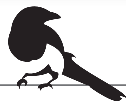


Introduction

All sorts of people and all sorts of companies do mortgage guides. You can even get entire books on how to get a mortgage, buy a home, sell a home etc. But have you noticed how they're all written by people who know everything there is to know about the subject and always have? They're people who have worked in the industry, they've written about mortgages for years and the whole subject is an open book to them.

Do they know your pain? Do they heck!

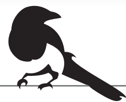
When I decided that Moneymagpie needed a good, clear, fun mortgage guide I looked for someone to write it who had never taken out a mortgage, hadn't a clue about Stamp Duty and didn't know what you meant by the phrase 'conveyancing fees'. In other words, someone normal.

Then I found Raechelle. Before we got to talking about mortgages, she didn't even know what a deposit was. She nearly fainted at the idea of interest-only mortgages and as for a full structural survey, well, we had to revive her with smelling salts.

So you can know, that the guide she has finally written, after blood, sweat and tears (and a lot of guidance from me and some mortgage specialists) is written from the ground up. She knows your pain. She has been through it from the first nervous steps through to a full understanding of the mystery of mortgages.

You can read this guide in the full knowledge that all the questions you were too embarrassed to ask about mortgages, Raechelle has thought of and got the answers. In fact, if they're not all answered here, email us at editorial@moneymagpie.com and we'll get back to you asap!

Jasmine



Contents

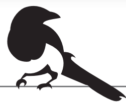
The Friendly Mortgage Guide
by Raechelle Dias

You have probably put off reading one of these guides almost as long as I've put off writing it. Getting a mortgage is a big deal and if you've never had to have one before there seems to be an awful lot you have to learn very quickly. Don't worry, though, with a nice cup of tea and some deep breathing I think we can get through it together.

Now, this guide is long but don't worry – you should be able to skip a few bits along the way. It covers a lot of subjects including:

1. What is a mortgage
2. What to you do first?
3. What is a deposit?
4. What is Stamp duty?
5. What are Legal fees?
6. What are Surveying fees?
7. What are Arrangement fees?
8. What is a broker?
9. What you Need!
10. Your credit score
11. Using a broker v going it alone
12. Repayment mortgages
13. Interest-only mortgages
14. Different types of interest structures (fixed, capped, variable etc)
15. Related Articles
16. Special Insurance Offers

Phew! Looks like a lot, I know, but it's actually quite straightforward...honest... and if you read just some of it you will save yourself getting ripped off. Remember stay with me...knowledge is power! Let's start right at the beginning.



What is a mortgage?

Basically it's one big, fat loan that is secured (i.e. attached) to your home. Mortgages tend to have cheaper interest rates than other loans because the lenders feel more secure about giving you money as it's attached to your house. They know that they can get hold of your property if you don't pay what you owe and that way they'll get at least some of their money back, so they're more relaxed about give you a lower rate of interest.

This 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.

What do you do first?

Before you start applying for loans or contacting any banks or brokers you need to work out how much you make each year. That's easy if you're single and on a salary with no other incomings. But if you're part of a couple or freelance or in a complicated financial situation it could take longer.

When you do your sums remember to add in any extra cash that comes in regularly like your investments or alimony payments. Mortgage companies base their lending on the amount you earn, either on your own or as a couple. 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. It used to be more than this, in some cases, but that's getting rarer now as lenders are still nervous about giving out too much money to people who might not manage to pay it back.

If you're freelance, you will need your accountant to give you your last three years' net profit. If you don't' have three years' of accounts it will be harder to get a mortgage but not impossible. Speak to a broker about your situation and see what they suggest.

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

What is a Deposit?

A deposit is the actual cash that you put down as part of the payment for your home. This is your own money, not money you have borrowed.

It used to be that you could get away without having to put a deposit down at all, in the days where companies would give you 100%+ loans. Now, though, it's back to the old way of doing it where you have to put some of your own cash in before

will lend you the rest.

