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Remortgaging eBook

Tagline for the book

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INTRODUCTION

Remortgaging can sometimes sound quite complicated, but it doesn't have to – all it means is moving your mortgage between lenders to get a better deal for yourself.

If you own your home and are thinking things aren't as good as they could be with your mortgage payments, then take a look at our guide to remortgaging - and hopefully we can answer some of your questions.

WHY SHOULD YOU REMORTGAGE?

SAVING MONEY:

If you're pretty thrifty when shopping, perhaps checking deals before you head to the checkout or negotiating with your car insurer – you might be able to do the same with your mortgage and save some serious money.

Your mortgage is probably your biggest direct debit every month. So, it goes without saying that your biggest payment is where you could make your biggest saving. Just a small reduction in the rate you pay could end up saving you thousands of pounds. Yet, some people seem to stick with the same mortgage for years, often because they're just not aware of what's on offer.

LOWER INTEREST RATES

Paying a lower interest rate is a common reason people remortgage, and no wonder, it can save you a significant sum.

Sometimes you'll find the rate you're on is quite high compared to other lenders. Especially when you come to the end of an introductory interest rate and are moved onto your mortgage provider's

STANDARD VARIABLE RATE (SVR).

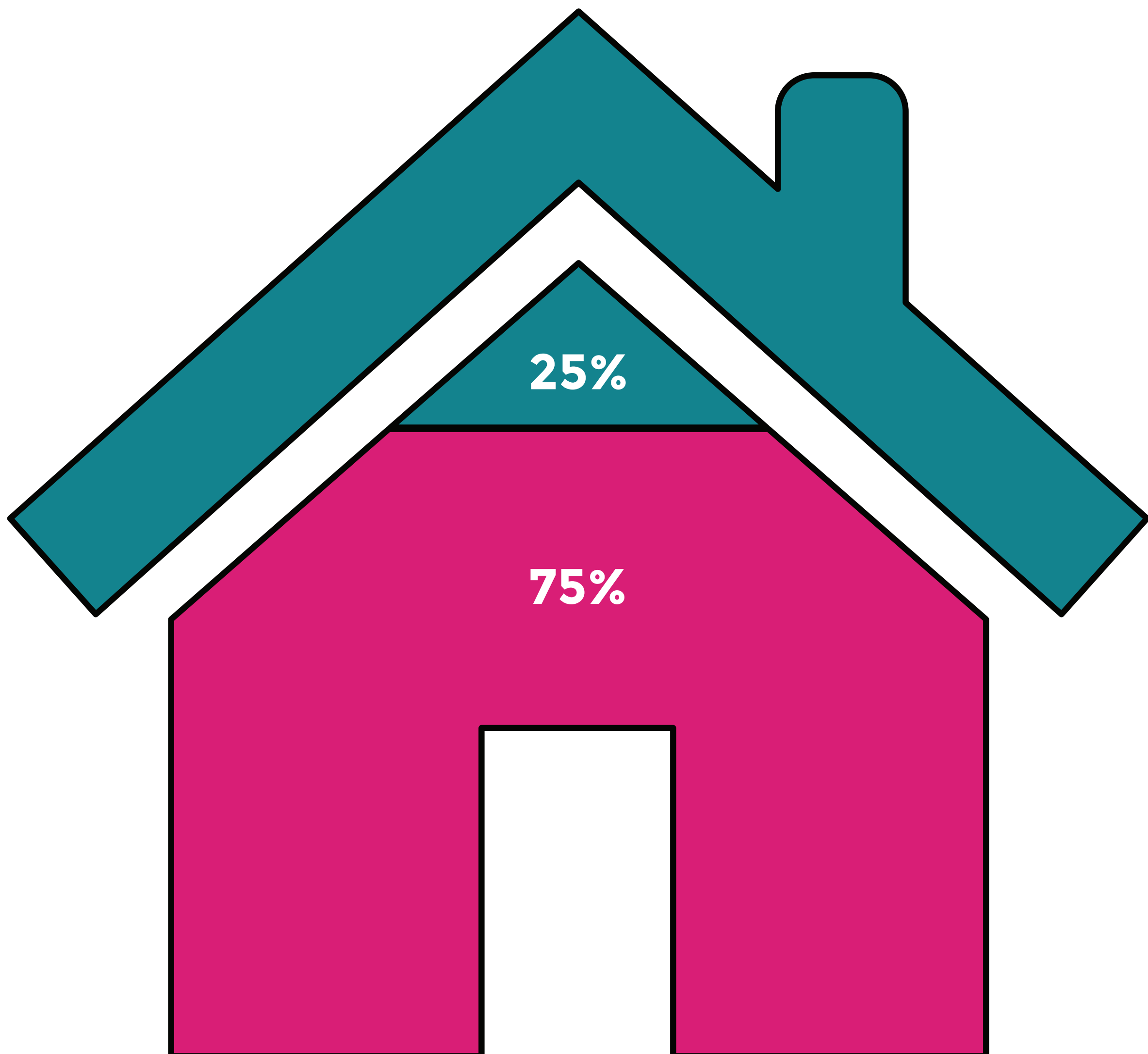
If that's the case, it's worth looking around before you're put on the more expensive rate. Start looking around 3 months before, so you've got a good idea of what's on offer and the kind of savings you can expect to make.

