Mortgages

The **Money Advice Service** is here to help you manage your money better. We provide clear, unbiased advice to help you make informed choices.

We try to ensure that the information and advice in this guide is correct at time of print. For up-to-date information and money advice please visit our website – moneyadviceservice.org.uk.

About this guide

This guide is for you if you want to take out a mortgage to buy your home; or to stay in your home but change your mortgage (remortgage).

When you read it you will know:

- about the different types of mortgages
- how to get one, and
- the fees and costs involved.

Contents

How mortgages work

A mortgage is a loan to buy your home. You borrow money and pay it back with interest over a period of time (the 'mortgage term') that you agree with the lender – usually a bank or building society.

The loan is secured against your home so if for any reason you can't repay it, the bank or building society can sell your home to get back its money.

This guide is not for you if you want to take out a second mortgage on your home or a buy-to-let mortgage. For information on buy-to-let, see our website – moneyadviceservice.org.uk/buytolet.

For information on buying a home in a way that a number of scholars of Islamic law consider acceptable, get a copy of our **Home purchase plans** guide – see *Useful contacts* on page 31.

See the *Jargon buster* on page 28 for an explanation of some words you may come across.

How much can you borrow?

This depends on your personal circumstances, such as your income, your outgoings and whether you're buying alone or with a partner – see page 4.

How to repay your mortgage

You can choose to pay your mortgage back in one of the following ways:

- **Repayment** – your monthly payment is split between paying off the loan and paying off the interest charges on the loan.
- **Interest only** – your monthly payment pays only the interest charges on the loan, and you must arrange some other way to repay the actual loan.
- A combination of repayment and interest only.

For more information see page 5.

Most people will take a mortgage for 20 to 30 years so that it is affordable. You can choose a term to suit you as long as the lender agrees you can afford it.

With a repayment mortgage over a shorter term, you'll have higher monthly payments but pay less in total. With a longer term, you'll pay less each month but more in total.

With an interest-only mortgage you pay the same each month to the lender no matter how long the term is. Remember this only pays the interest and not the loan itself.

It's not a good idea to have a mortgage term that continues past the age you retire unless you're sure you'll be able to afford the payments then.

Mortgage features and interest-rate deals

Once you've decided how to repay your mortgage, you can choose from different mortgage features and interest-rate deals – see page 14.

Where to get help

Help choosing a mortgage

You can find mortgage advisers on the high street or online. Make sure they're regulated by the Financial Services Authority (FSA), the UK's financial services regulator, or are agents of regulated firms. This means they must meet certain standards the FSA sets, so that you can get the advice or information you need to help you make an informed choice about a product – see page 8.

How we can help

Whether you're buying your first home or want to change your mortgage, our trained Money Advisers can help you with your questions, over the phone or face to face – call us on 0300 500 5000. The Money Advice Service provides clear, unbiased money advice, which means we can help you make informed choices but we won't recommend products, firms or sell you anything.

For money advice tailored to you, take our online **health check**. Answer some straightforward questions and get your personal action plan to help you with your money must-do's and longer-term goals – go online at moneyadviceservice.org.uk/healthcheck.

Key points

- The FSA regulates the way most mortgages are sold, but it doesn't regulate second-charge and most buy-to-let mortgages – see page 17.
- You are responsible for paying back your mortgage – think carefully about which repayment option will suit you.
- If you get into arrears (fall behind with your payments), the lender can, as a last resort, sell your home to get its money back.
- Read the keyfacts® documents you'll be given – they have important information for you – see page 8.

Key things to think about

How much you can borrow

Lenders should lend responsibly. This means they should consider whether you can afford the mortgage repayments now and throughout the mortgage term. For example, some lenders offer a discounted rate to start with, but will you be able to afford the repayments when the discount ends?

Mortgage lenders have in the past offered to lend a sum based on a multiple of your salary (before tax) or your income if you were self employed.

If you have other money coming in, such as bonuses, overtime or commission, lenders may take account of only half of this because it isn't guaranteed income.

It is more common now for lenders to make an **affordability assessment** when calculating how much they will lend you.

Each lender has its own method, but generally they all try to calculate your disposable income, taking account of:

- your total income
- any money you owe, such as loans and outstanding credit card balances, and
- household bills and living expenses.

You can use our online **mortgage calculator** to find out how much your monthly mortgage repayments may be. This can help you estimate the size of mortgage you can afford at a particular interest rate – see moneyadviceservice.org.uk/mortcalc.

Think carefully about how much you can afford. Our guide **You can afford your mortgage now, but what if…?** may help you think about how you would manage if your circumstances changed – see *Useful contacts* on page 31.

As well as considering whether you can afford the mortgage payments, the lender sets a limit on how much you can borrow as a percentage of the property's value (the loan-to-value or LTV). This affects the deals available to you – see *Shopping around* on page 22.

