The Mortgage Guide

All You Ever Wanted To Know About Mortgages

MortgageFinders
Welcome to Your Mortgage Guide

We know taking out a mortgage will probably be the biggest financial commitment you ever make, so it’s not surprising the whole process can seem rather daunting. MortgageFinders will guide you each step of the way, explain all the choices available and the costs involved, so you can be confident the mortgage they arrange for you will be the right one.

MortgageFinders will be there to help you throughout, giving advice, ensuring you understand everything about taking out a mortgage, and then recommending the right mortgage for you. We arrange hundreds of mortgages every year for our customers, people just like you, each one with their own unique needs and circumstances, so we are confident we can help you. So, whether you’re a first time buyer, a homeowner looking for a different property or remortgaging, we have the experience and expertise to provide you with a first-class service.

We know that many borrowers have more complex personal circumstances, which may make arranging a mortgage less straightforward, and in these situations it is a real advantage to have more than one lender to choose from. By using the whole market of banks, lenders, and building societies we give you more options, so you can be confident we can cater for your needs, whatever your circumstances.

This guide takes you through the various stages of getting a mortgage and provides you with a reference guide that will prove invaluable at this important time.

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The Path to My Mortgage

Consult us early so we can clearly identify all your personal needs and circumstances and work out how much you can afford to borrow.

Decide on the type of mortgage that best suits your needs, this will include:
- Looking at the different interest rate options and
- Understanding the various fees and charges.

Decide the length of the mortgage and how you wish to repay it.

Assess your insurance and protection needs to safeguard your home and dependants.

Submit your application forms to the lender or provider.

Lender will carry out a valuation or survey on your property.

Once the lender has approved your mortgage application they will issue an Offer of Mortgage Advance – ‘The Offer’.

Your solicitor or licensed conveyancer will carry out various checks and searches on the property before drawing up the necessary legal contracts.

When all parties have agreed terms and signed the legal contracts, the mortgage can complete.
When looking for a mortgage, it’s essential to understand the different products that are available so you can be sure you get the right one for you. Lenders offer different interest rate options and this will affect your monthly payments. So choosing the right deal could save you money.

Some lenders allow you to bring together the benefits or features of more than one product type, more accurately meeting all of your requirements.

Please be aware some products, especially those offering attractive terms, may carry an early repayment charge. This means if you repay your mortgage before a certain date, you will have to pay a charge. You should consider all product features, including all fees and charges to ensure the product is right for you and meets your needs. Please see page 5 for more information.

With so many product choices available it is essential you get professional advice. MortgageFinders can help you understand all aspects of the mortgage before proceeding.

The following is a brief explanation of the types of mortgage products available:

**STANDARD VARIABLE RATE MORTGAGE**
With this mortgage, your payments will go up and down as the lender’s standard variable rate goes up and down. Usually any changes in the lender’s variable rate will be in line with movements in the Bank of England base rate. The Bank of England Monetary Policy Committee reviews this rate monthly.

**Is it right for me?**
Yes – If you can afford to pay more when mortgage interest rates go up and want to take advantage of lower payments if rates fall.
No – If during the early years you would be unable to cope if repayments increased because of rising interest rates.

**BASE RATE TRACKER MORTGAGE**
This is similar to a variable rate mortgage, but the interest rate will go up and down exactly in line with any change in the Bank of England base rate. Your mortgage payments will go up and down too as the interest rate changes. The tracker period is usually for a specified time, which can be from one year up to the lifetime of the loan. At the end of the tracker period, your mortgage interest rate will change to the lender’s standard variable rate. This product may carry an early repayment charge.

**Is it right for me?**
Yes – If you want to be sure your mortgage rate falls by the same amount as the Bank of England base rate falls, but the drawback is the mortgage rate also rises in step when the base rate increases.
No – If you find yourself locked into a rate above the base rate, which may be higher than the standard variable rate.
**FIXED RATE MORTGAGE**
Your mortgage interest rate is fixed for a set period only, during which your mortgage payments will stay the same. At the end of the fixed rate period, your mortgage interest rate will change to the lender’s standard variable rate. Fixed rate mortgages are usually available for between one and ten years, however they can be available for longer periods depending on market conditions. *This product may carry an early repayment charge.*

**Is it right for me?**
Yes – If you need to budget with certainty for the next few years, or you think mortgage interest rates will rise, or both.

No – Probably not if you think mortgage interest rates will fall.

