L&C
Mortgage & Insurance Advisers

<u>Your Free Guide to Remortgaging</u>

Please find enclosed your free copy of the MoneySavingExpert.com Guide to Remortgaging, sponsored by L&C. I hope that you find the guide not only informative, but that it will be your first step towards saving yourself thousands.

The guide provides a great starting point towards understanding how money can be saved by remortgaging. As well as saving money, remortgaging can also help raise money for home improvements, holidays, university fees – you name it.

<u>Don't delay reviewing your mortgage!</u>

Remortgaging is surprisingly simple. L&C, one of the UK's best known mortgage brokers, helps thousands of people save money each year. We recommend the best mortgage to suit your personal circumstances and charge NO FEE for our service. The process is conducted quickly over the telephone, with back up and advice provided throughout. We also provide access to our unique online tracking service so you can chart the progress of your mortgage.

For a free no-obligation review, simply call us on **Freephone 0800 953 0598** or enquire online at www.lcplc.co.uk/ml/remortgage-guide.

We look forward to hearing from you – and saving you some cash!

Yours sincerely,

Phillip Cartwright
Managing Director

MoneySavingExpert.com

Guide to Remortgaging 2014

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All information correct at time of going to press (June 2014).

Independence and integrity

> "This guide is written with absolute editorial independence"

This guide is sponsored by London & Country mortgages, that's the reason we can print and distribute it for free.

So let me make something very plain.

This guide is written with absolute editorial independence. What's in it is purely dependent on my view of the best ways to save money and the sponsor's view on that is irrelevant.

However, the reason I agreed to allow London & Country to be the sponsor, which enables this printed guide to exist, is because after detailed research into those brokers that offer coverage nationwide, London & Country has come out as one of the top for a number of years.

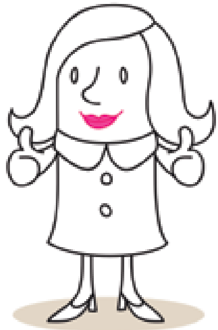
It's very important that this is understood and no one thinks it is the other way round, in other words, it is recommended because it sponsors the guide. Like everything with MoneySavingExpert.com, the editorial (what's written) is purely about what's the best deal.

If London & Country no longer offers the deal it currently does, and either starts charging fees or stops being independent and offering products from across the market, we'd ditch it as a pick immediately. You can check if that's happened via an up-to-date article on mortgage brokers on the site. Just go to **www.moneysavingexpert.com/mortgagebrokers**.

Who's this guide for?

It's for anyone who wants to switch their mortgage to a cheaper rate.

The UK mortgage market is one of the most competitive in the world, yet the number of deals out there makes it hard to know what's best for you. There may be a deal out there for you, but it's got tougher. So the aim is to help you find the best option, and to help determine whether you're eligible for it.



It's specifically for...

People remortgaging their home

If you already have a mortgage and are looking to move lender, or you own the property outright but now want to borrow money against it.

But it's also for...

People moving home

If you're looking to move, this guide will give you some guidance too. We're also working on producing a specific guide for home movers – when that's published, you'll be able to find it at www.moneysavingexpert.com/movinghome.

Who this guide isn't for.

First-time buyers

It's not for those who are looking to buy a property. Whether you've a small or large deposit, or whether you've got a good or bad credit history, then there's a special guide just for you. Go to www.moneysavingexpert.com/mortgageguide to get it.

Property investors

If you're buying a new property as an investment to rent out, rather than to live in, the issues are substantially different. Read our buy-to-let guide, available at www.moneysavingexpert.com/buytolet.

Martin's Mortgage Introduction

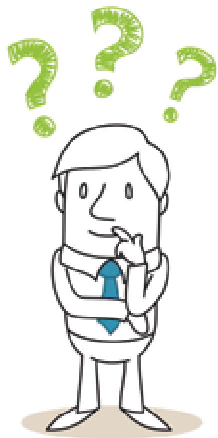
If your mortgage is your single biggest expenditure, then cutting its cost is likely to be your biggest single MoneySaver.

It's a no-brainer.

So, rather than me going off on one here, explaining how amazingly different to other mortgage guides this is for a whole host of reasons, why don't we both just get on with it and save you some cash?

Please note since this is a printed (and downloadable) guide, it's always worth double-checking the latest deals and updates before acting as the mortgage market changes all the time. (See our broker guide at **www.moneysavingexpert.com/brokers**.)

Why should I remortgage?



Remortgaging means shifting your mortgage from one lender to another to get yourself a better deal. And you don't even have to move house to do it.

There are many reasons why remortgaging could make sense for you but the main one is simple. Saving money. Big money.

For most people, their mortgage is their biggest financial commitment. And it follows that streamlining the largest debt can produce the largest saving. If you're the kind of person who shops around to get the cheapest television or DVD player, then you're missing a trick by not using the same skills to save money on your mortgage.

For some, sticking on the standard variable rate – the rate you end up paying after any introductory deal has ended – is the best option, a previously unthinkable scenario. If you're considering this, ensure remaining on that rate is an active choice rather than a lazy one, as otherwise, you may find you've missed out on a fortune.

But before you go anywhere, challenge your current lender to give you a new offer as it could reduce the fees you pay to get a new deal. Remember, it makes money from you, so it wants to keep your custom.

If you do need to move, remember, although remortgaging can save you money, it does so at a price. In fact, as mortgage interest rates have dropped, the fees lenders levy have increased significantly. You may have to pay an exit fee to leave your current lender and, depending on your deal, an early repayment charge as well.

This doesn't mean you shouldn't remortgage. Normally the savings will still be huge (especially if you have a large amount of mortgage debt) – but it does mean you should do your sums, and we'll explain how, before taking the plunge.

Martin's Mortgage Moment

It's tougher than it used to be

The days when lenders would salivate with glee at the thought of doling out mortgages to all and sundry with a nod and a wink are long gone. While rates are at near record lows, meaning far cheaper mortgages, the difficulty is getting them.

These days, lenders like to cherry-pick their customers. That means someone who got their mortgage five years ago or more will find the process a bit of a shock now.

It got so bad that from 2012 to 2014, the Government pumped tens of billions of pounds into a scheme called Funding for Lending in the hope it would encourage lenders to try to keep a decent supply of mortgages and lending to small businesses.

Things have improved a little since. But be under no illusions, mortgage rejections happen and are still common. There are three things you'll need to get a good deal...

- **Decent equity.** The days of being able to borrow 125% of your home's value are now ancient history. Realistically, you'll need to be borrowing LESS than 95% of its current value; and to get the best deals, less than 60%.
- **A good credit score.** This is something you need to manage in advance. You can have all the ducks lined up in a row, but find yourself rejected when you apply because of problems with your credit report.
- **Affordable repayments.** Since April 2014 much stricter affordability criteria have been introduced, meaning lenders have to 'stress test' how comfortably you can afford to repay – not just at today's rates, but if they were at 6% or 7%.

