Mortgages – a quick guide

Buying a home is a massive decision and it's likely to be the biggest purchase you'll ever make. Before falling in love with a property that's a million miles out of reach it's important to know how much can borrow and what the mortgage process involves.

What is a mortgage?

A mortgage is a loan taken out to buy a property and generally runs for about 25 years, although recently there has been an increase in even longer-term mortgages.

So, how does a mortgage work?

The money you borrow is called the 'capital' and the mortgage lender then charges you interest on it till it is repaid.

Types of mortgages

There are different types of mortgages available and will depend on whether you want to repay interest only or interest and capital.

Repayment mortgage

By far the most common type of mortgage. You pay both the interest and part of the capital off every month. At the end of the term, typically 25 years, you should manage to have paid it all off and will own your home outright!

Interest-only mortgage

With interest-only mortgages, you pay only the interest on the loan and nothing off the capital (the amount you borrowed). These mortgages are risky and as such harder to come by as lenders and regulators are worried about homeowners being left with a huge debt and no way of repaying it.

Once you've decided on mortgage type (probably repayment & interest) you then need to look at what type of interest rate you want.

Generally, you have the choice of fixed or variable interest rates. With a fixed-rate mortgage your repayments will be the same amount for a certain period of time – typically two to ten years. The benefit of this is you'll know exactly what you're paying for a set period of time.

It's worth remembering that if you take a fixed rate mortgage, at the end of the term you will automatically switch to your lenders standard variable rate mortgage. This will be at an interest far higher than you have been paying so it is essential that you arrange to switch you mortgage to a new fixed rate at this point!

With a variable rate mortgage, the rate you pay moves up or down, in line with the Bank of England base rate and you can end up paying far more than you would with a Fixed Rate Mortgage.

How much can I borrow?

The most important thing to consider when looking at a mortgage is if you will be able to keep up repayments. The lender is well within their rights to repossess (take away) your home if you don't!

Traditionally lenders used to loan you 3-4 your income regardless of affordability. Nowadays lenders look much more carefully at individual circumstances, what your outgoings are and any pre-existing debts.

Lenders will also 'stress test' your finances, which just means they'll look at what repayments you could afford if (when) interest rate goes up substantially.

Of course, the cost of your home doesn't stop at the initial purchase price. There are other upfront costs to consider, including stamp duty (normally between 2 – 12% depending upon the house value), survey and legal fees. And then there are all the monthly costs to think about in addition to your mortgage repayments; these include insurance policies (life, sickness, buildings and contents, etc.), Council Tax, household bills and so on.

Why a big deposit matters?

Following the financial crash in the early 2000s it's rare to be able buy a property without putting down a deposit and the bigger the deposit you have, the lower your interest rate are likely to be and the less you'll have to pay back each month.

There are significant rate differences between 10%, 20% and 40% deposits so it's really important to put down as much as you possibly can.

The larger the deposit the smaller the Loan to Value (LTV) which is amount of your home you own, compared to the amount secured against the mortgage (or owned by the mortgage lender).

For example, with a £30,000 deposit on a £300,000 property, the deposit is 10% of the price of the property, and the LTV is the remaining 90%.

The mortgage is secured against this 90% portion.

Where can I get a mortgage?

There are many ways to apply for a mortgage, the main ones being directly to a bank or building society where you choose from their product range only or via a mortgage broker or independent financial adviser who can compare various different mortgages.

The important thing here is to consider what type of mortgage broker you use as some only give advice on a range of lenders (that they are tied too) whereas others (like us) are what is known as 'whole of market' and can provide advice on ALL lenders and ALL their products, including those that are not available to the public directly.

The lender or mortgage broker will complete a 'fact find' and carry out an affordability assessment (as mentioned above) to work out what you amount can borrow at which point you'll usually be offered a Decision in Principle.

What should I do now?

Comparison sites are of course available and do provide a good starting point but they should not be relied upon when making a final decision. Have a look at them and play around with their calculators as that'll help give you a rough idea of what you may be able to borrow

Once you've got that information, get in touch with the experts and let them take over the process!

Using an IFA provides you with access to a great range of products than you would necessarily get on you own. We remove the stress and paperwork of carrying out the process by yourself and perhaps, most importantly you are protected. We have a duty of care to you and must recommend a suitable mortgage. We need to be able to justify why the mortgage they have chosen is right for you. If the advice is not up to scratch, you can complain and be compensated.

Additionally, any broker worth their salts will also be able source life cover, payment protection and various other essential insurances, saving you even more time and let's be honest, money.

To speak with an expert adviser simply contact us by emailing info@affs.co.uk, call 01797 364666 or visit our website www.affs.co.uk