

new homes  
**MORTGAGEHELPLINE**



Part of the new homes group

# Mortgage Guide

## We are here to help

New Homes Mortgage Helpline, the UK's leading new homes mortgage specialist.

Whether buying a new or second-hand property, at the New Homes Mortgage Helpline we recognise that the process of buying your home can be very stressful and time consuming

With so many mortgage lenders and advisers offering their services it is becoming increasingly difficult for you to decide on which is the right one to satisfy your needs.

Finding the right mortgage is no easy task either. With thousands of products on offer at any one time how do you know which is the right one for you?

These questions and many more are easily answered by talking to our helpline 7 days a week, daytime and evenings.

Our experienced staff have been helping customers arrange their mortgages for many years and as Independent Mortgage Advisers, you can be assured that you will receive the highest level of service at all times, giving you confidence in the knowledge that your mortgage needs are in capable hands

This booklet explains simply and without jargon, all the points you'll need to consider when choosing a mortgage.

### What Mortgages are available?

As you may already be aware, there are numerous different types of mortgage available. But, at the end of the day, they're all based on either an interest rate that's fixed and will not change for a set period, or a rate that's variable and moves up or down according to the prevailing economic climate.

The standard mortgage term is usually 25 years, although it is possible to change to a longer or shorter term in certain circumstances. For example, if you're an established borrower then you may need to have a mortgage over less than 25 years. Your monthly payments will be higher than they would with a 25 year term, but you'll pay less interest in total.

### Capped Rate Mortgages

With a capped rate mortgage the rate you pay at the outset is normally the lender's current variable interest rate. This is guaranteed not to rise above a pre-set ceiling, or cap, for an agreed period of time. During this agreed period, however, if interest rates fall then your rate, being variable, can come down too.

At the end of the capped rate period, the prevailing variable mortgage rate will apply.

**If you are uncertain about which way interest rates are likely to move, a capped rate will give you the sort of security provided by a fixed rate when interest rates are rising and the benefit of a variable rate when interest rates are falling.**

**Cap and Collar Mortgages:** These work exactly like capped rate mortgages but, if rates fall, there is a floor, or collar, below which your rate cannot go. And, like the capped rate mortgage, at the end of the agreed period, the prevailing variable mortgage rate will apply.

### Discount Mortgages

As the name suggests, this type of mortgage offers you a discount off the lender's variable mortgage rate for a set period of time. The reduction in monthly payments during the discount period will help with expenses like the cost of moving. However, you will need to budget for an increase in payments when the discount period ends and the interest rate on your mortgage changes to the lender's prevailing variable rate. Discounts, and the period for which they apply, may vary from time to time, depending on prevailing market conditions.

**If you require a period, at the start of your mortgage, when your monthly payments are lower than normal, to help with moving costs or furnishing your home, a discount mortgage may be what you need. The shorter the discount period the bigger the actual discount will usually be. For example, if you opt for a three year discount, your payments will be reduced for three years, but normally not by as much as they would with a one year discount.**

**Cashback Mortgages:** Here the amount of money you would have received in the form of a discount off your monthly payments, over a given period of time is converted into a single lump sum. This is usually paid to you on completion of your mortgage and can make a very useful contribution to the cost of moving or, indeed, setting up a new home.

**Fixed Rate Mortgages:** With a fixed rate mortgage, no matter what happens to interest rates in general, your monthly mortgage payments are guaranteed to stay the same for an agreed period, usually between two and five years. The only fluctuations might be changes to insurance premiums. So you can confidently plan your budget for the whole of that period because you know in advance exactly what your major outgoings will be.

Generally speaking, the longer the period for which the rate is fixed, the higher that rate will be. In other words, the longer the period of security you opt for, the more it costs you.

When the fixed rate period is over, your mortgage will change to the lender's prevailing variable rate, or you may be offered a further fixed rate period at a new rate.

