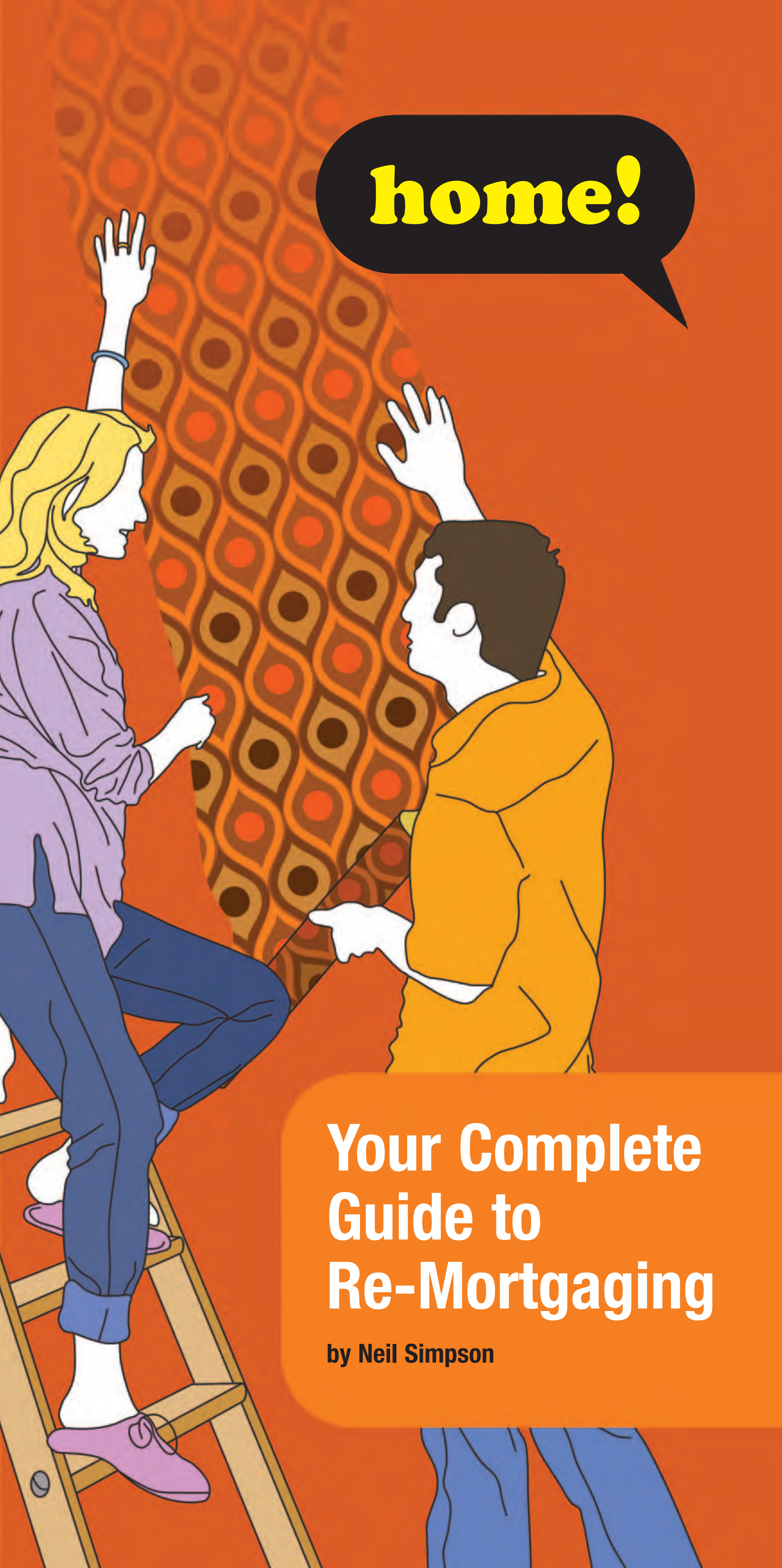

Your Complete Guide to Re-Mortgaging

by Neil Simpson

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Your Complete Guide to Re-Mortgaging

by Neil Simpson

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Neil Simpson is the country's leading property and investment journalist. With 12 years of experience, writing for papers as diverse as The Sunday Telegraph, the Daily Mirror and the Mail on Sunday. Former Personal Finance Journalist of the Year.