Don't be tempted to overstate your income to get a larger loan or apply for a buy-to-let mortgage. You could end up with a mortgage you can't afford and could lose your home. You'll also be committing fraud and could get a criminal record.

How to repay your mortgage

You can choose to pay your mortgage back in one of the following ways:

- Repayment.
- Interest only.
- A combination of repayment and interest only.

Repayment (also called a 'capital-and-interest' loan)

The payments you make to the lender every month reduce the amount you owe as well as paying the interest on the loan. So each month you pay off a small part of your mortgage.

It's a simple, clear approach – you can see your loan getting smaller. If you make all the agreed payments, the loan will be fully paid off by the end of the mortgage term.

However, in the early years your payments will be mainly interest, so if you want to repay the mortgage or move house, you'll find that the amount you owe won't have gone down by very much.

Interest only

As the name suggests, your monthly payment only pays the interest charges on your loan – you don't reduce the loan itself. Because you're only paying off the interest your monthly payments will be lower than an equivalent repayment loan. It's very important you arrange some other way to repay the loan at the end of the term, for example, through an investment or savings plan.

Make sure you know from the outset how you intend to pay off the loan. Check what options the lender considers acceptable for paying it back, as these may vary across lenders. Interest-only mortgages are not suitable for everyone so you should always consider getting professional financial advice.

If you're thinking of getting an interest-only mortgage

Your main option is to save regularly so that you build up a lump sum that will pay off the loan at the end of the term. You should check the progress of the plan regularly. If it doesn't grow as expected, you will have a shortfall and you'll need to think about ways of making this up.

> Think carefully about relying on an investment or savings plan to build up the money you need to repay the mortgage. An investment plan invests in the stock market and the value of your investment can go up and down. If you are not comfortable with taking such a risk, think about a repayment mortgage instead.

If you already have an interest-only mortgage

You may have been given other options:

- **Converting later to a repayment mortgage.** Don't delay. The longer you delay the more expensive it will be to convert to a repayment mortgage. Because you're putting off repaying the loan you will end up paying more interest and more in total for your mortgage over the term.
- **Sell the mortgaged property to pay off the loan.** Avoid this option. Relying on a rise in the value of your home to be able to downsize is not an option for most people – when you sell the property you may find that the proceeds are not enough both to pay back the loan and to buy another property. Be realistic and compare the value of properties similar to yours to the value of properties you think you would move to.

Don't forget that property prices can fall, and property can take a long time to sell when prices are falling, so you may find it hard to minimise a heavy fall in price.

A combination of repayment and interest-only methods

Before taking out the mortgage, you agree with the lender how the loan will be split between the two ways of paying it back.

When choosing a mortgage:

Check	that you borrow what you can afford to pay back – use our **mortgage calculator** to help you – see moneyadviceservice.org.uk/mortcalc.
Check	that you understand how 'repayment' and 'interest-only' options work, and what you must do to ensure you pay off your mortgage at the end of the term.
Check	that you understand the interest-rate deals on offer, and their advantages and disadvantages. Make sure you know when a special deal will end, and that you will still be able to afford your repayments when they do increase – see page 14.
Check	that you get keyfacts® documents from your adviser or lender. These contain important information that the firm must give you about their service, and the costs and features of the mortgage – see page 8.

Mortgage help

Information or advice?

When you ask about a mortgage, the lender or mortgage adviser will tell you at the outset what type of service they can offer you to allow you to make a choice. If they only offer information and not advice, this should be made clear and the keyfacts® documents will confirm this – see later on this page.

Advice involves the firm finding out your specific needs and assessing your personal circumstances in order to recommend a mortgage that is suitable for you.

If you're uncertain about which mortgage is right for you, then consider getting advice. As not all firms offer advice, make sure that the firm can provide this service before making an appointment.

Buying with advice

Only FSA-regulated firms and their agents should give advice about mortgages, and these firms must follow the FSA's standards when dealing with you. So check they are regulated, and therefore on the FSA Register, before you deal with them – see *Useful contacts* on page 31.

If the product they recommend ends up being unsuitable for your specific needs and circumstances based on the information you gave them, you can complain to the firm and may be able to get compensation for any loss.

Information you will get

Whether or not you take advice, you should get two keyfacts® documents. This information is important because it explains the service you will receive and helps you to compare products – see below.

keyfacts® about our mortgage services

This document explains the service being offered and whether:

- you'll have to pay for it – and if so how much
- the firm offers products from the whole market, a limited number of companies, or a single company. If you want information or advice based on the full range of schemes, choose a firm that offers products from the whole market, and
- the firm offers advice.

Use this document to help you shop around to choose the service you want and the firm you want to deal with. You do not have to use an estate agent's adviser.

keyfacts® about this mortgage (KFI)

This is sometimes called a Keyfacts illustration or KFI. You will get a KFI if you ask for a written mortgage quotation, whether or not you choose to get advice. It summarises the most important features and costs of the mortgage in a standard way so you can compare it with similar mortgages. To help you shop around, ask for a KFI when you know how much you might want to borrow and the type of mortgage you want. By comparing KFIs for different mortgages you can work out which one is best for you.