**If certainty is your primary objective and you believe that interest rates are more likely to rise than fall, then a fixed rate is probably going to be best for you.**

**Flexible Mortgages:** Sometimes referred to as Lifestyle Mortgages, these are a relatively new concept to reflect customers changing personal circumstances. Typical features include being able to under/over pay (without penalty) enjoy payment holidays and being able to borrow additional money (subject to conditions) against your property.

#### **Libor Mortgages (The London Interbank Offer Rate)**

Libor is the rate of interest which banks use for borrowing and selling money to each other. Some lenders use Libor rates for mortgage purposes.

As the rate is variable and is reviewed quarterly your mortgage payments may vary from time to time. At the end of the Libor period you will revert to the lenders standard variable rate. Your mortgage payments may increase because of this.

**Tracker Mortgages:** With a tracker mortgage the interest rate is linked to that of the Bank of England for a period of time, usually between two to five years.

The rate is variable so your mortgage payments may vary from time to time.

At the end of the tracker period you will revert to the lenders standard variable rate. Your mortgage payments may increase because of this.

#### **Which is the best for you?**

The truth is, only you can decide. Determining the most suitable mortgage will depend on your financial circumstances now and for the foreseeable future. And whether you believe that mortgage rates will remain stable or are likely to fluctuate. You need to be certain that you can afford to repay the loan you're taking on, not just today, but throughout the term of the mortgage.

Our Mortgage Adviser will ask you a number of questions about your circumstances to identify which mortgage will best suit your needs. Our advice will be based on the information you provide.

#### **How to repay your mortgage**

Choosing how to repay your mortgage is one of the most important financial decisions you're ever likely to make.

Not only does the mortgage have to be repaid at the end of the payment term, but you also need to consider what would happen if, unfortunately, you were to die before the mortgage is repaid. You have a choice of repayment methods and cover to give you the peace of mind that comes with knowing that your home, and therefore your family's future, is taken care of.

#### **Interest only payments**

With this type of mortgage your monthly payments cover only the interest on your loan, so the amount you owe remains about the same throughout the term of the mortgage, provided you make all payments on the due dates.

Repayment of the capital sum can be from a maturing investment, for example an ISA (Individual Savings Account), a personal pension plan or a life assurance policy. It could also be from an inheritance or when you sell the property and move house.

It's important to remember, if you are intending to use an investment to repay the capital sum, that values can go down as well as up and cannot be guaranteed on maturity. It may, therefore, not be sufficient to pay off your mortgage at the end of the term. For this reason, it should be monitored by you from time to time to check the likely maturity value and, if necessary, the monthly premiums increased to boost the final sum payable.

#### **Capital and Interest payments**

Sometimes known as a repayment mortgage, this is where your monthly payments to the lender are made up partly of the interest on the outstanding loan and partly repayment of the loan itself.

In this way, you gradually pay off the full amount of your mortgage over the repayment period. In the early years, more interest than capital is paid but in time this will change and towards the end of the mortgage term you will be paying mostly capital. If you opt for capital and interest payments, you may need a term assurance policy so that should you die within the mortgage term, the proceeds of the policy will repay the remainder of the loan.

#### **How much should you borrow**

The simple answer is, you should only borrow an amount that you can comfortably manage to repay. If you take all your other important expenses into account and your mortgage payments are sensibly planned, you are less likely to put your home at risk through borrowing too much. So, how much can you borrow?

As a general guide, provided you are in permanent employment, the lender will consider up to 4 times your annual salary.

If you're applying in joint names the whole of your partner's salary can be added too. Alternatively, you can normally borrow three-and-a-half times your combined incomes. Many lenders allow you to borrow more depending on your individual circumstances. We will be happy to discuss this with you if required.

Some lenders use an affordability calculator to establish how much they will lend you, our Mortgage Adviser will explain how this works.

Approval of your loan will be subject to the lender's assessment of your ability to pay. This assessment may include information on how you have handled your financial affairs in the past and, with your consent, information from credit reference agencies and from other sources such as your employer or previous lender. Lender's criteria vary and we will be pleased to discuss this with you.