**DISCOUNTED RATE MORTGAGE**
The lender offers a discount off their standard variable rate for a set period, normally one or two years. Your mortgage payments will still vary in line with changes in the standard variable rate. At the end of the discount period, your mortgage interest rate will be the same as the lender’s standard variable rate. *This product may carry an early repayment charge.*

**Is it right for me?**
Yes – If money is tight when you first take out the mortgage, but you’re confident your income will increase.

No – If you won’t be able to cope if interest rates rise later on, increasing your payments.

**CAPPED & COLLAR RATE MORTGAGES**
With a capped rate mortgage the interest rate can go up or down in line with movements in the lender’s standard variable rate, but cannot go above a set upper limit, known as the ‘cap’ or ‘ceiling’. This type of mortgage can also have a set lower limit, known as the floor or ‘collar’. For these mortgages the interest rate can move between these limits but cannot fall below the collar or go above the cap. *This product may carry an early repayment charge.*

**Is it right for me?**
Yes – If you like to budget with some certainty, think mortgage interest rates might rise above the cap, or you want the security of knowing your payments cannot rise above a set level and would like to benefit from any fall in interest rates.

No – If we can find you a fixed rate set at a lower rate than the capped rate, and you think rates are unlikely to fall below the level of the fixed rate deal.

**CASHBACK MORTGAGE**
The lender pays you a cash lump sum after completion, which you can use for any purpose. *This product may carry an early repayment charge.*

**Is it right for me?**
Yes – If you need a cash lump sum, for example to do up your home, or you expect the cashback to more than compensate for any rises in interest rates during the period when an early repayment charge may apply.

No – If you can manage without a cashback now and can get an alternative deal.
FLEXIBLE MORTGAGE
This can take many forms and offers extra features so you can manage your mortgage and the payments more effectively. The following features are usually available:

- **Overpayments** – Allows you to pay more than your normal monthly payment whenever you choose. Any overpayment can immediately reduce your mortgage balance and so lower your future monthly payments. Or you may want to carry on your monthly payments at the original higher level and so pay off your mortgage more quickly.

- **Underpayments and Payment Holidays** – Once you have built up a ‘credit’ of overpayments, you can reduce or, in some circumstances even stop your mortgage payment at times to suit you. You can do this until the interest charged on the amount outstanding uses up the ‘credit’ of overpayments.

**Is it right for me?**

**Yes** – If you’re likely to experience significant variations in your income so you’re able to increase your mortgage payments and would also benefit from being able to reduce, or even stop them for a time.

**No** – If your monthly income generally remains constant and you’re unlikely to need to vary your regular payments.

OFFSET MORTGAGE
A more complex mortgage arrangement, where the lender can ‘offset’ your mortgage balance against any savings or deposits you have with them. You can opt to pay no interest on part of your mortgage, equal to the value of your savings on which you’ll receive no interest. This means you could reduce the term of your loan, saving you interest, or you could reduce your monthly payment. This can be a more tax-efficient way of saving, especially for higherrate taxpayers, as the mortgage interest rate ‘saved’ is usually higher than the interest rate earned after tax on your savings.

**Is it right for me?**

**Yes** – If you have a ‘lump sum’ amount you can deposit into the lenders savings account and have no need to withdraw it in the short term.

**No** – If you do not have a ‘lump sum’ available or if you’re likely to need any savings amount for another purpose.

CURRENT ACCOUNT MORTGAGE
This is a development on the offset mortgage that merges your mortgage and current account together. As money goes into your current account, for example your monthly salary, this is offset against your mortgage balance, so reducing the interest you owe. The lender will agree with you the minimum amount you should ideally leave in your account each month. If you leave more in, you will pay less interest and may be able to pay off your mortgage earlier. If you leave less in, you will pay more for your mortgage.

**Is it right for me?**

**Yes** – If you’re prepared to have your monthly income paid into your mortgage account, or a current account with your lender.

**No** – If your income is irregular or you wish to keep your mortgage and bank accounts separate.
ISLAMIC MORTGAGES
(in accordance with Sharia Law)

A specific financial arrangement for the Islamic faith. As the Koran forbids interest payments or Riba, followers of the Muslim faith living in this country find it difficult to take out traditional UK mortgages.

There are two main types: Ijara and Murabaha mortgages.

Ijara mortgages are the more popular and adopt the principle of ‘renting to buy’. The ‘provider’ buys the property and leases it to the client. The client makes a regular payment to the provider, part paying the rent and part going towards buying the property. At the end of the term, which can be up to 25 years the client will own the property. Ijara mortgages are classified as Home Purchase Plans which are now regulated by the Financial Services Authority (FSA).