Your lender or mortgage adviser must always give you a KFI before you apply for a mortgage, so you can make sure it's right for you.

Buying without professional advice

You don't have to take professional financial advice, but if you don't and the mortgage you choose turns out to be unsuitable, you will have fewer grounds for complaint.

If you do not have grounds for complaint, it is likely that you will have to pay to switch your mortgage – see page 25.

Poor credit history

Whether or not you take advice, the KFI must say if the mortgage is designed for someone with current or previous financial difficulties.

Each lender considers mortgage applications in its own way, and it may look at a number of factors. For example, some lenders may ignore minor credit problems in the past if all other aspects of your application are good (such as your employment history, income, and record of making mortgage or rental payments).

Key points

Look out for keyfacts® documents

- They're important – read them.
- Make sure you understand them – ask questions about anything that's unclear.
- Use them to compare the services and products of different firms.
- If the adviser or lender doesn't give you these documents, ask for them.

Fees and costs

Buying a house is always expensive, but the costs of getting a mortgage can vary between products and providers. Make sure you shop around to get the right deal for you; our unbiased online **comparison tables** can help you compare features and costs – see moneyadviceservice.org.uk/tables.

All the mortgage-related fees you must pay are set out clearly in the KFI (which the lender or mortgage adviser gives you) – see pages 12–13.

But the KFI won't include other costs such as stamp duty land tax or your conveyancing fees – see below.

Adding fees to the mortgage

Often you can add some fees charged by the adviser and lender to the mortgage. This means you don't have to pay these fees upfront. But it will cost you more in the long run as you will pay interest on the fees over the life of your mortgage. If you want to do this, ask your lender or adviser to give you a KFI on this basis. Or if they have already done so, ask for a KFI where the fees aren't added so you can see the difference.

Compare the costs in the *Overall cost of this mortgage* and *What you will need to pay* sections of the KFI before you decide what to do.

Some other fees you may have to pay

Fee or charge	Who to and what for?	How much?
Estate agency fee	To the estate agency, for marketing and selling your home.	Typically 1-3% of the selling price – ask for a quote.
Stamp duty land tax	To the government, as a tax on buying property.	Varies depending on the purchase price. You can find more information on the government's website at www.direct.gov.uk and a stamp duty calculator at www.unbiased.co.uk.
Legal fees	To the solicitor for searches, land registry fees and so on.	Budget for at least £400 – ask for a quote.
Survey fee	To the surveyor, if you want a more detailed report on the property. For more information see page 26.	Varies according to the surveyor and the type of report – ask for a quote.

Incentives

Lenders sometimes offer incentives that reduce the cost to you of taking out a mortgage, such as a free valuation or payment of legal fees. Always compare the total costs of mortgages that have these incentives with those that don't. You may find that products without incentives have a cheaper interest rate and will be cheaper in the long run. Check the *Additional features* section of the KFI to see what incentives are on offer.

Insurance

You can buy different types of insurance with a mortgage to protect your property or your mortgage payments. You must have some types of insurance to get the mortgage, some are optional and others may depend on your circumstances. Your adviser or lender may try to sell you some. The FSA regulates the sale of most types of general insurance.

Buildings insurance

Most people need buildings insurance to cover their home in case the building is damaged or destroyed while they have a mortgage.

If you buy a leasehold property (such as in a block of flats), the freeholder may have arranged buildings insurance for the whole block, in which case you may not need your own buildings policy.

Some lenders insist they arrange your cover. This is called **tied insurance**.

Others insist you take insurance but you don't have to arrange it with them. This is called **compulsory insurance**. If you choose to arrange your own cover, check whether the mortgage firm will charge you a fee for making this choice.

The *Insurance* section of the KFI shows whether you must have tied or compulsory insurance, and other relevant information.

Other insurance

There are various types of insurance that will **pay off your mortgage** or **meet the monthly payments** if something unexpected happens, such as if you have an accident, get sick, lose your job or die.

Whether they are right for you depends on your personal circumstances – ask your adviser for more information.

You can compare insurance to protect your monthly payments on our unbiased online **comparison tables** – see moneyadviceservice.org.uk/tables.

You may also want **contents insurance** to cover your furniture and possessions against loss, theft or damage.

For more information about different types of insurance, get a copy of our **Insurance** guide or visit our website – see moneyadviceservice.org.uk.

