Which? Mortgage Advisers

Our Guide to Remortgaging

Introduction

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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 is crucial to make sure you're getting the best possible deal.

And with interest rates at an historic low, there are plenty of good deals around. If you haven't checked your mortgage options recently, you may find you could save hundreds of pounds by switching.

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

Our experts talk you through everything from when to start thinking about remortgaging, through to which type of deal might be right for you.

Once you've read the guide, you'll probably have more questions, particularly about what deals are available right now. So why not pick up the phone and give one of our impartial experts a call?

They will 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 294 5957**.

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Why remortgage?

Borrowers who are able to secure an interest rate reduction of just a single percentage on a typical £150,000 25-year mortgage point will see their monthly repayments fall by around £80 – a clear incentive to consider your options. In practice, there are a number of different situations in which you might want to consider remortgaging:

Remortgage to save money:

- You're at the end of an existing short-term deal and don't want to pay your mortgage lender's standard-variable rate; it may be higher;
- You're still on a short-term deal, but think you may be able to save some money by switching even after any penalty fees that may be payable;
- You are on your lender's standard variable rate and you want to switch to a fixed or capped rate, which may be a lower rate than you are paying.

Remortgage to find a mortgage deal that better matches your needs:

- To switch to a mortgage that fits your circumstances better, such as one that allows you more flexibility with payments, or caps or fixes your monthly repayments;
- To release equity in your property if it has increased in value – to make home improvements, for example.

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 as you consider remortgaging.

Remortgage fees

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

Never forget the impact of fees on your total mortgage costs. You should calculate the total costs of any arrangement fees you will need to pay to set-up the new mortgage and any exit penalties you will have to pay to leave your existing deal. Then add these on to your new mortgage repayment costs. Compare this overall figure to your existing repayment costs to see if you will save any money by switching. Which?'s online mortgage calculator can help with this process.

See page 7 for more information about the kinds of fees you may have to pay in order to remortgage.

What your own mortgage lender offers

It is always worth approaching your current lender before moving to a new provider as it may be prepared to offer you a better deal in order to keep your business. Sticking with the same lender will save you time and may also mean avoiding fees.

Whether a new lender will offer you a mortgage

If your house has fallen in value and you now own less of the equity in your home than when you took out the loan you may find it hard to find a deal that will save you money. And if you are in negative equity where you owe more on the mortgage than the house is worth it is very unlikely you will be able to find any remortgage deals.

The number of mortgages available with a loan to value ratio (LTV) of more than 90% is limited and the best deals on the market are aimed at people with LTVs of 70% or less. The LTV is simply the value of the loan expressed as a percentage of the value of the property.

In recent years lenders have tightened up their lending criteria, which means other factors are also likely to affect your ability to remortgage. If you have any issues with your credit record lenders are less likely to lend to you as they are looking for borrowers with a good credit rating. You can find out more about improving your credit rating from Which?'s guide to credit reports, which is available online.

Lenders will also often demand higher salaries relative to loans than in previous years and usually conduct wider affordability tests that take into account your outgoings as well as your income to decide whether to offer you a mortgage.

If you are self-employed you may also struggle as providers will no longer allow you to self-certify what your income is and will expect you to provide documentation of what your earnings have been for at least the past two years.

Can I get my existing lender to offer me a better deal?

While it's always worth talking to your existing lender, to see whether they can offer you a better deal, some lenders reserve their best deals for new customers only. That's why it's always 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 me?

Borrowers who are remortgaging have a very wide range of choices, including several different kinds of mortgage that charge interest in different ways. The decisions you must make are similar to those with which you were confronted when first taking out a mortgage, but remortgaging is an opportunity to assess whether those original choices still suit you well today.

Proceed with care. Lenders offer special short-term deals to encourage borrowers to switch to them. But many deals that are cheap now can work out more expensive in the long term. Make sure you think about the overall costs, and what will happen when the deal runs out.

