

THE FRIENDLY MORTGAGE GUIDE

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THE FRIENDLY MORTGAGE GUIDE

You have probably put off reading one of these guides almost as long as I've put off writing it, but with a nice cup of tea and some deep breathing I think we can get through it together.

If you are sick of filling your landlord's coffer and you want to buy your home you are going to have to get a mortgage...unless your surname is Rockefeller or Getty and your parents are generous.

Remember stay with me...knowledge is power!

Let us start right at the beginning.

1. WHAT IS A MORTGAGE?

According to the dictionary: "A mortgage loan is a legally binding contract with a Bank or Building Society that enables you to purchase a property. The lender uses the house as security for the loan. You have the ability to choose from a number of different methods of how to repay the borrowing and meet the interest payments. This also allows you to select the best mortgage for your own financial circumstances and personal needs."

In short it's one big fat loan that you take out and then use your house as a security deposit. If you can't make your payments your lender can repossess your home (in other words, take your home off you, kick you out and then sell it for whatever price they can get) which is why they call it a 'secured' loan. The loan is secured against your house. Remember, this means it is secured for the lender who can take your home when you stop paying. It's not secure

for you. However, since they know they can take your home if you can't pay for it, they give you cheaper interest rates than on a standard loan as a thank you.

If you want any security you may want to take out a mortgage payment-protection insurance. Again, this costs more and in the end serves to protect your lender more than you. While lending companies can not force you to buy this, they can make it difficult for you to secure a loan without it.

2. WHAT DO YOU DO FIRST?

Before you start applying for loans or contacting any banks or brokers you need to gather up all the bundles of money that you own.

Sit down and calculate how much money you have earned over the past few years. (This is particularly important if you are self-employed) You need to get an idea of the average amount of income that you earn each year.

Remember to factor in any extra cash that comes in like investments or alimony. Once you have the average salary that you earn you can assess the payment sum you will be able to afford.

The next step is to calculate how much you have for a deposit.

3. WHAT'S A DEPOSIT?

It's the cash that you put down as part of the payment for your home. You need to put down at least 5% deposit in order to secure a loan. 100% loans are no longer available these days. Lenders are still offering deals up to 95% loan to value (LTV) but these are rare and the lending interest rates are usually high.

Wait, I need to explain LTV don't I? Loan to value refers to the percentage amount the mortgage is in compared to the value of the property. If you wanted £130,000 to purchase a house worth £150,000, the LTV ratio is calculated $\frac{£130,000}{£150,000}$ or 87%.

Loan to value ratio is one of the major factors your lender will take into consideration before lending you money. A lender always takes into account how likely a risk you are, or in other words how likely it is you won't be able to meet your mortgage payments. If you are unable to pay your lender is legally able to repossess your home. They don't call it "let's go and kick them while they're down" instead they call it foreclosure.

Once your home is under foreclosure they can then sell it and recoup their mortgage and legal fees. Even though they have this guarantee lenders are weary of taking too much of the risk. If they have forked over 87% of the equity for your home, they have a lot more to lose when trying to recoup money.

The higher the amount of money your lender has to throw in the stricter they get with their lending conditions. This is why it is important to save up as large a deposit as you possibly can.

So if you were to buy a house that was £100 000 you would need to put down at least £5 000 of your own cash and then borrow the remaining £95 000.

If you want to secure yourself a better mortgage deal aim to have more than 10% of the purchase price as a deposit. Lenders are now rewarding those with larger deposits. By saving up more you are insuring that you will be offered the best options with lenders offering their keenest rates to those with a deposit of 25% or higher.

If you haven't got any money for a deposit or at least 5% stop right now, and start concentrating on saving. Take some time out and make some goals for yourself. Aim to save a set amount of money, let's say £5 000 a year. Please be realistic and focused. You may need to make some lifestyle changes.

Go to our article of [ten quick ways to make money](#). Once you start making the pounds, start stashing them. Learn how to save loads by reading our [50 families saving tips](#).

Start stashing your cash in a high interest account. It may take you a year or two but it will be short term pain for long term gain.