Murabaha mortgages adopt the principle of trading or buying and selling goods at a profit. These mortgages represent a contract of sale between the ‘provider’ and the client, which sets a fixed Murabaha price including a profit mark-up, secured by a mortgage and settled over a fixed period of up to 15 years. The mortgage payments to the provider are fixed and, at the end of the term, the client will own the property. Murabaha mortgages are regulated by the FSA.

Is it right for me?
Yes – A unique form of housing-finance with special terms designed for followers of the Muslim faith.
No – The uniqueness of these types of arrangements make them less attractive to non-Muslims.

ADDITIONAL INFORMATION

End of fixed, capped or discounted rate period – When your fixed, capped or discounted rate period ends, your monthly payments may increase when your interest rate changes to the lender’s standard variable rate. It is important you budget to meet any increase in your payments. We recommend you contact MortgageFinders at this time to discuss your future mortgage options.

Early repayment charge – Most products offering attractive terms have a ‘lock in’ period, during which you will have to pay an early repayment charge or penalty if you want to repay or change the term of the loan. It is important to consider these charges when choosing your mortgage. MortgageFinders will explain these charges when recommending your mortgage.

Loan Portability – Something else to consider is whether you can move your product, known as portability, if you want to repay the loan and buy another property with a mortgage from the same lender. Arrangement fees and other factors are also likely to influence your final choice. MortgageFinders will explain the various choices and what conditions apply.

Deeds Release fee – Most lenders will make a charge for releasing the property deeds to the borrower or their solicitor on repayment of the mortgage.
The first step is to decide how much you need or want to borrow. You should take account of the key points below:

**WHAT CAN I AFFORD?**

MortgageFinders will help you work out exactly what income you have coming in each month and how much you spend. You need to allow for increased payments if interest rates rise, especially if rates are low at the time you’re taking out the mortgage. How important this is will depend on the mortgage you choose. For example, if you have a fixed rate mortgage you will not need to worry about interest rate changes until the end of your fixed rate term.

**WHAT CAN I AFFORD IN THE FUTURE?**

We will help you understand how your mortgage payments may increase in later years and take this into account when working out the affordability of a mortgage for you. Remember to be realistic about your future earnings, pay increases and the future movement of interest rates. You will need to consider how your income and spending will change if, for example, you have children or retire.

It is also important to consider how you would you cope if you were to lose your income and how you can protect your mortgage payments and your home. MortgageFinders will take you through the various insurances open to you to minimise these risks. Please also ask us for a copy of the Financial Services Authority leaflet “You can afford your mortgage now, but what if…?”, which gives you more information.

**WHAT’S ON OFFER TO ME?**

Typically the maximum a mortgage lender offers is three to four times the main borrower’s income, plus one times any second borrower’s income, or two and a half times joint income, although some lenders offer more.

The exact amount will depend on several factors, such as your credit history, outstanding debts, existing commitments (such as a car loan), and general track record.

Some lenders base the amount they lend on an ‘affordability’ test. We will advise you not to borrow the maximum available if the payments are more than you can realistically afford each month.
HOW LONG SHOULD MY MORTGAGE LAST?
People often assume the ‘standard’ mortgage term is 25 years, but there’s no reason why you cannot choose a different term if this suits you and the lender agrees. With a shorter term, you will have higher monthly payments, but will pay less in total (see example below). Beware of committing yourself financially beyond the age you intend to retire. If you’re in your late 30s or 40s, think about a shorter term (10-15 years perhaps), or make sure you will be able to afford the payments once you’re no longer earning.

THE VALUE OF MY PROPERTY
It is possible to borrow up to 100% of the property’s value. But a loan of more than 75% of the property value often costs extra. This is because you may also have to pay a ‘higher lending charge’. Please see page 18 for more information.

Example
Peter needs a £100,000 repayment mortgage. If he chooses a 25 year term at 5% interest, his monthly repayments will be £614.09 and he will pay £184,713 over the whole term of his mortgage. If he chooses a 10 year term, he will pay more each month, £1085.26, but this works out at only £130,718 over the whole term, assuming the interest rate stays the same.

WHAT IF I AM TAKING OUT A JOINT MORTGAGE?
If you’re planning to take out a joint mortgage it is important to remember that both of you are equally responsible for repaying it. This is known as being ‘Jointly and Severally Liable’. This is true even if you go your separate ways, and only one of you remains living in the mortgaged property.

WILL IT BE DIFFICULT FOR ME TO GET A MORTGAGE IF I’VE BEEN IN DEBT IN THE PAST?
If your debt has now been repaid, was a one-off problem and is unlikely to happen again, we still may be able to arrange a mortgage from one of the main high street lenders.

