Our guide to **remortgaging**

Which? Mortgage Advisers

Welcome

If you're a homeowner paying off a mortgage on your property, there's a good chance that the repayments are your largest single financial commitment. So it's crucial to make sure you're getting the best possible deal.

Interest rates have been at a historic low for several years, so there are plenty of good deals around. If you haven't checked your mortgage options recently, interest rates have remained below 1% – so you may find you could save hundreds of pounds by switching, or pay off your mortgage much earlier than planned.

That's where our remortgaging guide comes in – arming you with all the information you need to help you understand your mortgage options and how to get the best deal.

Our mortgage experts talk you through when to consider remortgaging and how much you could save by doing so.

Once you've read the guide, contact Which? Mortgage Advisers to find out whether you could save money or reduce the time it takes for you to become mortgage-free. So why not pick up the phone and give one of our impartial experts a call? They'll search thousands of mortgage deals made available to us and pick out the one that's right for your circumstances.

We'd be delighted to hear from you – just call us on **0800 316 7043**.

Paul Smith
Managing director,
Mortgages and home services

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Why remortgage?

Whether your aim is to save on repayments, find a more flexible mortgage or free up some cash, switching deals could be worth looking into

Borrowers who are able to secure an interest rate reduction of just 1% on a typical £150,000, 25-year mortgage will see their monthly repayments fall by around £80, or it could reduce the time it takes to pay off a mortgage by up to five years. These are clear incentives to consider your options. There are two main reasons to consider remortgaging:

Remortgage to save money

- You're at the end of an existing deal and don't want to automatically revert to your mortgage lender's standard variable rate, which may be higher.
- You're still on a deal but you may be able to save some money by switching to a better one, even after any penalty fees are paid – especially if your property has increased in value since your deal began.
- You're on your lender's standard variable rate and switching to a new deal may get you a lower rate and save you money.

Remortgage to find a mortgage deal that better matches your needs

- To switch to a mortgage that's better suited to your circumstances, such as one that allows you to vary your payments or caps them to help you budget.
- To release equity in your property if it has increased in value. This could be to pay for home improvements or help your kids onto the property ladder, for example.
- You might also want to remortgage to borrow more money, pay off debts, invest in another property or lend money to family members.

For many people, remortgaging means they can find a mortgage that is cheaper or better suited to their needs. However, this won't be the case for everyone, and there are a number of things you should think about beforehand.

Remortgage fees

In recent years, the fees that lenders charge when you remortgage have increased, and when this is taken into account it may mean that remortgaging will not save you as much as you had hoped.

Which? Mortgage Advisers can help you calculate the total costs of any arrangement fees you will need to pay to set up a new mortgage, and any exit penalties you will have to pay to leave your existing deal, and then add these on to your new mortgage repayment costs. We can then compare this overall figure to your existing repayment costs to see if you will save by switching. On p13 we highlight the fees you may need to pay if you remortgage.

What can your current mortgage lender offer?

It is always worth approaching your current lender before moving to a new provider, as they may be prepared to offer you a better deal in order to keep your business. Remortgaging with the same lender can be quick and may mean that no fees are payable. If you'd like some independent advice before approaching them, contact us and we can help guide you through this process.

Will a new lender offer you a mortgage?

If your house has risen in value, it affects the equity level you have and this may mean you could secure a better rate. Unfortunately, if prices have fallen, this may not be possible, but you may be able to secure a better payment plan if you remortgage.

Mortgages are available with a loan-to-value ratio (LTV) of 95%, but we find that the best deals are at an LTV of 60%, though you can still get good deals on mortgages with an LTV of up to 80%. Mortgages are available to those without a deposit, but you'll normally need financial assistance from your family to qualify.

In recent years, lenders have changed their lending criteria, which means other factors can affect your ability to remortgage. If you have any issues with your credit record, lenders are less likely to lend to you – they prefer borrowers with a good credit rating. You can find out more about improving your credit rating at **which.co.uk/report**.

With different lenders having different lending criteria, it's worth contacting a mortgage broker to help you find out if you can benefit from remortgaging before you apply. Much of the initial work can be done for you free of charge. For example, there are ways to improve your credit rating, which may help to secure a better rate.

Depending on when you last remortgaged, you may be subject to stricter affordability checks; if you are self-employed, you will typically need two years' accounts. Some lenders are more likely than others to lend to you, and a broker will have the expertise to help ensure the right lender is approached.

Finding you the best deal

While it's always worth talking to your existing lender to see whether they can offer you a better deal, you may find that some lenders reserve their best deals for new customers only. That's why it's worth shopping around before you commit to a new deal with your existing lender. You may be able to do much better elsewhere.

The good news is that our experts at Which? Mortgage Advisers are paid a salary, not commission, so if the best deal for you is with your existing lender, we'll let you know.

What kind of mortgage is right for you?

If you think remortgaging is the right option for you, you'll still need to decide which type of mortgage to go for. With lots of products available, it's vital to consider the pros and cons of each before making a decision

With lenders bringing out new mortgages every few months, it's worth checking once or twice a year to see whether you are on the right rate. There may be an alternative that will reduce your payments or allow you to pay your mortgage off early.

Finding the right mortgage depends on lots of things, such as what you can afford now, what you'll be able to afford in the future and what level of risk you are willing to take.

That's because what happens in the coming years – to the economy, your career prospects and your family plans – will affect how comfortably you can make the repayments.

When considering remortgaging, you need to proceed with care. Some deals may look great, but when they expire you might find they work out more expensive overall in the long run. To calculate whether it's worth switching, think about the overall costs and what will happen when the deal runs out.