Time to re-mortgage?

Has your mortgage passed its sell-by date? Experts say millions of borrowers are paying far more than they need each month because they have stuck to the same lender for too long. Millions more are also missing out on the chance to re-organise their finances and clear their mortgages early because they are stuck with an old-fashioned and inappropriate loan choice. So what can borrowers do to save money and get back on track?

The answer is simple: Re-mortgage

Re-mortgaging is becoming easier, faster, cheaper and more effective than ever before. Almost all borrowers should consider it – but many are unsure about how re-mortgaging works and why they should do it.

This guide is designed to change all that. The first section explains all the key benefits of getting a better mortgage. The second part shows how to get the job done and who can help you. So read on if you want a better mortgage. And put the guide aside to refer to again in the future if you plan to follow the millions of 'serial re-mortgagers' who save money by switching lender every few years.

Changing your mortgage can save you money straight away, cut the long term cost of your loan, help you sort out your wider finances – or all three. So don't stick to an expensive, old-fashioned mortgage. Find out how re-mortgaging can keep your finances ahead of the game and start saving money fast.

Loyalty rarely pays in Britain's cut-throat mortgage market. Lenders compete fiercely to win new customers, often offering great deals to people moving house and signing up for new mortgages. But they rarely seem to pay much attention to their existing borrowers.

The best that many long-term borrowers can hope for is an annual statement and a letter whenever interest rates change. Apart from that they are expected to sit back and keep making monthly payments until their traditional 25-year mortgage terms are up. But sticking to the same deal or the same lender for more than a few years can turn out to be an expensive mistake – one that can cost far more than £1,000 a year if you have a typical £90,000 loan.

Re-mortgaging, switching from one loan deal or lender to another, can change all that. You don't need to move house to move your mortgage. You shouldn't worry that the process will take a long time or create a lot of new paperwork. And you don't even need to do the work yourself as impartial brokers such as Home, which sponsors this independent guide, can help you every step of the way.

This booklet shows how re-mortgaging can change the balance of power from lenders to customers – by taking advantage of any better mortgage deals that may be available, your finances could be in better shape. To start off, here are the six key ways that re-mortgaging can improve your fortunes.

Re-mortgaging can help you…

save money each month

Saving money is the most common reason for re-mortgaging. It can also be the easiest to achieve.

Here is how it works. If you have been with the same lender for more than a few years then you are likely to be paying its standard variable mortgage rate – that's the rate paid by around half of all borrowers in Britain. Unfortunately standard variable rates tend to be expensive and they vary widely between different banks and building societies.

If you have a typical £125,000 mortgage with an expensive bank then you may be paying a standard variable rate of, say, 5.8 percent – meaning you pay £608 each month in interest alone. A better value lender may have a standard variable rate of just 4.7 percent, however, so if you re-mortgaged on to this deal your monthly payments would fall by £115 to just £493. That's an immediate saving of more than £1,350 a year. But even this big saving can easily be beaten.

Most lenders offer a wide range of 'special offer' deals as well as their standard variable rate loans. And while they like to give the impression that they are only available to new homebuyers the reality is that most are available to re-mortgage customers as well. Re-mortgaging from an expensive standard variable rate on to a bargain basement discount deal can have a dramatic effect on your finances.

Re-mortgage the same £125,000 loan from 5.8 percent, on to a discount deal charging, say, 3.75 percent, and you will be saving £218 a month or £2,616 a year in interest. And the process should be simple to achieve. The second section of this guide explains how easy it can be to switch from a high to a low cost mortgage in this way – and what the costs of the change could be. But keep reading to see if a re-mortgage could bring you other key benefits as well.

start some home improvements or buy an investment property

The past few years of high house price rises mean many people now live in properties worth far more than their mortgages.