If your debt problems were more persistent, the main high street lenders are more likely to reject your application. However, we have access to packagers and other specialist lenders who consider borrowers with an adverse credit history or other irregular circumstances. It is likely you will be charged a higher-than-average rate of interest by this type of lender but rest assured that we will find you a suitable mortgage deal that gets you the best rate for your circumstances.

If you borrow a high proportion of the property’s value (a high ‘loan-to-value’ ratio), you could be in difficulty if house prices fall. If the debt you owe is more than the current value of your home, you have ‘negative equity’. This means if you sell your property the money from the sale will not be enough to pay off your outstanding mortgage. Unless you can repay the difference from some other source, you will have to negotiate with the lender how to repay the difference. If you do not repay it the lender may take legal action against you.
Today, mortgages are available for all sorts of people from all walks of life and with diverse sets of circumstances. The type of mortgage, how much you can borrow and the interest rates you can get will depend on the category of borrower you fall into. The five main categories are:

Employed
A lender will calculate your mortgage on the amount you earn; they will also consider how long you have been employed. Even if you have only been in your job for a short time, or are on a short-term contract, we may still be able to find a mortgage for you.

Self-Employed
Normally a lender will ask to see three years company accounts but may accept two years accounts, plus a projection for the next financial year.

Self-Certification
Designed for borrowers who are unable to either verify their current income or have complicated income structures for which lenders may restrict the amount that can be borrowed. These include the self-employed who have only been trading for a short time or do not have up-to-date accounts, or those who cannot provide satisfactory proof of earnings. In these cases you’re able to self-certify your income to the lender. The lender may ask for an accountant’s letter to confirm your ability to meet the monthly payments and may charge a slightly higher rate of interest than for a standard scheme.

Retired
Borrowers who are no longer in full-time employment but who have enough pension or investment income to qualify for a mortgage and support the monthly mortgage payments and repay the loan at the end of a specific term. Lenders will usually offer terms to suit the borrower’s retirement plans.

Adverse or Bad Credit
Also known as impaired credit, increasingly, lenders are offering schemes to borrowers who have a current or previous adverse credit record. Whether you have arrears, County Court Judgements (CCJs), defaults or even been registered bankrupt, there are lenders who would still consider you for a mortgage or a remortgage. Remember to always be honest with us when discussing your credit situation, as this will make our job easier when selecting the right mortgage for you.
We explain briefly below the possible costs of taking out a mortgage. We will be able to fully explain which of these are payable in your case and when, and whether the lenders offer any help towards the costs.

**Broker fee**
Unlike many mortgage brokers who charge a fee, MortgageFinders provide a completely free advice and recommendation service. This is because we provide an easy to use telephone and e-based appointment and contact strategy. We passionately believe that mortgage advice should be free and open to all.

**Buildings insurance**
This is insurance on the property, and is normally a condition of the mortgage. You may also want to insure your contents. We can provide you with more details of buildings and contents insurance products.

**Higher lending charge**
An insurance taken out by the lender, but paid for by the borrower for high percentage advances, for example those over 75% loan-to-value (LTV). This covers the lender if you don’t pay the mortgage and they have to repossess your home and the money from the sale isn’t enough to cover how much you owe. Many lenders now only charge for this if you borrow more than 90% LTV.

**Legal fees**
The lender takes a legal charge over your property and you need to appoint a solicitor or conveyancer to carry out this work. Usually the same firm will act for you and your lender, which will help keep costs down.

**Arrangement fee**
The lender may charge an administration fee for dealing with your application. They may refund this if your application does not go beyond the initial acceptance stage.

**Booking fee**
A lender may charge a one-off fee for some products, for example fixed rate mortgages.

**Valuation and Survey fees**
Before granting a mortgage a lender will carry out an inspection of your property to check it is in good condition and represents reasonable security on which to grant a mortgage. Your lender will use a qualified surveyor to provide a current property value. The fee charged normally depends on the property value or purchase price.

**Buying property in Scotland**
This process is different when buying property in Scotland, see page 17 for further details of the Scottish Property Law.

We recommend you also obtain your own detailed Homebuyer’s Report from the lender’s surveyor. For older properties, or those with potentially serious defects, a full structural survey is essential.

Many lenders offer special packages for borrowers to help them with some of the usual costs associated with taking out a mortgage, such as a free valuation, free legal fees or a cash payment towards them. Although these appear attractive, the lender will usually add these into the overall cost of the mortgage, for example by increasing the mortgage interest rate.

**THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**
How do I repay my mortgage?

Moving home and remortgaging.

