HOMELINE

MORTGAGE SERVICES

# Definitions and Terminology


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## Mortgage Types

From our meeting you are aware of the types of mortgages available offering a variety of interest rates, be they fixed, variable, discounted or capped. These have been discussed, but for the purposes of clarity, I shall restate these different types.

## Variable Rate Mortgages

The variable rate mortgage is the traditional product and is the most widely available type. The level of repayments varies with interest rates generally. The advantage is that you know you will not be paying more than the prevailing rate however the level of monthly payments can be unpredictable. Discounts, whereby the standard variable interest rate is reduced by a specific amount for a set term or cash backs may be available dependant on lender. Early repayment charges are common with this type of product.

## Discounted Rate Mortgages

A discount rate mortgage is similar to the variable rate mortgage with the added advantage of a discount to normal variable rate. Typically this extra benefit will last for a period of up to three years, after which the discount finishes and the normal variable rate applies. Early repayment charges are common with this type of product within the initial benefit period, although the penalty could also extend beyond this.

## Fixed Rate Mortgages

With a fixed rate mortgage you have the advantage of knowing that your household budget will not be affected by changes to your repayment level for the period the rate is fixed. This could represent a cheap option if interest rates rise, although if rates drop substantially, you could be paying more than the prevailing rate. At the end of the fixed rate period your loan will normally switch to the standard variable rate. Early repayment charges are common with this type of product.

## Capped Rate Mortgages

A capped rate mortgage will provide similar security to the fixed rate. It also has the added advantage that if interest rates fall, the amount you pay will also reduce. The rate you are initially quoted is the ‘cap’ and this will not increase if the standard variable rate rises above that level. The capped rate will normally apply for a set period, after which the rate will switch to the standard variable rate. Early repayment charges are common with this type of product also.

## Methods of Repayment

The next matter to consider is how your loan will be repaid. In general terms there are three types of mortgages:-

- Capital and Interest.
- Interest Only
- Flexible Mortgaging

## Capital and Interest

A loan is taken over a given period of times (normally 25 years) and the monthly payment consists of interest and capital. At the end of the period and so long as all the payments have been made, the mortgage will be repaid and you will then own your property outright. A repayment mortgage is generally considered to be the most straight forward and low risk method of repaying a mortgage.

## Interest Only

A loan is taken for a given period of time (normally 25 years) and monthly payments of interest are made to the lender. No capital is repaid to the lender during the term of the loan and the full amount borrowed remains outstanding for the whole period of the mortgage.

A capital sum to repay the mortgage is required which can be accumulated by using, for example, endowment policies, pension plans, PEPs, ISAs, unit or investment trusts or simply cash savings. Life assurance would normally be encouraged to cover the loan in the event of premature death.

If you fail to make suitable arrangements to repay the mortgage loan amount at the end of the full term then the lender may have no option but to undertake proceedings to repossess your property. It is your responsibility to ensure that an adequate repayment method is in place.

## Flexible Mortgaging

The main features of a flexible mortgage may include some or all of the following:-

- Daily interest calculations.
- Facilities to make regular overpayments, underpayments or lump sum payments at any time without penalty
- Payment holidays
- ‘Draw down’ facility up to a predetermined level for any purpose whatsoever, throughout the term of your mortgage (depending upon the lender)
- Normally a competitive variable rate of interest
- No legal fees if you use the service provided by the lender
- A refund of the valuation fee upon completion
- No ‘tie-in’ or early repayment charges at any time

There are also a number of optional features that may be offered. Current accounts and savings accounts as well as credit cards and personal loans can be set up either as separate accounts or linked to the mortgage or other credit accounts.

One major advantage of linking is to enable the account holder to offset cash held in the current and savings accounts against the outstanding mortgage debt, loan or credit card.

**Your home may be repossessed if you do not keep up repayments on your mortgage**