If calculating how much you earn and how little your deposit is has made you suicidal then now is the time to reach over and grab a piece of that chocolate cake.

I am going to add to your misery for a little longer however if you just breathe, unclench those buttocks and stay with me we'll have you all sorted and on your way to happy mortgage lending.

A Deposit and then some...

It isn't just your deposit money that you are going to need upfront there are a few more fees involved. On top of that 5% deposit you will need to have extra cash put aside to cover Stamp Duty, Surveying Fees and Legal fees.

(I know breathe... breath...grinding your teeth will only add to your expenses!) I know this may be painful but I am going to go through how much each of these additional fees may cost.

Now is the time you want to stop reading, but don't! Knowledge is power and with a little preparation you can become an independent home owner.

4. WHAT IS STAMP DUTY?

Stamp duty is a tax that the government collects on property that is purchased.

Stamp duty land tax is calculated as a percentage of the purchase price. The list below shows you how big a percentage they take.

- Up to £125, 000..... Nil
- Over £125,000 - £250,000 1%
- Over £250,000 - £500,000 3%
- Over £500,001 4%

Really it is a tax on your happiness, but just think the people who can afford mansions are being hit much harder than you! Now, doesn't that make you feel better? See our article on [Stamp Duty](#) for more details.

5. LEGAL FEES

Legal fees will depend on your individual circumstances but a fee of £600-700 is likely for a purchase. For a straightforward re-mortgage legal costs should be around £300.

6. SURVEYING FEES

All mortgage companies will require that you have the prospective property surveyed and of course, mortgage company charges to evaluate the property. Even before you have the mortgage itself you have to have money sorted for the survey.

The cost will depend on the property value but a typical amount would be around £250-300 for a basic valuation. This basic valuation is solely for the benefit of the lender. It is simply to assure them that they are not investing in a property made of cardboard and held together with sticky tape. This valuation is not meant to flag up details that the borrower should be made aware of before purchase. This is not a good valuation to get if you are interested in knowing if for example the house suffered major water damage that

the previous owner had repaired by Cousin Simon. It can however offer some advice on what you should look for if you are going to get a full valuation. Save yourself the time and money and go straight for the full valuation if you are certain that you are interested in purchasing the property.

Since you are going to be spending your life paying off this property it may be wise to have it thoroughly inspected. A homebuyer's survey is considered to be a mid-level inspection and will cost you twice as much as a basic valuation. It will cover the structure in much more detail than the basic valuation. The buyer can trust that this valuation would indicate any problematic areas that should be remedied before purchase or at least flag issues that require further investigation before purchase. It will also offer a list of repairs that need tackling first.

A full structural survey is the most in depth survey and it is likely to run you about £900. It will examine everything from wiring and plumbing to beams and structural engineering. This one not only lets you know what issues currently exist, but takes into account what issues may arise years in advance and what measures could be taken now to prevent them. Hey, when you're already £250,000 in the hole what's another £1000 to make sure the property is worth while and safe. For a full length list of what is exactly covered in each inspection visit [Colleys, the have an in-depth check list.](#)

7. ARRANGEMENT FEES

Thought you paid enough already? Nope lenders also want to charge you for the blood, sweat and toil they go through for 5 minutes for setting up the mortgage; they quaintly refer to this as the "arrangement fees". These can run you about £1000, but over the past few years this fee has been increasing.

Arrangement fees are variable, but remember not to be lured by "no arrangement" fee

deals. Some lenders use no or low arrangement fee charges as a way to lure you into deals that are not always the best deal in the long run.

Make sure to calculate your arrangement fees into your monthly payments. You need to assess what will be the best deal in the long run and not leap into deals that seem good for the time being. No arrangement fee deals tend to have higher monthly payments and sometimes work out to be more expensive.

8. WHAT'S A BROKER?

Mortgage brokers help guide you through the many mortgage products available. For those with very specific needs there are many specialised mortgage brokers. With so much to choose from contacting an FSA qualified mortgage broker can make the entire process easier.