So, it's really important to get independent mortgage advice from a broker about your options before making a decision.

When it comes to paying back a mortgage, in most cases, you'll be offered a repayment mortgage, but in some circumstances an interest-only mortgage might still be an option. With either, if you wish to stay in your property, you need to pay off both the capital and the interest by the end of the agreed mortgage term.

Repayment mortgages

These can also be called 'capital' or 'interest' repayment mortgages. That's because, as well as paying interest, you pay off part of the capital with each regular payment. This reduces the amount you owe bit by bit until, by the end of the term, you've paid back the lender in full and own your home outright.

Advantages:

- They're low risk. As long as you keep up the repayments, you're guaranteed to have repaid your mortgage by a certain time.
- They can be flexible. For example, the lender could extend the mortgage term if you run into difficulties and need to make your repayments smaller.
- If you're paying back the capital, you're building up equity in your home. This will help if you want to borrow more money in the future for home improvements, or if you want to remortgage.

Disadvantages:

The way they work means that, at first, you're mainly paying off the interest – as the chart on p7 shows, it's only later that much of the capital itself gets paid off. If you want to remortgage after only a few years you won't have repaid much of what you originally borrowed, and that could affect the kind of new mortgage deal you can get.

> "If you want to get an interest-only mortgage, lenders will probably ask you to prove how you're planning to pay off the capital when the time comes"

Interest-only mortgages

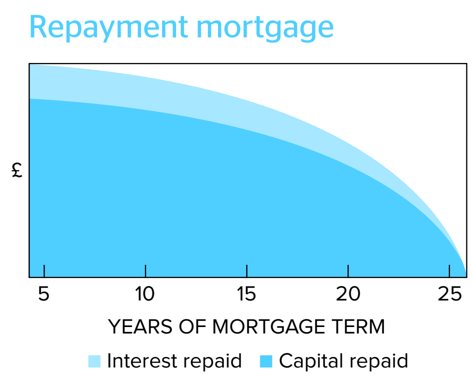
Interest-only mortgages were once popular, particularly before the 2007-8 credit crunch, but lending on this basis is now much more restricted. This is because, with this method of repayment, you only pay off the interest on the capital you owe, not the capital itself. At the end of the mortgage term you will need to have savings, investments or an inheritance in order to pay off the original loan, or else you'll need to sell the property at that point.

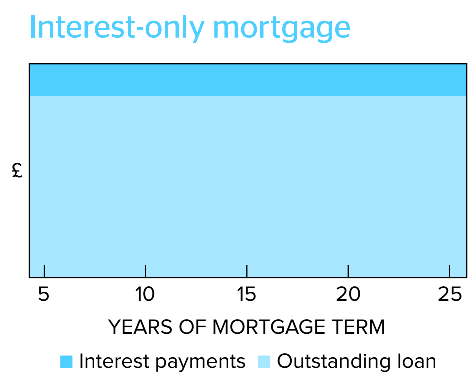
Advantages:

- If your savings or investment plan does well, you could pay off your mortgage ahead of schedule, meaning that you'll pay less interest overall. You might end up making more than you owe, leaving you with a lump sum once the capital is paid off.
- Your regular repayments could be lower than with a capital-repayment mortgage.

Disadvantages:

- Typically, you can only get interest-only mortgages with a lower loan-to-value ratio (LTV) – in other words, if the mortgage is less than 60% of the property value. (See p5 for more on LTVs.)
- Usually you will end up paying more interest overall because the interest is calculated on the whole loan amount for the whole term, rather than on a decreasing loan amount as is the case with a repayment mortgage. For example, if your interest rate was an average of 4% for the life of your mortgage and your balance was £100,000, you would pay £200,000 in total – £100,000 to pay back the original amount you borrowed and £100k in interest. If we looked at the same size of mortgage on a repayment basis, over the same 25-year term, you would only pay back £158,351 in total.
- If your savings or investment plans don't do as well as you'd expected, they might not cover the capital you need to repay. You'll then have to make up the difference, which could be a substantial amount of money, or you could be forced to sell the property.





> **“With offset mortgages, you can still spend the money in your savings account – it just means that the amount of interest you pay will go up”**

Combined mortgages

These are sometimes called ‘part and part mortgages’, and they split your mortgage so that part of it is paid off through capital repayment and the rest is an interest-only plan. It can be a good idea if a repayment plan is too expensive for you but you want to know that at least part of your mortgage will definitely be paid off by the end of the term.

You might struggle to get a combined mortgage if your LTV is over 75%. Lots of lenders who lend on a part-interest and part-capital basis will only lend 50% of the property’s value for the interest-only part and 25% for the repayment part. You’ll probably need to provide evidence of how you’ll repay the capital on the part that’s interest-only at the end of the mortgage term.

Offset mortgages

These combine your savings, and often your current account, with your mortgage. The idea is that you only pay interest on the difference between them. For example, if you have a mortgage of £100,000 and savings of £10,000 ‘offset’ against it, you’d only pay interest on the difference of £90,000.

You can still spend the money in your savings account – it just means that the amount of interest you pay will go up. For some people, there will be tax benefits to an offset mortgage. It’s a complex arrangement, though, because your savings won’t earn their own interest if they’re offset against your mortgage. This is where a mortgage broker can be invaluable as they can work out whether this type of mortgage is right for you.

What deals can I choose from?

As well as deciding if you’d prefer a repayment or interest-only mortgage, you’ll also be able to choose from a number of interest rate deals.