If you move home you can normally transfer the remaining loan to the new property. If you want to switch lenders, because you’re moving, or simply remortgaging without moving home, you will need to repay the outstanding balance with the first lender and start a new mortgage with the new lender. You should, whenever possible, choose a mortgage term that matches the remaining term of your old mortgage.

Is it for me?

Repayment mortgages will suit you if you want to be sure of repaying your loan at the end of the term. Don’t forget, your monthly payments could increase if interest rates rise.

How you repay your mortgage depends on your individual circumstances and how long you will own the property you’re buying. Essentially, there are two ways to repay the money that you have borrowed – here’s how they work:

**REPAYMENT MORTGAGE**

With this method, you make monthly payments to the lender over an agreed number of years, called the mortgage ‘term’. Most people choose a term of around 20 to 25 years for their first mortgage, but you can have a longer or shorter term. Your payments cover the interest on the loan and gradually pay off the amount you borrowed (sometimes called the ‘capital’ or the ‘principal’). See Figure 2 opposite.

There is no built-in life cover with this method and you will need to take out a life assurance policy to cover the mortgage should you die during the mortgage term. MortgageFinders can help you with these arrangements and provide advice on a suitable product.

Will it pay off my mortgage?

As long as you make all the payments agreed with the lender and there are no arrears, you will repay the loan by the end of the term. See Figure 1 opposite. Please remember your monthly payments could increase if interest rates rise.
Mortgage problems?

If you run into difficulties keeping up your mortgage payments your lender may agree to let you reduce some of your payments or stop your payments for a while or extend the term of your mortgage.

- If you have a repayment mortgage you could ask your lender to extend the term or accept interest only payments for a while. This reduces the amount you pay each month, but increases the total cost of the loan.
- If you have an interest only loan linked to an endowment you will not necessarily be able to reduce the amount you must pay each month.
- Beware of making any financial commitment that would continue after you retire unless you’re sure you will be able to afford the payments once you’re no longer earning.

Repayment (Capital and Interest) – How it Works

**A REPAYMENT MORTGAGE**

£100,000 over a term of 25 years, assuming a constant interest rate of 6.74%

![Chart showing mortgage balance reducing over the mortgage term.](image1)

**Figure 1**

This chart shows how the mortgage balance reduces over the mortgage term.

![Chart showing total annual mortgage payment.](image2)

**Figure 2**

This chart shows that your payments each year stay the same if interest rates don’t change. It also shows that in the early years, most of your payments go towards paying the interest rather than paying back the capital.
INTEREST ONLY MORTGAGE

With this method your monthly payments to the lender only cover the interest on the loan and the original loan remains outstanding. This is why you usually pay separately into a savings scheme each month to build up a lump sum to pay off the loan at the end of the mortgage term, or sooner if you can afford it. Your monthly savings scheme payment is set at a level that assumes your investment will grow at a certain rate each year. You should not consider this type of repayment method if you want to guarantee that your mortgage will be repaid after the term.

You can use various types of savings schemes to build up the money you need to repay your mortgage:

Endowment Policy

A regular savings investment plan that is designed to provide a lump sum payment on maturity, which you use to help repay your mortgage. It usually includes built-in life cover to protect the mortgage if you die during the term of the mortgage. However, there is no guarantee the maturity lump sum will be enough to pay off the mortgage in full.

Individual Savings Accounts (ISAs)

A more tax-efficient savings plan with a wider range of investment choices, including stocks and shares and cash. There is no built-in life cover so you will need to arrange this separately at extra cost. The government limits how much you can invest each year, which could mean your savings might not be enough to pay off your mortgage at the end of the term. Also, like the endowment, there is no guarantee the lump sum at the end will be enough to pay off the mortgage in full.

Personal & Stakeholder Pensions

You could use the lump sum part of your pension to repay your mortgage at the end of the term. This is a very tax-efficient mortgage repayment method but is restrictive as the lump sum is only available between the ages of 50 – 75 when you’re able to retire. By using part of your pension fund to repay your mortgage, you will have less to live on in retirement. As with most types of investments there is no guarantee of the lump sum available and therefore no guarantee you can repay your mortgage in full.
Other Means
With an interest only mortgage, you alone are responsible for repaying the mortgage at the end of the term. However, this also gives you the flexibility to repay your loan in a way that suits your circumstances. For example, you might wish to use a mix of investments, or you might be expecting money from an inheritance.

If you need advice on investments to repay an interest only mortgage you should seek independent advice.

Will it pay off my mortgage?
All interest only loans involve some investment risk in building up a sum of money to repay the loan. With an interest only loan it is your responsibility to make sure you have enough money set aside to repay the loan in full at the end of its term.