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

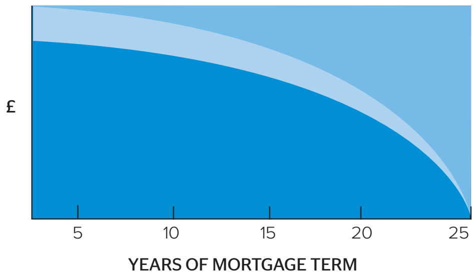
The right mortgage for you depends on lots of things, such as your attitude to risk and what you can afford now and what you'll be able to afford in the future. That's because what happens in the coming years – to the economy, to your career prospects and to your family plans – will affect how comfortably you can make the repayments. So it's really important to get independent financial advice about all your options before making any choices.

To pay back your mortgage you can choose between two methods: repayment and interest-only. With both, you need to pay off both the capital and the interest by the end of the mortgage term.

Repayment mortgages

These can also be called Capital & 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 whole thing.

Repayment mortgage



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 – 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.

Interest-only mortgages

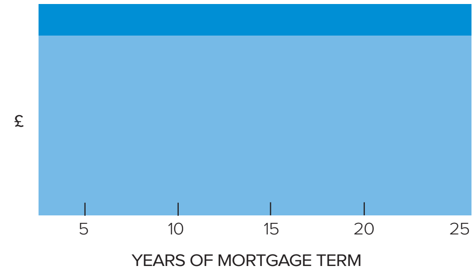
With an interest-only mortgage, you're only paying the interest on the capital you owe – you don't pay off the capital itself. Instead, you repay the capital in one go at the end of the term. There are lots of ways you might get this money together: savings, investments or an inheritance, for example. But these aren't guaranteed to pay you as much money as you hope, and it's a risk to rely on them. 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.

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. Or 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.

Interest-only mortgage



Disadvantages:

- 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 with a repayment mortgage.

- 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 lot of money.

- Typically, you can only get interest only mortgages with a lower LTV (in other words, if the mortgage is less than 60% of the property value. Look back to page 3 for a reminder of how LTVs work).

Combined mortgages

These are sometimes called part and part mortgages, and they split your mortgage

> **“What happens in the coming years will affect how you can make repayments”**

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 quite high. And you'll probably need to give the lender some evidence of how you're going to pay back 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've got 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. And 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. Your mortgage adviser can work out if this is right for you.

What deals can I to 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.

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.

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 when choosing your mortgage.

After the deal comes to an end you'll usually be put on the lender's standard variable rate. The standard variable rate is simply the lender's own interest rate, which is set using the Bank of England base rate as a guide.

These interest rate deals fall into two categories: variable rate or fixed rate. You can switch from one deal to another if you want to. But, depending on the deal you've already got, you might face early repayment charges if you switch during the special deal period. These charges can run into thousands of pounds, so make sure you speak to your mortgage adviser about whether they'll apply to you.

Variable rate mortgages

These have monthly payments that can change from time to time dependent upon the lenders Standard Variable Rate (SVR) of interest. The reason your payments can change with a variable rate mortgage 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 Rate changes. When they go down your payments will be cheaper, but when they go up, your payments will be more expensive. There are different variable rate mortgages to choose from: standard variable; discounted; tracker; and capped.

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 deal. You can always switch to a better deal at that point if you want. But beware that you might be charged for moving your mortgage.

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

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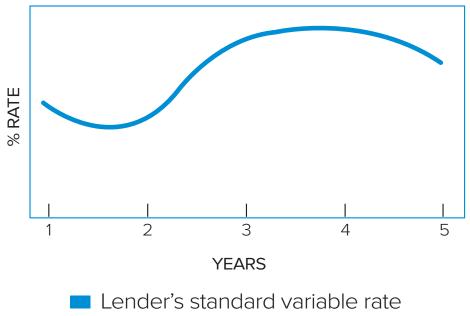
Standard variable rate



Fixed rate mortgages

Have monthly payments that stay the same for a certain period of time as the interest rate charged is fixed for an agreed period.

With fixed rate mortgages you know exactly how much each payment will be, and your payments won't be affected if interest rates go up or down. After the agreed amount of time is up, you may be offered another fixed rate or another mortgage product or you'll be put on the lender's standard variable rate (SVR).

Standard variable rate mortgages

The standard variable rate is the lender's own rate, set using the Bank of England base rate as a guide.

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.

You can start with a standard variable rate mortgage if you like. But it's usually higher than other special rates, so it's more likely that you'll end up on this rate once you've had a deal for a few years. When 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'll end up paying less interest on your mortgage.

