Conveyancing Marketing Services Ltd

Mortgage Information and Insurance

What is a Mortgage? A Mortgage is a type of loan granted by a bank or a building society, usually known as the Lender or Mortgagor. The mortgage is usually granted for a long period, traditionally 25 years, and this period is known as the **Mortgage Term**. The Borrower, also known as the Mortgagee, offers his property as security for the loan. The Borrower signs a legal document, known as a Mortgage or Legal Charge, which then secures the property to the Lender for the period of the Mortgage. The Legal Charge is registered at the Land Registry and appears in the Charges Register of the owner's legal title.

See our Mortgage Beater Service here

The Council of Mortgage Lender's web site CML (click here) contains a useful mortgage calculator and repayment table. There are downloadable guides including what to do if you are in mortgage arrears.

Choosing the right Lender for you. There are currently around 155 lending institutions in the UK chiefly consisting of Banks and Building Societies but there are other types of Mortgage Lenders known as Centralised Lenders. Many Lenders are familiar high street names with local branches. Others operate entirely online or through Independent Financial Advisors, Mortgage Packagers and Mortgage Brokers. The type of Lender you choose will largely depend upon your circumstances and how good a mortgage risk you are.

Outlined below are typical examples of Mortgage Lenders in the UK:

- **High Street Banks and Building Societies**. Display mortgage rates and will have an in house mortgage advisor who will prepare mortgage illustrations for you to enable you to shop around and compare. Most banks and building societies will only offer their own mortgage products although some do offer other mortgage provider products.
- **Online Mortgage Sites and Lenders**. Some online mortgage sites act as a host for many different types of Lender and allow you to

compare from a much wider range of Mortgage Providers. Some Lenders now provide the facility to apply for a mortgage on line.

- **Independent Financial Advisors (IFA) and Mortgage Advisors**. These may operate independently or within firms of estate agents. They should have a wide knowledge of the Mortgage market and may have access to mortgage deals that are unavailable on the high street. If you are self employed or have a poor credit history a good IFA or Mortgage Advisor may be able to secure you a mortgage where you have failed to do so.
- **Centralised Lenders**. Large Companies that specialise in mortgages and do not have a high street presence. These Lenders often specialise in certain types of mortgage such as buy-to-let, adverse credit and high loan to value mortgages.
- Employee schemes.

Types of Mortgage

The following paragraphs will help you to understand what types of mortgage are available in the mortgage market today but they are not meant to provide financial advice. Before entering into a mortgage you should seek specialist advice from an independent financial advisor who is registered with the Financial Services Authority.

Islamic Mortgages

CMS employs only qualified firms of solicitors who specialise in conveyancing. Many of our panel solicitors also specialise in conveying property which is being bought with the aid of an Islamic mortgage. When a property is bought with the aid of an Islamic mortgage there is more work involved for the buyer's solicitor as they are required to liaise with the bank's own solicitor, providing details of title, searches and enquiries to the bank's solicitor and dealing with any queries or special conditions raised by the bank. They must also check the agreement and any lease provided by the bank's solicitor and advise you on the contents of these documents. You will note from the CMS quote provided that a fixed fee of £75 plus VAT is charged for this additional work.

Islamic Mortgages Explained

The basic principle of Islamic finance in the purchase of a property is to create a fair agreement between bank and customer that does not involve the payment or receipt of interest which is not permitted under Islamic law.

With an Islamic mortgage the bank and the customer share the risk of the investment in the property and divide any profits between them. The terms of the agreement are laid out in writing between the parties and the buyer's solicitor will advise the buyer on the terms of that agreement.

There are two main categories of agreement as follows:-

Ijara (Leasing agreement)

·You find the property and agree a price with the seller.

·You must appoint a conveyancing solicitor.

·The bank does the survey and buys the property from the seller.

·The bank's solicitor checks the legal title and draws up the lease document. The property is registered in the bank's name.

·The bank then sells the property back to you at the same price.

·You agree to pay rent to the bank for the benefit of living in the property.

·A lease agreement is drawn up in respect of the rent payments. Your solicitor also checks the title (deeds), searches etc. and the lease and advises you.

·In addition to the rent you pay a contribution towards the purchase price each month.

·The monthly payment is usually fixed in advance on a yearly basis.

·You can usually pay off more than the agreed monthly payment without incurring a penalty.

·The amount owed to the bank decreases each month until the total price has been paid and the property is yours.

Murabaha (Buying/Selling agreement)

·You find the property and agree the price with the seller.

·You must arrange the survey and appoint a conveyancing solicitor.

·The bank then buys the property and then sells it to you at a higher price (which is calculated by taking into account the original price of the property, the repayment period agreed, less the deposit already paid by the buyer).

· Generally a large deposit of around 20% of the purchase price must be put down by the buyer on the day of the purchase.

·On completion the property is registered in the name of the buyer.

·The outstanding balance under the agreement may be paid off at any time.

·The bank generally offers a fixed repayment period with a fixed monthly payment for the term of the loan.