As long as your investment grows as expected the mortgage will be repaid. You need to review how your savings are performing regularly to make sure you’re on track to repay your loan.

If your investment grows more slowly than expected, you may need to increase your monthly payments, top up your savings in other ways or find an extra lump sum at the end of the term.

Never forget
With an interest only loan it is your responsibility to make sure you have enough money to repay the mortgage at the end of the term, otherwise you could lose your home.

Moving home and remortgaging
With an interest only mortgage, if you pay off the loan, for example when you move home or remortgage, you can carry over the accompanying savings plan to your new mortgage. It is not a good idea to stop an existing investment savings plan and start a new one.

If the new mortgage is larger than the existing one, you will need to choose a way of repaying the extra borrowing. You might do this part repayment and part interest only.

Is it for me?
Whether an interest only mortgage suits you depends mainly on whether you’re comfortable with taking the risk of repaying your mortgage with a savings plan linked to the stockmarket. Investments used to build up a lump sum don’t guarantee to repay your loan at the end of the term. If you’re not comfortable with this risk then a repayment mortgage is likely to be a better choice for you.
Why take a chance on the most important investment you will make in your life. Imagine the pain that your loved ones would be suffering if you were to die and this was made even more difficult because they could no longer live in the house that you had all lovingly looked after for so long. If as a result of your death or accident or illness they can no longer keep up the payment on the mortgage this could be the result.

How Do I Protect My Home & Dependents?

Taking out a mortgage is a major financial commitment and you should ensure that you, your home and any dependants are fully protected if you’re unable to meet the repayments or if you should die.
Life cover – mortgage protection or term assurance
Depending on the type of mortgage and your own circumstances, you may need to take out life cover to repay the loan if you die during the term of the mortgage.

Tax Relief Life Cover
Like our life cover, this type of insurance is also designed to pay out if you die during the cover term but it has the added benefit that your premiums are eligible for tax relief at your highest marginal rate.

Critical Illness cover (CIC)
This cover pays out a lump sum if, during the term, you’re diagnosed with a critical illness such as cancer or heart disease, enabling you to repay the loan.

Accident Sickness & Unemployment cover (ASU) also known as Mortgage payment protection insurance (MPPI)
Designed to provide you with a monthly payment to cover your monthly mortgage payment and associated mortgage costs if you were to lose your earned income. The benefit will usually only cover your mortgage-related monthly payments, such as any life cover or building insurance premiums, as well as your mortgage payment. The benefit is usually payable for a maximum of 24 months.

Income Protection Insurance also known as Permanent Health Insurance
This can replace your regular income if you can’t work through illness or accident. There is often a longer deferment period before the monthly benefit starts, but it normally continues until you’re fit enough to return to work.

Property Insurance (Buildings & Contents)
Your lender will insist that your property has adequate buildings insurance while your mortgage is outstanding. This covers the cost of repairing or rebuilding your home if it’s damaged or destroyed.

Although not a condition of the mortgage you should also insure the contents. This covers the cost of repairing or replacing your possessions if they’re damaged, destroyed, lost or stolen.

MortgageFinders will be able to give you advice and help you to arrange any of these insurances, providing you with complete peace of mind.
You should consider the following important facts before committing to a mortgage. If you have any questions about any of these, then please discuss them with us by calling 0800 602020 now.

Multiple Applicant Mortgages
If you're taking out a mortgage with other applicants you should remember that all parties are normally equally liable for the full amount of the mortgage loan until it has been repaid.

Responsibility for repaying your mortgage
Your mortgage lender will send you a yearly reminder about the method you’re using to repay your mortgage. It is your responsibility to ensure you have suitable arrangements in place to do so.

Government support for out of work borrowers
If you become unemployed, the Government provides Income Support benefit to help borrowers with their mortgage payments. However, the level of support available is subject to very strict guidelines and is dependant on when your mortgage was taken out. On 1 October 1995, the rules on Income Support changed radically. The key points are:

- For mortgage loans taken out before 1 October 1995, no income support is payable for the first 8 weeks of any claim and only 50% of the mortgage interest is paid during the following 18 weeks of the claim.
- No income support for mortgage interest is payable for the first 39 weeks of a claim, on any mortgage loan taken out after 1 October 1995.

The Department for Work & Pensions (DWP) decide the interest rate used to calculate income payments. Usually payments go straight to the lender.

You can get further advice from the Citizens Advice Bureau and other Government offices if you experience difficulties in paying your mortgage. The Financial Services Authority produces an information leaflet entitled ‘What to do when you can’t meet your mortgage payments’, which we can provide you with.

