



# Mortgages explained

# Introduction

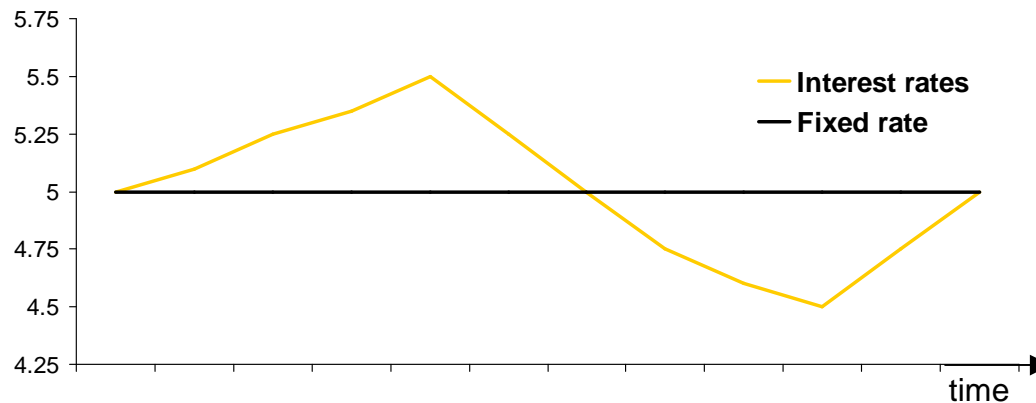
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- A mortgage is a loan secured on property
- Typical term of 25 years
- The most important points to consider are:
  1. How you pay the interest on the loan
  2. How you pay back the money you borrowed
- Remember, if you do not keep up repayments on a mortgage, you could lose your house.

# Types of mortgage

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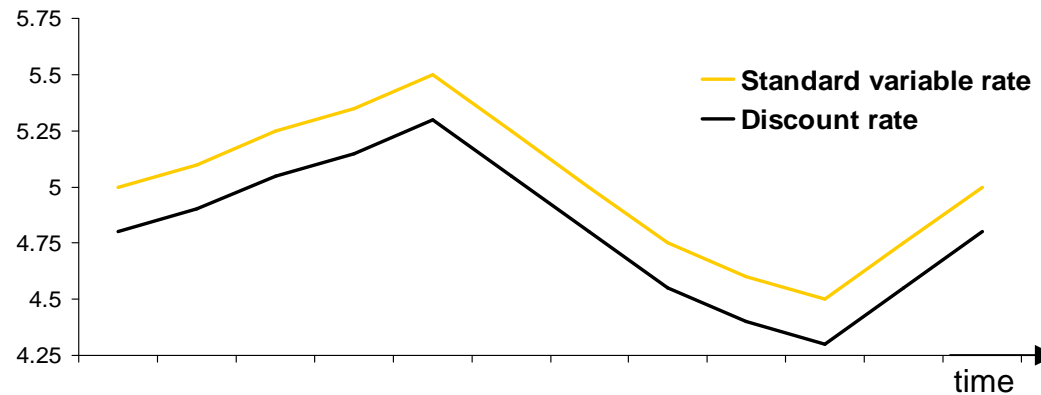
- Fixed Rate
  - Fixes the repayment for a set term, eg: 3 years
  - Enables you to budget in the early years regardless of interest rate changes
  - Level is set based on expectations for interest rates over the term



# Types of mortgage

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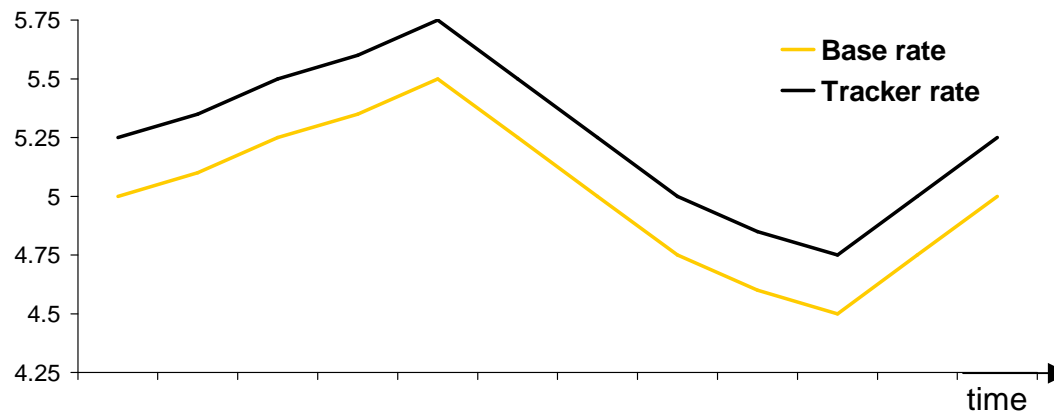
- Discounted Variable Rate
  - Offers a discount on the providers standard variable rate for a fixed term
  - For example - 0.5% for 3 years
  - Can be higher discount for shorter periods
  - Can be a 'loss leader' for providers to gain business