The Home Buy Scheme

The CMS solicitor panel consists of over 65 firms of qualified solicitors throughout England & Wales. Because our solicitor firms specialise in all types of conveyancing and are used to working for clients both locally and nationally they have experience in all types of conveyancing including the Government's new Open Market Home Buy Scheme (OMHB).

The Home Buy scheme was introduced by the Government in April 2008 to help first-time buyers and key workers to buy a home. This scheme allows buyers to borrow up to 50% of the value of the property and offers more choice in the type of mortgage that buyers may take out.

MyChoiceHomeBuy is an equity loan of between 15 - 50% of the purchase price. The loan is provided in partnership with CHASE a consortium of Housing Associations. The MyChoiceHomeBuy loan can be used together with any conventional mortgage. Interest is charged on the full loan up to 1.75% in the first year and increases yearly by the Retail Price Index plus 1%.

Ownhome is an equity loan of between 20 - 40% of the purchase price. The loan is provided in partnership with Places for People, a Housing Association, and Co-Operative financial services. The OwnHome loan can be used with any conventional mortgage from the Co-Operative bank. Although initially the Ownhome loan must be used in conjunction with a Co-Operative bank mortgage the borrower may switch to another mortgage provider once the initial mortgage deal has expired (i.e. at the end of a fixed rate). There are no interest charges on the Ownhome loan for the first five years. In years 6 - 10 there is a charge of 1.75% per year and from year 11 to the end of the loan a charge of 3.75% per year.

The loans are open to social tenants, key workers and qualifying first-time buyers. Buyers can put down a deposit and repay the loan, in part or in full, early if they wish. Alternatively the loan is repaid when the property is sold.

Unlike shared ownership schemes the new-style home buyer loans give the buyer full ownership of their property, subject to the mortgage, from the beginning. Buyers can choose their property from the open market and are not restricted to shared ownership or housing association properties.

Methods of mortgage repayment

The Repayment Mortgage - With a repayment mortgage the Lender calculates the interest on the mortgage during the term and adds this to the mortgage. The Lender then calculates how much you must pay each month to make sure that the mortgage is completely repaid at the end of the Mortgage Term. Each month your mortgage payment consists of part interest and part capital. In the early years you are mostly paying off the interest and will not see much of a decrease in the loan.

The Interest Only Mortgage - With an Interest only mortgage the Lender calculates the interest on the mortgage during the term. The Lender then calculates how much you must pay each month to pay off the interest only part of the Mortgage. You make the mortgage repayments for the term of the loan. At the end of the loan you still owe the full amount of the mortgage that you originally borrowed.

Pros and Cons

Repayment Mortgage: With a repayment mortgage you have the certainty that at the end of the mortgage you will have nothing more to pay. You may have to pay a higher monthly mortgage in the early years.

Interest Only Mortgage: With an interest only mortgage you will have the benefit of lower monthly mortgage payments. At the end of the Mortgage Term you will still owe the full amount of the mortgage. With an interest only mortgage some lenders will insist, and all will recommend, that you take out a savings plan to pay off the mortgage at the end of the term. With the added cost of the savings plan the total monthly mortgage spend is often similar to the cost of the repayment mortgage.

Relying on a repayment plan to pay off your mortgage at the end of the term can be hit and miss. Some plans have done very well in the past and have provided at least enough to repay the mortgage whilst others have performed badly. If a repayment plan performs badly then it may not provide enough to pay off the mortgage at the end of the term and you, the borrower, must make up the shortfall.

Interest Rates

When you take out a mortgage in the U.K.you must pay interest to the Lender. The Lender is allowed to set the interest rate they intend to charge you. Interest rates may go up or down throughout the term of your mortgage. There are two main interest options when choosing how to repay your mortgage:

Variable Rate of Interest - With this type of mortgage the interest rate charged on your mortgage can fluctuate throughout the term of the

mortgage. Generally, Lenders react to the Bank of England base rate and variable mortgage rates rise and fall in line with what the Bank of England base rate is doing. With a variable rate of interest you cannot predict what your monthly repayments will be. You will reap the benefit when interest rates fall but conversely you will have to pay more when they rise.

Fixed Rate of Interest - Many Lenders now offer a "fixed rate" product. This allows you to fix the rate of interest you will pay on the mortgage for a set period. During this period you can be sure that your monthly mortgage repayments will not increase but you will not get the benefit of any fall in interest rates generally. Once the fixed rate period ends your mortgage will generally revert back to the Lender's variable interest rate. Some products seek to tie the borrower in to the mortgage for a further fixed period after the benefit of the fixed loan has ended.

Key Facts Illustrator - By law you must now be provided with a Key Facts Illustrator (KFI) by any Lender or Mortgage Advisor you are using, provided they are regulated by the Financial Services Authority. The KFI gives an illustration of the mortgage and details the features and costs associated with that particular product. This allows you to see how that particular mortgage product will affect you in the long term as well as the short term.