A form of re-mortgaging known in the trade as 'releasing equity' lets owners take advantage of the good news. It is the same as in the earlier example about clearing expensive debts. If you have a mortgage worth £180,000 on a property worth £400,000, for example, then as long as your income and other circumstances allow it you can ask your existing or a new lender for a re-mortgage worth, say, £205,000. The increase of £25,000 will be paid into your bank account when the re-mortgage goes through.

What you do with the extra money is up to you. But many people re-mortgage to raise the funds to start some home improvements, build an extension or even use the money for a deposit on a second home or a buy-to-let property. And, as already stated, many people find that if they re-mortgage from an expensive to a low cost lender their total monthly outgoings hardly rise, even though the amount they have borrowed has gone up.

Re-mortgaging can help you…

fix your mortgage payments

Rising interest rates can be a real worry if your finances are tight or you have a very big mortgage. Even a 1 percent increase in rates can turn an affordable payment into the exact opposite.

A bigger jump can trigger even more serious problems. Of course no-one knows how mortgage rates may change in the future, or if we will ever return to the high interest days of the early 1990s. But fixed rate mortgages do allow borrowers to avoid any increase in their payments for a set period of time. So look around or ask an independent broker for details of today's best fixed rate deals when you re-mortgage, and consider applying for one if it looks good value.

MORTGAGES DON'T HAV

clear other expensive debts

The cost of borrowing varies widely, but mortgage rates are almost always the cheapest around.

When this guide was written credit card debts were attracting interest of up to around 19 percent depending on the provider, overdrafts cost a typical 16 percent and personal loans 12 percent. But good mortgage deals cost less than 5 percent interest – and a re-mortgage can help you move expensive debts on to this low rate. Lets say you have a £100,000 mortgage on a property worth £145,000. But you owe £4,000 on a credit card, have a £1,000 overdraft and an expensive £5,000 car loan.

Asking a lender to increase the size of your loan to £110,000 when you re-mortgage can give you the money to clear all three of these costly debts overnight. The extra £10,000 borrowed on your mortgage will of course have to be repaid. But it will only attract low mortgage-rate interest until you do so. Amazingly enough, if you re-mortgage from a high to a low cost mortgage deal your monthly payments may not be much higher – and may even be lower – even though the size of your loan has increased.

So if you are paying a lot of money each month servicing existing debts consider re-mortgaging as a way to get your finances back on an even keel.

beat an endowment shortfall

Poorly performing endowment mortgages are causing an enormous amount of worry in the housing market.

Borrowers pay a set amount into a policy each month in the hope that it will produce enough to clear their loans in full after 25 years. But millions have now been told that bad investment performance means the endowment is unlikely to clear more than half the value of the mortgage at this point. So what can borrowers do?

As already shown, a re-mortgage can dramatically cut your monthly outgoings. So if you are worried about your endowment you can re-mortgage and use the money you save each month to chip away at the capital you owe. By bringing your mortgage down to size it may still be possible to clear it in full when your endowment finally matures. Or invest your monthly savings elsewhere to produce a second lump sum of money that will make up any shortfall and can clear your mortgage when your endowment matures.

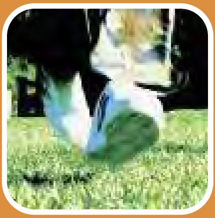
VE TO LAST 25 YEARS
SAVE MONEY WITH A SPECIAL OFFER DEAL

clear your mortgage years ahead of schedule

Most of us dream about living without a mortgage millstone hanging around our necks. And there are two ways that re-mortgaging can bring this day forward far sooner than you might expect.

