even take a payment holiday. Any unpaid interest will be added to the outstanding mortgage. Any overpayment will reduce your outstanding mortgage. Some have the facility to draw down additional funds to a pre-agreed limit. Lenders that offer any type of fixed rate, discount or cashback facilities to attract custom, usually require the mortgage to stay with them for a period of time to recoup their costs. They do this by imposing an early repayment charge for a given period which can extend beyond the benefit period. They will usually make an early repayment charge if you want to redeem your mortgage early.

Early repayment penalties will be charged if you die within the early repayment period so you should consider building this in to the level of life cover you have. You should also make sure that you can afford the standard variable rate that will be charged at the end of the discounted or fixed-rate period.

What costs and fees are there likely to be?

Valuation fee

This may include a non-refundable administration fee and must normally be enclosed with the application. The whole fee is non-refundable once the valuation has been carried out. The type of valuation you choose will depend on factors such as the age and condition of the property and whether there is any history of subsidence in the area.

- Basic mortgage valuation

This is for the lender's own purposes confirming the property provides security for the loan. You may wish to consider one of the more detailed types of survey.

- Homebuyer's report

This provides concise information in a standardised format on the state of repair and condition of the property. The report will include comments on the property's defects and the valuer's opinion as to its marketability.

- Full structural survey

This is a structural report based on a detailed examination of the property. Any areas of concern that you might have about the property will be investigated.

Arrangement fee

This may be payable either in advance, where the lender will ask you to enclose a cheque with the mortgage application, or on completion.

All or part of it may be non-refundable if the mortgage is declined or withdrawn. This will be specified in your mortgage Key Facts illustration.

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 generally 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. (Stamp duty is not payable for remortgages).

Higher lending charge

This may apply if the amount you wish to borrow is more than, typically, 75% of the value of the property. The lender may require additional security on the amount in excess of this threshold in the form of an insurance policy (a higher lending charge).

This policy is used to protect the lender only and is used to cover the lender in the situation where the property is repossessed and the loan plus any unpaid interest exceeds the sale value of the property. You will then owe the insurance company any payment claimed by the lender. The lender will arrange the insurance and the premium will be paid by you, in some cases it can be added to the loan.

Repayment charge

Some lenders make an early repayment charge based on the product selected. Others may charge at any time if you pay off your loan before the end of the normal mortgage term. In some cases this can be a significant amount. Always check the terms in the offer letter from your lender.

Buildings and contents insurance

All lenders require that you fully insure the property for the total cost of rebuilding it. It is also strongly recommended that you take out contents insurance. Your adviser can arrange this cover for you.

Mortgage payment protection

We recommend you consider protecting your mortgage and associated payments in the event of being unable to work through accident, sickness or unemployment. Your adviser can arrange this cover for you.

Adviser's fee

Your adviser will explain how he/she will be paid for arranging your mortgage. The exact details will be shown on your key facts illustration. A fee may also be received by your adviser for arranging buildings and contents and accident, sickness or unemployment cover.

How does a repayment mortgage work?

Monthly payments are made up of interest charged on the amount borrowed and a portion of the capital to repay the mortgage. During the early years most of each month's payments are interest and it is only later on that you start to repay any significant element of capital.

Advantages

- The mortgage is guaranteed to be repaid at the end of the term providing that payments are maintained. You can see the mortgage reducing each year (albeit very slowly in the early years).

Disadvantages

- It does not contain any form of savings, so there is no possibility of additional return or early repayment. However, the mortgage could be repaid early if payments are increased.
- You may need to take out separate life cover to ensure the mortgage can be repaid if you die. You should consider the benefits of protecting your income, should you become ill and be unable to work.

How does an interest only mortgage work?

Monthly payments to the lender consist of interest only and the outstanding mortgage remains the same. You make payments to a separate investment with the aim of producing enough capital to repay the mortgage in full at the end of the term. There are a number of different investments that can be used. You can also use a combination of them.

Endowments

Advantages

- Regular reviews are carried out on many plans to ensure they will pay off the mortgage at the end of the term. If the underlying performance has been less than assumed, you may need to increase the contribution. However, if the growth on the fund is better than assumed you could receive a lump sum over and above the mortgage amount, or pay off the mortgage early.
- Life cover is automatically included in the plan. You may also be able to include critical illness protection and waiver of premium benefit.

Disadvantages

- If you stop the endowment early you may get back less than you invested.
- Endowments are only suitable to repay long-term mortgages, eg. at least 15 years.
- Endowments invest in the stock market and are not suitable for risk averse borrowers.

Pensions

Advantages

- Tax relief on payments.
- Part of the fund can be taken as tax-free cash, which is used to repay the mortgage.
- Favourable tax treatment of funds.
- A sum can be built up which can be used to provide an income in retirement.

Disadvantages

- Benefits can normally only be taken between ages 50 and 75.
- The amount of tax-free cash you can take is limited by legislation.
- Using the tax-free cash to repay your mortgage will reduce your pension benefits.
- As the pension is designed primarily to produce income in retirement you will need to actively monitor any targeted cash amount to repay your mortgage.
- There are limits on pension payments.

Individual Savings Accounts (ISA)

Advantages

- All income and capital growth is free of personal UK income and capital gains taxes.

Disadvantages

- A maximum of £7,000 can be invested in an ISA each tax year subject to annual review by the Government.
- The Government intends to review the terms and availability of ISAs in 2009.
- Some lenders may not accept ISAs.
- There is no monitoring of the fund to ensure it will repay the mortgage.

What type of protection should I consider?

- Life assurance
To ensure that the mortgage is paid if you die. This is built into an endowment plan but will need to be arranged separately with a repayment, ISA or pension mortgage.
- Critical illness
To provide a cash lump sum which could be used to pay off your mortgage if you suffer a critical illness such as a heart attack or cancer. This cover can be built into some endowment plans or can be arranged separately with a repayment, ISA or pension mortgage.
- Waiver of payment
This is an important benefit that can be added to many plans. It will enable your payment to continue to be paid if you are unable to work due to sickness or accident.
- Income protection
To provide you with replacement income to cover your mortgage and associated payments if you are unable to work because of an accident or long-term sickness.
- Unemployment cover
This will provide short-term income to cover your mortgage and associated payments if you become involuntarily unemployed.

General information

Complaints

If the complaint is about the advice you receive from your adviser, you should write to:

Complaints Management,
Openwork Limited,
TriCentre 3,
New Bridge Square,
Swindon SN1 1HN
or telephone us on 0870 608 2550.

You can get details of our complaints handling process on request. We may record or monitor calls to improve our service.

If you remain dissatisfied,
you should write to:

Financial Ombudsman Service,
South Quay Plaza,
183 Marsh Wall,
London E14 9SR
Telephone on 0845 080 1800.
Email: enquiries@financial-ombudsman.org.uk

If the complaint is about the lender,
in the first instance you should write
to or telephone the Chief Executive at
their registered offices – details will be
in their Terms and Conditions. They will
advise you of the procedure to follow.

Data protection access

Under the Data Protection Act 1998
you have a right to access your personal
records as defined in the Act. Copies of
your application and related documents
will be held by your adviser as part of
their records.

Further information is available from:

The Data Protection Officer
UK Life Centre,
Station Road,
Swindon SN1 1EL

Please contact your Adviser if you would like this
in large print, Braille or on audio tape or CD.

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