The deposit is a lot more important now than it has been in the last five years. You need to put down a deposit of at least 5% of the value of the property in order to get a mortgage. Ideally you need to put in even more than that to get a mortgage with a nice, low interest rate. Lenders are still offering deals up to 95% loan to value (LTV) but these are rare and the interest rates are usually high. So it's much better to pay 10% upfront or, even better, 25% if you can manage it to get a good rate of interest on the mortgage.

Wait, I need to explain LTV don't I? 'Loan to value' refers to how much the mortgage is as a percentage of the property price. So, for example, if you wanted to buy a property worth £200,000 and you had a mortgage of £160,000 that would be an 80% loan to value (LTV) because 160,000 is 80% of 200,000.

The loan to value ratio is one of the major factors your lender will think about before lending you money. The less they have to lend you, as a percentage of the property value, the happier they are about giving you money and the less they will charge you for it. This is because the less you borrow, the less of a risk they are taking on.

So if your mortgage is almost the same as the price of your house, if house prices go down you could find yourself in a negative equity situation. If that happens and you can't pay your mortgage then even if you manage to sell the place, you won't be able to pay all of the mortgage back. Also, if the lender repossesses you and sells the property, it's possible that they won't get back all the money they lent out. This is why they get nervous about lending a high proportion of the price of the place you're buying. It's also why they will charge you more for that kind of mortgage – they're pricing in the risk they're taking.

If you haven't got enough money for a deposit, 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, each year. Please be realistic and focused. You may need to make some lifestyle changes and some sacrifices to do this so it's only worth it if you really want to buy your own place.

Go to our article of Ten Quick Ways to Make Money for ideas to get you started right now. Once you begin making the pounds, start stashing them. Learn how to save loads by reading our article on How to Save when you Don't Have any Money

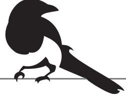
Start stashing your cash in a high interest account. See this article on the best savings account. Keep putting that money away until you have enough for a decent deposit. It may take you a year or more but, seriously, it will be worth it. Remember - short term pain for long term gain.

So, if calculating how much you earn and how little your deposit is has made you feel suicidal, now is the time to reach over and grab a piece of that chocolate cake. Go on, you're allowed.

But if you think you do have just enough of a deposit to get at least a half-decent interest rate on your mortgage, take a deep breath and hang on because I'm going to let you know about all sorts of other joyous little charges you will need to contend with in order to get the home of your dreams.

A Deposit and then some…

It isn't just your deposit money that you are going to need upfront, there are a few other fees involved (oh joy). You will also need to have extra cash put aside to



cover Stamp Duty, surveying fees, legal fees and possibly broker's fees if you go for a mortgage broker who charges.

I know breathe... breath...grinding your teeth will only add to your expenses! Yes, sure, this may be painful but stay with me as I am going to go through how much each of these additional fees may cost so that you can prepare yourself and be ahead of the game. Be strong, you know you can do it.

What is stamp duty?

Stamp duty is a tax that the government collects on property that is purchased. Why do they do it? Because they can. That's all you need to know. It's a tax for nothing and a very lucrative one for the Government. Great huh?

What you do need to know is that stamp duty land tax is calculated as a percentage of the purchase price. The more expensive your property, the more you will pay. The list below shows you how big a percentage they take.

Up to £125,000	Nil
Over £125,000 - £250,000	1% (Nil for first-time buyers)
Over £250,000 - £500,000	3%
Over £500,000 - £1,000,000	4%
Over £1,000,000	5%

It's only the buyer who pays this tax. The seller doesn't have to pay any tax when they sell if they're selling their own home that they have been living in.

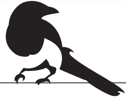
Really Stamp Duty is a tax on your happiness, but just think, the people who can afford mansions are being hit much harder than you. Now, doesn't that make you feel better?

What are legal fees?