Fees and costs included in the keyfacts® documents

Fee or charge	Who to and what for?	How much?
This will be shown in the *What will you have to pay us for this service?* section of the keyfacts® about our mortgage services document and in the *What fees must you pay?* section of the KFI		
Mortgage adviser fee (if you use a mortgage adviser)	To the mortgage adviser for arranging the mortgage or advising you.	This depends on the adviser, but if they charge (some don't) they must tell you in the keyfacts® documents.
These fees will be shown in the *What fees must you pay?* section of the KFI		
Mortgage booking fee or mortgage arrangement fee or both	To the lender, usually to reserve your mortgage funds for you or to cover the administration costs of processing your mortgage. Some lenders may link the fee to special deals with a lower initial interest rate.	These vary and can be significantly higher if linked to a special deal. These large fees can greatly increase the overall cost, particularly if you add the fee to the loan – and so pay interest on it. Check the *Overall cost of this mortgage* section of the KFI to find out the overall cost for these special deals.
Valuation fee	To the lender for assessing the value of the property and so whether it is safe for the lender to lend against. This isn't the same as a property survey – see page 26.	Depends on the lender and the property's value.
Fee for arranging your own buildings insurance	To the lender, if you don't insure your property through them.	Typically £25 but may be payable yearly or each time you change insurer.

Fee or charge	Who to and what for?	How much?
Re-inspection fee	To the lender, if they need to re-inspect the property after the original valuation, usually to check if you've made agreed repairs.	Typically £50 – £100.
Higher lending charge	To the lender, if you're borrowing a high percentage of the property's value. The lender may charge this fee to take out insurance cover. This protects them if you can't pay back your loan and they have to sell your house at a loss. The lender can still chase you for the shortfall.	Depends on how much you borrow and the size of your deposit.
Telegraphic transfer	To the lender, for transferring the mortgage funds to the buyer's solicitor. There can also be a charge for forwarding the funds to the seller's solicitor.	Typically £40 – £50.
Fees to repay the mortgage	To your lender, whenever you repay your mortgage at the end of the agreed term.	Typically £75 – £300.
This charge will be shown in the *What happens if you do not want this mortgage any more?* section of the KFI		
Early repayment charge	To your lender, if you repay all or part of your mortgage before the end of the agreed term.	This may not always apply, but this section of the KFI will explain when it applies and give cash examples. Check the terms and conditions of the mortgage for full details.

Mortgage features and interest-rate deals

As well as choosing between a repayment and interest-only mortgage, you can choose different features and interest-rate deals to go with it.

Offset mortgage

With an offset mortgage, your bank current account, savings accounts, or both are linked to your mortgage. Your accounts are usually, but not always, held with the mortgage lender. Each month, the mortgage lender reduces the amount you owe on your mortgage by the amount in these accounts. It then works out the interest due on the balance of the mortgage. So, as your current account and savings balances go up, you pay less interest on your mortgage. As they go down, you pay more interest – see the table on the right.

An offset mortgage can be tax efficient if you pay tax on your savings. This is because you don't earn any interest on your savings and so don't pay any tax on them. Instead you pay less interest on your mortgage.

The interest you save on your mortgage is usually more than the interest you would have earned after tax on your savings. This benefit is greater if you are a higher-rate taxpayer.

Some lenders let you combine the savings accounts of family members to offset against one person's mortgage. This could be useful if, say, you want to help your child buy their first home.

Offset mortgage: interest-only example

	Initial amount borrowed	Money in offset current or savings account	Amount on which interest is charged each month
Month 1	£100,000	£25,000	£75,000
Month 2	£100,000	£20,000	£80,000

Current-account mortgage

A current-account mortgage is similar to an offset mortgage in that it takes the balance of your account off your mortgage.

But, in this case, rather than your mortgage and current account being separate pots of money, they are usually combined into one account. This means that the account acts like one big overdraft.

The mortgage lender draws up a plan for you that includes the minimum amount you must leave in your account each month to repay your mortgage over the agreed mortgage term. If you leave more than this in your account each month, then you pay less interest and may pay off your mortgage early. But if you leave less in your account, you will end up paying more for your mortgage.

The *Description of this mortgage* section of the KFI tells you whether it is a current account or offset mortgage; and whether it is a condition of the mortgage to have a current account with the lender.

Flexible mortgage

This type of mortgage offers a number of flexible features (described below). You can change your mortgage payments to suit your ability to pay.

Several flexible features are becoming more common, and they aren't confined to loans that have 'flexible' in their name. Consider which of the features below are important to you.

Overpayments

You can pay more than the normal monthly mortgage payment, pay a lump sum off the loan, or both.

Truly flexible mortgages won't penalise you for making overpayments. The *What happens if you want to make overpayments?* section of the KFI tells you whether there are any restrictions.

Overpayments give you the following benefits:

- If you pay off a lump sum, you benefit straight away from paying less interest each month (because the amount you owe is now less).
- If you continue paying at the higher level, you will pay off your loan more quickly. Sometimes you can cut years off your mortgage if you overpay regularly.

To get the benefit of overpayments straight away, choose a mortgage on which interest is calculated daily or monthly.