They do all the hard work of finding the best deals for you. All those long application forms, and researching – all of it will be taken care of by your broker plus some deals are only available through a broker.

All brokers receive a fee from the lender as thanks for delivering them a new victim. This fee is typically 0.35%-0.50% of what your mortgage fee will be. So if you are taking out a £100k mortgage, the lender thanks your broker by paying them procurement, or a commission fee, of £350-£500. Not bad for introducing you to your life long grim debt reaper.

There are two types of brokers; fee-based brokers or no fee/commission brokers. The difference between the two types is one charges you a fee and the other doesn't. Easy really.

A fee-based broker charges a fee upfront before recommending any mortgage.

A broker fee is typically around 1% of the mortgage amount. So you'd pay them another £1 000 for your £100 000 mortgage.

The fee charging broker really cashes in as they have both you and the lender paying them a fee. Not a bad business: set people up on the worse blind date of their lives and make a commission from both.

A commission based broker (or also known as a No Fees Broker) makes their money from the commission of selling you the mortgage deal. All they earn is the procurement fee paid by to them by the lender. Essentially, they don't double dip. They've made their money from the lender, who in the end is the one who profits from the introduction. (Just like all those bad blind dates you went on)

Look out for some commission based brokers as some may not be keeping your best interests in mind when suggesting a mortgage. Since a commission may be particularly high for selling a certain mortgage, some brokers may be chasing after that and not saving you cash.

Do your homework first. There are lots of mortgage comparison sites available. [London and Country](#) offer online mortgage comparison options as well as brokering advice and services free of charge.

9. WHAT YOU NEED

To recap let's run through the list of money you will need.

- Deposit – at least 5% but ideally 25%
- Stamp Duty Tax – 1%, 3% or 4% depending on the value of property
- Surveying – depending on what type you go for it can run from £250-£900

- Legal - £600 - £700
- Arrangement Fees - £1000
- Broker Fees - This fee is typically 0.35%-0.50% of what the mortgage fee will be.

Let's tally that up. If you are a first time buyer going for a property of £150 000 you will need about £4 850 on top of your deposit to get yourself started. If you are going to go for a 5% deposit for your home you'll need an extra £7 500. If you want a 10% deposit you'll need £15 000 and for the best deal you've saved 25% you'll have £37 500 saved up on top of your £4850.

Really if you don't have money saved up already, stop and start saving. It will take some time, but it isn't impossible. Remain focused and disciplined and you will get there. Get online and start reading [how you can make and save cash easily](#).

Yes, it is alright now to reach for that cheap bottle of wine that your odd co-worker gave you for Christmas years ago, and you never quite trusted opening it...now is the time. And that slice of cake, why just a slice? Eating the whole cake is fine when you are under stress. We won't tell.

10. GOT COLD HARD CASH?

If you've got enough hard cash to cover the list then it's time to start shopping around for a mortgage. You are going to want to either find yourself a broker or approach banks yourself.

The information that you need at this point is how much of a mortgage you can get. Generally a single income applicant can borrow about 3.5-4 times their salary. Couples are able to borrow about 2.75-3 times their joint income.

However many lenders have now moving towards using an affordability calculator which

looks at income and financial commitments in deciding your borrowing capacity. A lot depends on credit scoring in conjunction with your level of income, financial commitments and the size of your deposit.

For people who are self-employed lenders assess your borrowing power by looking at your level of net profit. In the past, lenders have required 3 years accounts but many are now being more flexible.

11. CREDIT SCORE

It is most important to remember that the notion of an all encompassing credit rating or a credit blacklist is a complete myth. While lenders are assessing your risk factor the idea that there is a credit rating bible that tallies up your worth is not accurate.

Each lender rates individuals based on its own criteria of what would be their ideal customer. A scoring system will vary from lender to lender and are always kept private. Meaning just because one lender may not believe you are their ideal borrower doesn't mean the following lender won't be willing to lend.

The lending game is all about making money for the lender rather than just assessing how big a risk you are, lenders are assessing how much money they can expect to make off of you. If you are someone with a bad track record, someone who has missed payments, then you are throwing up warning flags. The last thing the lender wants to do is put up 87% of the money for your house, to find that you have forfeited payments and they are now forced to foreclose your home in order to recoup their money.