- There aren't any early repayment charges. So, if you're planning to pay off your mortgage early it makes sense to be on the standard variable rate.

Disadvantages:

- You can't be sure how much interest you'll pay from one payment to another, which can make it difficult to budget.

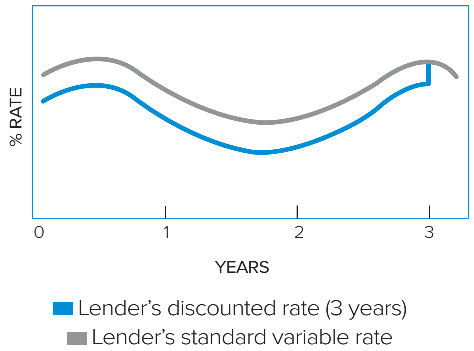
- A lender's standard variable rate can be more expensive than their other deals.

- Lenders do have the right to change their SVR at any time, they don't have to pass any reductions in the base rate on to you. And they can be slower to reduce their rates than they are to increase them.

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. As an 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



Advantages:

- Interest rates tend to be lower than a fixed or capped (see page 7) 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 deals

Base rate tracker mortgages – or 'trackers' – generally follow the Bank of England base rate, although some do follow a specified bank's own base rate, and will be at a set percentage above or below that base 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. And 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.

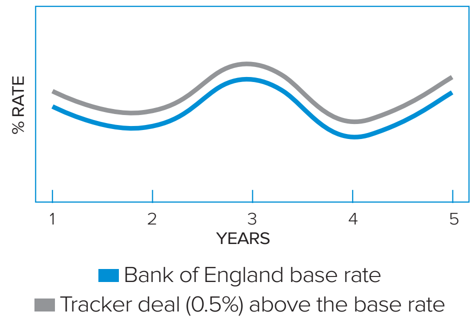
Advantages:

- 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).

Tracker mortgage

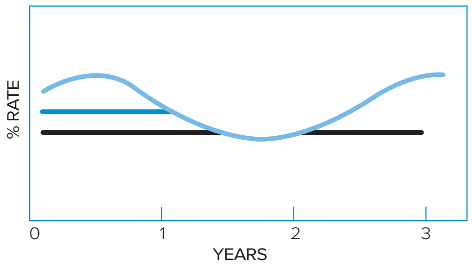


■ Some mortgage lenders reserve the right to delay passing on any changes in the base rate, and could take 30 days to follow any base rate cuts.

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.

Capped & collared rate



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.

Disadvantages:

■ Because of the extra security capped rates give you, they tend to cost more than fixed or other variable rate mortgages.

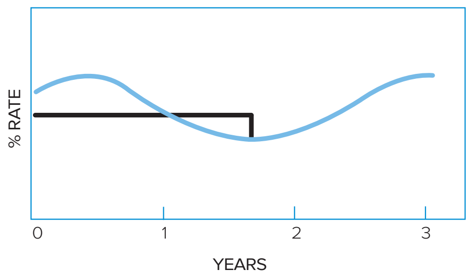
■ Like trackers, some deals come with a 'collar', meaning that your rate will never fall below a certain level. So, they'll never go extremely high – but they'll never go extremely low either.

Fixed rate deals

With fixed rate deals, the level of interest you pay is fixed for a certain amount of time. It will usually be between two and five years, but some mortgages will fix it for ten or fifteen years. Your payments stay the same during this time, whether interest rates go up or down. 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.

With around half of borrowers choosing to fix their interest rates, these are the most popular kind of deal. Lots of people choose them if they think interest rates are going to rise over the next few years.

Fixed rate



Advantages:

■ You know exactly how much your payments will be, and can budget for them. This is

What are the different mortgage 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. Arrangement fees 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 is charged for completing the application. It's the cost of the lenders setting aside the money that they're going to lend you.

Early repayment charges

These will apply if you want to switch your mortgage or pay it off during the special deal period. These charges can run into thousands of pounds. Your adviser will be able to explain whether these charges apply to you.

Redemption fee

This fee applies when you pay off or switch your mortgage – it's to cover administration and legal costs. These fees are different to early repayment charges, which are owed if you pay off or switch your mortgage during your special deal.