You could save money in the long run. This is because your mortgage will cost you less in total. And if you switch to another mortgage deal in the future, you may be able to get a better deal on a smaller mortgage – see *Your questions answered* on page 24.

Underpayments and payment holidays

You pay less than the normal monthly payment (known as an 'underpayment') for a limited period, say 6 or 12 months. You may even be able to stop making payments altogether for a while (a 'payment holiday').

While you are underpaying or taking a payment holiday, interest will still be building up on the remaining loan. This means you must make higher repayments in future to get back on track. Or you may be able to extend the term of your mortgage to keep the normal repayments affordable. Either way, you will usually end up paying more for your mortgage in the long run.

This could be useful if, say, you lose your job or take time out to care for a child. Most lenders require you to have built up some overpayments first.

Borrowing extra (sometimes called 'loan drawdown')

You can borrow extra without further approval from your lender, as long as the total loan is below an overall limit.

Or, you may be able to 'borrow back' against earlier overpayments. With a more traditional mortgage, you usually need to apply for a top-up loan, which could take longer to arrange.

The *Additional features* section of the KFI tells you whether the mortgage offers these features and what restrictions apply.

These flexible features are just one aspect of a mortgage. You also need to consider the other features – such as the cost of the mortgage, and the type of interest rate. These are set out in the KFI too.

Cashback mortgage

Your lender may offer this with any of the interest-rate deals (see the table on pages 20–21). The lender pays you a large sum (for example 3-5% of the amount you borrow) shortly after you take out the loan.

If you move to another lender in the early years, you must repay some or all of the cashback you received.

Buy-to-let mortgages and second-charge mortgages

The FSA regulates the way most mortgages are sold, but it doesn't regulate the mortgage if one or both of the points below apply:

- The mortgage is a second charge on your home – this means if you already have a loan secured against your home.
- You or a family member will use as a home less than 40% of the property on which the loan is secured – for example, if you're renting out the property.

This means for second-charge and most buy-to-let mortgages the firm will not give you a KFI. It also means you have less protection if things go wrong.

For information on things to think about when considering buying to let, see our website – moneyadviceservice.org.uk/buytolet.

Interest-rate deals

Whichever mortgage you choose, you'll then need to look at the interest-rate deals on offer.

Mortgage lenders offer different interest rates and also different deals.

Here we tell you about the most common types to help you narrow down your choice.

You have two important decisions when choosing an interest-rate deal:

- Whether to choose a fixed or variable rate mortgage.
- Whether to choose a short-term or longer-term deal.

Each one has advantages. The best for you depends on your particular needs and circumstances.

Don't choose an interest-rate deal solely for the cheapest initial monthly payments. Consider what the mortgage is actually going to cost you over the longer term and whether it is the most suitable for you.

Mortgage rates are related to the interest rate set by the Bank of England. It has been at a historically low level, but don't assume it will stay like this. A rise in the rate is likely to affect you, unless you have a fixed-rate deal for the full mortgage term.

What looks like a more expensive mortgage today, because it has a higher monthly repayment, may end up being more suitable for you.

For example, it may:

- have a long-term fixed rate, which protects you against rises in interest rates, or
- cap monthly payments, even if interest rates rise unexpectedly, or
- have lower initial charges or no early-repayment charges, if you want to repay early or make overpayments.

You can compare mortgage features and costs online using our unbiased online **comparison tables** – see moneyadviceservice.org.uk/tables.

What are the risks?

Your income may drop or interest rates may change significantly, especially at the end of a special interest-rate deal.

The *Are you comfortable with the risks?* section of the KFI will give you an example of how much your monthly payment will go up if interest rates rise by 1%. You can use this to work out how much your payment will rise if the rates increase by more than this.

You can also use our online **mortgage calculator** to see how interest-rate rises would affect your monthly payments for the amount you wish to borrow – see moneyadviceservice.org.uk/mortcalc.

Remember –
take time to assess the risks and choose a mortgage deal that's right for you.

Key questions to ask yourself

Question 1

Which payment option?

- Repayment ☐
- Interest only ☐
- Combination of repayment and interest only ☐

Question 2

Which type of mortgage?

- Standard ☐
- Offset ☐
- Current account ☐

Question 3

Which type of interest rate? (see page 20)

- Fixed ☐
- Variable ☐

if so –

- Tracker ☐
- Discounted ☐
- Capped ☐
- Collared ☐

Length of mortgage term

Length of interest-rate deal

Question 4

Do you want any other features, for example flexible features (see page 15) or cashback (see page 16)?

Interest-rate deals – how do they work and which is right for you?