#### **Shared Ownership**

A shared ownership scheme is one whereby you buy a share of the property and the other share is retained by another institution (traditionally a housing association) and held in the institutions name.

You will usually pay rent to the institution on a monthly basis until you either purchase the other share or you decide to sell the property on.

Normally you can buy an increased share in the property during the ownership period. This is known as Staircasing.

### **Shared Equity**

A shared equity scheme is where you buy the whole property, however this is funded partly by you talking out a mortgage (and/or cash) and the rest by a loan of an institution, i.e. New Build Developer

The split on these types of scheme can range anywhere from 50/50 to 90/10. Most schemes are usually on a 75/25 split.

A shared equity scheme may or may not have a monthly interest charge on the loan given by the institution.

MyChoice HomeBuy is a shared equity scheme funded by the government. The scheme is designed to help people who wouldn't otherwise be able, to get onto the property ladder.

Even though MyChoice Homebuy is a shared equity scheme, you would pay interest on the amount of loan given.

### **Borrowing more than 90%**

If you wish to borrow more than 90% of the valuation or purchase price of the property the lender may ask you to pay a Higher Lending Charge.

The lender will use this fee to buy a Mortgage Indemnity Guarantee (MIG) which protects them if you default on your mortgage and they have to repossess your property and sell it for less than the outstanding loan.

The fee is paid as a single, one off premium and can usually be added to your loan. Some lenders do not charge for a Higher Lending Charge, again we will be happy to discuss this further with you if required. Please remember, however, that;

- this insurance will not protect you if your property is subsequently taken into possession and sold for less than the amount you owe
- you will remain liable to pay all sums owing to the lender, including arrears, interest and legal fees
- if a claim is paid to the lender under this insurance the insurers will normally have the right to recover this amount from you.

### **Protecting your home**

Your home is probably the most valuable investment you'll ever make. So it makes very good sense to protect it. All lenders insist that your property is protected by buildings insurance. But this isn't the only protection you need. What if some of your valuable possessions are stolen or your furniture is damaged, for example, by a fire? And if you fall ill or lose your job, how will you manage your mortgage payments? And in the event of your death, how will your mortgage be repaid?

At New Homes Mortgage Helpline we have a range of insurance policies which will take care of all these worries for you.

### **Protection for you and your family**

To ensure that in the event of your death, your mortgage is repaid in full, you may need a term assurance policy for the full value of your mortgage. Payment is easy as premiums are paid monthly by Direct Debit. We will arrange this for you now, giving you and your family peace of mind that, in the event of your death, your house and family are secure. At the same time, we also recommend you consider critical illness cover. This is designed to pay out a pre-determined amount should you be diagnosed as critically ill, regardless of whether death should follow. Most customers take out this cover - please ask our Mortgage Adviser for further details.

### **Protection for your home**

NHMH HomeGuard is a comprehensive insurance policy which will cover your property, its contents and your personal possessions, all in one worry-free package. This simple policy will cover your home and your possessions against all kinds of risk. For extra peace of mind, your buildings cover is adjusted automatically each year, in line with house re-building costs. So you need never be concerned about being under insured. And if you make a claim, your premiums won't automatically rise like you car insurance would. Payment is easy as premiums are paid monthly by Direct Debit. For anyone who needs cover for just the actual building, or its contents, we can provide separate insurance policies.

### **Protection for your mortgage payments**

When you arrange a mortgage to buy your home, you naturally expect that you'll have a regular income throughout the period of the loan, so you'll be able to make all the repayments. But what happens if you're made redundant or have an accident or illness which prevents you from working? Who will pay the mortgage?

You may think that none of these things will ever happen to you - we all do. But you'd be surprised how many of our customers have been helped by the NHMH Mortgage Payment Protector following just such a crisis.