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, you're likely to pay more interest in the long run. There are also other fees you'll have to pay, such as solicitors' fees.

Higher Lending Charge fee (HLC)

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

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.

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. And it will depend on things like your income, your plans for the future, whether you're planning to start a family 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. Everyone needs different things. Here are some of the questions you need to start thinking about before you speak to a mortgage adviser:

- Do you want to know that your mortgage payments will 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 all this when your deal is up?
- Do you want the freedom of overpayments, underpayments and payment holidays?
- Do you want to be certain that your payments will have paid off your whole mortgage by the end of the term, or would you prefer to make your own savings plan to repay the loan?
- How quickly do you want to get your mortgage?
- Do you think you might move or sell your house within the mortgage term?
- Do you think your income could be increased or reduced over the next few years, due to career changes or family plans?

Think about what you can afford realistically

David Blake
Which? Mortgage Executive

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 whether rates go up or down.

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

When will interest rates go up?

The Bank of England base rate has been at all time low of 0.5% since early 2009. This has been good news for many borrowers, who have been able to get excellent rates on their mortgage.

It's impossible to predict with any certainty when interest rates will rise again – it could be a few months or as long as a few years.

The most important thing for borrowers is to be sure that if you're on a tracker, discount or other variable rate mortgage – you could still afford your repayments if rates were to rise. A good margin for error is to think about whether you would be in difficulty if rates were to increase by 2%. Although it's unlikely that rates would rise by 2% in a short period, it's not impossible.

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. Borrowers should never be complacent.

How are interest rates set?

Since 1997, the setting of the Bank of England rate (sometimes 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 be looking at raising interest rates. And if inflation is below its target, it will be thinking about cutting interest rates. However, a number of other factors, such as levels of growth in the economy, and unemployment, will also be taken into account. If the economy is weak, the Bank may still choose to cut interest rates even if inflation is currently above target. Conversely, the Bank may choose to increase the rates if it believes the economy is overheating.

> **"The rate at which banks lend depends on a number of factors"**

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

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

The Bank of England 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 that they are paying on their customers' savings accounts.

Hence, 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 which is linked to the Bank of England rate would see their monthly repayments rise immediately.

You can use Which?'s online mortgage repayments calculator 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.

Extending your existing mortgage

It may be possible to extend your existing mortgage (or to arrange a larger loan as part of a remortgage) if you so desire.

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.

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

Much has changed, though. House prices have fallen and the number of mortgages available to choose from has dropped significantly. The best mortgage deals tend to be available on loans of 75% of the value of your property or less these days 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 cannot pay.

Increasing your mortgage – the costs

These figures show the incremental cost of increasing your mortgage from £130,000 to £160,000. They are based on a repayment mortgage, not interest-only, and they don't take into account the cost of organising the increased mortgage, which depends on the type of mortgage and your lender.

Funding your home: a ready reckoner

	5% INTEREST	6% INTEREST	7% INTEREST	8% INTEREST
10-YEAR TERM	£38,400	£40,560	£42,600	£45,000
15-YEAR TERM	£44,100	£45,900	£49,500	£52,200
20-YEAR TERM	£48,000	£52,800	£57,600	£60,480
25-YEAR TERM	£53,400	£58,500	£64,500	£70,500

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 just 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 paying back more money over time. On a loan, the interest rate is usually fixed until you pay it off.

It is also likely to take time to get the approval for lending via your mortgage, which could range from the same day to up to eight weeks for large amounts.

You may have to pay for a valuation of the property so plan ahead. You could also face an 'administration' charge of up to £600.

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 thousand pounds. Make sure that you check this with the lender or your adviser before you agree to re-mortgage.

Talk to your lender

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

- Contact your 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 the 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 to increase your mortgage. Charges can vary from £100 upwards.

A step-by-step guide to remortgaging

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 intermediaries.

Whether you go to a bank, building society or an intermediary, you'll start by speaking to your mortgage adviser about what you need. They'll search the options that suit you, and tell you what they think is best. It's then up to you whether you go ahead with their mortgage recommendation.