You might need to pay a fee to swap your current mortgage, but the amount you save in the long-run is usually worth it. You'll have to do a little bit of maths to see how much you'll save, but we'll explain how to do this in a bit.

LOAN TO VALUE (LTV) DEALS

If you've been paying off your mortgage for a while, your loan to value ratio will probably be lower. Your loan to value is basically how much of your mortgage you owe in relation to how much your property is worth. Let's say you have a mortgage of £75,000 on a house worth £100,000 then your loan to value is 75%. The £25,000 you've paid off is called equity.

Lots of lenders have better deals for homeowners who've got a lower LTV – so if you've paid off a decent chunk of your mortgage, or your property has gone up in value, you might be able to get a cheaper rate by switching.



VALUE £100,000

EQUITY £25,000

LOAN £75,000

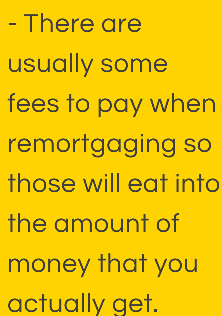
RELEASING YOUR EQUITY

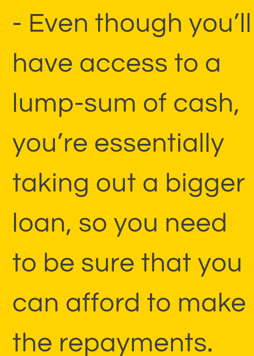
If you're looking for a cash lump-sum, then remortgaging to release equity can help. Basically, this works by cashing in any spare value in the property, which is the amount you've already paid off, plus any increase in the value of your home.

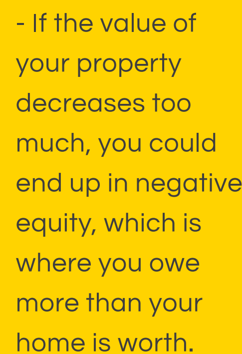
Imagine you owed £100,000 to your mortgage provider, but your property is worth £150,000. The equity in your property is £50,000. If you remortgage for £125,000 you've unlocked half your equity, meaning you owe £25,000 more, but have the same amount in cash.

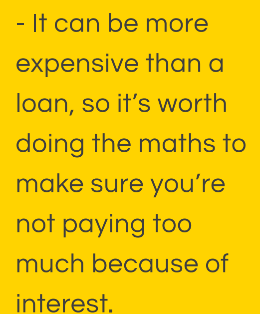
This is a pretty common reason for people remortgaging, especially if they're looking to fund something like buying a new car, making home improvements, or paying for a holiday or wedding. It might seem an obvious thing to do if you're after some extra cash, and for a lot of people it's really helpful.

But, there are a couple of things to consider before thinking about releasing your equity:









YOU WANT TO PAY LESS OR PAY IT OFF QUICKER

Maybe you've had a promotion and you're getting paid more. Maybe you've get a new member of the family and your household income is less. Perhaps you've inherited some cash, or you're going back to student life for a while. Just because circumstances have changed, doesn't mean you have to stick with the same mortgage.

If you suddenly find you can't pay as much as you used to, it can be worth remortgaging to find a deal that better suits your needs. You can look to find a mortgage with a better rate, or one which calculates interest daily. It may also be worth considering remortgaging on a longer term, though this means you'll pay more interest over time, it will lower your monthly repayments to a more manageable amount.