		Early-repayment charges	
Type of interest rate	How it works	During the deal period	For some time after the end of the deal period
Fixed	Your payments are the same for a certain period, say, two years, five years, ten years or even longer. At the end of the deal period, the lender usually charges you its standard variable rate* (unless the rate is fixed for the whole term).	Yes, with most loans	Yes, with some loans
Tracker (changes in line with a specified rate)	With this variable-rate loan, the interest rate is a set amount above or below the Bank of England or, some other, base rate, and so always 'tracks' changes in that rate. At the end of the deal period, the lender usually charges you its standard variable rate*.	Yes, with some loans	Yes, with some loans
Discounted	Your payments are variable, but they are set at less than the lender's standard variable rate for a period of time. At the end of this period, the lender usually charges you its standard variable rate*.	Yes, with most loans	Yes, with some loans

Type of interest rate	How it works	Early-repayment charges: During the deal period	Early-repayment charges: For some time after the end of the deal period
Capped	Your payments are variable and often linked to a base rate, but fixed not to go above a set level (the 'cap' or 'ceiling') during the deal period. At the end of the period, the lender usually charges you its standard variable rate*.	No	No
Collared	This may be used in combination with either, or both, a capped rate or a tracker. Your payments are variable but won't fall below a set level (the 'collar' or 'floor').	No	No
***Standard variable**	Your payments go up or down at the lender's discretion. Their decision may be influenced by changes in the Bank of England's interest rate.	Not usually, except when offered with a large cashback deal	

Shopping around

Lenders have many mortgage deals. They can choose how they want to make their deals available – some may only be available through a broker, and some only directly from the lender. Whichever route you take, it always pays to shop around.

Every mortgage deal has a limit to how much you can borrow as a percentage of the value of the property (the loan-to-value or LTV). For example, if the mortgage pays for the total price of the property, the loan-to-value is 100%. The lower the loan-to-value you need, the more mortgage deals will be available to you and you may be able to get a cheaper mortgage.

Making sense of mortgage adverts

Firms selling mortgages must make sure that adverts, brochures and other promotions are clear, fair and not misleading.

If you think an advert doesn't meet these criteria, then tell the FSA – see *Useful contacts* on page 31.

Comparing mortgages

Look out for the Annual Percentage Rate (APR). It is a single figure that tells you the total cost of the loan over the full length of the mortgage, for example 25 years. It gives:

- an overall cost for comparison
- the interest you pay
- most other charges, and
- when and how often interest and charges must be paid.

The APR expresses all these as a yearly percentage cost.

You can use the APR to compare similar mortgages from different providers. For example, it can help you compare mortgages where one has high charges and a low interest rate and the other has higher interest rate and lower charges. A loan with a high APR will cost more than a loan with a low APR in the long run. But don't rely on the APR alone:

- Decide whether you can afford the mortgage payments. Look at the amount you'll pay each month and decide whether you can pay it out of your monthly income.
- Be aware the APR for a mortgage does not usually include the cost of all the other products, such as home insurance, that you might have to take out as part of the deal.

When you get a KFI from a firm (see page 9), the APR is in the *Overall cost of this mortgage* section. Use this section and *What you will need to pay* section of the KFI to help you compare.

Use our unbiased online **comparison tables**, which compare hundreds of mortgages from different providers and help you narrow down your choice. The tables are updated every working day – see moneyadviceservice.org.uk/tables.

Many newspapers carry tables in their personal finance sections listing 'best buy' mortgages. Don't assume these deals are the best for you, as often they won't consider all the products on the market.

Only deal with regulated firms

Mortgage advisers must be regulated by the FSA or must be agents for other regulated firms. This means they have to meet certain standards when dealing with you. For example, they have to give you certain documents with the keyfacts® sign. These will help you shop around and compare what's on offer. Make sure you read them as they contain important information about the service you will receive and the costs – see pages 8 and 9.

Agreements in principle and credit checks

A lender or mortgage adviser may offer to give you an **approval** or **agreement in principle (AIP)** or a **mortgage promise**. This is a certificate that sets out the amount the provider will probably be willing to lend you based on certain terms and conditions. This can be helpful when you have chosen your mortgage and are ready to make an offer on a property.

The firm will usually do a credit check before giving you an AIP. This will register on your credit file.

The KFI can help you compare mortgages. If you are shopping around but not ready to apply, the firm you are dealing with should be able to give you a KFI without doing a credit check. Tell the firm if you don't want them to check your credit rating at this stage.

Your questions answered

Question:
How can I prepare for buying a property?

Answer:
- Build up your savings but if you've got loans or credit cards, it makes sense to repay them first. This is because the interest you pay to borrow is usually higher than the interest you get on savings accounts. The lower the mortgage you need to borrow as a percentage of the property's value, usually the cheaper the mortgage deal.
- Plan your budget based on the most you may have to pay for a mortgage, and don't forget to include mortgage-related costs and fees.
- Try not to take the maximum mortgage on offer.
- Think about whether you need a fixed rate so your mortgage payment will stay the same for a set period.
- Work out how long you could live on your savings if you lost your job.
- Check what benefits your employer will provide if you get ill.
- Consider taking out insurance in case you are made redundant, get critically ill, or have an accident.

