appletree
FINANCIAL SOLUTIONS LIMITED

Guide To Remortgaging

Featuring Our Budget Calculator & Top Ten Tips

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

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1. What is Remortgaging?

If you are reading this, the chances are that you've decided to move house or borrow more against the value of your home. If you are a first time remortgager, this simple, straight forward guide will help you to navigate potential pitfalls along the way and understand your options when it comes to dealing with lenders.
Remortgaging is essentially the practice of changing the mortgage on a property without actually moving from it.

It is usually to move a mortgage to a new lender, although in theory you can simply be offered a better deal by your existing lender. Unlike current accounts and utilities contracts, this switch usually has to be carried out by paying off the existing mortgage with the funds from the new mortgage rather than by simply moving your custom to a new provider.

In many ways remortgaging works in much the same way to taking out a mortgage for the first time; however, there are some key differences worth noting.

1. The housing market may have changed since you first bought your home. In the short term, house prices can go up and down, meaning that the remortgage you want might equal a larger percentage of your home's value than you originally thought.

2. The amount you owe may have changed. Normally you will have paid down some of your mortgage, which means that you will be remortgaging for a smaller sum than when you made your original purchase.
Even if you are remortgaging for more than you need to cover the cost of paying off the old mortgage (for example to fund a building project, such as an extension), you will still have shown yourself capable of managing regular payments on a mortgage, which is obviously looked on favourably by lenders.

3.Your personal circumstances may have changed. When lenders consider making loans of any description, they look at a potential borrower's overall situation and make a judgement on how likely that borrower is to repay. While mortgages in themselves are long- term loans, lenders are well aware that borrowers can and do move their custom elsewhere. So they will take stock of a borrower's circumstances in the here-and-now as well as looking at how their life may develop in the future.

4.Regulations and recommendations have changed. Financial advisers that specialise in mortgages not only have to abide by the law, but also have to be aware of the recommendations of the regulators. The guidance given to lenders has changed, which might affect whether you are eligible for a remortgage. In general, if it's been a long time since your first mortgage, be prepared for change. It may take longer or require more paperwork than previously.

2.Why Would I Remortgage?

Buying a house is one of the single biggest financial decisions most people ever make. It therefore follows that a mortgage is one of the most important financial products any individual will ever take out.

Getting the best deal on anything is advantageous and the larger the sum of money involved, the greater the advantage. Getting a better deal on your mobile bill, for example, may save you a few pounds every month: getting a better deal on your mortgage could save you hundreds of pounds a month. Over the course of a year this adds up to thousands of pounds and over the long-term life of the mortgage, the savings could add up to tens of thousands of pounds of direct savings.

It is also worth thinking about the indirect benefits. In short, instead of paying money to your mortgage lender, you will be freeing up money for other purposes. This may mean you can afford to pay cash (or at least put down a substantial deposit) for purchases you would normally have had to finance (a new car for example) thereby saving yourself financing costs. It may mean that you have extra money to invest for your future or to help out your loved ones if they need a financial boost.

There is also the possibility of increased flexibility. Like all other financial decisions, remortgaging should be looked at as an overall package and for some people this may be about more than simple financial savings. You may wish to change to a different type of mortgage for example, or move to a lender who offers greater flexibility in terms of repayments.
For example, those who are considering a career sabbatical and/or a return to study funds for might benefit from having a lender prepared to offer repayment holidays by arrangement.

Finally, remortgaging can be used as a way of raising finance, although this needs to be looked at carefully. Although mortgages can have substantially lower- interest than other financial products, they are
longer-term than other financial products. Therefore you need to look at the overall cost of paying a higher interest rate over a shorter period of time and compare it to the overall cost of paying a lower interest rate for a longer period of time. If your plan is to take advantage of the lower interest rate and make extra payments to reduce the outstanding balance more quickly, then be sure to factor in the cost of any early-repayment fees.

Summary

- Potential to save on monthly cost
- Potential to change mortgage type to be more flexible.
- Potential to raise additional funds for home improvements like extensions.

3.When Should I Remortgage?

As with all financial products, the best time to remortgage is when the sums add up. It's worth starting out with a couple of scenarios where it is unlikely that the sums will stack up and why.