Fortunately, there is a full range of insurances available to protect you if you cannot pay your mortgage because of accident, sickness or unemployment. See the protection section on pages 14 and 15 for further information. We will be pleased to discuss this further with you.
Differences in law and mortgage process between Scotland and other parts of the UK

There are some distinct differences in land and property ownership laws, as well as in the way property is bought and sold in Scotland compared with other parts of the UK. The point at which a mortgage is applied for comes much earlier in the Scottish process. In Scotland, your mortgage application and the survey are completed before you make an offer, and the survey actually plays a part in deciding how much you will bid for a property. Therefore you must have a mortgage principle and your solicitor in place before you can make an offer on a property. The seller sets a property price above which offers are invited, although they are not required to accept any offer that is made. Remember Scottish property law is biased in favour of the seller. An offer made to a vendor to buy a property in Scotland is legally binding and could prove very expensive to get out of.

A potential buyer must seek professional advice before entering into any negotiations.

Self-Certification mortgages

Although lenders do not check incomes shown on all Self-Certification mortgage applications, the FSA expect lenders to perform random audit checks on such business.

Consolidating unsecured debt

You should think carefully before remortgaging to consolidate personal debt or unsecured credit. Although the monthly payments will usually be lower because interest rates for mortgages are lower than those for credit cards or personal loans, the total interest payable, and therefore the total cost of borrowing could be more if repaid over a longer term.

You should arrange to repay the extra borrowing over a shorter period, roughly equal to the term of the original credit. You could do this by overpaying each month, assuming no penalty charges apply, until you’ve repaid the extra borrowing or by saving a regular amount to build up a lump sum to pay off the extra amount.

You should clearly understand the implications of turning unsecured borrowings into a secured loan. While you would face mainly financial penalties if you fail to keep up the payments on any unsecured debt, there is an increased risk of losing your home if you fail to keep up the increased repayments on a mortgage.

Before considering a remortgage for consolidation of credit, you should consider all your other financial circumstances. This could include repaying any credit from personal savings, an investment or other cash sources. Be careful not to take money from an investment that already forms part of your mortgage repayment arrangements. Make sure you receive advice before surrendering any existing investments.

If you are in payment difficulties with any secured or unsecured loans or personal credit you should also consider negotiating an arrangement with your creditors before consolidating any personal credit to your mortgage.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.
## Annual Percentage Rate (APR)
This identifies the true cost of borrowing over the full term and provides the consumer with a method of comparing the cost of different types of loan.

## Arrangement Fee
A fee charged by a lender for setting up the loan, normally payable on completion, but sometimes added to the loan.

## Arrears
Mortgage payments that have not been made by the due date.

## Bank of England Base Rate
The Bank of England Monetary Policy Committee currently reviews this monthly. If the rate changes, the standard variable rate charged by lenders will usually change soon afterwards.

## Benchmark APR
The lowest APR based on all basic product types available in the public domain. This provides an accurate indication of the true cost of a mortgage.

## Booking Fee
Sometimes known as an Application Fee
A fee charged by a lender, payable at the time you apply for the mortgage. Normally applies only to special loan offers, such as fixed or capped rates.

## Broker Fee
Unlike most mortgage firms, MortgageFinders do NOT charge you a fee for advising or arranging your mortgage.

## Buy to Let
A mortgage arrangement for a property rented out solely to tenants, normally on an assured, shorthold tenancy agreement basis.

## Capital
The original amount borrowed without any interest added.

## Completion
The point when the legal formalities of a property purchase or mortgage end and the seller receives the money. The buyer cannot take possession before completion.

## Conveyancing
The act of transferring the legal ownership of land or property from one person to another.

## County Court Judgement (CCJ)
Judgement for debt in the county court. If a judgement is settled in full within 30 days it will not appear in the credit register. If payment is made later the judgement will appear in the credit register, but show as satisfied. A CCJ registered against an applicant could affect their ability to get a mortgage.

## Credit Scoring
Method of assessment carried out by a lender which ‘scores’ the various answers given on a mortgage application. The total ‘score’ provides the basis for the lending decision. With credit scoring, it is essential you answer all questions fully.

## Deeds Release Fee
A charge by the lender for release of the property deeds to the borrower or their solicitor on repayment of the mortgage.

## Early Repayment Charge
Penalty charged by a lender for repaying a mortgage before a given date stated in the mortgage conditions, usually because attractive terms applied, for example a fixed interest rate.

## Equity
The property value, less the mortgage outstanding.

## First Charge
Standard legal charge used to secure the main (first) mortgage on a property. It gives the lender the first call on any funds available from the sale of the property.