  Lenders will look at all your outgoings too, so if you think you may be near the brink, go through all your expenditure first, to see where you can save cash (help at www.moneysavingexpert.com/moneymakeover).

Continued overleaf

It's worth noting that lenders might not always look at affordability when someone wants to remortgage. The logic behind this is that you've got the debt anyway, so if you can't afford a cheap remortgage, you'll be stuck with an expensive deal you're even less likely to be able to afford.

Yet just because lenders can suspend these criteria doesn't mean they will! That's why to start this remortgage guide, we're focusing on making sure you can get a mortgage as much as what the best deals are.

Other reasons you may want to remortgage

It's not just about saving money. It's also about getting a mortgage which is right for you and your situation. So here are some more reasons to think about remortgaging:

Your mortgage doesn't fit any more

You've had a pay rise or maybe you've inherited some money. You want to make extra payments to your mortgage but your current deal won't let you, or it will only let you make a small overpayment.

Or perhaps you need to be able to miss a payment. Changing jobs or going back into education – whatever the reason, there are mortgages which will let you take payment holidays.

Maybe you've been tempted by different, whizzy mortgages which combine your savings with your mortgage (more about those later).

Whatever flexibility you want in a mortgage, chances are it's out there. But remember lenders don't offer these twiddly bits for free. Expect to pay for flexible features with a slightly higher interest rate. So don't be tempted to go for bells and whistles unless you'll actually use them.

It doesn't do what it said on the tin

Millions of people in the UK were sold endowment mortgages in their heyday back in the '80s and '90s. Since then, nearly all of them have been told to expect a shortfall on their endowment.

With an endowment mortgage, your monthly payment does two things. Some of the money goes to your lender to cover the interest on your loan. The rest is paid to an insurance company which invests it on your behalf. What you're not doing is paying off any of the capital you owe.

So if you borrow £100,000 on an 'interest-only' basis, you will still owe the bank £100,000 when it comes to an end 25 years later. If you're lucky the money you have invested will have grown sufficiently for you to use it to pay off some or all of the debt.

But if the investment is going to fall short – and millions of people were warned this could happen at the start of the 21st century – then you need to act now... if you haven't already.

You'll still be responsible for paying off your mortgage on the due date, even if your investment has performed disastrously. It's your problem, not your lender's. The most obvious answer is to convert some, or all, of your loan to a repayment mortgage to make sure you'll be able to clear the debt. But it will cost more every month. Not only are you covering the interest you owe, you'll also be paying off some of the capital.

You then either cash in your endowment and use the lump sum to pay off some of your mortgage or keep it going as a separate investment. It's a complicated decision – especially if you're relying on the life insurance provided by the policy – and you may need to talk to a specialist, independent financial adviser to help you.

Many people relying on an ISA or pension to repay their interest-only mortgage face the same uncertain future. If these investments have performed badly, they'll also struggle to repay their loans. Then there are a million or so people with interest-only mortgages who don't have even a badly-performing investment to rely on.

In every case it makes sense to consider converting at least a portion of your loan to a repayment mortgage as soon as you can afford it.

Some people plan to sell their house to pay off the debt, assuming the property value will have grown sufficiently in the meantime to leave them a tidy surplus. But where will you live then? And there's no guarantee that what's left will be enough to buy a smaller property or one in a cheaper area.

You want to borrow more

Perhaps your current lender has said no to lending you extra money (called a 'further advance') or the terms it's offering aren't very good.

Remortgaging to a new lender might allow you to raise money cheaply on low rates. Although watch out for fees – it isn't always the no-brainer it seems.

Martin's Mortgage Moment

Dumping other borrowings on your mortgage

I always shiver slightly when people talk about adding non-housing debts to their mortgage, whether it's for a new kitchen, a holiday or to consolidate existing borrowing. There are times when this could be a necessary evil, perhaps to get you out of a hole.

My problem isn't that it is wrong per se, in fact often it's a good move, but the issue is many people see it as a no-brainer solution.

Let me make something plain.
Borrowing at 10% over five years is cheaper than 5% over 20 years.

The amount of interest you pay is a combination of the rate and the length of the borrowing.

Example:

Personal loan:	**£10,000 at 10% over 5 years**	**= £2,750 interest.**
Adding to mortgage:	**£10,000 at 5% over 20 years**	**= £5,840 interest.**

That's almost twice as much. Even though inflation devalues money over time, put that way it suddenly doesn't seem like such a no-brainer. The one exception is if you're using this strategy in conjunction with a mortgage which allows substantial overpayments, so you're actually paying off the new debts as well as the original one in much less time (we'll explain this later in the guide).

Who shouldn't remortgage?

Despite the potential savings available, there are some people who probably shouldn't remortgage. It's all a question of money, timing and your personal circumstances. Essentially you have to decide whether the savings available at the point you're considering switching deals will outweigh the cost. Think carefully if you fall into one of the following categories:

The lucky ones – on a great deal already

You may already be on such a fantastic deal that you'd be mad to move and there's nothing close at the time. But don't get too comfortable – chances are it won't always be top of the tree so eventually you'll need to consider hopping on board the remortgaging merry-go-round.

It's worth doing some checks so you KNOW you've got the best deal possible, and that it's future-proofed.

The unlucky ones – locked in with penalties

Alternatively, you may be on a poor deal, but the lender has locked you in with such a horrendous early repayment charge that it'd be utter foolishness to move before the end of the incentive period.

If you're on a really rubbish deal that would cost too much to free yourself from, then it's all the more important to move as soon as you can. Do your homework, and be ready – and try not to think about how much money it's costing you every month in the meantime.

It's always worth asking your current lender if it will let you switch to another of its deals (ie, do a product transfer) by paying a reduced early repayment charge. Chances are slim, but it's worth a go.

The ones whose timing is bad

In recent years mortgage rates have been fairly stable, with only slight fluctuations. But it isn't always like that – at times rates can be volatile and move in relation to the Bank of England's base rate, what's going on in the international money markets and lenders' own competitive priorities.

It's possible that when you first look at remortgaging, the sums don't add up. In which case, it may make sense to sit tight and reconsider in a couple of months.

Those who own 10% or less of their property

If you own less than 10% of your property outright – or to put it another way, you need to borrow more than 90% of the current value of your property – then you'll often find it difficult to get a good new mortgage deal.

While 95% mortgages are increasingly more available, especially since the Government's Help to Buy scheme was introduced, the rates aren't that competitive. So unless you're on a very high rate deal now, you'll really need to get below the 90% threshold to start consider saving.

Those whose equity has shrunk

You may have had a 10% deposit when you bought your home and got a decent mortgage, borrowing the remaining 90% of your home's value. But now, your house value has dropped and the amount you owe is a bigger proportion. Unfortunately, you're a victim of evaporating equity, even if you have been making repayments, and that can hurt you. In some cases, you may be in negative equity, where your debt is higher than the value of the property.

Check to see if your current lender can offer you another rate. If not, the only thing you can do is sit tight, make overpayments whenever you can afford it as long as you won't be charged fees as well, and wait for prices in your area to go up again.