Below are some of the different types of Mortgage Deals available:

Reduced or Discounted Interest Rates. Lenders offer an interest rate that is lower than their standard mortgage rate. The lower rate is usually offered for a fixed period after which the interest rate will increase to the Lender's standard interest rate. It is often the case that the fixed low interest period is for a fairly short term and, when the lower fixed rate ends, the Borrower finds that he is tied into the higher variable rate mortgage for a further fixed period. The Borrower cannot repay the mortgage or switch to a better deal without incurring a hefty early repayment penalty. Thus the Borrower is obliged to pay the higher interest rate for the remainder of the "tie in" period.

Fixed Interest Rates - With this type of Mortgage the interest rate on the mortgage is fixed for a set period. By fixing the interest rate the Lender can guarantee that the Borrower's monthly mortgage payment will not change during the fixed rate period. The down side is that the borrower is usually tied into a variable rate mortgage for a period after the fixed rate has ended. During the fixed rate period the amount of interest charged cannot increase or decrease. The borrower benefits when interest rates are rising but in recent years when the interest rate has steadily declined borrowers have found themselves tied into high fixed rate mortgages to their detriment.

Capped/Collared Interest Rates - With a capped interest mortgage the Lender guarantees that the interest rate on the mortgage will not rise above a fixed level but it will decrease if the Lender's standard mortgage interest rate decreases. With this type of mortgage the borrower has the certainty of knowing that his mortgage repayments will not increase but the added benefit of knowing that if interest rates decrease he will benefit. With a Collared Interest Rate the Lender stipulates that the interest rate cannot fall below a certain level.

Tracker - Interest Rates that Track the Lender's or Bank of England base rate. With this type of mortgage the Lender guarantees that the interest rate will not exceed or drop below the base rate by more than a specified amount. The borrower's mortgage repayments can go up or down.

Current Account/Offset Mortgages - These mortgages are linked to your current account or a savings account. They work on the principle that the debt you owe on the mortgage is reduced by the credit balance in the account before the interest on the mortgage is worked out. Each month the amount of credit in the account is subtracted from the mortgage debt and mortgage interest is paid on the balance only. Thus, if the amount in your current account or savings account increases your mortgage repayments decrease and as your balance/savings decrease your mortgage repayments increase. This type of mortgage may be of advantage to regular savers and high rate tax payers. If you link your savings to your mortgage you do not get interest on your savings but you pay less interest on your mortgage.

Flexible Mortgages - This type of mortgage allows you to overpay or underpay the mortgage at certain times. You may also be given a mortgage "overdraft" that you are allowed to draw down upon. This type of mortgage generally gives you the flexibility to alter your mortgage payments to suit your circumstances and to repay the loan early, without penalty, if you choose to. Flexible mortgages can be useful if you are self employed and your income fluctuates or if you want to pay your loan off quickly.

Self Cert Mortgages - This type of mortgage allows the borrower to certify his income, without proof. The interest rate is usually higher and the borrower is generally required to pay a deposit of at least 25% of the purchase price. The Lender relies upon the Borrower to provide a true and honest statement of income. If the Borrower overstates his income he may end up with a mortgage he cannot afford and be subject to criminal proceedings for fraud if he is caught.

Mortgage Regulation - The Financial Services Authority is responsible for the regulation of the majority of mortgage sales. It is important to ensure that the firm you are dealing with is registered by the FSA. The FSA has a complaints and compensation procedure to protect borrowers.

Check whether your Mortgage Advisor is registered with the FSA on their web site

Mortgage related insurance and repayment vehicles.

There are numerous insurance products related to mortgages. Some of the more common insurance products are illustrated below:-

- **Buildings Insurance** When you purchase a property with a mortgage the Lender will insist that you take out buildings insurance. The Mortgage Valuer will state how much the property should be insured for. This figure does not reflect the market value of the property but rather the cost of re instating the property should it be completely destroyed. The Lender may insist that they are named on the policy document and it is generally a condition of the mortgage offer that, if you are not insuring the property via the Lender, you provide them with a copy of the insurance policy each year. Buildings insurance is designed to cover the property against major risks to the structure and fabric of the property such as fire, flood, subsidence etc. In the event that the property is destroyed or damaged the insurance company pay out a sum of money to the Lender or the Borrower to repair or reinstate the property.
- **Contents Insurance**. This is usually taken out jointly with Buildings Insurance. Contents insurance is designed to insure personal belongings that are not covered by building insurance. It is not usually a condition of the mortgage offer that a borrower has contents insurance. It is the borrower's own decision whether he requires contents insurance and if so, how much.
- **Life Assurance**. When buying a property, with the aid of a mortgage, you must consider what will happen to the property, and any dependants living with you, if you die before the mortgage is paid off. In the event of the death of a sole borrower the Lender will expect the mortgage to be repaid in full more or less immediately. Where a borrower has not taken out sufficient life assurance to repay the mortgage the Lender will expect the loan to be repaid from his estate (i.e. the borrower's assets after death). For most of us our home is our major asset and forms the majority of our estate upon death. If there are insufficient funds, apart from the home, to repay the loan then the property will be sold by the Lender and the mortgage will be repaid out of the proceeds of the sale. Joint borrowers are required to take out life assurance to pay off the mortgage in the event of one or both deaths.

For a comparative Mortgage Quote without obligation - Click Here

Or Contact us at info@cms-uk.co.uk

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