To encourage you to get your mortgage from them, lenders will offer you a special deal for a certain number of years. They all come with different fees and different rules, making it tricky to compare one with another. This is one of the reasons why it’s important to get independent mortgage advice from a broker when choosing your mortgage.

After the deal comes to an end you’ll usually be put on the lender’s standard variable rate, which is simply the lender’s own interest rate – set using the Bank of England base rate as a guide. These interest rate deals fall broadly into two categories: variable rate or fixed rate.

Example of a combined mortgage

Karen wants to take out a £250,000 mortgage and would like to be sure that most of it will be paid off through her monthly repayments. She already has a savings plan that she expects will be worth £90,000 by the end of the mortgage term.

She could use an interest-only plan to pay for £90,000 of her mortgage, and a repayment plan to pay for the remaining £160,000. This combined mortgage will make her repayments less expensive than if she took out a repayment mortgage for the whole £250,000. But it will still give her the security that much of the loan will be paid off when her term comes to an end.

Standard variable rate mortgages

These mortgages have monthly payments that can change from time to time, depending on the lender’s standard variable rate (SVR) of interest. The reason your payments can change is that lenders generally use the Bank of England’s base rate as a guide to their own standard variable rates to work out how much interest you have to repay.

These rates can change at any time, but usually only when the Bank of England base rate changes. When they go down, your payments should be cheaper; when they go up, more expensive. There are different variable rate mortgages to choose from: standard variable, discounted, tracker and capped.

Standard variable rates don’t follow the base rate exactly. In fact, they’re influenced by competition from other mortgage lenders as much as the base rate itself. For instance, lenders don’t have to lower their standard variable rate if the base rate goes down, but they probably will if other lenders lower theirs.

HERE’S THE DEAL

Rupert Swetman
Head of Which? Mortgage Advisers

To attract new customers, many lenders will offer mortgage deals with special interest rates for the first few years.

Once the period of that deal is over you’ll go on to their standard interest rate, which is usually higher than the initial rate. You can always switch to a better deal at that point if you want. Be aware, though, that you might be charged for moving your mortgage.

Many of the cheaper deals today might not be the cheapest in the long run. For instance, you might have to pay higher fees now or end up paying more interest further down the line. Make sure you know how each deal works and weigh up your options before you choose the best mortgage for you.

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

> **"Before your lender moves you from a deal onto a standard variable rate, it can be a good time to look around for a better mortgage deal"**

You can start out with a standard variable rate mortgage if you like – but it's usually higher than other special introductory rates, so it's more likely you'll end up on this rate once you've had a deal for a few years. Before your lender moves you from a deal onto a standard variable rate, it can be a good time to look around for a better mortgage deal.

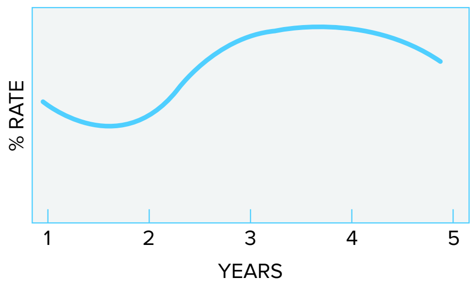
Advantages:

- If interest rates fall, you could end up paying less interest on your mortgage.
- There are no early-repayment charges. So, if you plan to pay off your mortgage early, it makes sense to be on a standard variable rate.

Disadvantages:

- You can't be sure exactly how much interest you'll pay from one payment to another, which can make it difficult to budget.
- A lender's standard variable rate can be more expensive than their other deals.
- Lenders have the right to change their rate at any time. They don't have to pass on any reductions in the base rate to you, and they can be slower to reduce their rates than they are to increase them.

Variable rate mortgage



Lender's standard variable rate

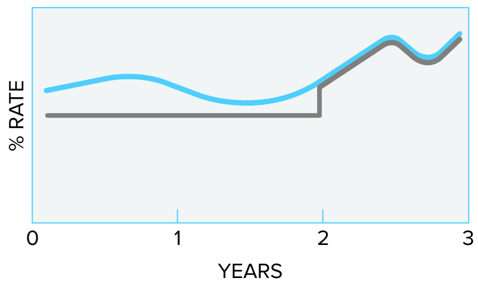
Fixed rate mortgages

With fixed rate deals, the rate of interest you pay is fixed for a certain amount of time – usually two to five years, but some mortgages will fix it for 10 or 15 years. Your payments stay the same during this time, whether interest rates go up or down.

You can switch during the special deal period, but you might face early repayment charges. Speak to your mortgage adviser and check your mortgage terms and conditions to find out whether they'll apply to you.

Once the time is up you'll be put on the lender's standard variable rate. Generally speaking, the longer your interest rate is fixed the higher it will be. However, with historically low interest rates, these deals can be quite competitive.

Fixed rate mortgage



Two-year fixed rate mortgage
Lender's standard variable rate

With around half of borrowers choosing fixed interest deals, these are the most popular kind of mortgage. People often choose them if they think interest rates will rise over the next few years.

Advantages:

- You know exactly how much your payments will be and you can budget for them. This is especially helpful if your finances are already stretched because of moving home.

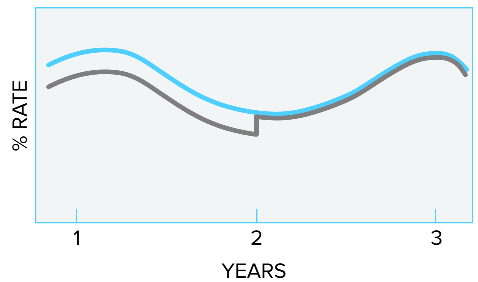
Disadvantages:

- The interest rates might be higher than variable rate offers available to you at the time.
- If the interest rate falls you'll be left paying interest at the higher rate you're fixed to.