The ones whose circumstances have changed

It's possible that your financial position has altered since you took out your current mortgage – for instance, one of you has stopped working or you have become self-employed. New lenders may not be prepared to offer you a loan because you no longer fit their criteria. Again, you may be better to stay where you are.

Those with a bad credit history

If you have a bad credit history caused by missing a few credit card, loan, mortgage or utility bill payments then it's unlikely you'll be able to remortgage at the time of writing. That's because since the credit crunch, lenders have become much more picky about who they lend to. They want customers with spotless repayment histories or at least a good, clean record of handling debts well.

Those with a very small mortgage

Once your loan falls below a certain amount – say around £50,000 – it may not be worth switching lender simply because you are less likely to make a saving if the fees are high.

In fact, some lenders won't even take on mortgages below £25,000. The smaller your mortgage, the bigger the effect any fees you pay to remortgage will have. And with many new deals offered on the basis of you paying a four-figure fee, make sure you do the maths to work out if you're better off switching or not. In some cases, it may be worth remaining on a higher interest rate to avoid the fee.

Borrowers who are very close to the end of their mortgage term may also find it prohibitively expensive to switch lender.

Get ready to remortgage

Before you start looking at remortgages, there are THREE checks you need to make on your current mortgage.

1. Will you be paying an early repayment charge?

Most mortgages have an early repayment charge during the initial special discount period (a few have extended penalties after the deal ends too). If you remortgage then, you'll trigger the charge and it can be thousands of pounds. So before you go any further, you need to know:

- Is there a charge?
- How much is it?
- What date does it apply until?

Armed with this information, you'll then be able to work out if it's worth ditching your deal early and paying the charge. Or you'll be sure to dodge the charge by remortgaging the **working day after** the early repayment charge applies.

2. Will you be paying a deeds release fee?

Most mortgages will have an administration fee for releasing the deeds to your solicitor. It typically ranges between £50 and £200.

The lender should only charge you these kinds of fees if you were told about them when you first took out the mortgage. They would need to be on the offer document and the key facts illustration. If they aren't, point this out and ask for the fee to be removed.

"Dodge the charge by remortgaging the working day after."

3. How much do you owe your current lender?

Without this information, you won't know how much you'll need to remortgage for. Don't just estimate a figure. Phone and ask "How much would I need to pay to clear the mortgage on, for example, 1 July 2015?"

Giving the date means it'll take into account any normal repayments you're due to make between now and then. Relying on a rough estimate could mean you end up with a shortfall or taking a pricier remortgage than you needed to.

What will they lend to you?

Historically, lenders simply multiplied your income to work out how much to lend you. Typically, a single person could borrow four times their single salary while a couple would be offered three times their joint salary.

Now it's all about affordability. Lenders look at your income compared to your outgoings (bills and other debts) and work out how much spare cash you have each month.

This can get tricky. Some lenders are so picky that even when you've paid debts off – say, on a credit card – just before applying, they factor in how much available credit you have.

Even once they've done the maths, they'll need you to have a cushion in case mortgage rates rise, and to ensure you're not right on the edge of your finances. As a result, they'll work out what you can afford based on a higher mortgage rate, usually 6% or 7%, even if you're applying for a 3% deal.

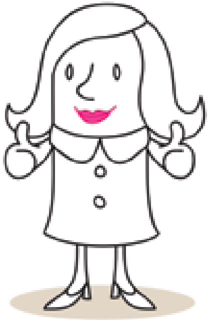
How much equity will I need in my house?

The days of 100% mortgages are long gone. The key question is how much of your property's value you are looking to borrow from the new lender.

Borrowing less indicates you are more solvent and means the mortgage loan is less of a risk for the mortgage company. This is because a mortgage is a secured loan (in other words, if you can't repay, the lender gets your home), so by lending money it's taking a gamble on house prices.

If you're only borrowing 75% of your home's value, prices would need to drop by 25% before it wouldn't be able to recoup the full amount of the loan if you couldn't get it back. So this offers more protection.

"Now it's all about affordability. Lenders look at your income compared to your outgoings."



"Equity is equivalent to a deposit for someone buying a property."

Here's the crucial Q&A:

Q. What counts as equity in my house?

A. It's important to understand your borrowing will depend on two factors.

– The equity in your home. If you owe £135,000 and the house is now valued at £180,000, you have £45,000 equity.

If you're applying for a remortgage to replace the £135,000 loan, the £45,000 equity is equivalent to a deposit for someone buying a property.

– Can you put any other cash towards it? If you've savings you can use (always keep an emergency fund), this can lower your borrowings and may result in a better mortgage.

From here on, for the sake of simplicity, let's just call it equity – but really it's about how much in assets or cash you're putting toward the mortgage.

Q. How much equity do I need to get a good deal?

A. To get a mortgage, you need equity of at least 5%. To get a good rate, currently you'll need over 20% of the home's value and 40% for the kick-butt market-leading deals.

The golden rule is simple. The bigger your equity (and savings), the better the rate; the lower your monthly repayments, the cheaper the remortgage.

The difference between a 10% and 20% mortgage is huge; then the next big jump is at 25%, then 40%.

Q. In the best buy tables it says 'LTV', not deposit – what does that mean?

A. LTV stands for the loan-to-value ratio (LTV), which is the percentage of the property value you're loaned as a mortgage. In other words, it's the proportion that you're borrowing.

To calculate this, simply subtract your equity as a percentage of the property value from 100%. So if you've £20,000 equity in a £100,000 home, that's effectively a 20% deposit, meaning you owe 80% – so the LTV is 80%. Just in case you're struggling, here's an easy table...

LTV calculator

LTV	Equals deposit of
95%	5%
90%	10%
85%	15%
80%	20%
75%	25%
70%	30%
65%	35%
60%	40%
55%	45%
50%	50%

The reason it's expressed this way is so the same terms can be used for those getting a first mortgage and those who want to remortgage.

It's worth thinking about LTVs for a moment. They're not just affected by the amount you put into a house, but also by house prices. This is crucial – by owning a house, you've invested in an asset where the price moves.

A practical example: Let's say when you first bought, you had a £10,000 deposit on a £100,000 house – that meant you owed £90,000 at the start. That's an LTV of 90%.

After a few years you've paid a little off and now owe £85,000. You're ready to remortgage and the house's value is the same, so your LTV has become 85%.

Yet if the house is now also worth more, say £120,000, then your LTV is around 70% (as it's £85,000 divided by £120,000 multiplied by 100). This means you'll be likely to get a much better remortgage deal. Equally, if the house's value had dropped to £80,000, you'd now owe more than it's worth (which is called negative equity) and be unable to remortgage.

Can you drop an LTV band?

The impact of a lower LTV can save you a huge amount of cash, as this table shows.