This will meet your monthly mortgage commitments, and can include any related insurance premiums for up to 12 months, in the event of your unemployment or inability to work due to an accident or sickness.

For longer term cover, we would recommend NHMH Mortgage Payment Insurance, which would help meet your monthly commitments for the remaining term of the mortgage

So, for just a small monthly premium, which is paid monthly by Direct Debit, you can secure your home and your family's future.

Some mortgages may include a short period of Accident Sickness and Unemployment cover provided free by the lender. Where this is the case no advice on the suitability of the cover to meet your needs can be given by us. The terms and conditions of the policy will be supplied to you by the lender to whom you should direct any questions.

### **Valuing the property**

To help save you time our Mortgage Adviser will complete and package all necessary documentation at the your appointment, so your mortgage application is processed quickly and efficiently. We will also arrange for a valuation of the property to take place. The cost of this report will depend on the price of the property and we will ask you to pay this charge with your application, in order that we can arrange the valuation immediately.

Please remember that a valuation is only designed for mortgage purposes. It is not a survey and it doesn't guarantee that the property is free from defects. The report belongs to the lender, not you, although there maybe an opportunity to see a copy.

For a more detailed report, which looks at the condition of the building, you need to obtain a Home Buyer's Report or a Building Survey.

A Home Buyers Report will give you general information about the condition of the property inside and out, it will also include a valuation figure.

A Building Survey is a comprehensive inspection of the property and will pin point any major and minor defects, it will also include a valuation figure.

Either of these kinds of report will, of course, cost rather more, but it is worth the extra expense, particularly if you're buying an older property. It could also provide you with points to raise with the vendor when discussing the purchase price.

If you are in any doubt about the suitability of the property, it would be well worth your while to opt for a more detailed survey. Our Mortgage Adviser will be happy to make the necessary arrangements for you.

### **The total cost of your mortgage**

When budgeting for your new home, remember that there are a number of costs you need to take into consideration in addition to the deposit, insurance premiums and the valuation fee. Here's a check list of costs you might incur:-

- Valuation arrangement fee
- Reservation/completion fee (for mortgages with special terms e.g. fixed rate)
- Removal expenses
- Higher Lending Charge
- Solicitors fee
- Searches
- Land Registry
- Stamp Duty
- Life assurance premiums
- Payment Protection insurance premiums
- Household insurance premiums

### **Your Mortgage Processing Unit is waiting to help you**

Once you have completed the mortgage application we will assign you a personal member of our mortgage processing team who will contact with you on a regular basis keeping you updated on your mortgage application.

They will then take personal charge of your application to ensure the whole process is as simple and trouble-free as possible. Which would include working closely with all parties, such as the lender, developer and solicitor.

On completion of your house purchase we will ensure that all necessary protection arrangements are in place at the right time

### **Making a will**

Many married couples/civil partners believe that on their death, all their assets will automatically pass to their spouse/civil partner, even if they have not made a Will. In fact depending on the size of the estate, if there are children the spouse/civil partner may only inherit personal items and the first £125,000, the rest of the estate is divided between the children. If there are no children, the spouse/civil partner will still inherit personal items and the first £200,000, the rest of the estate is divided between parents, brothers, sisters etc. If there are no living relatives, the spouse/civil partner will inherit everything. Thresholds quoted may vary from time to time.

With property prices in England, the average estate is now worth far more than £125,000. This is without taking into account savings, life policies etc. The consequences for the surviving spouse/civil partner if you have not made a Will are very serious in that they could find their relatives forcing them to sell their property so they can receive their share of the deceased estate.

If you are living together and your partner dies without leaving a Will the effect on the survivor is extremely serious. The survivor will not receive a penny of the deceased partners estate. If the deceased has no living relatives the whole of the estate will go to the Crown.

We strongly recommend that you now consider making a Will. You can either have one drawn up by a solicitor or you can now buy a Will kit off the shelf. If you already have a Will you will need to amend it to take into account your new property purchase, and any insurance cover you may be putting into place.