Banks pick customers for their own good, NOT yours, so the scoring process is as much about profit as it is risk. Those unlikely to repay are a threat to profits which is why they want to avoid you. Yet even the most solvent may be rejected if they're unlikely to act in a way that'll make profit for lenders.

Think you are the ideal borrower because you diligently pay off your credit card in full at the end of each month? Not quite...since lenders are looking to make a profit they want the customer who is always in debt but never misses their minimum repayment at the end of each month.

12. BROKER VS. GOING IT ALONE

Another option is to approach banks directly cutting out the additional costs of a broker. This option requires a bit more effort and time but by the time you've read this guide you should be able to do it yourself if you want to.

This guide helps you know what you want to reject. By reading all the various options you can narrow down at least what you don't want and not just be sold whatever a broker or bank wants to sell you.

[Click here](#) for a directory of all banks in the UK. Hey, this is how most Americans get their mortgage and if they can manage then why not you?

13. MORTGAGE

Once you have an idea how large a mortgage loan you can secure you, plus how much your deposit is then you've got an idea of the price range you are working with.

Here is where we pause again for another reality check. If the joint amount isn't enough (mortgage loan+deposit = Barbie's Play House) then you need to stop and save so that you can increase your deposit amount.

Alternatively, try increasing your salary which will also help in securing a better loan. Now may be the time to finally sell your soul, do as your father says and take that higher paying job.

You are already on the right site. We have loads of [money making](#) and [saving articles](#) that will help you get closer to your final destination – home ownership.

You need to keep in mind that interest rates can double in the short term if you go for a variable rate mortgage, or can as much as triple once your long term fixed contract has expired. So do remember to not borrow more than you can comfortably handle because as interest rates increase so do your monthly payments.

14. THE PROPERTY HUNT BEGINS

Once you've got enough money to make an offer then it's time to look for properties. We have lots of articles on how to look for properties. Just remember you don't always need an estate agent. Go online or browse local to find some great properties. Check out our article [Get the House of your Dreams for Less](#) for great money saving tips. Buying properties on auction is a wonderful way to save loads. Once you've found the property you want go back to your broker and seriously discuss now your mortgage options.

15. NOT ALL MORTGAGES ARE CREATED EQUAL

To make taking out a mortgage loan less daunting I am going to compare it to something we all do on a fairly regular basis. Assessing the type of mortgage you want is like getting the right mobile phone plan. With your mobile you choose the correct hand set, network and monthly plan.

With your mortgage loan you need to decide what type of re-payment plan and schedule you would like to be on which sounds remarkably straight forward.

The different types of Mortgage Options available to you are:

- Re-payment mortgage
- Interest only mortgage

16. REPAYMENT LESSON

The word borrow is confusing as it seems like you get it for free, actually if you borrow £100 000 you are in essence renting this money. Instead of calling it rent, lenders like to confuse us and call it interest. (They also want you to feel like an owner even though technically you're still renting in a way)

When working out what your 'rent' will cost you on a monthly basis, lenders calculate how much money you have borrowed, by the amount of time it could take you to pay it off. Most mortgage lenders will set your time frame at 25 years.

They say to you look, if you are going to take 25 years to pay back your £100 000 mortgage and you will be paying us 6% interest on that £100 000 then...pull out magical calculator that somehow figures out all complicated mathematical conundrums and voila.... your monthly rental payment calculated.

Ideally, you are not going to take 25 years to pay off your mortgage. While you may think that your lender is being generous in giving you so much time to pay off your debt they are only thinking of their profit. The longer you take in paying of your mortgage the more interest you are paying them. Ka-ching for lenders as they cash in and take you for all they can. Don't let them! Pay off your mortgage as quickly as possible.

With a repayment mortgage your monthly 'rent' covers both the loan and interest paid on the loan. Each month or week you are paying off a portion of your loan plus interest at the same time. Over time as you pay down your capital owing less interest because you owe less money on your actual loan.