Legal fees that you pay will depend on your individual circumstances but you can expect to pay somewhere in the region of £400 for the basic conveyancing. In London it's likely to be higher than that. As well as that, though, there are other legal costs like Search fees, Land Registry fees and electronic transfer fees. These are normally paid through the solicitor so you should add on at least another £600 or so for those.

Do remember that you don't have to use a local solicitor. If you live in a city there's nothing to stop you using a cheaper, out-of-town law firm. You can even do your conveyancing yourself (conveyancing being the legal term for transferring the ownership of a property from one person to another)

You could also use a Licensed Conveyancer. These guys are a relatively new idea in Britain. They just specialise in conveyancing and they tend to cheaper than solicitors. You can find a local one through the website of the Council of Licensed' don't know why that's there. www.conveyancer.org.uk



What are surveying fees?

All mortgage companies want to have a survey of the property you're interested in before they consider offering you a loan. And guess what, the mortgage company charges you for this.

The cost of this valuation survey will depend on the property value but a typical amount would be around £250-300. It is solely for the benefit of the lender and is simply to assure them that they are not investing in a property made of cardboard and held together with glue. Unlike full valuations, it's not meant to flag up details that you should know about before purchase.

This is not a good valuation to get if you are interested in knowing whether the house suffered major water damage that the previous owner got his cousin Kevin to repair. It can however offer some advice on what you should look for if you are gong to get a full valuation. Save yourself the time and money and go straight for the full valuation if you're sure you're interested in buying the place.

As you're going to be spending a good chunk of your life paying off this property it's a good idea to have it thoroughly inspected first. So consider one of the following types of surveys if you're serious about the property you're looking at:

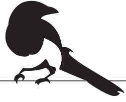
A homebuyer's survey is considered to be a mid-level inspection and will cost you twice as much as a basic valuation. It will cover the structure in much more detail than the basic valuation and will tell you of any problematic areas that should be put right before you buy or it will at least flag-up issues that require further investigation before purchase. It will also offer a list of repairs that need tackling.

A full structural survey is the most in depth survey and it is likely to run to about £900. It's a lot of cash but hey, when you're already £250, 000 in the hole what's another £1000 to make sure the property is worth while and safe? This valuation 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 any issues that may arise years ahead and what measures could be taken now to prevent them.

What are arrangment fees?

Thought you paid enough already? Nope. Lenders also want to charge you for the blood, sweat and toil they go through in the five minutes it takes them to set up the mortgage. They quaintly refer to this as the "arrangement fees". These can be at least £1000, and over the past few years it has been going up.

Arrangement fees are nasty, but there are some 'no arrangement' fee deals around. Be careful with these, though. They may be good but, when you do the sums, you will probably find that you pay more in the long-run. Just make sure that you get a figure for the total amount you will pay for the whole mortgage.



When you are working out which is the cheapest mortgage for you in the long-term, make sure you add on your arrangement fees as well as your monthly payments. You need to work out what will be the best deal in the end and not leap into deals that seem good for the time being.

Now, that does seem like a lot to get through, I know, but if you just breath out again, unclench those buttocks and stay with me we'll have you all sorted and on your way to happy mortgage lending in no time.

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%, 4% or 5% 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 or so
> Broker Fees - This fee is typically up to 1% 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 10% deposit for your home you'll need an extra £15,000. If you want a 15% deposit you'll need £22,500 and for the best deal you will need 25% as a deposit which is £37,500 saved up on top of your £4,850.

Really if you don't have money saved up already, stop now and start saving. It is disappointing I know and it may take you some time to get the cash together, but it isn't impossible. Remain focused and disciplined and you will get there. Get online at Moneymagpie.com and start reading how you can make and save cash easily.

Yes, it is all right now to reach for that cheap bottle of plonk that your odd co-worker gave you for Christmas years ago, and you never quite trusted opening ... now is the time. And that slice of cake, why just a slice? Eating the whole cake is

Got cold hard cash?