The effect of owning more of your home outright (equity)

Equity	10%	20%	25%	40%
Interest rate	4.29%	2.69%	2.39%	1.99%
Loan amount	£135,000	£120,000	£112,500	£90,000
Monthly cost	£734	£550	£498	£381
Total cost over 2 years	£17,625	£13,296	£12,063	£9,440

Based on the best value two-year fixed rates at the time of printing for a remortgage with a house value of £150,000 on a capital repayment basis over a 25-year term.

Therefore if you're close to a threshold you should see if you can move below it as it can have a huge impact on your repayments.

There are two ways to drop an LTV band:

1. The first one is very simple – borrow less

Work out how much additional money you would need to put in to drop to a lower interest rate band and see how much interest you'd be saving.

2. Get your property valued higher

When you apply for a mortgage, you need to give an estimate of the property's current value. You want to get the top value possible, but it needs to be realistic as the lender will get an independent valuer to check it later in the process.

Do some research

Valuers don't just a pluck a figure out the air, and neither should you.

Use our free house price valuations guide (**www.moneysavingexpert.com/houseprices**) to look at houses similar to yours that have sold recently, or maybe even ask a friendly estate agent for their opinion?

How to make sure the property is valued at least at your estimate

Before the valuer comes out to your property, the lender will tell them the valuation figure you've given. So this will likely influence their expectations.

If you get the opportunity, be at the valuation. Sometimes this isn't an option as the valuer might just look at the exterior so you won't be given an appointment time. Sometimes they don't even attend the property, but rely on internet-based systems and their database.

Tell the valuer about similar properties to yours nearby that have sold for big money. Valuers rely heavily on these 'comparisons' to justify their valuation and usually keep a record of at least three to support their valuation figure. Properties that have sold carry a lot more weight than properties that are only advertised.

What if the property is valued at less than my estimate?

If the value comes back lower than expected, it's only a problem if it pushes your LTV above the maximum allowed for your product. If this happens, the lender is likely to offer you an alternative product (if it has one), but you should re-check your sums and see if there is a better deal for your new LTV. Just because the lender you've applied to is good for one LTV band doesn't mean it'll be good at another.

What if the property is valued at more than my estimate?

Not unheard of, but certainly rarer. If the value is high enough, it could push you into a lower-priced product because you've dropped an LTV band. You might even want to approach another lender as the lender you've applied to might not be the most competitively priced for that band.

If you find yourself in this position, don't cancel the first application until the other one is in the bag. Just because lender A's valuer thinks it's worth more, it doesn't guarantee lender B's valuer will agree.

Boost your chances of getting the best mortgage

The collapse of the housing market and homebuyers' inability to keep up with their mortgage payments were among the major triggers of the worldwide economic crisis. Not surprisingly, lenders are now more wary about who they give loans to and mortgages are the biggest loans they make. The regulator is even more wary and intervened in April 2014 by laying down strict new rules about how lenders must check a borrower can afford the mortgage.

To get a good rate when you remortgage, you now not only need a decent credit score, but you need to be able to prove you can cope with a mortgage by giving the lender real detail about your income and your expenditure.

If you've had some financial ups and downs since you last took out a mortgage, you need to be sure your credit score is still looking good. As each lender has its own bespoke criteria, this is more art than science. Think of it like a beauty parade where you need to make yourself as attractive as possible to lenders, in the hope they'll pick you out of the line-up.

Not everyone will view you the same way, but there are many things you can do to shape up and stand out that are likely to make a big difference. Let's run through them...

Improve your credit score

This isn't a quick fix, some of the techniques below need to be done months before applying, so make sure you do the necessary groundwork in good time or you risk being rejected.

The lender's aim is to ensure you're a profitable customer and can make your repayments. It does this by credit-scoring you to try to predict your future behaviour based on your past.

These criteria aren't published, so it's impossible to pinpoint which lender wants what. Though many mortgage brokers have a reasonable idea which lenders are pickier and what they look for in a borrower.

Lenders are now much more selective – if your score is poor, almost all will reject you. Here are some quick tips to help but for a full guide and tools, if it's an issue for you, take more time and read the complete guide at **www.moneysavingexpert.com/creditrating**.

Quick tips

- **Get on the electoral roll**

If you're not, it makes life so much more difficult. Go to www.aboutmyvote.co.uk to register on the electoral roll, or to check whether you're already registered.

For anyone ineligible (mainly foreign nationals), send all credit reference agencies proof of residency and ask them to add a note to verify this.

- **Check your credit file**

Get copies of your credit file from all three credit reference agencies – Equifax, Experian and Callcredit. You can do this for free (or even get paid to do it) if you know how, see www.moneysavingexpert.com/creditrating.

Don't bother paying for 'credit scores' that the agencies try to flog you, they're only loosely indicative. Lenders also rely on your application form and past dealings with you which the credit files don't contain.

Martin's Mortgage Moment

Boosting your credit score's like going on the pull

Borrowers can be so scared of their credit score that they don't even dare to find out what's on their credit file. Never be afraid to take a look, you may be pleasantly surprised. And if there any mistakes on the credit reference agencies' records, you need to tackle them head on.

Credit scoring has created a mythical, magical air around it. That's because it's hard to pin down what a lender is looking for, which adds to the mystery.

The answer is that there is no single answer. Just like you can't tell why one person fancies you while someone else doesn't, so you can't tell whether a lender will find you attractive enough to give you credit. They're all different.

There are so many myths around credit scores. Myth one is that everyone has a credit rating. You don't. There's no single, general score – it depends on the lender. Each lender has its own bespoke, unpublished scoring system to assess if you're a profitable customer (it's not just about risk).

Once you get your file, check everything for errors. If you think your file is wrong, ask the lender to correct it. You can add a *notice of correction* to your file explaining why it's unfair or how the circumstances arose. If the credit reference agency won't run it or help you, you can complain to the Financial Ombudsman.

- **Check addresses on your file**

It's one thing people often miss. Check your address on all active accounts (even if you no longer use them) is up-to-date. One woman was refused credit because her unused, but still active, old mobile contract was listed at a past address. Anything unusual causes lenders a worry.

- **Break with past relationships**

Write to credit agencies asking to be delinked from any ex you had joint finances with. This stops their credit history impacting your applications.

- **Build / rebuild your score**

If you have a poor credit score, it takes time to rebuild it. Perversely, one way to do that is to get a credit card and spend on it each month. This proves to lenders you can borrow responsibly.

Yet only do this if you ALWAYS repay in full to avoid interest. For a year, put about £50 a month on it before clearing it, and it should help. If your credit rating isn't good enough to get a normal card, see www.moneysavingexpert.com/badcredit for how to get a card.

- **Time it right**

Issues such as county court judgments for unpaid bills are wiped from your record after six years, so wait for that until you apply. Applications only stay on your file for a year, so if you've a raft of those (eg, lots of credit cards), then wait.

- **Don't miss payments / pay late**

Set up a direct debit to make at least the minimum repayment on credit cards so you're never late and never miss a month. It's always better to repay more, so make manual repayments on top when you can.