Do you still follow me? If you pay £800 a month in 'rent' a large portion of that goes directly into covering interest payments. Since lenders are in this to make money a very large percentage of your 'rent' goes towards covering the interest payments with a tiny bit paying off your actual loan.

There you are diligently paying your monthly 'rent' of £800 as time goes on you have started chipping off bits of your loan. Though it may not feel like you are getting closer to the finish line, you are. Because now your £800 is paying of the interest on £50 000 or £3 000 annually rather than £6 000 you paid in your first year on your original £100 000 mortgage.

Now just in case it didn't quite occur to you yet interest rates are calculated and paid annually. If you have a 6% interest rate on £100 000 mortgage you will pay £6 000 in your first year alone on interest payments. If in your second year you manage to pay off £4 000 of the capital from your loan owing £96 000 mortgage your £800 monthly 'rent' can now cover a greater percentage of the mortgage loan. This is because this year you will only need to pay £5 760 of interest!

So you are now paying less interest while continuing to pay down your mortgage further.

You can see why it is so important to decrease the numbers of years you are paying interest. As the years go by you have just handed over another £5 000 to your lender who loves you for it, but really you need to get out.

Repayment mortgage is a good option because eventually that one happy day that you never saw happening arrives ...you are now the proud owners of the home you have been living in for the past 20 years!

If you choose to pay less money on a monthly basis and stretch out the length of time you are borrowing, you end up paying loads in interest. When you first take out a mortgage loan however it may be a good idea to stretch out the length of your term. The longer you stretch out your payment term the lower your monthly payments will be which will come in handy this first year when you have a lot of expenses. Initially you will want to take out 25 year loan.

By increasing your monthly payments you will pay off your mortgage faster, therefore paying less interest, and saving you money. As soon as you can, reduce the length of your loan term and bring yourself closer to freedom!

I think now is a good time to pause, take in a deep breath and have a bit of a stretch. I need you to stay with me so grab a cup of tea, get comfy.

Okay? Moving on to Interest Only Loans then.

17. INTEREST ONLY LOANS

Interest only loans are just that, your entire monthly rental payment goes towards paying off the interest and not any of the mortgage loan. This means that your monthly payments are a bit cheaper.

These mortgages can also be stretched out over a 25 year period. In all that time all you have paid off is the interest and not any of your actual mortgage capital. So if you borrowed £100 000 and pay your monthly £750 'rent' it all goes towards interest payments. At the end of your term your lender is still the proud owner of your house while you still owe them £100 000. This loan is much like the mafia's godfather policy you pay and pay but are never actually let you out of debt.

If you are asking yourself, like I was, why would any one ever get one of these? Well,

they are useful if you need really low monthly payments. They come in handy for those who are investing in buy to let properties since owners are only able to write off the interest payments on mortgage loans for tax purposes.

Some people opt for these because they bank on their property value increasing enough over time. The idea is when they do sell they can just pay off the loan in full and take the remaining money as profit. In times like these where house prices are dropping faster than a diving Cristian Ronaldo on the pitch, we can see how dangerous a gamble this can be as you may be stuck paying higher mortgage payments for long enough for house prices to go up again.

It is a classic tortoise versus the hare story. People choose Interest Only Mortgage loan repayments because rather than chip away slowly at their loan (like you would with a repayment mortgage) they hope to pay it off with one large lump of money. People set up investment schemes that run along side their mortgages in an attempt to come up with this lump sum.

Investing in the stock market or in an ISA will hopefully earn about 9-10% annually. If you have an interest only mortgage set at 6% interest rate and your investment is earning 3-4% more than you are paying on your mortgage than ideally this extra 3-4% left over from investments should give you a lump sum to pay off your mortgage in one fowl swoop.

This is a gamble that works well in theory but not always the best in practice. First for this to work you need to invest long term take wait out all the ups and downs particularly on any stock market investments. If you are unable to invest for the long run than this isn't a good option for you.

Second, you are assuming that your investments will earn money but nothing is certain, as is evident right now in our current economic situation. Unless you've secured your

mortgage rate for 10 years you are gambling that interest rates won't sky rocket past what you are earning in your investments.