Use our online **mortgage calculator** to work out how much a change in interest rates would affect your own loan – see moneyadviceservice.org.uk/mortcalc.

Question:
How can I review my mortgage?

Answer:
You'll get a statement at least once a year. Check to see what you're paying, when any special deal ends, what happens to your mortgage when it ends, and the balance of the mortgage left to pay.

Question:

Does my mortgage have an early-repayment charge?

Answer:

Check the KFI. Your annual statement will also show if there is an early-repayment charge and when it ends. Make a note of the date, in case you want to switch to a new mortgage.

Question:

Should I switch my mortgage?

Answer:

You can change your mortgage to get a better deal – known as **switching**. Use our unbiased online **comparison tables** to help you shop around – see moneyadviceservice.org.uk/tables.

It makes sense to start shopping around a few months before a special-rate deal or a tie-in period ends. But if they have many more years to run, it may still pay you to shop around sooner.

You don't have to move house to move your mortgage.

Switching can cut your monthly payments. But you'll need to weigh up these monthly savings or other benefits against the costs of making the switch.

Get a KFI for mortgages that you are interested in, and check that you will save money by switching. Make sure you consider all the costs – see *What will switching cost me?*

If you're already on a low variable rate, don't assume mortgage deals can't become more restricted or that house prices won't fall. Your loan-to-value is important when lenders consider whether to allow you to switch to a new mortgage deal. The lower your loan-to-value, the more deals may be available to you and you may be able to get cheaper mortgage deals.

Question:
What will switching cost me?

Answer:

Especially in the early years, your mortgage might have **early-repayment charges**. These can be hefty if you are still on a special deal, such as a fixed, discounted or cashback mortgage. Even if there are no early-repayment charges, your lender might make an administration charge – this could be quite expensive.

If you are switching to a new lender, they must value your home and there will be legal costs to pay. With some mortgage deals, the lender will pay these fees for you.

Make sure that switching will be worth your while. For example, if you switch to a two-year discounted rate, check that what you will save during the two years will be more than any costs you have to pay for switching.

If you are switching lender, check whether they will **charge you interest to the end of the month** even if you pay off the mortgage earlier by switching. If they do, make sure you switch your mortgage at the end of the month.

Remember that if a deal has no fees, the rate might not be as good as one that does.

When you've found a good deal, it's worth going back to your existing lender to see if it will offer you a similar deal to keep you as a customer.

Question:
Should I get a property survey?

Answer:

Consider getting a survey to give you information on the condition of the property you are planning to buy.

This is not the same as the lender's valuation of the property, as that will only check whether the property is safe for them to lend against.

The valuation will not show you if there are problems in the property. If there are problems these could cost a lot of money to put right.

There are different types of survey, such as a homebuyers report, condition report or a full structural survey. For more about surveys and to find a surveyor visit the Royal Institution of Chartered Surveyors' website at www.rics.org.

Next steps

Getting a mortgage

Step 1	**Shop around** for mortgages using our unbiased online **comparison tables** or get professional financial advice – see *Useful contacts* on page 31. **When you are ready to apply for a mortgage** read the KFI and check that you understand all the features of the mortgage. Whether or not you take advice, you should still do your best to ensure that the mortgage is right for you.
Step 2	**After you apply** the lender will assess your application by valuing the property, checking your identity, and assessing whether you can afford the mortgage.
Step 3	**You will then get a mortgage offer document** and an updated version of the KFI. Compare this with the original KFI. This is your final chance to check you are happy with all the terms and conditions of the mortgage. If anything is unclear or if there are differences you don't understand between the KFIs, talk to the lender.
Step 4	**Before you accept the offer** make sure you read and understand the mortgage offer document. Ask the lender to explain anything you don't understand. Don't sign until you're sure the mortgage is right for you.

Jargon buster

Some key words and phrases explained.

Agreement in principle

A certificate that some lenders give you, showing the amount they will probably be willing to lend you. This isn't a guarantee, but can be helpful when dealing with estate agents.

APR

Annual Percentage Rate – this shows the overall cost of a loan, taking into account the term, interest rate and other costs.

Buy-to-let mortgage

A loan you take out to buy a property that you intend to rent to tenants.

Capital

The amount you borrow to help buy your home.

Capped mortgage

A mortgage with a maximum limit on the interest rate you'll pay during the deal period.

Cashback mortgage

A mortgage that comes with a cash sum (often a percentage of the amount you're borrowing).

Deposit

The amount of money you put into buying a home (not including the mortgage money you're borrowing).

Discounted mortgage

This has a lower variable rate of interest for a set period, then the rate increases.

Early-repayment charge

A charge you may have to pay if you pay back a mortgage early (including if you move to another lender).

Energy Performance Certificate

The government requires sellers of all homes in England, Wales and Scotland to provide this. It gives a rating of how efficiently the property uses energy. In Scotland it is part of a Home Report.