- **Keep other applications to a minimum in the months before a mortgage**

Applications, whether successful or not, go on your file, so space out applying for anything that adds a footprint to your file (including car insurance and mobile phones). The worst thing is a lot in a short space of time, as it makes you look desperate for credit.

Prioritise your mortgage if that's the most important thing, and hold others off until you've got it.

- **Never withdraw cash on a credit card**

This is specifically noted on your file and is frowned upon as it's incredibly expensive and not a good sign. It looks like you're desperate for cash and can't live within your budget.

- **Never apply after rejection**

Always check for errors on your credit files before applying for anything else. If not, even if you fix an error later on, all the footprints from rejected applications may kibosh your ability to gain credit anyway.

Again, please remember, these are just the tip of the iceberg. For a full guide to boosting your credit score, go to ***www.moneysavingexpert.com/creditrating***.

Proving affordability

Gone are the days when the lender would check your credit score and, if all was well, simply multiply your income by four to work out your maximum loan size. Now there's a lot more detail to be checked and if you want to boost your chances of acceptance, you should look at your circumstances through a lender's eyes and see if any polishing is required.

- **You'll need *proof* of income**

Lenders must now see evidence of your income. They're also likely to want bank statements to see the money going into your account and outgoings you've described match up. So look up your last three months' worth of payslips and bank statements now.

- **Scrutinise your bank statements**

Are there any red flags on there that will concern the lender? Charges for being overdrawn or use of an overdraft facility could be deal-breakers. You're going to have to list your outgoings to the lender. It'll check your list against your statement so they need to tie up.

- **Be prepared to explain yourself**

If there's something unusual a lender will notice, have an explanation ready for the application rather than waiting to be asked or just getting refused out of hand. If you've a monthly standing order to your mum for £200, the lender will want to know what that's for.

- **Work out your disposable income**

Work out how much you have left over at the end of each month. The bigger this figure is, the more comfortable the lender will be with your loan application.

- **Give yourself a Money Makeover**

Boost your disposable income by minimising expenditure, preferably three months in advance of an application, so it'll show clearly on bank statements. Go through your statements with a fine-tooth comb and see if there are any costs to be cut or unnecessary direct debits or standing orders you can shed. See the full Money Makeover Savings checklist at www.moneysavingexpert.com/moneymakeover.

- **It's not "can you afford it now?" but "can you afford it at 7%?"**

Lenders must 'stress-test' whether your mortgage is affordable if rates shoot up to 6% or even 7%. Use our mortgage calculator at www.moneysavingexpert.com/comparerates to work out what the higher payment would be and check if your disposable income will comfortably cover it.

- **Help! I don't think I'll be accepted now**

Affordability checks for new mortgages make sense – renting isn't a dirty word and is a far better option than an unaffordable mortgage, causing negative equity or repossession. Yet for those trying to switch to a cheaper deal, a rejection due to unaffordability may leave them imprisoned on their existing, more expensive deal.

Lenders are allowed to waive some affordability rules if you're not increasing your debt (beware if you're looking for more) but they don't have to, and we're not yet sure what attitude they'll adopt. Speak to a broker for advice and see if your existing lender can offer you another deal.

More tips to boost acceptance chances

- **An extra £100 can secure a mortgage**

Reducing the amount you need to borrow with just 0.1% can boost your acceptability, or at least cut the amount of documentation the lender wants to see.

For example, if you are applying for a 75% maximum LTV loan on a £100,000 property, and your equity is £25,000, see if you can put down an extra £100. That extra 0.1% on your 'deposit' could see you speed up and ease the application process.

- **Stay out of your overdraft**

If you're constantly using your overdraft this could be seen as living close to the edge of your finances, so avoid it if possible. In fact, some lenders may not tolerate you being in your overdraft at all in the last three months. If you're using your overdraft, see if you can shift it to a 0% balance transfer credit card instead (see our guide: www.moneysavingexpert.com/balancetransfers).

And if you've no choice but to be in your overdraft, should you be getting a mortgage?

- **Avoid payday loans like the plague**

Not just because their rates of interest are hideous, but because some lenders will simply reject anyone who's got such a loan as it indicates poor money management.

If you've had a history with payday loans or problems with them, see www.moneysavingexpert.com/payday.

- **Close unused credit cards**

If you've lots of unused credit available, this can be seen as a negative, as you could borrow large amounts on a whim, without passing a further credit check. Even if you've paid an old card off and stopped using it, it'll still show up as active (as available credit) unless you contact the card company and shut it down. But just to confuse matters, there can be circumstances (such as shutting a long-standing account with an unblemished history) where closing cards could be seen as negative. For more details to help you decide, see www.moneysavingexpert.com/closeoldcards.

What paperwork will I need?

Before you start the application process, gather everything you could possibly need. Double-check with a lender or broker as early as possible so you don't waste any time in the application process while waiting for key paperwork to arrive.

You typically need:

- Proof of income (often your last three months' payslips, or two to three years' accounts if you're self-employed).
- Last three months' bank statements.
- Proof of bonuses/commission.
- Your latest P60 tax form (showing your income and tax paid from each tax year).
- SA302 tax return forms, mainly for the self-employed. These are copies of your self-assessment tax return, which lenders may want to see. These can take weeks to get from HM Revenue & Customs so ask for them well in advance.

Remortgaging if you're self-employed or a contract worker

If you're self-employed or would struggle to prove your long-term income (for example, you've worked abroad or you're on a temporary contract), then remortgaging is tough.

You'll need cast-iron proof of your income, usually at least two years of accounts. This is easy for those who are employed as they can show pay slips or employment contracts, but much tougher if you work for yourself, or are only on a contract for a limited time rather than a permanent contract.

What you'll need to get a remortgage deal

You'll need rigorous evidence of your income. This is usually done in one of two formats.

- **Business accounts**. You want to be able to show preferably three years of accounts – though two can suffice. Usually, they need to be signed off by a chartered accountant.
- **Tax returns**. If you can't show business accounts, then two or three years' tax returns is the next best option.

You'll be assessed on profits, not turnover, and if you've (legally) minimised declared profits to pay less tax, you could find it hard to get the remortgage deal you want. If this is likely to be a complex process, then often, using a mortgage broker (see chapter 9) will help the process as they'll know which mortgage lenders require what.

All this is fine for established businesses, but being brutally realistic, it could mean those who have recently started working for themselves will simply not be able to get a mortgage. Or if you're looking with a partner who is self-employed, their income may not help you get a mortgage if it can't be proved.

Self-certification mortgages are dead

These have gone. They meant borrowers could simply declare how much they earned without having to prove it. Dubbed 'liar loans', they were abused by some borrowers and brokers, leading to people borrowing more than they could afford and, in the worst cases, fraud.

What type of remortgage to choose?

Choosing a mortgage is like ordering breakfast in an American diner. It's a series of choices which seem to go on forever, but which should help you identify what you want.

Think back to why you want to remortgage in the first place, and that should help you work out what you need your new loan to do.

Choice 1: Repayment mortgage or interest-only?

Unless you have a very compelling reason, repayment should always be the way forward. It's the only mortgage option which guarantees you are actually paying off some of your debt every month.