# Types of mortgage

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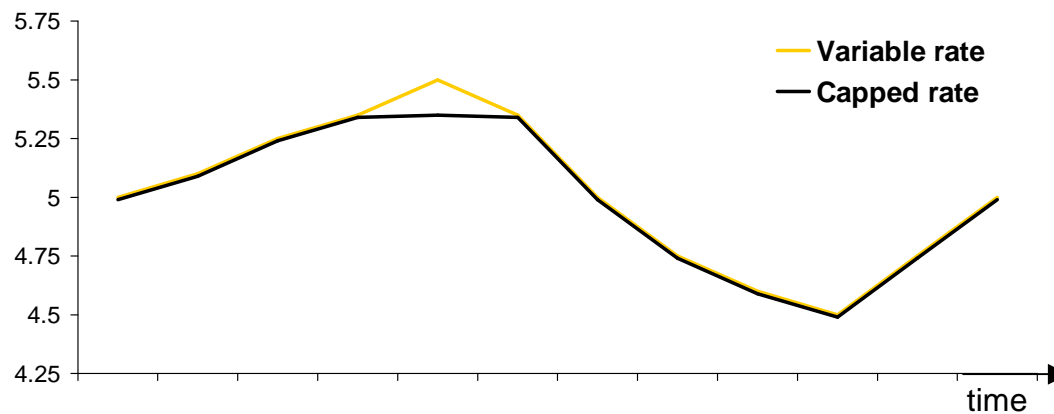
- Tracker
  - Interest rate payable is linked directly to Bank of England base rates
  - Typically base rate + 0.5% or + 1.0%
  - Link remains in place for entire term of the mortgage



# Types of mortgage

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- Capped rate
  - Usually tracks the provider's standard variable but will not exceed a pre-agreed level within a set term
  - Popular when interest rates are rising as borrowers want to limit how high their payments could go



# Types of mortgage

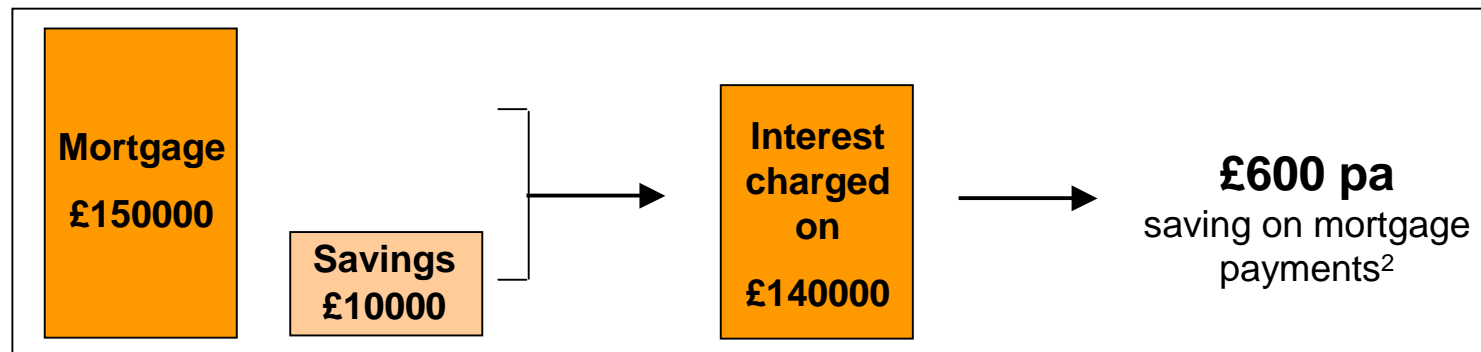
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- Flexible mortgage
  - Allows overpayment, underpayment and payment holidays (subject to conditions)
  - Enables you to decide the payment plan to suit circumstances
  - Overpay with bonuses, inheritances or regularly with savings made elsewhere
    - Interest payable as capital is paid off
    - Can help you pay off the mortgage early and save pounds in interest
  - Underpay over Christmas, the summer holidays or if earned income falls for a short period (eg: maternity leave/redundancy)

# Types of mortgage

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- Offset
  - Enables you to 'offset' savings against your mortgage without actually paying the capital amount off
  - Zero interest is paid on the savings account, BUT
  - No interest is charged on the equivalent amount on the mortgage
  - Net effect is your savings interest to the level of mortgage interest charged
  - Could offer tax benefits as no interest is being received on savings<sup>1</sup>



1: subject to circumstances; 2: Calculations based on 6% pa interest. Figures are approximate – for an accurate calculation based on your own circumstances, see your financial adviser

# Repaying the capital

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- Repayment mortgage
  - Each payment pays of a bit of the debt and interest on the loan.
  - At the end of the term the mortgage is guaranteed to be repaid
- Interest only mortgage
  - You pay just the interest payments every month and make other provision to pay off the capital at the end of the mortgage term
- Other ways to repay capital
  - Individual Savings Account
  - Unit trust / mutual fund investment
  - Pension
  - Sale of property