So, if the news is good and you've got enough hard cash to cover the list above then it's now time to start shopping around for a mortgage. In order to do this you are going to need to either find yourself a broker or to approach banks and building societies 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 are now moving towards using an affordability calculator which looks at income and financial commitments in deciding your borrowing capacity. A lot now also depends on your credit score as well as your level of income, your financial commitments and the size of your deposit. If you would like to see your credit rating for free, try the CreditExpert service for free for a month. Check your score to see what kind of mortgage you could get (the higher your score the more lenders will trust you and, therefore, give you a nice low rate of interest).

If you are self-employed you should know that lenders assess your borrowing power by looking at your level of net profit (i.e. after you've taken your 'business expenses' out). In the past, lenders have required 3 years of accounts but many are now being a little more flexible. Talk to a broker about this if you're wondering.

What is a credit score?

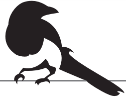
Everyone's talking about credit scores and credit ratings at the moment. They sound like mythical fierce creatures who roam the forests and set out to stop you getting a loan.

Basically your credit rating shows lenders how much of a risk you are potentially. It's not fool-proof, or indeed scientific, but on the whole it gives them at least a vague idea of whether you are the kind of person they want to lend to. All the banks, building societies, credit card and loans companies use data from one of the main credit-scoring agencies like Experian and Equifax.

Each lender rates individuals based on its own criteria of what would be their ideal customer. And they all have different ideas of what that is, so just because one lender may not believe you are their ideal borrower for them it doesn't mean another lender won't be interested.

The lending game is all about making money for the lender and, as they are businesses, they really don't want to lose money if they can possibly help it. If you are someone with a bad track record or someone who has missed payments, then you are giving off warning signs. The last thing the lender wants to do is put up 85% of the money for your house, only to find that you don't pay somewhere down the line and they have to repossess 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 about risk. Anyone unlikely to repay is seen as a threat to profits which is why they want to avoid you. Yet even the most solvent types may be rejected if they're unlikely to act in a way that'll make profit for the lenders. People who have never borrowed in their lives and have always paid for everything with cash can find it particularly difficult to get a mortgage because the lenders don't know enough about them. It's weird but true.



What is a broker?

Mortgage brokers are 'agents' who know all about the loans on the market and are able to advise you on which one would be the best for you. 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. Another advantage of using a broker is that some mortgage deals are only available through them, so if you don't speak to one you may not get the mortgage that is best for you.

All brokers receive a fee from the lender as a thanks for delivering them a new client. 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 a procuration fee (i.e. commission) 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 that one charges you a fee as well as getting cash from the lender and the other doesn't. Easy really.

A fee-based broker charges a fee once the mortgage is agreed. A broker's 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. Not bad eh?

The Commission-free Brokers (or also known as a No Fees Broker) make their money solely from the commission they get from the mortgage company. 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, so fair enough.

Now, some commission-only brokers should be avoided as they may not have your best interests at heart. If you think about it, a commission may be particularly high for selling a particular mortgage which isn't the best at all. Some brokers may be chasing after that great commission and not saving you cash. So be careful. 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.

We use London and Country because we know they are the best. They are a multi-award-winning brokerage including a British Mortgage Award, The Financial Adviser Awards (Online Mortgage IFA of the Year) and the Money Marketing Mortgage Adviser of the Year. They also offer online mortgage comparison options as well as brokering advice and services free of charge. They're worth a look.

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, time and knowledge but if you're willing to read up about the latest mortgage deals and take note of what we say in 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 it, it can't be that hard! Mind you, do keep in mind the fact that in this country some mortgages are only available through a broker, so if you don't want to miss out, at least speak to one as well as looking for yourself.

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 your home. Do remember that you don't always need an estate agent to find a great place. Go online or browse local papers to find some great properties. Check out our article Get the House of your Dreams for Less for great money-saving tips. Buying properties at auction can be another good way to get a cheaper place, although you do need to know what you're doing.