Interest-only mortgages, where you just pay the interest on the debt and none of the original loan, have become very hard to come by. You need to have a surefire way of paying off the actual cost of the house or you won't get one. Relying on future bonuses at work, an inheritance, selling your home when you've made a good profit or even ISA savings just won't hack it with most lenders.

Martin's Mortgage Moment

What? I can't get an interest-only mortgage?

OK, they haven't entirely disappeared, but they are a dying breed. You'll have to jump through many hoops to get one.

First of all, if you already have an interest-only mortgage and are hoping to remortgage onto another one, your options are limited. The regulator, the Financial Conduct Authority, is clamping down on them hard. As a result, loads of the big lenders have closed their doors to new interest-only borrowers so you'll more than likely be stuck with your existing lender.

Did you have a plan to pay off the loan? How's that working out? If you're on track and/or now own 50% of your home outright because it's gone up in value since you bought it, you could be OK. Or if you have a credible plan to repay the capital you might be able to get another one. Otherwise, your best bet is to talk to a mortgage broker. More on brokers later in this guide (see chapter 9).

The simplest solution is to move at least some of your mortgage onto a repayment one – switch all of it over if you can afford it. Use our mortgage calculator to find out how much higher your monthly payments will be **www.moneysavingexpert.com/mortgagecalculator**.

What is an interest rate?

Since you've already got a mortgage in place, the chances are you know a thing or two about interest rates already. Saying that, here's a quick recap.

The interest rate is the cost of borrowing money. So if the rate's 1%, that means if you borrow a pound over a year you'll repay £1.01. If it's 44%, you'll need to repay £1.44.

While that's simple, when you borrow a large amount of money over a long period, the interest can really stack up, even if the interest rate is low.

For example, if you borrowed £150,000 on a 5% rate for 25 years, you'd repay £113,000 in interest alone.

How it works with mortgages

- **Repayment**

Your repayments are calculated so you'll have repaid all the debt and the interest over the term you agree (eg, 25 years).

This has a strange effect. In the early years, your outstanding debt is larger so most of your monthly repayments go towards paying the interest. Gradually, as you reduce what you owe, most of your repayments go towards paying off the debt.

For example, on a £100,000 mortgage at 5%, after 10 years you'll have repaid £70,000 but only reduced what you owe by £26,000. Yet after a further 10 years, paying another £70,000, you'll have reduced the debt by a further £43,000 because less interest is accruing each year.

If you can afford to pay the debt more quickly, though it would mean a higher monthly payment in the short term, you could save serious cash over the life of the loan.

To see the details for your own situation, go to **www.moneysavingexpert.com/mortgagecalculator**.

Many people, once they realise this, then worry that if they ever remortgage to another deal they'll lose all the work they've put in to decreasing what they owe.

This isn't true. Provided you keep the same debt and the same number of years left until it ends (ie, you have 14 years left to repay and you still intend to repay it in 14 years), then it stays the same.

- **Interest-only mortgages**

For those few getting an interest-only mortgage, the cost is pretty simple – if you've borrowed £100,000 at an interest rate of 5%, the cost is £5,000 a year, although remember that means you still owe the original debt.

Choice 2: What type of deal do you want?

This is the really big choice, and it's never easy. There are many different type of deals but all fall roughly into two camps. They're either fixed or variable.

Fixed-rate mortgages

Here, regardless of what happens to interest rates, with a fixed mortgage your repayments are fixed for the length of the deal. They don't move. They're like a statue, as still as a pyramid. OK, hopefully you've got it.

So whether you fix for two, three, five years or longer, it's effectively an insurance policy against interest rates going up. Of course, if rates tumble (unlikely in current times) your payments won't fall.

It's sometimes possible to fix for 10 years, but such long-term security is expensive.

Like any insurance policy, this protection from rate rises costs. So all other things being equal, a three-year fix should have a higher rate than a three-year variable deal. So it depends what price you put on your peace of mind.

Then again, this isn't always the case and there can be quirks – this is all part of the evaluation process. So it's worth evaluating how much the peace of mind is worth to you.

If you're worried you may need to move home during the term of the fix, check if the mortgage is 'portable'. Even if it is portable, the lender may not allow it (it will recheck your credit score and affordability). If it does allow it and you're borrowing more, the lender may ask you to switch to a new deal.

When a fix ends, most move on to their lender's standard variable rate (see page 32).

PROS & CONS OF FIXED RATES

PROS
- Certainty. You know exactly what your mortgage will cost.
- Your payments will not go up over the life of the fix, no matter how high rates go.

CONS
- Rates are usually higher than on discount products.
- If interest rates fall, you won't see your payments drop.
- If you want to get out early, you'll pay high penalties.

Martin's Mortgage Moment

Don't let 'fixed rates rising' stories confuse you

Sometimes you will see stories in the press about fixed rates rising (or falling). This can be confusing. What they're actually saying is the rates available to new borrowers are rising. It's a way of saying if you are going to lock into a rate, do it soon – the speedy will save money.

It's important to understand that the rate at which you can fix with a new mortgage does move. So even when UK interest rates are stable, fixed rates change. They tend to follow the City's prediction of long term interest rates.

But if you have a fixed-rate mortgage, you won't pay any more during the term.

Variable-rate mortgages

Here, your mortgage rate, as the name suggests, can and will usually move up and down. The major, but not sole cause of this is changes to the UK economy.

In times of growth and inflation, interest rates tend to be increased to discourage spending. This is because higher rates make savings more attractive and borrowing costlier – meaning people are less likely to borrow to spend.

In times of recession, interest rates are decreased to encourage spending.

However, to complicate things, variable rate deals fall into three categories:

1. Trackers

Here the rate tracks a fixed economic indicator. Usually it's the Bank of England base rate. This means it's completely locked in parallel with that rate.

So if the Bank of England rate increases one percentage point, so does your mortgage. If it falls by one percentage point, so does your mortgage. Some trackers only run for a couple of years and then go to the standard variable rate (see next category) but you can get ones lasting the life of your loan.

Beware any small print that allows your lender to up rates even when the base rate hasn't moved. It's rare, but Bank of Ireland did this in 2013.
See **www.moneysavingexpert.com/boi**.

PROS & CONS OF TRACKERS

PROS
- They are very transparent.
- You know that only economic change can move your mortgage rate, rather than the commercial considerations of the lender.

CONS
- Uncertainty – if rates rise, so will yours.
- You're also locked into a fixed relationship, so if you are paying a large amount above the Bank of England base rate and interest rates jump, it could mean huge future costs.

2. Standard variable rates (SVRs)

Each lender has an SVR (or rate with a similar name) which tends to roughly, but not exactly, follow the Bank of England base rate.

Rarely available to new customers, it's the rate you go to when your introductory fixed or tracker special offer deal has ended.

SVRs can be anything from two to five or more percentage points above the base rate, and they can vary massively between lenders.

As the base rate shifts up and down lenders have traditionally moved their SVRs, although not always by the same amount.