In the current situation some borrowers have seen their mortgage interest rates increase by 1% while the interest earned on their investments is dropping. The result, you are paying more than you're earning a pattern my mum always warned against. This is not a good situation to find your self in for long.

In addition to stock market and ISA investments people also rely on Endowment policies and their pension. Endowment policy was very popular in the 80's with the idea being that the investment would generate enough income to pay off your mortgage in one lump sum with the added insurance of life insurance that would cover your debts should you die before the end of term. This policy usually comes with lots of additional charges. However, the risk remains the same here as with any other investment. It could underperform and leave you with a great shortage when it comes time to paying off the debt at the end of term.

Some people link a portion of their pension (up to 25% of the lump sum) that can go towards paying off their mortgage. The catch, you can't access any of this money until you are 50 however this is a tax-efficient form of investment.

18. TYPES OF INTEREST RATES

Once you decide what type of mortgage loan you would like, it is time to choose what interest rate plan is best suited for you.

Before you read on, may I now suggest that you stop banging your head on the edge of the table....slowly, slowly. That's right. Now, breath, get your self some more tea and chocolate and stay with me. We are almost at the end....promise.

19. WHAT TYPE OF INTEREST RATE ARE YOU GOING TO GO FOR?

When picking interest rate plans most people want the cheapest one. There are different types of deals around and the cheapest isn't always the best option. Make sure that you are aware of all the finer details on your payment plan as some of the cheaper ones offer this discounted rate for a limited time and then lock you into higher interest rates for the remaining period.

Some deals give you a fixed rate over time and other deals give you variable rates over the years. If you are completely confused, don't worry it will get clearer.

20. FIXED INTEREST RATES

Surprise, surprise this one means that you have a fixed interest rate over a fixed amount of time. Here your lender is saying that for the length of your mortgage loan term your interest rate will always remain the same. If you lock into a 20 year old term at 6% then you will be paying that 6% for the entire 20 years.

This is a good option particularly if you are first time buyer because if you have this fixed rate you aren't being affected by the volatility of the [Bank of England](#) base rate.

A little aside is needed here. Let me explain why the Bank of England's base rate is so important. Mortgage companies borrow money in order to lend to us, making us all one big borrowing-lending family.

Mortgage lenders borrow from either the Bank of England, other countries (IE the US sub-prime market which is why we are all screwed) and from our savings. When banks borrow from the Bank of England they too borrow with an attached interest rate, called the base rate.

This is the rate that the Bank of England charges banks or mortgage lending companies to borrow from them. So if the Bank of England offers the bank a low rate, then in turn the rates the banks offer us should be low.

If the bank is being charged a high base rate, well then they need to collect higher rates from you too, after all misery loves company doesn't it?

Phew, now then where was I? Yes, fixed interest rates. This option makes budgeting easier because you have the exact same monthly payments. As its name applies there is very little flexibility with this plan. This is only a good plan if you are staying put for the entire duration of your plan. If you want to get out of earlier than when your term is up there are ridiculously high penalties that will apply. Let's say you sell your place or want to switch to another deal you have to pay a steep penalty for doing that.

Watch out that the mortgage company isn't trying to tie you in with a good fixed rate for the first year and then offering whatever rate they want for the next two years. Read the fine print and be very careful. If you are duped by an initial cheap interest rate you will also be forced to pay a penalty for getting out of your agreed term.

21. CAPPED MORTGAGE AND CAPPED INTEREST RATE

This is where your lender says alright we won't charge you more than let's say 6%. So if the Bank of England brings down their base rate interest rates then we might bring down our mortgage rates but for now this is probably as likely as David Beckham adorning a mortarboard.

Reversely, if the bank of England base rate goes up yours won't go higher than 6% because it's capped. This is a nice one for those of us who love safety and security. You are protected for enormous interest rate increases with the ability to benefit from decreasing interest rates. Again, you are committed to this option and will be forced to fork out large sums of money if you want out.