First, some or all of the savings you make by switching from an old, expensive mortgage on to a new, cheaper alternative can be used to chip away at the size of your debt. Lets say your old monthly repayment was £850. A re-mortgage could easily bring this down to £700 – but you could agree to keep paying the full £850 to your new lender for a while. It means an extra £150 a month or £1,800 a year will be knocked off the value of your mortgage. What is even better news is that the effect of these sorts of overpayments can increase as the years go by, shaving even more off your loan. So while you are free to stop making overpayments at any time your loan will start shrinking even faster the longer you stick to them.

The second way a re-mortgage can help you cut your mortgage term is by picking a far more flexible deal when you switch. So-called current account or offset mortgages allow you to use the value of any money in your bank or savings accounts to help clear your loan early. The loans are complicated to understand, so it may be worth discussing them with an independent broker such as Home before picking one.
If they do suit your circumstances then a re-mortgage can help you take advantage of them and clear your mortgage debt fast.



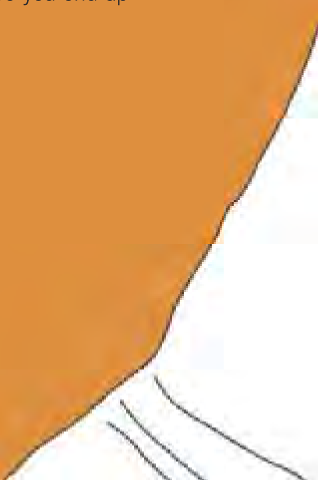
The next steps?

The first half of this guide should have shown just how many financial advantages you can get out of re-mortgaging. But what about the process itself? Fortunately technological advances and intense competition in Britain's mortgage market means re-mortgaging is getting easier than ever. Lenders are keen to poach customers from their rivals, and will handle most of the paperwork involved in a re-mortgage to ensure that they get new borrowers on board as quickly as possible. They will also help out with any of the legal or valuation work that needs to be done and a price war means the costs of re-mortgaging may also be far lower than you had thought. Here are the seven key steps to a better mortgage.

1 Decide what you want to achieve by re-mortgaging

Do you want to cut your monthly payments, move on to a fixed rate deal, raise some extra capital or get a more flexible arrangement?

Fortunately with many re-mortgages you can achieve several of these goals at once – cutting your monthly payments while raising a little extra money and getting a more flexible deal, for example. But it helps to prioritise your aims to ensure you end up with the most effective new mortgage deal.



2 Find out all the vital details of your existing mortgage

Check what interest rate you are paying, and whether you are part of any special offer such as a fixed, discounted or capped rate deal, for example. Ask your lender if you will face any penalty if you pay the loan off early by re-mortgaging. So-called ‘early redemption charges’ normally only apply if you want to leave a deal such as a fix or discount before the special offer term expires, though some lenders also charge them for a few years after a special offer has expired as well. If you don’t face any early redemption penalties then you are free to look around for a better mortgage offer straight away and are far more likely to save a lot of money in the process.

If you do face redemption penalties then you have two choices. First, you can wait until the penalty period ends and start shopping around for a good re-mortgage then. Or you can work out if the savings you could make through re-mortgaging are so great that the penalties are actually worth paying. Let’s say you took out a five year fixed rate mortgage set at 6.5 percent three years ago. If your loan is worth £140,000 then your current monthly interest payments will be £758. If you re-mortgage elsewhere before the end of the five year fix your lender may charge an early redemption penalty worth, say, three months interest or £2,274. That’s a tough penalty. But if you re-mortgaged on to a bargain basement rate of 4 percent, for example, you would bring your monthly payments down to £467 and save a total of £6,984 over what would have been the final two years of your fixed rate deal. It means the £2,274 penalty would almost certainly have been worth paying, even when any other costs of the re-mortgage are taken into account.

Working out if redemption penalties can be recouped by re-mortgaging is difficult, so it can be worth speaking to an independent broker for advice. The important thing is to find out if you face any penalties at all, and then what they might be, before deciding whether or not to change your existing arrangement.

