Blue Strawberry Financial Services

MORTGAGES

A GUIDE TO THE DIFFERENT TYPES OF MORTGAGES

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Finding the right mortgage deal for you isn't easy. There are a few different types of mortgage, each with their own advantages and drawbacks. To help you get informed about what's on offer, this is our guide to the various types of mortgage available.

Fixed-rate mortgages

These are the most common types of mortgage. According to Which?, 6 out of 10 mortgage customers have a fixed-rate deal.

With this type of mortgage you pay the same interest rate for the entire deal, regardless of interest rate changes elsewhere. The two most common lengths of deal are two and five years. In most cases you'll be moved onto your lenders standard variable rate when you reach the end of your fixed term. Most lenders will offer a follow on fixed rate and your mortgage advisor can help you with this nearer the time.

Whether a fixed-rate or variable-rate deal is the best for you depends on a few factors. The most important things to consider are;

(a) Whether you think your income will change

(b) Whether you want to know exactly how much you'll pay each month

(c) Whether you could cope if your monthly payments went up

Variable rate mortgages

Variable rate means that the rate of interest you pay back on your mortgage is liable to change. Tracker mortgages and discount mortgages are the two main types of variable rate mortgages.

Tracker mortgages

This kind of mortgage tracks the Bank of England base rate. For instance, if the base rate was 0.1% and the additional rate 3%, you'd pay 3.1%.

Typically, you take out this kind of mortgage as an introductory deal period – for instance, for the first two years – before being moved onto your lenders standard rate.

There are a few mortgages with 'lifetime' . trackers, but these are uncommon. In this case, you're rate will track the Bank of England base rate for the whole mortgage term.

Approximately one in 10 mortgage customers have a tracker mortgage according to research by Which?

Discount Mortgages

With this type of mortgage, you pay your lender's standard variable rate, With a fixed amount discounted. In case you didn't know, the term 'standard variable rate' refers to a rate chosen by your lender that doesn't change very often, with fixed amount discounted. More about these later in this guide.

If your lender's standard rate was 4% and your mortgage came with a 1% discount, you pay 3%.

Sometimes discounted deals are 'stepped'. This would mean that you might take out a 5 year deal and pay a lower rate For a year and then a higher rate for the final four years.

Collars and Caps

What do jumpers and variable rates have in common? Well, they have a 'collar'. This collar refers to a rate below which they can't fall, while others may be capped at a rate they can't go above. It's important that you pay attention to these features when choosing your deal. Not all variable rate deals have a collar.

Collars and caps apply to your tracker mortgages as well as variable rate mortgages.

Standard variable rate mortgages

We mentioned standard variable rates earlier. Each lender can set this figure at whatever level it wants and it bears no relationship to the Bank of England base rate.

Although they normally don't change often, lenders can change their standard variable rate at any time. Certain factors influence these changes – for example, they are more likely to change if there are rumours of the Bank of England changing the base rate in the near future.

Most people who have a standard variable mortgage have had their mortgages for over five years. However, your mortgage advisor should keep in touch at least once a year to ensure that you are getting the best mortgage rates for your personal circumstances.

Offset mortgages

An offset mortgage is where you have savings and a mortgage with the same lender and your cash savings are used to reduce the amount of your mortgage interest you are charged. Rather than placing your money in a standard savings account, you placed it in an offset account linked to your mortgage.

The bank offsets the total balances of your linked account against the amount you owe on the mortgage each month, and then works out your mortgage interest on the lowered balance. When you have an offset mortgage, you don't receive interest on the linked accounts.

If you had a mortgage balance of £100,000 and offset £20,000 in savings, you will only be charged interest on £80,000.

Specialist mortgages

Sometimes your circumstances make it harder for you to secure a mortgage or you might need some help getting on the property ladder. This might mean that a specialist mortgage is your best option.

Mortgages with a gifted deposit

More and more first time buyers are using gifted mortgages to get a mortgage. However, if you are relying on a gift, you'll need to be aware of the implications.

Gifted deposits need to be a gift not a loan. In some cases, lenders will ask for proof from the gifter that the amount is a gift and that they do not expect repayment. Different lenders have different rules surrounding gifted deposit. Your mortgage broker can advise you on the particularities of using a gifted to deposit.

It's important to remember that if the person gifting you the money dies within seven years, you may need to pay inheritance tax.

Joint Borrower, Sole Proprietor (JBSP)

JBSP mortgages are a type of mortgage where not all parties to the mortgage are the legal owners of the property. For instance, if there are two borrowers in the scenario, both will be liable for the mortgage but only one will be named on the title of the property. These mortgages allow parents, guardians, friends or family to support would be first-time buyers with the affordability challenge of getting on the housing ladder.

Mortgage for a Concessionary purchase

A concessionary purchase is a term for a property that is bought for less than its market value and, as you can probably guess, concessionary mortgages can be used to buy a property that's sold at a discount.

Some concessionary mortgages are easier to get than others. Mortgages involving family members are much easier to get than if a buyer was purchasing from a private seller.

Here is an example of how concessionary mortgages work. Imagine your parents want to help you onto the property ladder. To do so, they offered to sell you a property they own at a discounted price.

Let's say that this property is worth £150,000 but your parents want to sell it to you for a discounted price of £120,000. The surplus of £30,000 would then act as your deposit. Most lenders still require you to have a 5-10% deposit, depending on the rest of your application and the lender in question.

Guarantor mortgage

With this type of mortgage, a parents or close family member takes on some of the risk of the mortgage by acting as guarantor. If the homeowner misses a payment, this person is responsible for covering the missed payment.

The main benefits of this type of mortgage is that you can sometimes borrow up to 100% of the property's value as the guarantors collateral is used in place of a deposit. This can make them an attractive option for young people or lower earners.

On the negative side, your guarantor could be liable for any shortfall if your property has to be repossessed and sold.

The guarantor can't just be anyone. Most lenders will require this person to be a close family member – usually a parent.

Becoming a guarantor is a big commitment. The lender will either hold some of the guarantor savings in a locked account or take legal charge over a portion of the property to secure the mortgage.

Variable Interest Rate

An interest rate that can change over time. A lender can decide if it wants to increase or decrease its variable rate mortgage, and they sometimes come with an initial discount too. Alternative, a tracker rate mortgage moves with the BBR, as outlined in the terms of conditions.

Remember that your broker is there to offer advice and answer all your mortgage-related questions throughout the application process and beyond.

*If you would like to book an appointment with the Blue Strawberry team for further guidance on this issue, call **0151 459 2912**, email **info@bluestrawberryfinancialservices.co.uk** or visit **bluestrawberryfinancialservices.co.uk***

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