On the other hand, if you want to pay off more, then remortgaging to a deal which lets you overpay without penalties, or moving to a shorter term mortgage, means you'll pay it off quicker and at less of a cost. The downside of lowering the term is that you then have to make sure you can keep up with higher monthly payments which could be difficult if circumstances change again.

Mortgages vary a lot depending on the lender and type of mortgage you have. Some lenders will allow you to overpay at no cost, others may charge penalties. It's even possible to find mortgage deals which allow you to take a payment holiday if you need time off from your monthly payments for whatever reason. Provided you find the right deal, mortgages can be very flexible, but can also come at a cost.

When should you stick with your current mortgage?

While there are plenty of reasons to remortgage, there are times when it might be better to stick with your current deal and end up spending less.

YOUR CURRENT MORTGAGE HAS FEES AND CHARGES

Big fees and charges for early repayments might make it harder to switch your mortgage. If the cost of paying exit fees outdo any savings you're going to make from switching mortgage provider, then you'd be unwise to move. Although these charges make changing mortgages more of a challenge, you can still keep an eye out and swap as soon as you get a chance. Make sure to do your maths so you know any remortgage is going to benefit you in the long-run.

WHEN YOU NEED TO BUILD UP MORE EQUITY

The amount of equity you have might be too small to find a better rate. If your loan to value ratio is too high (meaning your equity is low) you'll probably have to pay quite high interest rates wherever you go. It might be better to stick with what you've got until you're in a lower LTV band, where you can often get a better deal.

The same goes for if the value of your home has decreased, and your LTV goes up because of property prices. All you can do is wait, and try to pay off any extra to improve your equity.

YOU'VE ALREADY PAID OFF MOST OF YOUR MORTGAGE

When you've got to the point that your mortgage falls below a certain amount, it might not be worth remortgaging anymore because you're less likely to make a saving. Well done on getting your mortgage amount so low, but to make any savings you'll need to find a deal with little to no fees. You can also stick with your current rate, and providing you're not charged penalties, try to pay off any extra you can afford, so you pay less interest.

YOU'VE GOT A GOOD DEAL

If you don't have any of these other worries, you might be fortunate enough to already have a great deal on their mortgage. In this case, it makes no sense to move.

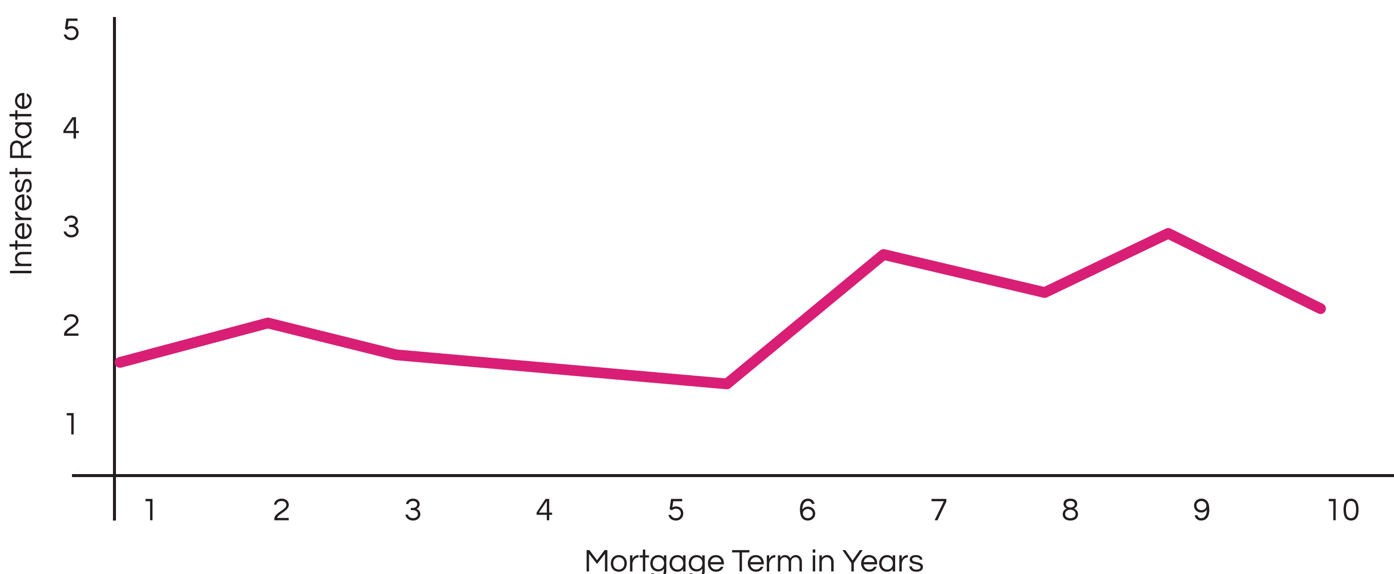
It's unlikely to always be the best deal though, so keep an eye out for cheaper rates or any deals that suit you better.