For example, they may only drop rates by 0.2% when the base rate drops by 0.25%. But when it goes up they often increase it by at least the full amount, meaning they increase profits both ways.

The most important thing to understand with SVR is that lenders can and sometimes do move the rate simply because it's to their advantage, and there are many examples of this happening, hiking people's costs.

PROS & CONS OF SVRs

PROS
- They can be cheap in some circumstances.
- If interest rates are cut, your rate will likely drop too.
- They usually don't have early repayment charges.

CONS
- Uncertainty.
- There's no guarantee you'll get the full benefit of all rate changes as you're at the mercy of lenders hiking rates at their will.

3. Discount rates

These deals usually offer a discount off an SVR. The discount tends to last for a relatively short period – typically two or three years.

They are usually described as the rate you'll pay, followed by the discount off the SVR in brackets – for example, 4.29% (0.5%). What's important is the rate you'll pay from the start.

PROS & CONS OF DISCOUNT RATES

PROS
- It will usually be cheaper than any other types and rates.
- If interest rates are cut, your rate may drop too.

CONS
- Uncertainty.
- There's no guarantee you'll get the full benefit of all rate changes as you're at the mercy of lenders hiking SVRs at their will.

4. A hybrid option – capped deals

These used to be common, but they're now pretty rare. Here, you have a variable rate (either a tracker or discounted deal) but with a safety cap so it cannot rise above an upper limit.

The rate you pay can move but there is an upper ceiling or cap which gives you some protection.

They tend to be offered when people are frightened rates might soar.

PROS & CONS OF CAPPED DEALS

PROS
- You benefit from interest rate falls and have some protection from interest rate rises.

CONS
- The cap tends to be set quite high, and the starting rate is generally higher than normal variable rates.

Martin's Mortgage Moment

Choosing between fixed and variable

A fixed rate is an insurance policy against hikes and therefore gives peace of mind. That has to be factored into the equation. Though how much that peace of mind costs you is important too.

Yet, shock horror thought from the MoneySavingExpert. Here, choosing a rate isn't purely about which is the cheapest.

Deciding whether to fix is a question of weighing up how important the certainty that your repayments will stay the same is for you. I tend to think of this as a "how close to the edge are you?" question.

Someone who can only just afford their mortgage repayments should not be gambling with interest rates, so will benefit much more from a fixed rate as it means they'll never be pushed over the brink by a rate increase during the term of the fix.

Those with lots of spare cash over and above the mortgage may choose to head for a discount or tracker, and take the gamble that it'll work out cheaper in the long run.

Don't look back in anger.

I'm sure Oasis were writing about mortgages when they penned that famous line. The truth is, the only way to truly know which mortgage deal is best is with an accurate crystal ball, and they cost way more than a house.

So if you do decide to go for a fixed rate on the basis of surety and afterwards look back with hindsight and realise a discount rate would've been cheaper, this doesn't mean it was the wrong decision. If you needed surety, remember, you got it.

Continued overleaf

> I think it's time for an analogy.
>
> If I asked you to call heads or tails on a coin toss and said I'll give you £100 if you win, but you only need pay me £1 if you lose, provided you could afford to lose £1, you'd be a fool not to do it.
>
> While the bet itself doesn't increase your chances of winning, the reward for winning is much better than the cost of losing. So if when we actually tossed the coin, just because you lost it that doesn't mean the bet was a bad one Even though the outcome wasn't what you wanted, you made the best decision based on the knowledge you had at the time. The same is true with fixing your mortgage.

Choice 3: Do you want your mortgage to be flexible?

Once you've decided on a fixed or variable mortgage, the next question is do you want a mortgage that is more flexible? This means getting functions that allow you to increase or decrease what you repay – and overpaying is far more important than the rest.

Making overpayments

The most popular flexible feature is the ability to overpay, which just means paying more than you need to – whether that's each month or just shoving a lump sum at your mortgage from time to time. This can result in clearing the debt substantially quicker, so you pay less interest overall.

The impact of this can be huge.

Loan:	*£150,000 over 25 years at 5%.*
Monthly payment:	*£880*
Total amount repaid:	*£263,000*

This means you'd pay £113,000 in interest. If you decided to and were allowed to overpay by £100 a month, you'd repay the mortgage four years and seven months quicker, saving £23,350 in interest.

Use our special overpayment calculator at **www.moneysavingexpert.com/overpaymentcalc** to see the specific impact for you.

Luckily, many standard mortgages allow you to make some form of overpayment. So you don't always need something special (as special usually costs more).

However, they restrict the amount of money you can overpay – typically 10% of the outstanding mortgage per year or a fixed maximum amount each month (do more and there are harsh penalties).

Timing your overpayment

Mortgage companies calculate how much interest you owe on the debt at different times – the vast majority do it daily, a few monthly or yearly. You need to know how yours works so you can time your extra payments.

With daily interest the timing doesn't matter, you benefit the next day, but it makes a huge difference if interest is charged annually – and middling if it's monthly.

This is because mortgage overpayments will only count to reduce the interest you pay AFTER the calculation is made. Put it in at the wrong time and you'll miss out.

Say the amount you'll be paying in interest is worked out on 31 December then you need to make sure you pay the extra in before Christmas. Leave it until January and you lose the benefit of overpaying. You'll still be charged interest as if you hadn't made the overpayment until next 31 December.

Martin's Mortgage Moment

Why overpaying pays so well

Money in savings usually earns far less than the interest on your mortgage costs you. So it's worth doing some simple maths.

Imagine you owed £10,000 on your mortgage charging 5% and the same in savings earning 2%. The mortgage debt costs you £500 in interest a year, while you only gain £200 on your savings – and that's before tax – making you at least £300 a year better off using your savings to overpay the mortgage.

So it seems it's a no-brainer to use your spare cash to pay down your mortgage quicker. But there are a few spanners in the works.

- **Are you allowed to overpay?** Few mortgages allow unlimited overpayments, but most at least allow 10% of the outstanding debt, so check. To get unlimited overpayments, your interest rate will usually be higher.
- **Do you have other debts?** A crucial rule of debt repayments is: clear the most expensive debts first and by that I mean the highest interest rates.

  If you've credit cards and other personal loans, they are likely to have an even higher interest rate than your mortgage (unless you're a rate tart using 0% credit cards).
- **Do you have a cash emergency fund?** Unless you've a very flexible mortgage (more later), once you use money to overpay you can't get it back. That's a real problem if you have an emergency and need it later.

  So be slightly cautious with your overpayments, don't do it to the brink. If you then lost your job and couldn't make the normal repayments, the fact you'd overpaid in the past won't stop you being in arrears.

  This is why I suggest you should always keep an emergency fund of three to six months' worth of expenditure if possible.
- **Does it have a 'borrow back' facility?** If you are overpaying, a few mortgage lenders may allow you to get the overpayments back if needed – though they don't always shout about it, making it a hidden bonus.