1. Those Who Need To Borrow A Significant Percentage Of The Value Of Their Home.

As previously mentioned, when lenders make loans they will look at your overall situation. This means not only your personal circumstances but also how you may be affected by events in the economy as a whole. When economic times are good, banks tend to be much more relaxed about their lending criteria. When economic times are more challenging, banks become much more sensitive to risk. Lenders will almost inevitably show a general preference for people who are borrowing a smaller percentage of their home's value as these are the least risky deals for the lender.

2. Those Who Only Need To Borrow A Very Small Percentage Of The Value Of Their Home.

Lenders will tend to be more interested in you if you are applying for a large remortgage. The larger the loan the greater profits the lender can make, so there might be considerably less interest in more modest loan applications. Much of the application process is computerised now, meaning that only big applications are dealt with by human personnel in the branch.

3. Those Unclear About Their Future Plans.

Remortgaging enables you to stay in your current home and potentially reduce your repayments. If you have to sell your home anyway, for example to move somewhere bigger or smaller or to a different part of the country (or a different country) then remortgaging may not be cost-effective.

If any of these scenarios are applicable to you then, you should look at the cost of your current mortgage and compare it with the costs of alternative deals, including fees. The greater the difference, the more beneficial remortgaging becomes.

An example, if a remortgaging deal carries fees of £500 but will save you £50 a month, then your break-even point is after 10 months. If the deal is for a year, the benefit is questionable, but if it is for two years or more, it becomes substantially more attractive. If however the same deal will save you £250 a month then the overall effect of the fees is vastly reduced.

4. How Much Does A Remortgage Cost?

The short answer is, it depends. Here is a quick run-down of the types of fees typically incurred when remortgaging.

Early Repayment Fees

In simple terms, when you sign up to a mortgage you typically sign up to a multi-year contract.

Some lenders charge for early repayment of your loan before the end of the normal mortgage term. This can sometimes be a significant amount, so you should always check the terms . Even where this is not the case, lenders may charge administrative fees to cover the cost of closing the mortgage. In theory these costs may be met by the new lender, but of course this will be factored into the cost of the new deal.

Entry Fees

Your re-mortgage will be counted as a new mortgage deal, so you will probably need to pay the same sorts of fees as you did previously.

Application fees, conveyancing fees and survey fees are the most common charges you will face.

There may be ways to keep these costs down, although this will depend on your lender. You might not have to accept the lender's solicitors, for example.

Most solicitors tend to keep paperwork, so if you were happy with the service you received from your solicitor last time around then it may be worth approaching them to see if they will handle the paperwork again for a reduced fee.

Some remortgages are solicitor free using the lenders appointed legal representatives.

Likewise if you had a full structural survey undertaken when you bought the property (as opposed to a home-buyer survey or a valuation report) then your lender may be prepared to waive the requirement for another survey. Even if your lender does require a survey, it may be possible to reduce the cost by using your original surveyor.

5. How Does A Remortgage Work?

Assuming that you've already looked at remortgaging and decided that it is right for you, there are three parts to the process: finding the right deal, getting approved, and exiting the old mortgage.

There are three ways you can go about finding a new deal. The first way is to look at the available deals yourself. The second is to go through a mortgage specialist adviser.

Although finding a great deal yourself is certainly possible, it isn't always straightforward. The obvious place to start looking is price-comparison sites and these can certainly give users a decent feel for what is around the market; however these sites do not cover all mortgage providers nor do they necessarily give all the relevant information for the lenders in their database. Some lenders choose to be excluded from these databas-es, other lenders, particularly smaller, specialist ones, may simply be below their radar.

This means that getting the right deal may mean undertaking a much more thorough search, assuming you know where to look in the first place. Because of this, many people turn to financial advisers that special-ise in mortgages. There is, of course, a fee to pay for their services, either upfront or incorporated into the cost of the loan (if paid as commission).

You should choose a mortgage adviser that has a detailed knowledge of the lenders and may even have contacts within them so they will know, which lenders are likely to view your application favourably. While mortgage specialists can vary in their level of expertise and indus-try knowledge, reputable companies can be hugely helpful not only in finding deals but in completing the relevant paperwork and can be worth every penny of their fee.

Their services may include tailored financial advice to help you achieve your financial goals. Mortgage advisers will look at your overall financial situation and work with you to see how your mortgage fits into that plan and by extension, what type of mortgage is right for you.