22. TRACKER MORTGAGE

This one tracks the Bank of England's base rate so that your rate is only just above base rate. Let's say your agreement is set at 1% over base rate, if the base rate is at 5% then you would pay 6%. The change is immediate so if the base rate goes up or down your mortgage varies accordingly. Again, this option is great when the base rate is going down, however when it increases you will feel the pinch quick.

Since last December, The Bank of England Base rate has been cut from 5.75% to 5%. However lenders rates are still rising because frankly they spent too much invested badly and now need to use your money to help them get out of debt.

This option is for the gambling sorts who at the moment are suffering. Only take out this type of mortgage lending if you think rates will fall or stay steady. You need to be prepared for them to go up though.

23. STANDARD VARIABLE RATE

Ah, this is the one that the mortgage companies enjoy offering because on a whim they dictate what the rate will be. Again it acts according to what the base rate is doing however they have a lot of freedom to decide how much money they feel like making and therefore what rate they will offer you.

This usually is the more expensive option however is a great option if you are looking for an extremely flexible mortgage because you can come out of it very quickly and without paying any stiff penalties.

24. DISCOUNTED MORTGAGE

Offers a discount on the Mortgage companies' variable rate for a fixed period of time. They may take off 0.5% off their variable rate which offers you a bit of a break however you are still vulnerable to rates going up and down very quickly depending on what the variable rate is doing.

25. OFFSET MORTGAGES

Offset mortgages is where your lender rewards you for having savings. They take into account the amount of money you've saved and offset it against your loan. So if you have £100 000 borrowed and have £25 000 saved they'll charge you interest on £75 000 rather than on the full £100 000. Meaning a greater percentage of your monthly payments go towards paying off the capital of your debt since you are being charged less interest.

If you are disciplined this loan is a great way to pay back your loan quicker.

It is also a very flexible borrowing option.

Be careful you must be very disciplined since all of your credit and debts are bundled together you can keep borrowing just like an on-going over draft. So it is very flexible however you can remain in debt very easily.

26. CURRENT ACCOUNT MORTGAGES

Current account mortgages work the same way as the offset mortgage. Instead of accounting your savings and mortgage as two separate accounts, they bundle all together

your current account, savings and mortgage into one large "account". The temptation remains the same that you can easily always remain in over draft. This one is not as common in our current economic situation.

If you aren't disciplined don't come near these. Again you will benefit from a very flexible agreement and a great one if you are able to keep saving and making payments. As your savings grow you are saving on interest payments.

Another benefit with very flexible mortgage loans is that you can put in large sums of money when you have it, and pay less when you don't another great advantage.

27. ALMOST AT THE FINISH LINE

There are even more options in the fabulous world of mortgage lending that may be available. This is where having a broker comes in handy. Some mortgage deals may not be available to the public and are only accessible directly through a mortgage broker.

Be as specific as you can be with your broker. They may have slight variations on the mortgages that I have already mentioned that suit your own situation even better.

As we approach my final few words you are allowed to read this whilst jumping up and down! Keep in mind that whatever option you go for the goal is to pay off your mortgage loan as quickly as possible.

Deals may not be as competitive at the moment so it is important to shop around until you find a good one. So give yourself time, you don't want to rush this process. The good news is that improvements have been made in recent weeks. As lenders are looking to increase their lending levels again they are becoming more competitive and offering a greater range of products, however there is still no where near as many options available.

Lenders have tightened up on flexibility. Do your homework and shop around.

Remember that people who manage to save for a 25% deposit always get the best deals so start saving your pennies.

This whole thing is a money saving, lending, paying game. Keep your cool. Stay focused on your task and you will get there. I mean we rebuilt a nation after two world wars; you can and will get your home and pay it off.

Pay it off quickly and save yourself loads in interest fees. You can finally be the owner of your home and not owe a thing giving you the security and freedom to do anything, and best of all.....you'll never have to read a Mortgage Guidebook every again!

Useful Links

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[Fool](#)

[BBC](#)

[John Charcol](#)

[First Rung Now](#)

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[You really need to check out the entire Home and Mortgage Section on the site.](#)