TYPES OF MORTGAGE

There's a range of mortgage types around, which makes it harder to choose which one is right for you. It might sound confusing, but once you've got your head around the basics, it's quite straightforward. Here are the main types of mortgage:

STANDARD VARIABLE RATE (SVR)

A standard variable rate mortgage is, as it says in the name, a mortgage with a variable rate. This basically means the interest rate can go up and down, which means the size of your payments will also go up or down.



(This graph is only a representative example)

STANDARD VARIABLE RATE

Quite often this is the rate you get when your introductory rate finishes. The introductory rate is usually a fixed, tracker, or discounted mortgage deal, whereas the SVR is the mortgage provider's typical rate, without any discounts applied.

The rate you'll pay on a SVR is decided by your mortgage lender, which means your lender can choose to increase or decrease the rate at any time and for any reason. The most common reasons a lender chooses to change their standard variable rate, are to follow the base rate set by the bank of England, and to stay in line with their competitors.

PROS

If interest rates go down, you pay less.
Don't usually have to pay an early repayment charge, so SVR mortgages can be quite flexible if you want to move or make extra payments.

CONS

If interest rates go up, you pay more.
No security in how much you'll pay – it changes month to month.
SVR mortgages are often more expensive than a lender's other deals.

TRACKER

Tracker mortgages are another type of variable rate mortgage, so again the rate will change which means so will your payments. The main difference between a tracker and a SVR is that a tracker is fixed at a percentage above the base rate set by the Bank of England, and will track the base rate for any movements.

(This graph is only a representative example)

- TRACKER RATE
- BASE RATE

If the base rate is 1% and your tracker rate is 1% then base rate plus tracker rate would mean you pay 2%. The amount you pay is dependent on any changes made by the Bank of England so if their rate went up 1% so would your mortgage rate. When the rate is low, so is your mortgage but that also means when it's high, your payments go up.

Trackers are usually offered as an introductory rate and can be quite low. Once the introductory term ends, you'll probably be put on an SVR, or placed on a long-term tracker with a higher tracking rate.

PROS

If the base rate goes down, you pay less.
The rate is only likely to change if Bank of England changes the base rate.
Tracker mortgage rates are usually cheaper than most fixed rate and SVR deals.

CONS

If the base rate goes up, you'll pay more.
If the tracker has a collar rate, your payments won't get any cheaper after a certain point even if the base rate is very low.
Fees and charges if you want to remortgage in the tracker period.

FIXED RATE

A fixed rate mortgage offers a rate that's fixed for an agreed length of time.

(This graph is only a representative example)

- FIXED RATE
- BASE RATE

Often fixed rate mortgages are only for an introductory period, but they can be offered for up to 10 years. Once the fixed rate period is over you'll probably be moved on to a tracker or an SVR.

PROS

You know how much you'll be paying each month.
If interest rates go up, you won't be affected.

CONS

If interest rates go down, your payments won't.
Can often be higher rates than variable rate mortgages, plus expensive set-up fees.
Fees and charges if you want to remortgage in the fixed rate period.

DISCOUNT

A discounted mortgage is simply a mortgage with a discount applied, usually, to your lender's standard variable rate. It's often only for a certain amount of time as an introductory offer. Once that period is over you'll move onto their SVR, or if you're lucky – you might have a lifetime discount mortgage which lasts the length of the loan.