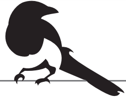
Once you've found the property you want go back to your broker and seriously

The Mortgage

Once you know what size of mortgage you can get, 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 (i.e. your mortgage + the deposit = Barbie's Playhouse) then you need to stop and save so that you can increase your deposit.

You are already on the right site. We have loads of money-making and saving articles that will help you get closer to your goal of owning your own home.



Alternatively, try increasing your salary which will also help in securing you a better loan. Now may be the time to finally sell your soul, do as your parents have been telling you to do for years, and take that (boring) higher-paying job. It's up to you what kind of sacrifice you are willing to make.

You need to keep in mind that interest rates can go up very quickly for reasons way beyond your control. If you get a variable mortgage or a tracker mortgage (see below) your payments could go up a lot over just a few months. Even if you get a cheap fixed rate (see below) for a few years you could find that interest rates have jumped up just at the time that you need to negotiate a new deal.

So do remember do not borrow more than you can comfortably handle each month because as interest rates increase so do your monthly payments. Not only will this mean that you will have to find more money each month to pay it off but, if things get really bad and you can't pay, the lender can legally repossess your home. They don't call it 'let's go and kick them while they're down' instead they call it repossession. Once your home is repossessed they can then sell it and recoup their mortgage and legal fees.

What the "Borrowing" Really Means

The word 'borrow' is confusing when it's applied to money as it seems like you get it for free. Actually if you borrow £100,000 you are in essence renting this money. It's the charge that lenders make for each day/month/year that you have the 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 partially renting).

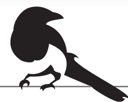
The way interest works is you get charged for as long as you borrow the money. So the longer you have the money, the more you pay overall. If you pay a loan off in one year you will pay much less than if you pay it off in ten years (at the same rate of interest), simply because you get charged for as long as you have the money.

When working out what your 'rent' will cost you on a monthly basis, lenders calculate how much money you have borrowed, how long they are letting you have it and what rate of interest they are going to charge you for it.

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 will be this" (beaming smile).

Ideally, you are not going to take 25 years to pay off your mortgage. That's the usual amount of time that new home-owners are given but there's no law to say you have to take that amount of time to do it. 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.

In fact, see our article on how to pay off your mortgage in double-quick time to give you ideas even before you start.



Not all Mortgages are Created Equal

Mortgages seem complicated on the outside but they're not really. It's just that there are a few different aspects you need to think about, one after the other, in order to get the right one for you.

For a start you need to think about the right type of repayment method for you. You have two basic options here:

> Re-payment mortgage
> Interest only mortgage

I'm about to explain these below.

Then you need to work out what kind of interest rate you want. Obviously you want the cheapest you can get, but it's not that straightforward. Some interest rates are fixed for a certain amount of time, others are more variable, and it depends on your situation which kind would be the best. You could choose from:

> Fixed
> Capped
> Variable
> Discounted
> Tracker

These are explained further down.

Then there are some rather interesting mortgage bundles you could go for such as

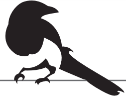
> Offset mortgages
> Current account mortgages

which I also explain further down.

What is a Repayment Mortgage?

With a repayment mortgage your monthly 'rent' covers both the loan and interest charged for the loan. Each month when you pay your mortgage, you are paying off a portion of your loan plus a lot of interest at the same time. In fact, when you start to pay off the mortgage you will find you are paying mostly interest with just a bit of your money paying the actual debt. As the years go on, though, you gradually pay more of the debt and less interest each time as the amount you owe goes down and down.

Do you still follow me? If you pay £800 a month, 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 payment goes towards covering the interest payments with a tiny bit paying off your actual loan.



There you are diligently paying your monthly amount 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.

Now just in case it didn't quite occur to you yet, interest rates apply to every year that you have the mortgage. If you have a 6% interest rate on £100 000 mortgage you will pay around £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 around £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 more thousands of pounds to your lender who loves you for it, but really you need to get out.