Whichever lender you choose, you'll need to provide some information about yourself and your finances. Make sure you (and the person you're buying with) have the following:

- Proof of identity – usually your passport, or a photo 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 last three months. Lenders don't 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 three years;
- Bank statements – these will be from 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. 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 services to help you with the legal work, though some remortgage deals come with 'free legal fees', where the lender's own in-house solicitors will be doing the work. On the completion date, your existing mortgage lender is paid off, and you begin your 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 and 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.

Potential difficulties

Having already obtained one mortgage – and assuming you have always stayed on top of the monthly repayments – there is a good chance that you won't have problems arranging to remortgage. However, there are circumstances in which this may not be the case, and you may have to address these:

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 how much 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 have 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.

> "Remortgaging is the same basic process as arranging a loan for the first time"

If you're not happy with your existing mortgage deal but are in negative equity, it will be impossible for you to get a remortgage. If you are unable to wait, speak to your mortgage adviser, they may just be able to suggest alternatives you haven't considered.

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 or 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. It only costs a couple of pounds to get a copy of your credit history (Equifax, Experian or Callcredit are all companies who can help you with this).

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 you may find remortgaging very difficult.

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 the tax man.

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 do not have a two or three-year track record of successful trading, then remortgaging may prove more challenging.

You don't have a permanent job

Again, lenders want to be sure that you've 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. Or 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.

Remortgaging? - things to bear in mind

Steve Morris
Which? Mortgage Supervisor

If you're applying for a remortgage, bear in mind 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.

Steps to remortgaging

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

↓

ARRANGE YOUR PAPERWORK
Get all your documentation together

↓

CONSIDER YOUR OPTIONS
Assess what type of mortgage deal you require

↓

SHOP AROUND FOR THE BEST DEAL
Look for the cheapest product of the type you require, or consult an independent adviser

↓

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

↓

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

↓

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

↓

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

↓

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

↓

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

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 come to mind.

Q. What if my special 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. It's just that you will need to add an extra element to your arithmetic.

This is the effect of penalty charges on your current mortgage. 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, but these could be higher for the cheapest deals.

> "Lenders must give you clear illustrations of the cost, so ask for the figures"

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

A. You're not tied into a remortgage forever, any more than you were with the previous mortgage. You will be able to remortgage, though all the same questions and issues will apply (see page 11).

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 (see right), and you'll need to bear these in mind when you decide what the best deal might be and whether remortgaging makes 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 will 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 repay your mortgage if there are problems with your health or your job (see page 14 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. But 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 294 5957**. 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, and because they're paid a salary – not a sales commission – you can have confidence that you'll receive truly impartial advice.

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

Protecting your home and your mortgage

Having a mortgage is a big financial responsibility. You'll need to make sure it's repaid, 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 if it's 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. The money can be used to pay off your mortgage, so your family aren'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. But policies won't always cover you 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're made unemployed through no fault of your own, this gives you a monthly payment to cover essentials like 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 **www.unbiased.co.uk** to find an adviser, or ask your friends and family for recommendations.

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

About Which? Mortgage Advisers

Who we are

The Which? Group has been offering independent advice and campaigning to protect your consumer rights for more than 50 years. We extended this pledge to the mortgage market by launching Which? Mortgage Advisers. Our Bristol-based team offers a trusted means of getting the best mortgage deal for your circumstances.

What we do

Unlike some mortgage brokers, Which? Mortgage Advisers search 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 incentivise our mortgage advisers to provide the best customer service possible – rewarding them for excellent customer feedback, not sales. Which? Mortgage Advisers is a trading name of Which? Financial Services Limited part of the Which? Group, which is in turn 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 55 years ago. All the profits we make from our mortgage advice business go towards the work we do campaigning on behalf of all consumers.

Get in touch

By now, we hope you'll have a good idea of how the remortgaging process works and what you need to do. But it can still be a pretty daunting task. Whether you need us to explain some complicated technical bits 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 294 5957

Monday to Friday 9am - 6pm; Saturday 9am - 1pm

mortgageadvisers.which.co.uk

Which? Mortgage Advisers

Get in touch

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To book a phone appointment with one of the team, give us a call on **0117 981 1624**, or visit us at **mortgageadvisers.which.co.uk**