(This graph is only a representative example)

- COLLAR RATE
- DISCOUNT RATE
- LENDER'S SVR

Your discounted rate will always be a certain percentage lower than the SVR, whether it goes up or down. Let's say your discount is 1% and your mortgage provider's SVR rate goes up from 5% to 6% that means your rate would go from 4% to 5% or the other way round if the interest rate dropped.
Often though, discounts will only go so low. Lots of lenders will usually apply a collar rate which means your mortgage payments won't drop below a certain amount. This stops the discount from getting too low when their standard rates drop, so if the SVR goes below the collar, your payments won't get any cheaper.

PROS

The rate is cheaper which means you'll pay less.
If interest rates go down, you pay less.
Discount mortgage rates are usually cheaper than fixed rate or capped rate mortgages.

CONS

If interest rates go up, you'll pay more.
Interest rate collars mean your payments can only go so low.

Fees and charges if you want to remortgage in the discount period.

CAPPED RATE

Capped rate mortgages, like fixed rate, offer you some kind of payment security. With a capped rate mortgage, you know that your rate, and payments, can't get higher than a certain amount. These work similarly to a standard variable rate, where the amount you pay will change each month depending on the rate. The big difference is with a capped rate you'll never pay more than the limit.

These kinds of mortgages are pretty rare, and if you find one, it'll usually only be for an introductory period of two to five years. This is because they offer the security of a fixed rate, with the benefits of a variable rate – meaning if the rate drops your payments also go down. When your capped rate period ends, you'll usually be moved onto your provider's SVR.

(This graph is only a representative example)

- VARIABLE RATE
- CAPPED RATE

PROS

If interest rates go up higher than a certain amount, you won't pay more.
You know the maximum you'll pay each month.
If interest rates go down, you pay less.

CONS

If the mortgage has a collar rate, your payments won't get any cheaper after a certain point even if the base rate is very low.
Capped rate mortgages are hard to come by, and can be expensive to set-up.
Fees and charges if you want to remortgage in the capped rate period.

FLEXIBLE

A flexible mortgage is a just normal mortgage with some added benefits. Usually the benefits or features you'll find with a mortgage and how they work varies between lenders, so when looking around it's worth thinking about the kind of things you'll need. Some of the most common features include:

OVERPAYMENTS

Overpayments are just additional payments or a larger-than-usual monthly payment. Overpayments help to reduce the balance and over time can save you money in interest, which is why lots of lenders cap the amount you can overpay or have an early repayments charge. It's worth seeing what charges there are for overpaying and if it's something you're allowed to do.

UNDERPAYMENTS

Just like overpaying, you can also underpay. This means you pay less than you normally would for a certain period of time. The amount you can underpay and the time will vary between lenders so you might find for example that you're only able to underpay if you've already overpaid a certain amount.

PAYMENT HOLIDAYS

Sometimes you need a bit of help with your mortgage, and might want to take a little time off from payments. Maybe you want to take a few months to travel or study, or you're finding it tough to keep up with repayments having trouble with your finances – a payment holiday means you don't have to worry about your mortgage payments for a little while. The amount of time varies between lenders and you'll have to apply to take a break, so it is still possible you won't be accepted if you don't meet the lender's criteria.

DAILY INTEREST

Calculating interest daily can save you money because any payments made are accounted for straight away. This means that when the interest is calculated again it's taken from the very next day so is much cheaper than calculating monthly or yearly. Interest calculated daily is particularly helpful if you're on a flexible mortgage and making extra payments because the reduced amount of interest will kick in straight away.

PROCESS OF REMORTGAGING

THERE ARE TWO ROUTES WHEN IT COMES TO MORTGAGING:

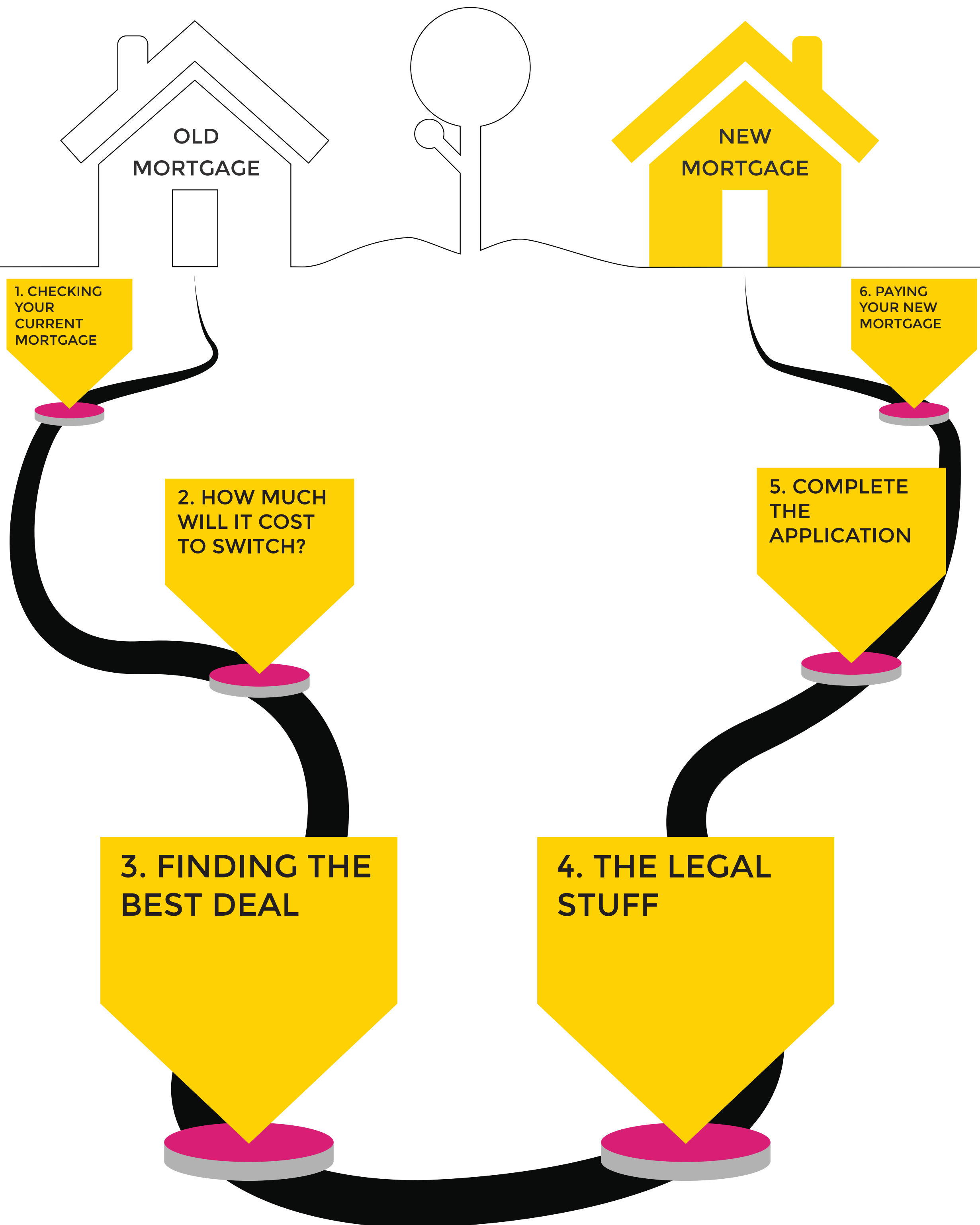
THE ADVISED ROUTE

This is the most common way, and includes advice from lenders. The advice can be face to face with a mortgage broker or lender, and some lenders will now even advise you over the phone or online.

EXECUTION-ONLY

You can get a mortgage without advice from a lender or broker, but you'll have to start the process yourself and do your own research. That means you'll have to sign a declaration from the lender that you've chosen the mortgage product best suited to your needs and understand what you're applying for. Because you choose it yourself, you're not protected by the rules around mortgaging advice – most mortgage brokers and some lenders won't even offer execution only mortgages.

Whichever route you choose, and whether you've remortgaged before – we've included a step-by-step guide to help you with the remortgaging process.



1. CHECKING YOUR CURRENT MORTGAGE

People remortgage for all sorts of reasons, not just to save money. You should look at your current mortgage along with your circumstances and see if they're still a good match. If you think you're paying too much, you want to borrow more, or even want to pay off your mortgage quicker, then maybe remortgaging is a good idea for you.