## Jargon Buster

The world of finance can be a bewildering place, full of strange terminology and abbreviations which can often appear to be a completely different language. We have produced this jargon-buster for the benefit of both First Time Buyers and Established Borrowers, to help remove some of the confusion that jargon can sometimes cause.

### **APR**

This stands for Annual Percentage Rate. It takes into account all fees and other costs in connection with the mortgage as well as the lenders interest rate. The APR is intended to help you compare the terms offered by different lenders and all lenders must quote an APR in addition to the actual rate of interest applied annually to your mortgage.

### **ADVANCE**

This is the actual amount of money that the lender agrees to lend you.

### **ARRANGMENT FEE**

If you wish to take out a special offer mortgage (fixed, capped or discounted rates), an arrangement fee may be charged to cover any extra administration involved and the special arrangements required to secure the funds

### **BRIDGING LOAN**

A temporary loan which enables you to complete the purchase of a new home if you have to do this before completing the sale of your existing house.

### **COMMONHOLD**

Instead of a Landlord owning the common parts of the property they will be owned and maintained by a commonhold association in which each owner is a voting member. The commonhold association will

also own and maintain the structure and exterior of the building and is the freeholder of the building.

### **COMPLETION**

The point at which the money to buy your new home is released to the seller, ownership is transferred to you and you can then move in.

### **CONVEYANCE**

The legal document, which transfers the ownership of property.

### **DISBURSEMENTS**

The fees your solicitor has to pay (e.g. stamp duty, land registry, search fees, etc) which will be added to your solicitor's bill.

### **EARLY REPAYMENT CHARGE**

If you redeem (i.e. pay off in full) a mortgage before a specified date you may be asked to pay an early repayment charge in order to recover any losses incurred by your lender as a result.

### **EXCHANGE**

The point at which you are legally bound to buy the property.

### **EQUITY**

The difference between the value of your property and the amount of any outstanding loans secured against it.

### **FREEHOLD**

The term used to indicate ownership of a property and the land on which it stands where both belong to the owner indefinitely.

### **HIGHER LENDING CHARGE**

This is a charge made by a lender when the amount you borrow is above a certain percentage, typically 90-95% of the property valuation. This was often referred to as a Mortgage Indemnity Guarantee (MIG).

### **HIPS**

The Home information Pack is a set of documents providing important information about the property.

**LEASE**

A document which grants possession of a property for a fixed period of time and sets out the obligations of both parties, landlord and tenant, such as payment of rent, repairs and insurance.

**MISSIVES**

The formal written offer to purchase and the acceptance (Scotland only)

**LEASEHOLD**

The arrangement by which property is let by lease by a landlord to a tenant for a fixed period of time.

**MORTGAGOR**

A person who borrows money, usually to buy a property (i.e. you as the Borrower).

**MORTGAGEE**

A building society, bank or other company which lends money against the security of a charge over the property purchased.

**REGISTERED LAND**

Land for which title is registered and recorded at HM Land Registry, the central registry of title to property in England and Wales.

**STAMP DUTY**

A government tax on the price you pay for your home on properties above a certain value.

**SUBJECT TO CONTRACT**

A provisional agreement made between buyer and seller, before exchange of contracts, which allows either side to back out without penalty.

**TERM**

The length of time over which your mortgage loan is to be repaid.

**TITLE**

The legal right to ownership of a property.

**TITLE DEEDS**

The documents showing the ownership of a property.

**TRANSFER DEED**

The legal document, which transfers the ownership of the property from the seller to the buyer.

**UNREGISTERED LAND**

Land, the ownership of which is established by a bundle of deeds but is not registered on the registered land system.

**VALUATION ARRANGEMENT FEE**

A fee paid by the borrower for the lender's inspection of the property by a valuer. Normally paid on application.

**VACATION FEE**

A fee charged by the lender for sealing the deeds following repayment of a mortgage.

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**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**