Discounted rate deals

These give you a discount on the lender's standard variable rate for a set period of time. It could be anything from a few months to a few years and, generally, the shorter the time, the bigger the discount. After the agreed amount of time is up, you may be offered another mortgage product or you'll be put on the lender's standard variable rate. For example, a 2% discount on a 5% standard rate means that you'll pay 3%. If the standard rate rises to 6%, you'll pay 4%, and if it falls to 4%, you'll pay 2%.

Discounted rate mortgage



Two-year discounted rate mortgage
Lender's standard variable rate

Advantages:

- Interest rates tend to be lower than a fixed or capped (see p12) rate deal of a similar length.
- Discounts can keep your payments low in the early years, when your finances could be stretched because of moving and making home improvements.

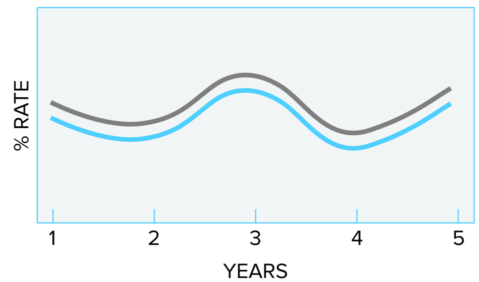
Disadvantages:

- If your payments are heavily discounted in the first few years, they could get much more expensive when the deal ends and you're put on the standard variable rate. You'll need to make sure you're prepared for the increased cost, and look to move to a better deal if possible when the time comes.

Tracker mortgages

Base rate tracker mortgages (or 'trackers') generally follow the Bank of England base rate, although some follow the mortgage provider's own specified base rate, and will be at a set percentage above or below that rate. For example, if the base rate is 4% and you have a tracker that's 0.5% above the base rate, you'll pay 4.5% interest. If the base rate rises to 5%, you'll pay 5.5%. Most trackers last for a couple of years, but they can be anything from a few months to the whole mortgage term.

Tracker mortgage



Bank of England base rate
Tracker deal (0.5%) above the base rate

Advantages:

- If the base rate falls, your payments will definitely fall too. That's because your rate moves with the base rate, not when your lender says so.

Disadvantages:

- Some deals come with a 'collar'. This means that your rate will never fall below a certain level (so, a base rate tracker collared at 3% means you'll never pay less than 3% interest, however much the Bank of England interest rate falls).
- Some mortgage lenders reserve the right to delay passing on any changes in the base rate, and could take 30 days to follow any base rate cuts.

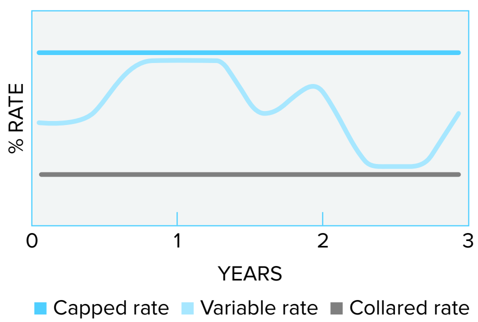
Capped rate deals

These mortgages set a 'cap' on a standard variable rate or tracker for a certain period, generally three to five years. This means that, while your interest rate will still go up and down, it won't go above a certain point.

Advantages:

- It gives you security: even if the base rate rises, your own won't rise past a certain level.
- You still get the benefit if the base rate falls.
- If you've budgeted to pay the maximum amount, you'll have extra money to play with if your interest rate goes below it.

Capped and collared rate



Which? Mortgage Advisers

Our impartial experts can give you the answers to all your mortgage questions. There's no fee for an initial consultation, and our advisers will search thousands of mortgage deals made available to us and pick out the one that's right for your circumstances.

Give us a call on 0800 316 7043. We're open Mon-Thurs, 9am-8pm; Fri, 9am-6pm; and Sat, 9am-1pm.

Disadvantages:

- Because of the extra security they give you, capped rate deals tend to cost more than fixed or other variable rate mortgages.
- Like trackers, some deals come with a 'collar', meaning that your rate will never fall below a certain level. So, they'll never go extremely high – but they'll never go extremely low either.

Deciding which mortgage is right for you

There's no such thing as the best mortgage. There's only the mortgage that's right for you. It will depend on factors such as your income and deposit, your plans for the future, whether you're planning to start a family or become self-employed, and if you might move home in the near future. For some people, a fixed rate might be best. For others, it might be a tracker mortgage. Here are some of the questions you need to start thinking about before you speak to a mortgage broker:

- Do you want your mortgage payments to stay the same each month or would you rather they had the chance to go down as well as up?
- Would you like an upper limit on the payments to guarantee you won't have to pay more than a certain amount?
- Do you want to be able to review your situation when your deal is up?
- Do you want the freedom of overpayments, underpayments and payment holidays?
- Do you want to be certain that you will have paid off your whole mortgage by the end of the term? Do you have your own savings plan to repay the loan, or will you sell the property at the end of the term?
- How quickly do you want to get your mortgage? It can take weeks or months to remortgage, so start the process early.
- Do you think you might move or sell your house within the mortgage term?
- Do you think your income could increase or reduce over the next few years?

THINK ABOUT WHAT YOU CAN REALISTICALLY AFFORD

David Blake

Which? Mortgage Adviser

If you've already decided to spend as much as you can on your monthly repayments, then a variable rate mortgage might be a bigger risk than you want to take. If the interest rate goes up, your repayments will be more expensive and you might not have the money to cover them.