Once you have agreed the deal, the process of being approved will be similar to the initial approval process. You will need to submit an applica-tion, have a property valuation and have a solicitor undertake standard conveyancing tasks. Once you are approved, you will receive an offer in writing, at which point you need to contact your current lender and go through the necessary process to end your contract with them.

6. What Is 'Loan To Value' And Why Is It Important?

Loan to Value (often shortened to LTV) is simply the percentage of your home's value that you want to borrow. For example if your home is worth £100,000 and you want to borrow £80,000 then your loan to value is 80%. This is important because the lender's risk goes down as the LTV decreases.

Put simply in a worst-case scenario your lender will try to recoup the money they lend you by repossessing your home and selling it.

In practical terms, the lower the LTV, the more flexibility the lender can give you if your circumstances change. For example they may be able to allow you to switch from a repayment mortgage to an interest-only mortgage or even to take a payment holiday while you stabilise your financial situation.

Another reason for lenders preferring lower LTVs is that it reduces the possibility of borrowers simply walking away from a home and the corresponding mortgage. If you have invested enough in their home that you can feasibly make a profit (or at least break even) on a sale; then you have a compelling incentive to work to sell the house for the best possible price.

For a lender, therefore, an ideal mortgage applicant looks like this; someone who borrows enough money for them to make a profit, but a small enough LTV.

This means the lender has a good chance of recouping the loan if the house needs to be sold during the life of the mortgage.

In the real world, LTV ratios depend on a number of factors, the most important of which is your employment situation.

If you are in a well paid, stable and secure job (dentists for example), you are likely to be accepted at higher LTV ratios than those in more unstable and competitive professions (people who work in the media for example). If you are self-employed in particular, you are likely to need to keep LTV well down to benefit from the best available rates.

7. What Is The Affordability Criteria?

Traditionally mortgages were decided largely on the basis of multiples of income. Even then there was scope for discretion, for example those in positions where their income was expected to rise significantly over the course of their career (junior doctors for example) could be given some leeway. Conversely, lenders might still rein in applicants they felt were putting themselves at risk of being over-stretched.

Today lenders are legally obliged to consider affordability when reviewing mortgage applications. This means ensuring you can eat properly, pay essential bills such as utilities and travel to work.
Then there are all the little expenses like new clothes, shoes, haircuts and toiletries, all of which add up.

In short, therefore, lenders have to look at how you can be reasonably expected to manage financially. They will look at your finances to be sure that you have a reasonable chance of meeting mortgage payments over the long term.

This effectively means making reasonable guesses about how your lifestyle might develop in the coming years. For example a young couple without children may find their income taking a steep hit at some point in the near future, when children arrive with all their associated expenses. A couple whose children have at least reached primary-school age, however, are in a different situation as their childcare requirements are substantially reduced.

Although the concept of affordability criteria was formally introduced to reduce the risk of people over-stretching themselves, it's worth remembering that it does work both ways. For example if one half of a couple is currently taking time out to study, then their mortgage application may benefit from the potential improvement in their employment prospects in the future.

Lenders may wish to see more paperwork to show evidence of good financial management and your ability to live within your means. All potential borrowers should ensure that you are genuinely able to afford to repay any sort of loan before making an offer.

8. How Do I Live Within A Budget?

Money advice is one of those irritating 'gifts' that everyone loves to give, but rarely follow themselves. Living within a budget can be challenging and it is all about remembering the 'bigger picture'; you are forgoing spending today to pay for much more important things in the future. The key to living within a budget is knowing the difference between needs and wants and ensuring that needs are met before wants are considered.

The first and most basic set of needs are the basic ones of food, shelter and clothing. For many working people and students, some form of transport will also be a need.

The second set of needs will include paying off debt. This is more important than saving, if you have £100 in the bank accruing two percent interest, but are paying three percent on a £100 loan, you are losing money. Get rid of debt before you start saving.

The third set of needs are the needs that will help you take care of you and your family into the future. Retirement planning, estate planning and tax planning will be included in this. These needs are secondary to the vital needs in the here-and-now, but take precedence over wants.

Everything else is a want. Of course, some wants are more meaningful than others. For example you may consider internet access to be fairly fundamental to your life, but that does not necessarily mean that there has to be internet access in the home. These days in all but the most rural of areas there are generally places where WiFi can be accessed for free or included in bundles with mobile telephone contracts.