## Financial Services Authority
An independent body that regulates the financial services industry in the UK.

## Guarantor
Person, normally a friend or relative of the borrower, who guarantees to repay the mortgage if the borrower fails to make the repayments.

## Higher Lending Charge
Sometimes known as Mortgage Indemnity Guarantee (MIG)
An extra charge made by the lender if your mortgage exceeds a certain proportion of the property value, for example 90%.
**HIPS**
Home Information Pack. (In Scotland these reports will be known as PIPS). A detailed information report provided by the vendor for the benefit of potential purchases to assist in the vending process. This will be a legal requirement in England and Wales from 1st June 2007. In Scotland effective date to be confirmed.

**Initial Disclosure Document (IDD)**
A document given to you by your lender or mortgage adviser that sets out the extent of the service they will provide in arranging your mortgage.

**Multiple Applicant Mortgages**
Mortgage applications with more than one borrower usually up to a maximum of four.

**Key Facts Illustration (KFI)**
A detailed illustration provided by your lender or mortgage adviser before you apply for a regulated mortgage contract. It sets out the key facts including the repayments, fees and terms of the loan.

**Loan-to-Value (LTV)**
This is the ratio of the loan amount to the property value expressed as a percentage. For example, if a borrower is seeking a loan of £50,000 on a property worth £100,000, it has a 50% loan-to-value. The higher the LTV the greater the risk to the lender, which can have an impact on the lender’s decision to lend. Loans above normal lending LTV ratios may require payment of a Higher Lending Charge.

**Mortgage Offer**
A written offer from the lender to the borrower setting out details of the mortgage with a list of conditions. The Mortgage Offer is usually valid for up to 6 months.

**Mortgage Term**
The period over which you repay the mortgage.

**Non-Regulated Mortgages**
Mortgages not covered by the FSA’s regulations, for example buy-to-let, second charges and mortgages on overseas properties.

**Negative Equity**
This occurs when the mortgage amount outstanding exceeds the market value of the property.

**PIP**
Purchasers information pack. See HIPS.

**Portable**
Describes a mortgage that can be transferred from one property to another if the borrower wishes to move home.

**Professional**
Person who is a member of a recognised profession, such as a doctor or solicitor. The definition can vary between lenders but qualifying applicants may benefit from favourable borrowing terms such as increased income multiples.

**Redemption**
Paying off the mortgage, either to move to another property or at the end of the mortgage term.

**Regulated Mortgages**
Since 31 October 2004 the Financial Services Authority has regulated mortgages. Mortgages not yet regulated include buy-to-let, second charges and mortgages on overseas properties.

**Remortgage**
Arranging a loan on a property in which the borrower already resides. Normally this involves redeeming an existing loan on the property.

**Right to Buy**
Option for a council tenant to buy the property in which they live, often at a discount to the open market value, that increases in proportion to how long they’ve lived in the property.
Search
Part of the legal process where the solicitor or licensed conveyancer searches against local authority records.

Second Charge
A legal charge that ranks behind a first charge, possibly to secure a second mortgage or other borrowings.

Secured loan
A loan that enables homeowners to borrow capital using their property to guarantee the loan. This means that the lender can repossess your home if you fail to repay the loan.

Shared Ownership
Method of buying a property in partnership with a Housing Association, for people who otherwise could not become homeowners. The borrower buys part of the property and rents the remainder from the Housing Association. Under most arrangements, the minimum purchase amount is 25% of the property value, with the remainder available for purchase in blocks of 25%. Also known as co-ownership.

Split Mortgages
Some lenders offer borrowers the chance to split the mortgage loan between two or more deals, for example a tracker element and a fixed rate. Also some loans can be split between repayment and interest only. This is sometimes known as a part and part mortgage.

Structural Survey
The widest form of inspection undertaken by a chartered surveyor. For properties where movement or subsidence has occurred, lenders may insist on a chartered building engineer carrying out a structural engineer’s report.

Survey (Valuation)
Before granting a mortgage a lender will carry out an inspection, a survey of the property to check it is in good condition and represents reasonable security on which to lend the money. Your lender will use a qualified surveyor to provide a current valuation. The fee charged usually depends on the property value.

Total Amount Payable (TAP)
Total amount payable to the lender over the lifetime of the loan, including all fees and charges from the lender.

Total Cost of Credit (TCC)
Total amount payable under a loan, including all fees and other charges from the lender, after deducting the original loan amount.

Unsecured loan
A loan that does not require the borrower to secure the debt against an asset, usually a property. Unsecured loans are considered to be more risky to the lender and so normally carry a higher rate of interest.

Vendor
The seller of the property.