A fixed-rate deal might be more expensive than the variable rates on offer, but you're paying for the certainty that your repayments will stay the same from month to month. Only think about a variable rate deal if you can manage the repayments in the event that interest rates go up.

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

What are the different remortgage fees I might have to pay?

Arrangement fee

This fee is what lenders will charge to cover the cost of the special deals that they offer. It can be anything from £300 to 3% of the mortgage value, which could be thousands of pounds (for instance, 3% of a £130,000 mortgage is £3,900).

Booking fee

This is a fee that's charged for completing the application. It is the cost of the lenders setting aside the money that they're going to lend you.

Early-repayment charge

This will apply if you want to switch your mortgage or pay it off during the special deal period, and can run into thousands of pounds. Your broker will be able to explain whether this charge applies to you.

Mortgage-exit fee

This fee applies when you pay off or switch your mortgage. It is to cover administration and legal costs. These fees are different to early-repayment charges, which are incurred if you pay off or switch your mortgage during the period of your special deal.

Higher-lending charge (HLC)

This is the fee a lender may charge you if you borrow over a certain limit. This usually starts when you borrow more than 75% against the value of the property.

Can I add these fees to my mortgage?

Lenders might suggest adding these fees to the mortgage, so you build them into your monthly payments rather than paying them in full. If you do, remember that you're likely to pay more interest in the long run. There are also other fees you'll have to pay, such as legal fees.

A step-by-step guide to remortgaging

From preparing your initial paperwork through to completion day, the stages you need to go through – and the possible pitfalls

Whether you're remortgaging for the first time or you've been through the process before, there are a few things you'll need to do to get the deal you want. First of all, you'll need to get all your financial paperwork in order before approaching lenders or brokers.

Whether you go to a bank, building society or a broker, start by speaking to your mortgage adviser about what you need. They will search the options that suit you, and advise you on which choice they think is best. It's then up to you whether or not you go ahead with their mortgage recommendation.

Whichever lender you choose, you'll need to provide information about yourself and your finances. Make sure you (and anyone else who will be on the mortgage) have the following:

- Proof of identity – usually your passport or a photocard driving licence.
- Proof of address – utility bills, council tax bills, bank statements or credit card statements are all fine, as long as they're dated within the past three months. Lenders don't usually accept mobile phone bills.
- Proof of income – ideally, your last three payslips and your latest P60.
- If you're self-employed, you'll probably need to show your accounts from the last two to three years.
- Bank statements – you'll need to provide these for the past three to six months.

> "The fact that you're remortgaging, rather than arranging a loan for the first time, won't make any difference to the basic process of arranging the deal"

The fact that you're remortgaging, rather than arranging a loan for the first time, won't make any difference to the basic process of arranging the deal. Just as with any other mortgage, you'll need to fill out an application form and give it to your lender. There'll also be credit checks and a valuation. You'll still need a solicitor or conveyancing service to help you with the legal work, though some remortgage deals come with 'free legal fees', where the lender's own chosen legal companies will do the work.

On the completion date, your existing mortgage lender is paid off, and you begin the new deal with your new mortgage lender.

The process of remortgaging should normally take less time than getting your initial mortgage, but there are still a number of stages to go through, which can take up to a couple of months.

Firstly, you should calculate how much your repayments are on your current mortgage and the cost of any fees or penalties you would need to pay to leave the deal, such as early repayment charges. Shop around to find a mortgage deal that suits your needs, and compare the costs of repayments and any arrangement fees to see whether you can make any savings.

Once you have found the right mortgage, your new lender will arrange a valuation of your property, which could take between four and eight weeks. Some lenders will have a panel of solicitors and conveyancers for you to choose from or you may be able to appoint your own. Alternatively, an independent broker will normally do this for you free of charge.

Potential difficulties

Having already obtained one mortgage – and assuming you have always stayed on top of the monthly repayments – there is a good chance you won't have any problems when it comes to arranging to remortgage. However, listed below are certain circumstances in which this may not be the case.

If your home has fallen in value

If your home is not worth what you paid for it, your ability to remortgage may be hampered. What this means for you in practice depends on the amount by which the value of your house has fallen, and how much of the mortgage you've paid off already.

You might not have enough equity in your house to get a better deal. At worst, you might be in negative equity. This is when your property is worth less than your mortgage.

For example, imagine you took out a £90,000 mortgage to buy a house worth £100,000. After a few years, you'd paid off £5,000 of your mortgage, but the house value had fallen by £20,000. That leaves you owing £85,000 on a house that's only worth £80,000.

If you're not happy with your existing deal but are in negative equity, it won't be possible for you to remortgage. If you're unable to wait for your situation to improve, speak to your mortgage adviser – they may be able to suggest alternatives you haven't considered.

If your credit history is poor

Lenders will always ask a credit reference agency for details of your credit history. This can include anything from bankruptcies and county court judgments to missed credit card payments and catalogue debts. They'll assess the information and, if they're not happy with any part of it, they may reject your application.

Each lender has their own way of assessing customers, so you might be rejected by one but accepted by another. There are a number of companies who can provide you with a copy of your credit history, including Equifax, Experian and Noodle. It's an inexpensive process, and some even offer this service for free.

So, if you think there could be a mistake on your file, you can request a copy and see for yourself. If something is wrong, you should write to the agency with evidence showing why they should change their records.