You might find getting to grips with a household budget quite a challenge. It might take a couple of attempts to control your spending and that's absolutely fine.

If you're simply trying to get to grips with your current situation, then a good place to start is with a trip through your bank statements for the last year. If you're going to do this on paper then a selection of highlighter pens is helpful. Put different marks beside expenses which are for needs and those which are for wants. If there's anything you don't recognise put a mark beside that and find out what it is.

That will give you a baseline idea of where your spending your money and how much of your spending is essential. Then keep a spending diary for a week or two. An easy way to do this is to use your mobile to photograph your receipts or, if you don't get a receipt, record the item in a notebook.

This can be very revealing. For example you may find that the trip to the supermarket that you flagged as essential, actually involved buying quite a few items that weren't. Again, there's no harm in having a few luxuries, if you can afford them, just know where your money's going.

As you develop a greater understanding of how you're spending your money, you'll be able to start to look for ways to use it most effectively, which is the fundamental goal of budgeting.

9. Our Budget Sheet

Here is a basic budget sheet, which could be adapted to suit various circumstances.

Income	
Wages / Salary 1	
Wages / Salary 2	
Benefits	
Other	
Income Total	
Outgoings	
Accommodation (Rent/Mortgage)	
Council Tax	
Service Charges	
Buildings Insurance	
Contents Insurance	
Gas	
Electricity	
Water	
Groceries	
(Food and other house- hold items and toiletries)	
Transport	
Telephone	
Internet	
TV License	
Clothing/Shoes/Haircuts	
Medical/Dental	
Foreseeable Expenses	
Emergency Fund	
Personal Spending money	
Outgoings Total	

This budget only covers day-to-day expenses, since financial planning is so dependent on individual circumstances. You could easily add lines for pension payments, ISAs, investments etc. to reflect your commitment to financial planning.

You can also break out different lines to make them more detailed. For example you could split out the groceries line into separate lines for food, other household items (such as cleaning products and toilet paper) and toiletries.

You will notice that there already are two separate lines for foreseeable expenses and emergencies. This reflects the fact that the financially unprepared can find themselves making emergency situations out of perfectly foreseeable ones. For example white goods such as washing machines need repairs and wear out sooner or later, so budgeting for repairs and to replace them is a very wise idea.

An emergency fund is for genuine emergencies. You may not be able to think of one right now, but you'll know it if it happens. You don't necessarily need to keep putting money away in either fund every month, once they've reached a reasonable amount, you can stop, just be ready to replenish them when they're used.

When budgeting, it's worth taking time to think about the question of insurance versus funding the expense should it arise. For most people buildings and contents insurance is simply a given (in fact the former will almost certainly be a requirement of any mortgage) and for drivers third-party insurance is mandatory.

For everything else, you want to use your money as effectively as possible so over-insuring is to be avoided as much as under insuring. Two basic questions to ask are "Can this item be replaced?" and "How would I feel if anything happened to it?"

In the case of pets, for example, the answers are likely to be "No" and "Absolutely terrible", which is a strong argument for looking at insurance.

Another important question is "What's my potential liability?" In the case of dogs for example, you are potentially liable for any damage they cause, which means that even if you opt to pay for vets bills, third- party insurance could be a worthwhile purchase.

10. How Has Stamp Duty Changed?

Stamp duty is the tax that the government levies on all house sales. It was reformed in December 2014 by the government, who believe that the previous system of duty was unfair. Before the changes a duty of one percent was due on houses up to the value of £250,000. Even a penny more in property value would result in an increased stamp duty rate of three percent. Now the rates have been reformed to more closely resemble the structure of income tax. From 2015 onwards you will pay stamp duty at the following rate:

Up to £125,000 : 0 percent
£125,001 to £250,000 : 2 percent
£250,001 to £925,000 : 5 percent
£925,001 to £1.5m : 10 percent
Above £1.5m : 12 percent

This means that if you are buying a £250,000 home, the first £125,001 of that sale will not be taxed at all. If you are buying a £500,000 home, the first £125,001 will not be taxed and the next £124,999 will be taxed at two percent. The £250,000 after that will be taxed at five percent.

11. Our Top 10 Tips

1. Get Organised

This may seem like an absolutely basic tip, if you are busy juggling commitments to work, study, family and friends (sometimes all of the aforementioned) then it can be very easy to put off dealing with non-urgent financial matters.