Fixed rate

An interest rate that is fixed (in other words it doesn't move up or down) for a set time.

FSA Register

A register of firms that the FSA regulates to sell financial services in the UK. You can check online to see whether a firm is on the FSA Register – see *Useful contacts* on page 31.

Home reports (Scotland)

The Scottish government requires sellers of most properties in Scotland to provide this pack. It must contain a single survey, an energy report and a completed property questionnaire for the property for sale.

Income multiples

The number by which a lender multiplies your earnings to help them decide how much they are prepared to lend to you.

Interest

The charge that lenders make when you borrow their money.

Interest-only mortgage

A mortgage in which you pay only the interest charges of the loan each month. You are not reducing the loan amount (the capital), and you must repay this in some other way.

Interest rate

The figure that determines how much interest you pay. Usually linked to the Bank of England's rates and can move up or down.

keyfacts® documents

Standard documents that all regulated lenders and advisers must give you. They explain their services and detail the mortgage you're interested in.

KFI

Keyfacts illustration – this document summarises the most important features and costs of the mortgage in a standard way. It is one of the keyfacts® documents.

Loan-to-value (LTV)

The amount of money you want to borrow compared (as a percentage) to the value of the property.

Mortgage

A loan secured on your property.

Mortgage adviser

A mortgage adviser helps you get a mortgage from their available range. They may recommend a mortgage or give you information to help you choose.

Remortgaging

Changing your mortgage for a different one, without moving home.

Repayment mortgage

A mortgage in which you pay off both the loan (capital) and interest at the same time.

Secured

If you do not repay your loan, the lender can sell your home to get its money back.

Stamp duty land tax

A government tax that home buyers must pay on properties above a set amount.

Standard variable rate mortgage

The lender's normal interest rate for a mortgage – ie without any discounts or deals.

Survey

A report on the condition of the property you are planning to buy. This isn't the same as the lender's valuation (see below).

Tracker mortgage

A mortgage with an interest rate linked to a particular base rate, which moves up or down with the base rate.

Term

The length of your mortgage, normally expressed in years.

Valuation

A brief inspection of the home you hope to buy, so the lender can ensure it is suitable security for the mortgage. This isn't the same as a survey (see above).

Useful contacts

Money Advice Service

For advice based on your own circumstances or to order other guides

Money Advice Line: 0300 500 5000
Typetalk: 1800 1 0300 500 5000

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

Other Money Advice Service guides

- Borrowing money
- Getting financial advice
- Your bank account
- Insurance
- Making a complaint
- Your pension – it's time to choose

For more titles, call us or go to **moneyadviceservice.org.uk**

On our Money Advice Service website you can find:

- a **mortgage calculator** to help you estimate your monthly mortgage payment
- **comparison tables** for mortgages, savings accounts and mortgage payment protection insurance
- a **budget planner** to help you work out if you have enough money coming in to cover your bills
- a **health check** to help you build up some good financial habits and reach your goals
- a **cut-back calculator** to help you see where you can save money on items you buy regularly, and
- a **savings calculator** to help you work out how you can meet your savings goal.

Go to **moneyadviceservice.org.uk/interactive**

Call rates to the following organisations may vary – check with your telephone provider.

Financial Services Authority (FSA)

To check the FSA Register or to report misleading financial adverts or promotions.

0845 606 1234
Minicom/Textphone: 08457 300 104
www.fsa.gov.uk

Association of British Insurers (ABI)

For information on insurance products.

www.abi.org.uk

Ethical Investment Research Services

Ethical mortgages and insurance.

www.yourethicalmoney.org

Financial Ombudsman Services

Complaints resolution.

0800 0234 567 or 0300 123 9123
www.financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

For claims against your adviser or lender if they have stopped trading.

0800 678 1100 or 020 7741 4100
www.fscs.org.uk

Royal Institution of Chartered Surveyors

For a guide on property surveys and to find a surveyor.

www.rics.org

Finding a financial adviser

Unbiased.co.uk

For independent financial advisers or mortgage brokers in your area.

www.unbiased.co.uk

Institute of Financial Planning

Financial planners can help you to achieve your goals by planning your finances.

www.financialplanning.org.uk

MyLocalAdviser

For a mortgage, insurance or investment adviser in your area.

www.mylocaladviser.co.uk

The Personal Finance Society

For financial advisers in your area.

www.findanadviser.org

the Money Advice Service™

This guide is part of our buying a home series.

Other titles in this series include:

- You can afford your mortgage now, but what if…?
- Problems paying your mortgage
- Dealing with your mortgage shortfall

All our guides are available from:

Our website
moneyadviceservice.org.uk

Money Advice Line
0300 500 5000

If you would like this guide in Braille, large print or audio format, please call us on 0300 500 5000 or Typetalk on 1800 1 0300 500 5000.

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

July 2011

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Plain Language Commission Clear English Standard Winning Document