If your poor credit history dates from before you arranged your existing mortgage, and you have since stayed on top of the repayments and other financial commitments, you may find your record has improved, giving you access to a wider range of mortgage products. But if your credit history has deteriorated since you arranged the mortgage, the opposite may be true and remortgaging may be tricky.

If you are self-employed

Lenders want to be sure you can make the repayments on any mortgage they give you. Depending on the lender, they are likely to want to see 'accredited' evidence as proof of your income for the past two or three years, such as records from your accountant or statements from HMRC.

If you haven't been self-employed for this long, you might have fewer mortgages to choose from, and you might have to find a larger deposit or pay a higher interest rate.

If you were self-employed when you first took out your current mortgage, remortgaging should not prove unduly difficult. If you have moved into self-employment since then, and don't have a two or three-year track record of successful trading, then remortgaging may prove more challenging. To ensure you have the correct paperwork available, if you haven't done so already, sign up to the government's self-assessment service. This will help to provide the paperwork required.

If you don't have a permanent job

Lenders want to be confident that you have got enough money coming in to repay any mortgage they might give you. So, if you don't have a permanent job it could be very difficult to get a mortgage. Lenders might ask you for a letter from your employer, confirming that they'll give you work. Alternatively they might ask for other evidence that your earnings will stay the same. As with self-employment (see above), much will depend on how your situation has changed since you arranged your current mortgage deal.

THINGS TO BEAR IN MIND

Steve Morris

Which? Mortgage Supervisor

If you're applying for a remortgage, be aware that you might not necessarily be able to borrow the same amount as when you first got a mortgage. It all depends on what's changed since then. For instance, if your earnings have gone down or the amount you want to borrow has gone up, it might be more difficult for you to get the loan you want this time around. That's something we can help you to work out.

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

Steps to remortgaging

01 CHECK YOUR CURRENT MORTGAGE ARRANGEMENT
Are you on a special deal that has yet to expire?

02 ARRANGE YOUR PAPERWORK
Get all your documentation together

03 CONSIDER YOUR OPTIONS
Assess what type of mortgage deal you require

04 SHOP AROUND FOR THE RIGHT DEAL
Ideally one that's cheaper than your current deal, but also consider independent advice

05 APPROACH THE LENDER
You will need to complete its application forms and answer any questions the lender has

06 APPOINT A CONVEYANCER
If your new provider doesn't offer a legal service, you will need to appoint your own

07 WAIT PATIENTLY
The process of getting an offer may take weeks. Be prepared for additional questions from the lender

08 SEAL THE DEAL
On completion day, your new lender pays off your mortgage and you officially move to its mortgage

09 SPEAK TO YOUR BANK
Ensure your repayments are set up for your new lender and the old ones are cancelled

10 KEEP YOUR PAPERWORK
Be sure to keep all paperwork related to both mortgages, in case of any problems

Extending your existing mortgage

Making use of any equity in your home – by extending your existing mortgage – is another way to free up money for home improvements and other projects

It may be possible to extend your existing mortgage (or to arrange a larger loan as part of a remortgage) if you need or want to do this. One common reason for increasing the size of your mortgage is to fund home improvements. Lenders will generally want to know why you need the money before they consider offering a loan.

Unfortunately, since the 2007-8 financial crisis, it has become more challenging to extend a mortgage. Before the credit crunch, it was pretty easy to arrange this – there was a wide range of mortgages available, with some allowing you to borrow up to 100% of the value of the property. Rising house prices also meant that people built up plenty of equity in their property to borrow against.

Much has changed, though. In some areas house prices have doubled since the crash, while in others, they remain well below the values they achieved at the market peak in 2007-8. The best mortgage deals these days tend to be available on loans of 60% of the value of your property or less, and far fewer larger deals are available.

That said, if you've got a good credit record, a good amount of equity in your property, and you feel comfortable with the additional monthly payments, then increasing your mortgage is still an option. It is often referred to as 'secured lending' as the money is borrowed against your home, meaning that the lender has more chance of getting their money back if you can't pay.

The main benefit of borrowing with a bigger mortgage is that you can spread the payment over the term of your loan. So if you have 20 years left to pay off your mortgage, you can have 20 years to pay off the cost. If you have ensured you are switching your mortgage regularly to get the best deal, the interest rate should be lower than a personal loan.

Mortgage costs

You need to be aware how much borrowing via your mortgage will cost you over the period of the loan. Don't forget that if interest rates go up during the time you are paying it back, you may end up repaying more money over time. On a regular loan, the interest rate is usually fixed at a set rate for the duration of the loan, as long as you keep up with your repayments.

It is also likely to take time to get approval for lending via your mortgage – this could be anything from a day to up to eight weeks for large amounts. You may have to pay for a valuation of your property, and you could also face an administration charge of up to £600.

> "The main benefit of borrowing with a bigger mortgage is that you can spread the payment over the term of your loan"

In some cases, if you increase your mortgage as a percentage of the value of your home (for example, from 85% to 95%), you may also have to pay a mortgage indemnity premium. This can be several thousands of pounds. Make sure you check this with the lender or your adviser before you agree to remortgage.

Talk to your lender

To find out if you can increase your mortgage to fund home improvements:

- Contact your existing mortgage lender and ask them to explain their process and timings.
- Most lenders will offer to increase the loan, as long as you maintain some equity in your home. This range varies according to the lender and some have a limit. For example, they may not let you borrow more than 85% of the value of your home.
- Ask whether you have to borrow over the full term of the mortgage or if you can borrow over a shorter term. Also ask for the final cost.
- Find out if there are any fees that will increase your mortgage. Charges can vary from £100 upwards.