2. Get Help If You Need It

There's plenty of help available for those looking to get to grips with their finances. This ranges from free guides on the Internet to professional advice tailored to your situation. How much advice you will need will depend on your own knowledge and the importance of the decision. Initial consultations with financial advisers often are free, so get in touch today.

3. Understand Your Current Arrangement

Do you know what type of mortgage you currently have and fully understand its terms and conditions both in the short and longer term? Take a good look at your paperwork; you should be able to see if early repayment fees apply or not. Watch out for other possible charges such as exit fees (also known as 'redemption charges'). Your adviser will be able to help you understand this.

4. Understand All Fees

Remortgaging is about making sure that the effort and cost of taking out a new mortgage is worth the financial reward. You can only make an accurate judgement of this if you fully understand all the costs involved.

5. Be Cautious Of Benefits

Some mortgages offer headline benefits such as cash- back, caps on interest rates or help with the fees to exit your current mortgage. While these may look attractive, at the end of the day, the costs will simply be tucked away into the overall cost of the mortgage.

6. Check If Deals Are Available To People Who Are Remortgaging

Most mortgages are available to anyone who qualifies for them; however there are still some that are only for people who are actually buying a new home.

7. Be Realistic About the Value Of Your Home

To a lender, the value of your home is what they realistically think a buyer will be prepared to pay for it at any given time. This may or may not be what you paid for it in the first place or what you personally think you could get for it now.

8. Remember You Are Being Assessed As Well As Your Home

Make sure you cover your bases with regards to your credit score. Get a copy of your credit report from the main agencies (Equifax, Experian and Call Credit) and make sure no mistakes have crept in since you were last approved for a mortgage.

9. Make Sure Your ID Is Organised

You will need to prove where you live. Proof will include utility bills, bank statements and official identification. If your passport or driving licence is due to expire make sure you send it away in plenty of time so that you're sure to have it back before you want to start applying for a new mortgage deal.

10. Review How Your Mortgage Payments Are Protected

Now is a good time to think about how your new mortgage will be paid if you became unemployed, ill, injured or even die? There are several kinds of insurance that you could look at to safeguard your repayments including critical illness, life assurance, mortgage payment and income protection.

12. Frequently Asked Questions

What Kinds Of Mortgages Are There?

Traditionally there have been two main kinds of mortgages, repayment and interest-only. With a repayment mortgage, the monthly repayment includes both the interest payment and a payment towards the sum lent. With an interest-only mortgage the monthly repayment is only for the interest on the sum lent. You have to repay the full sum lent at the end of the mortgage term.

Recently these have been joined by current account/ offset mortgages, which work along similar lines in that your mortgage debt and income/savings are put into one big pot (current account mortgage) or different linked pots (offset mortgage). The idea is that as the interest charged on loans is higher than the interest paid on savings, by putting your savings towards the loan you will benefit overall. The various deals such as cash-back mortgages or capped interest mortgages are all essentially variations on these four basic types.

What is Standard Variable Rate (SVR)?

Every month the Monetary Policy Committee at the Bank of England (BoE) meets to decide how much interest to change the financial institutions to which it lends money. This is known as the Base Rate. Lenders then add a percentage on to this to determine the interest they charge the people who borrow from them. This percent-age difference is agreed when the loan is arranged and remains fixed, hence the term standard. The actual rate charged however, will go up or down according to the BoE's decisions, hence the term variable.

12. Frequently Asked Questions

Are Interest-Only Mortgages Suitable For Buying Private Homes?

Interest-Only Mortgages went through a period of popularity some time ago and were often sold with investment products, such as endowments.

The rationale was that by reducing monthly repayments on a mortgage, buyers would be able to invest the money saved and therefore not only have enough money to pay back the sum lent on the mortgage but also make a profit.

Unfortunately this did not work out for many people and in current times interest-only mortgages have become more associated with investment properties, such as buy-to-let properties.

In short, interest-only mortgages can be used to buy private homes, but borrowers have to understand the risks involved and to be aware that even the best investment decisions do not necessarily turn out as planned. At the same time, they can have their uses, for example, using an interest-only mortgage for a few years could be a feasible way of managing other short-term expenses. If considering an interest-only mortgage for a private home then it could be very worthwhile to get professional advice.

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

Contact us

To find out more about our services or to arrange a fee free initial consultation, get in touch today!

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