2. HOW MUCH WILL IT COST TO SWITCH?

You might decide either on your own or after speaking to a broker, that there are better deals out there for you, but you also need to figure out if the cost of switching is worth it. A broker can help with this but you'll need to take into account your LTV, plus any penalties for early repayment, exit fees, and fees from the new lender. The costs you'll need to think about include:

EARLY REPAYMENT CHARGES

These can be calculated in a number of ways, as either a certain number of month's interest, or a percentage on the mortgage amount borrowed or still owed. How they're calculated should be in your contract so you can work out the amount from here. Depending on how it's calculated and how much you still owe it can work out to be thousands of pounds.

EXIT FEES

Most lenders will charge an exit fee when you close your mortgage account. These can be up to around £300 but should be stated in your contract. If you're sure you want to leave – you can ask for a redemption statement from your lender. This provides the exact amount you need to pay off your mortgage including fees and interest.

LEGAL FEES

You'll probably have to pay legal fees for things like valuations, though they're usually less expensive than the fees involved in a first-time mortgage as there's less legal work to do.

ARRANGEMENTS FEES

The cost of arranging your mortgage can be quite expensive, as arrangements fees can include a whole list of things. When you're looking to remortgage, consider the costs of arrangement fees when thinking about how good a deal looks.

With all of the fees considered for setting up a new mortgage, plus the charges you'll pay for closing your existing mortgage, you'll be able to see how much the switch will cost.

If the rate you're moving onto is, for example, lower, then you'll be able to see how much you'll save on interest, which could be thousands over the term of your mortgage. If you need any help working out the costs of remortgaging, a broker or lender will be able to help you, and usually at no cost.

3. FINDING THE BEST DEAL

Now you know how much it's going to cost to move, and how much you could potentially save – you'll want to find the right deal for you. You can do this with the help of a broker, by checking comparison sites, or by going direct to mortgage providers. Once you've found a deal that works for you and your situation, it's a good idea to challenge your current mortgage provider to match it, as it could save you some hassle.

4. THE LEGAL STUFF

Now that you've got an offer, you'll need the help of a solicitor to take care of all the legal elements. Your solicitor will make sure all of the paperwork is filled out properly, and that payment of your old mortgage is complete. They're pretty important when it comes to handling this stuff so you'll want to make sure you've got a good one. Your lender will also assess their suitability before giving them any instructions for conveyancing, which is the term for the legal process of transferring property between owners.

5. COMPLETE THE APPLICATION

Once you've decided what kind of mortgage you want, you'll need to complete an application. If you're applying through a broker they'll usually do this for you and help to manage the process. Your application is usually subjected to a credit check, and you might need to give extra information such as bank statements and proof of your income. It's also possible the lender will want to survey your home to check the value. Once all of this is complete, and the mortgage provider's happy to lend to you, they'll give you a formal mortgage offer

6. PAYING YOUR NEW MORTGAGE

Now that you're all set with your new mortgage, and hopefully better monthly payments, you'll want to check with your bank that all your old direct debits and payments are cancelled and everything is set up for your new mortgage payments.

OTHER THINGS TO CONSIDER

Even after remortgaging, there are a few things you might want to think about:

PROTECTION

Lots of mortgage providers will try to throw in extras like payment protection insurance (PPI), life insurance, illness cover, or buildings and contents. While you may think these types of add-ons are not worthwhile, it can be useful to take a look at the kinds of insurance available, and check with insurers for their best deals.

You'll need buildings and contents insurance, but when you come to remortgaging it's worth finding out how much your mortgage provider's insurances are – if it's a good deal, there's no harm in adding it on.

RENTING OUT YOUR HOME

If you're thinking about moving and renting out your home, you'll need to ask your mortgage provider for permission. They're often fine with it, but they'll probably want to put you on a buy-to-let mortgage which has a higher rate.

REMORTGAGING

Just because you've gone through a remortgage once, doesn't mean you can't do it again. If you find there are cheaper options available or your circumstances change again in the future, it could be worth doing, especially if you've selected a deal that lasts a few years. Just keep a close eye on what offers are around when you're close to the end of your introductory period.

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CONCLUSION

Hopefully, we've answered some of your questions about remortgaging. While it can seem kind of daunting at first, even a basic understanding can help make things feel a lot easier when it comes to your remortgage. If you're unsure about anything though, it's not a bad idea to get the help of a mortgage advisor - you can even get in touch with us if you have any questions. Good luck!