What happens if interest rates go up?

You can't always accurately predict when rates will go up – but you can be prepared for the fact that they might do just that

The Bank of England base rate was at an all-time low of 0.5% from 2009 to 2016, and then dropped further still to 0.25%, before returning to 0.5% in November 2017. These historically low rates have meant excellent mortgage rates have been available, but it now looks like rates are likely to rise, albeit in small increments.

The most important thing for borrowers is to ensure that, if you're on a tracker, discount or other variable-rate mortgage, you could still afford your repayments if rates were to rise. Most lenders are likely to check your ability to repay another 3% on top of their standard variable rate. This means if you are paying 3%, they will check you would still be able to make your repayments should the rate rise to 6%. In 2017 the average standard variable rate was about 4.5%.

On Black Wednesday (1992), the Chancellor raised interest rates by 2% in one day, and a further 3% shortly thereafter. Although this was an extreme event, it shows that movements in interest rates can be unpredictable. And part of a mortgage broker's job is to help advise you on what is affordable now, even if interest rates rise in future years.

How are interest rates set?

Since 1997, the setting of the Bank of England rate (also known as the 'base rate') has been the responsibility of the Bank's Monetary Policy Committee (MPC), which consists of eight economists and the Bank of England governor. They meet at the start of every month, and their decision whether to raise, cut or freeze rates is announced at noon, usually on the first Thursday of the month.

The MPC's main aim is to keep inflation, as measured by the Consumer Prices Index (CPI), at or within 1% of its target of 2%. Its secondary aim is to support the government's economic objectives of maintaining growth and reducing unemployment.

Broadly speaking, if inflation is above its target, the Bank will consider raising interest rates. And if inflation is below its target, it will be thinking about cutting rates. However, a number of other factors, such as levels of growth in the economy and unemployment, will also be taken into account. For example, after the UK voted to leave the EU in June 2016, there were concerns that the economy would weaken, so interest rates were reduced. Just over a year later, inflation hit 3% and rates were returned to pre-Brexit levels.

How are mortgage rates affected by changes in the base rate?

If you have a tracker mortgage, your interest rate will probably be directly pegged to changes in the base rate. Other mortgage rates are only loosely affected by changes to the base rate. This is one of the key factors a broker will consider on your behalf when deciding whether to choose a fixed or variable-rate mortgage.

The Bank of England base rate is merely the overnight interest rate that banks would pay to borrow from the Bank of England. However, the rate at which banks lend to their customers will depend on a number of factors, such as the interest rates that banks charge each other, and the rates they are paying on their customers' savings accounts.

So, if the Bank of England rate starts to rise, it doesn't necessarily mean that new mortgage rates will be higher. However, anyone who has an existing tracker mortgage linked to the Bank of England base rate would see their monthly repayments rise immediately.

You can use our repayment calculator at **which.co.uk/calc** to see how your repayments might be affected by interest rate increases. Remember, it's crucial to think about whether you can afford mortgage repayments at their current levels and at higher levels in the future. If the latter look as if they might cause you problems, a fixed-rate mortgage, which charges a set interest rate for a specific term, will give you certainty about what your repayments will be over the term of the deal.

The Brexit effect

Although you may have heard discussions about how the Brexit vote will affect the property market, so far it has been difficult to attribute any general market trends to the 2016 referendum. Of course, the situation may become clearer once the process of leaving the EU has been completed.

Some parts of the UK, mainly in the south and south east, have enjoyed a steady rise in property prices since 2009, while other areas have seen low rates of capital growth; and some are yet to recover the average property values seen before the 2007-8 credit crunch. One thing that has been clear is that the uncertainty around Brexit, coupled with increased stamp-duty rates, has dampened international demand for prime UK property, particularly in London.

Hopefully, as the Brexit negotiations progress, millions of people – including EU citizens in the UK, and UK citizens living abroad – will feel more confident about making property decisions that they may have been putting off since the referendum.

Your remortgaging questions

You're bound to have questions about the remortgaging process. We've tried to answer many of them throughout this guide, but here are some additional issues that may spring to mind

Q What if my deal has yet to expire on my current mortgage?

A If you're currently on a special mortgage deal, it may still be possible to make a saving, if you can find a sufficiently attractive alternative to switch to. You just need to understand any penalty charges on your current mortgage deal. Most fixed, discounted and tracker deals will require you to pay exit fees if you complete on your remortgage before the product term has finished. Typically, the penalty will be several months' worth of interest – though the fee may vary depending on how far from the end of the term you are.

Remember to add on the cost of these fees to what you'll be paying with your new deal over the period to the end of your existing mortgage. You may still save money.

Q Shouldn't I just pick the remortgage deal with the cheapest interest rate?

A The mortgage with the cheapest initial interest rate might not necessarily be right for you, and it might not be the cheapest mortgage in the long term. All mortgages come with fees and it is about finding the right balance. Your lender or a broker can help with these calculations.

Q Once I've got a mortgage, can I change my mind?

A You're not tied to a remortgage deal forever – any more than you were with the previous mortgage. You will be able to remortgage again, though all the same questions and issues will apply.

Q What happens to my mortgage if I move home?

A Most mortgages are portable. That means that a lender can move your mortgage to a new property if you want to move house. They'll do this as long as you and the new property meet their criteria. You might have to pay for a survey of the new property, and there may be administration charges, too.

Q Are there any other costs I need to think about?