3 Find out what other deals your existing lender offers

It may well have a range of good value mortgage offers that it promotes mainly to new customers or to those moving house. Most of these deals may actually be available to its long term borrowers as well – as long as customers make the first move and come forward to ask about them. Tell your lender what you aim to accomplish by re-mortgaging – lower monthly payments, a shorter mortgage term, an extra lump sum of cash – and ask if it can help you achieve your goal.

Sticking to your existing lender can make a re-mortgage simpler and easier. It may be happy to move your old mortgage onto a new rate with very little formality or paperwork, for example. But don't assume that this is automatically the right course of action – there could well be far better deals available elsewhere.

THERE'S A LOT OF CHO

4 Look at the sort of mortgage deals rival lenders are offering

Different lenders may easily beat the best rates available from your existing bank or building society. So shop around as widely as possible before deciding what to do. Nowadays there are many ways to compare mortgage deals – the money pages of national newspapers and several internet sites list the latest best-buys for example. But with more than 7,000 separate mortgage offers from more than 150 lenders on offer in Britain it can still be worth getting some expert help to sort between them.

A decent mortgage broker will have easy access to all the rates and will be able to read between the lines of all the latest advertisements to work out which will really suit different types of borrower and which should be avoided.

The small print on loans can mean that the best choice for someone wanting to raise a little extra money may be quite different to the best choice for someone wanting to cut their monthly repayments, for example. Tell your broker what you want to achieve by re-mortgaging and then take a look at the loan options he or she provides.

A good broker will also compare these with your current loan and the best offerings from your existing lender and help you work out which option will be best for you. As the next few steps show, a broker can also take control of the whole re-mortgage process, making it even easier.

5 Check the sums to make certain that re-mortgaging will pay for you

There are likely to be several costs involved in the deal. Your existing lender may charge an early redemption fee, as explained earlier, or it may levy another form of early leaving charge. There is likely to be an application fee for the new mortgage, plus legal and valuation fees to pay.

Many brokers also charge for their help, though some, including Home which sponsors this guide, are free to use. Add up all the costs of the switch and compare them to the savings you will make by re-mortgaging. Many people find they recoup all the costs in lower monthly repayments within a few months – so the re-mortgage will certainly make sense.

DICE OUT THERE
YOUR NEW LENDER WILL TAKE CONTROL

6 Pick your new deal, fill in an application form and return it

Nowadays you can normally apply for re-mortgages online or over the phone, as well as in high street branches. And if you are using an independent broker they should be able to sort out all the forms on your behalf as well, so all you have to do is sign and return them. The great thing about re-mortgaging is that your new lender then takes control of the whole process – and as they want to get you signed up and paying interest as soon as possible they will be as keen as you are to get the job done quickly. They will even deal with your old lender for you so you don't even need to tell your old bank or building society manager that you are moving on.

When you return the application form you may be asked for some other paperwork such as latest proof of your income. Your home may have to be valued and the new lender will probably find a local valuer who can get the job done at a time to suit you. But even this can be more convenient than it sounds as in many cases lenders only need so-called 'drive-by' valuations which can be carried out from the street.

Some legal work will be required, but again your new lender will probably suggest that you use its lawyers to streamline the process and keep the costs down. So you don't need to find or speak to a solicitor yourself. With some low or no fee re-mortgage deals you may even get the valuation and legal work done for free.

7 Sit back and wait for the re-mortgage to go through

Once all the forms are completed and the valuation and legal work is done your new lender will check exactly how much it needs to send to your old lender to clear the mortgage there. When that money goes through you stop paying interest to the old lender and start paying it to the new one – your re-mortgage is complete and your new cheaper and more effective home-loan is up and running.

Of course last minute problems can occasionally crop up and cause an annoying delay. But in most cases it should take no more than two months from your initial application until you make your first repayment to your new lender. The longer you wait before getting the re-mortgage ball rolling the longer it takes before you start saving money and taking control of your mortgage and your finances.

So if you want to re-mortgage use this guide as a point of reference to help you find a cheaper up to date mortgage.

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