The repayment mortgage is a good option because eventually that one happy day that you never thought you would see happening, actually arrives ...you are now the proud owners of the home you have been living in for the past 20 years!

Remember, you can do it quicker. 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 mortgages then.

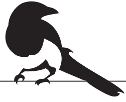
What is an Interest-Only Mortgage?

Interest-only mortgages are just that: your entire monthly rental payment goes towards paying off the interest and none 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, or the rent for the money you have borrowed, and not any of your actual mortgage capital. So if you borrowed £100,000 and you pay your mortgage each month, all of it goes towards interest payments. At the end of your term your lender is still the proud owner of at least part of your house while you still owe them £100,000. This loan is much like the Mafia's godfather policy where you pay and pay but are never actually let you out of debt.

You are probably asking yourself, like I was, why would any one ever get one of these? Well, they are useful in a few situations, like if you need really low monthly payments because you can't afford a repayment loan (usually a bit more expensive) in the short-term. They are also useful for people who are investing in buy to let properties since owners are only able to write off the interest payments on mortgages for tax purposes, not the whole mortgage.

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 Rinaldo on the pitch, we can see how dangerous a gamble this can be as you may be stuck paying higher mortgage payments for a long time before house prices go up again.

Other people like to play their investments off against an interest-only mortgage. They find the cheapest interest only-mortgage they can get and then while they pay that each month they also put money into stock market investments, possibly wrapped in an Isa, and plan to make money that way. They work out that if their mortgage is, say, at 6% but, on average, they should be able to make about 9-10% annually in the stock market, over time they would make quickly enough to pay off the mortgage early.

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, wait out all the ups and downs particularly on any stock market investments, and even then, there's no guarantee that you will make that money. Also, 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, which is a pattern my mum always warned against. This is not a good situation to find yourself in for long.

In addition to stock market and ISA investments people also rely on Endowment policies and their pension. Endowment policies were 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 type of policy usually comes with lots of additional charges, though, and tends to perform very badly, often leaving investors with a big hole in their money where there should have been enough to pay the mortgage and more.

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.

What type of interest rate are you going to go for?

When picking interest rate plans, most people want the cheapest one. However, everyone is different and there's no one-size-fits-all kind of mortgage. Depending on your situation, you might actually be better off going for a slightly higher interest rate that gives you more flexibility.

Also, many mortgages that look like they're the cheapest, actually end up being very expensive, either because they charge you an extortionate arrangement fee or because they lock you in to an extra payment time after the introductory cheap rate finishes and then hike up their rates in that time. So make sure that you're aware of all the finer details on your payment plan.

There are various types of interest rates:

> Fixed
> Capped
> Variable (or Standard Variable, SVR)
> Discounted
> Tracker

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 a particular period of time (say two years or five years or even twenty years) your interest rate will remain the same. If you lock into a ten year term at 6% then you will be paying that 6% for the entire ten years.

This is a good option particularly if you are first time buyer because if you have this fixed rate you won't be affected if the Bank of England base rate goes up. The flip side is you won't benefit from falling interest rates either.

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 it earlier than when your term is up you could face high penalties to get out. Let's say you can suddenly pay it all off or you want to switch to another deal you may have to pay a steep penalty for doing that. However, if you are just moving house you may be able to take your mortgage with you. Some fixed rate deals are portable, but not all of them. If you think that might apply to you then make sure that your fixed rate mortgage is portable.

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 – locking you in for that time too. Read the fine print and be very careful. If are duped by an initial cheap interest rate you will also be forced to pay a penalty for getting out of your agreed term when they put you on the more expensive one.

Capped Mortgage and Capped Interest Rate

This is where your lender says, all right, we won't charge you more than, let's say, 6%. So if the Bank of England brings down their base rate we might bring down our mortgage rates.

However, if the bank of England base rate goes up yours won't go higher than 6% because it's capped at that amount. This is a nice one for those of us who love safety and security. You are protected for enormous interest rate increases but you still have the option 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.