A There are other costs you'll have to pay when you remortgage, and you'll need to bear these in mind when deciding what the best deal might be and whether remortgaging makes financial sense:

Adviser's fee: There may be different fee structures for mortgage advice. As independent and impartial mortgage advisers, Which? Mortgage Advisers give you the option to pay a fee for advice if you prefer. But, if you don't want to pay for our mortgage advice, you won't have to – ask about our 'no-fee' option. Should you wish to pay us a fee for our advice, we will charge a fee of 0.5% of the loan, payable on completion and if we receive any payment from the lender for your transaction we will refund this to you. If you choose a lender who we can deal with on your behalf, we will also, if you wish, complete the application, send it to the lender and help you through the whole process, all for a small administrative fee. Terms and conditions can be found at **mortgageadvisers.which.co.uk**.

Lender's valuation: A new mortgage lender will want to make sure that your property has sufficient value to cover the money it lends to you, in case you can't pay it back. So, it will arrange a valuation, and may ask you to pay for it. This isn't the same as a survey.

Insurance: While remortgaging, you remain responsible for the property at all times, and you need to protect it. So you'll need to make sure buildings and contents insurance is in place by the exchange date. In addition, life insurance, critical illness cover, income protection and unemployment cover can all help to repay your mortgage if you experience any problems with your health or your job (see p24 for more details).

Legal fees: You'll need to pay your solicitor or conveyancer for their services and any expenses they incur. Some remortgages come with 'free legal fees', which means the lender's in-house solicitors are doing the work. If that's the case, make sure that other fees aren't larger to pay for this.

Q What if I need more help?

A If you're worried about getting the calculations correct on a remortgage or any other aspect of the process, it is worth getting impartial, expert advice. Lenders must give you clear illustrations of the cost of their mortgages, so ask for the figures – but don't feel you have to do this alone.

You can speak to a Which? Mortgage Adviser by calling us on **0800 316 7043**. Our expert mortgage advisers will search thousands of mortgage deals made available to us and pick out the one that's right for your circumstances. Our advisers are paid a salary, rather than a sales commission, so you can be confident that you'll receive genuinely impartial advice.

Protecting your home and mortgage

Buildings insurance is an essential part of owning a home – but there are also other products to think about that cover illness or loss of income

Having a mortgage is a big financial responsibility and you'll need to make sure payments are made, whatever happens. You should think about taking out insurance to cover your mortgage in case, for whatever reason, you're not able to make the payments.

Once you've got your mortgage, you need to protect your home and everything in it. You should think about different kinds of insurance policies:

Buildings insurance: This covers the cost of rebuilding your home, and fixtures and fittings, if they're damaged. You need to have arranged building insurance by the exchange date, as you'll be responsible for the property from then on.

Contents insurance: This covers your possessions in case they're damaged, destroyed or stolen. It's not compulsory, but you're taking a big risk if you don't have it.

Life insurance: This pays out a lump sum if you die – this can be used to pay off your mortgage, so your family isn't left to deal with the debt.

Critical illness cover: If you're diagnosed with a critical illness, this insurance pays you a lump sum, which you can use however you choose. Different insurers cover different illnesses and in many cases only cover illnesses of a certain severity. Every policy should cover heart attacks, cancer and stroke, which account for around three quarters of claims. Policies don't always provide cover for pre-existing conditions, so always check exactly what your policy covers. People use their lump sums for mortgage payments, to pay for medical treatment or to adapt their home if needed, or, indeed, to clear their mortgage completely.

Income protection: If you fall ill or have an accident and are unable to work, this gives you a monthly payment. When you take out the policy you'll decide how much this payment will be, up to a maximum limit. This limit is roughly equal to your normal income after tax and National Insurance, minus an adjustment for state benefits and any other income you may be getting. You'll also choose how soon the cover will start after you stop working, and how long you want it to run for.

Unemployment cover: If you become unemployed through no fault of your own, this gives you a monthly payment to cover essentials, including mortgage repayments. It usually lasts for a limited period, so again, make sure you check the policy documents so you know what you're covered for. Speak to your mortgage adviser about what you need. Visit **unbiased.co.uk** to find an adviser, or ask friends and family for recommendations.

Which? Mortgage Advisers

Who we are

Which? has been offering independent advice and campaigning to protect your consumer rights for more than 60 years. By launching Which? Mortgage Advisers, we extended this commitment to the consumer into the mortgage market. Our Bristol-based team offers a trusted means of getting the best mortgage deal for you.

What we do

Unlike some mortgage brokers, Which? Mortgage Advisers search the thousands of mortgage deals made available to us and pick out the one that's right for your circumstances. Some mortgages are only available to customers who go direct to the lender, but because we want to be sure you're getting the best possible deal, we look at these mortgages for you as well.

All our mortgage advisers are paid a salary, unlike some mortgage advisers who are only paid by commission, which means you can have confidence we're making the right decision for you. We want our mortgage advisers to provide the best customer service possible – rewarding them for excellent customer feedback, not sales.

Which? Mortgage Advisers is part of the Which? Group, which is wholly owned by the Consumers' Association, a registered charity, where independence and impartiality have been at the heart of what we do since our launch more than 60 years ago. All the profits we make from our mortgage advice business go towards the work we do campaigning on behalf of consumers.

Get in touch

By now, we hope you'll have a good idea of how the remortgaging process works. But it can still be a pretty daunting task. Whether you need us to explain some technical language or whether you're ready to apply for your remortgage, we can help. Not only can we help find the right product for you, but if you choose a lender who we can deal with on your behalf, we will also complete the application, send it to the lender and help you through the whole process.

To book a phone appointment with one of the team, give us a call on 0800 316 7043, or visit mortgageadvisers.which.co.uk