Tracker Mortgage

This one tracks the Bank of England's base rate so that your rate is set just above base rate. As Base Rate goes up and down, so does your mortgage. Let's say your agreement is set at 1% over base rate, if the base rate is at 5% then you would pay 6%. If Base Rate goes down to 4% then your mortgage will be at 5%.

The change is immediate so if the base rate goes up or down your mortgage price will change the next day (pretty much). Again, this option is great when the base rate is going down, however when it increases you will feel the pinch quickly.

This option is for the gambling sorts who can cope if rates go up. Only take out this type of mortgage lending if you think rates will fall or stay steady.

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. Generally the rate is somewhere around 2% above base rate but it varies a lot from lender to lender.

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.

It generally goes up and down vaguely in line with Base Rate but it could go much further up than Base Rate and not come down anything like as much.

Discounted Mortgage

Discounted mortgages offer a discount on the mortgage company's variable rate for a fixed period of time. They may take off, say, 0.5% from their variable rate for a particular period of time. This gives you a bit of a break but you are still vulnerable to rates going up and down very quickly depending on what the variable rate is doing. Also, you will be put on the standard variable rate as soon as the discount period finishes which will be more expensive.

Really Flexible Mortgages

If you are disciplined and you really want flexibility to pay off your mortgage fast, or possibly borrow some of the money back later, there are two other types of mortgages you really should know about:

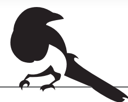
> Offset
> Current Account

These are fairly recent entries to the mortgage market, and they're not right for everyone. But if you're freelance, you have decent savings or you just want to have something that is very flexible, then check these out:

Offset Mortgages

Offset mortgages work by putting your mortgage, current account and savings all together in one big account, but separated out into 'pots'. It's a mortgage that rewards you for having savings.

When you get a mortgage in this way, you also have a current account and savings pots with the lender. When it comes to working out how much actual interest you should be paying on your mortgage, they take into account the amount of money you have in your savings and then offset that 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. You still pay the same amount each month but more of that money goes into paying off the capital of your loan, rather than the interest, meaning that you should be able to pay off your mortgage quicker.

If you are disciplined this loan is a great way to pay off your mortgage cheaply. It's also a very flexible borrowing option as, once you've paid off some of the mortgage, you can then borrow it back whenever you want and use it as a cheap and growing overdraft facility. However, beware – if you are not disciplined and you have a tendency to go on spending sprees when you shouldn't, keep away from this mortgage. It is so flexible, you might never pay it off!

Current Account Mortgages

Current account mortgages work the same way as the offset mortgage. However, instead of accounting your savings and mortgage as separate entities, they bundle together your current account, savings and mortgage into one large account which is constantly, massively overdrawn! Again, you have to keep paying in to it so that you cover the mortgage payments, you can overpay when you have money and also you can borrow back the money you have paid in.

Like offset mortgages, current account mortgages are really flexible and are great 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 like these is that you can put in large sums of money when you have them.

Do be aware, though, that flexible mortgages like the current account and offset deals can have higher interest rates to compensate for the flexibility. Sometimes you are better off, at least at the start, going for a basic fixed deal which will allow you to pay off 10% of the total loan each year. That may be cheaper for you in the long-run, particularly if you don't have much in the way of savings to offset the loan.

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 about your situation. 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 as quickly as possible.

The good news is that the market seems to be easing up a little and as lenders look to increase their lending levels again they are becoming more competitive and offering a greater range of products. However there are still nowhere near as many options available. Lenders have tightened up on the flexibility of their mortgages (sounds like a contradiction in terms) so you may find that you will have to fit into their terms rather than asking for extras. However, as ever with any financial product, do your homework and shop around and you will get the best deal.

Remember that people who manage to save for a deposit of at least 25% 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. Best of all.....you'll never have to read a Mortgage Guidebook every again!

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