If it does, then you can effectively use your mortgage as a high interest savings account. By leaving money in it temporarily the net effect is the same as earning interest tax-free at the mortgage rate – very few savings accounts will beat that. However, if the mortgage is uncompetitive, the increased cost on your debt may outweigh the savings gain.

- **Can you take payment holidays?** Here the lender will allow you to simply stop paying it when you want, at least for a month or two. But be careful. Lenders don't let you play hooky from the goodness of their hearts.

  You will pay for it as the interest continues to be added to your loan and you won't be clearing anything. Typically, borrowers taking a 'holiday' arrange to miss one or two payments, and their monthly payments are recalculated to spread the cost of the missed payments over the rest of the life of your loan – ie, it'll go up.

  Some lenders insist you have overpaid before you can take a holiday. Plus there could also be an extra penalty or administration charge on top. You can't just decide to take a payment holiday because your lender allows it. You have to arrange it with it first – if you don't, it will impact your credit file and look like you've missed payments willy-nilly. Some lenders may still put it on your credit file, so be careful.

"Some lenders insist you have overpaid before you can take a holiday."

Offsetting

So far, the focus has been on mortgages that are variations on a simple theme. You borrow a set amount of money, you pay back a certain amount every month, and your debt is the amount you borrowed minus the repayments you've made (after interest has been paid). So far, so straightforward.

However, for ultimate flexibility, there's a type of mortgage specifically designed to allow you to use them as a place to put your savings. They still come in variable or fixed deals as described above, but with a twist...

An offset keeps your mortgage and savings in separate pots with the same bank or building society. But the big difference is your cash is used to reduce – or 'offset' – your mortgage instead of earning interest on your savings.

So, if you've a mortgage of £150,000 and savings of £15,000, then you only pay interest on the difference of £135,000.

You still make the standard payment every month, but your savings act as an overpayment, wiping out more of the interest every month, helping to clear the mortgage early. And as we showed earlier, the quicker you pay it off, the less it costs you overall. The best point is your savings can still be withdrawn whenever you want with no problem (but obviously, then it no longer offsets your mortgage debt).

The effective savings rate is huge...

The interest earned on the £15,000 in a normal savings account is usually taxed. Yet pay £15,000 less interest on your mortgage and there's no tax to pay on it, plus the mortgage rate is likely to be higher than what you'd earn in a savings account so you're better off paying less interest on the mortgage.

For a basic-rate taxpayer, using an offset to reduce a mortgage with interest at 5% means you'd need a normal savings account paying 6.25% to beat it. For a higher-rate taxpayer it's 8.33%, for a top rate 9.1%.

Is it worth it?

Many people get very excited by the idea of an offset, but hold your horses. The problem is offsets are usually at a higher rate than standard mortgages.

Think about it. If you've a £200,000 mortgage, while getting a better rate on £20,000 of savings is nice, you don't want to pay a worse rate on the remaining £180,000 debt. So in the main, unless the offset is really cheap, only those who'll be offsetting a substantial sum in savings should bother.

Even then, you could just get a smaller normal mortgage and borrow less at the outset or overpay.

Current account mortgages

Here, as it says on the tin, your mortgage is combined with your current account, so you've one balance. This type of mortgage used to be far more common than it is now.

So if you have £2,000 in your current account and a mortgage of £90,000, then you are effectively £88,000 overdrawn. The debt is smallest just after your salary is paid in, and it then creeps up throughout the month as you spend your salary.

You make a standard payment every month, which is designed to clear your mortgage over the term you have chosen. The extra money floating around in your account is like an overpayment, which should mean you pay the loan off much more quickly.

Any extra cash savings can be added to reduce the balance further. Many people liked the idea but didn't like constantly seeing a debt figure in their bank account.

The additional benefit of the current account element compared to an offset is often overstressed though. Unless you have big bonuses or earn and spend a huge amount each month it's a tiny gain compared to an offset – and these mortgages often cost much more.

Warning! These mortgages are not for the financially disorganised. You also need a reasonable amount of money coming in every month or a decent amount of savings to make the most of their features.

Martin's Mortgage Moment

Watch out for early repayment charges

If you think about it, a fixed or discount deal is a special offer – a reduced rate from the lender in the hope that once that cheap price ends, you'll stick with it and pay more. More so, if it gives you a fixed deal and rates drop, it doesn't want you just leaving it, you took that gamble and it wants you to stick.

To ensure this, many lenders levy what are called early repayment charges. In other words, if you try to repay it by selling up, switching to a new lender or overpaying by too much during the special offer period, you'll have to pay a hefty fine. It can be 1%-5% of the amount you pay off early.

Consider if you were to clear a £150,000 mortgage early.

1% charge = £1,500
5% charge = £7,500

What a cheek! Even overpaying by £1,000 could cost you £10 to £50 for the privilege. But not every deal has a repayment charge. You can often overpay without being stung and in very few cases you can even find fixed rates that let you out for free. Therefore if you're signing up to a deal, you need to be sure it's right for you as you can't change your mind.

How long should I set the term for?

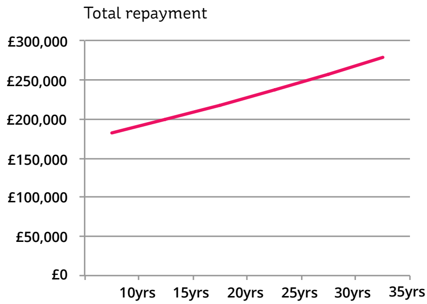
OK, so you probably started with a 25-year mortgage when you first bought a house.

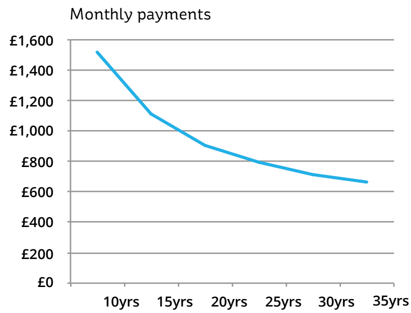
If you're working towards being mortgage-free, then you don't want to extend the length of it (known as the term) when you remortgage.

Although if you're struggling to meet payments, there might be a case for extending the mortgage term so you pay less now. However, there are a few factors to take into account, including how old you'll be when the term ends. Many lenders won't allow you to take it into your retirement period. This is probably good for you too – as you have to question whether you could keep up with the repayments.

The longer it is, the more you pay. Lengthening the term, say to 30 years, means you pay less each month, but you pay more interest in total. Shortening the term is a bit like overpaying, it's far cheaper if you've the cash. However, if the mortgage allows you to overpay, better to keep the mortgage long to give yourself flexibility, then make the overpayments.

The graphs below show that when you lengthen the term, you pay less per month but much more overall.





Questions to ask

Am I free to move after the deal ends?

Once your fixed or discount deal ends, in most cases you're free, and we'd encourage you to consider switching deal. That's because you'll be shifted on to the standard variable rate, which is often uncompetitive.

That said, in recent times, some lenders' SVRs have been quite decent, so it's not always worth switching. Still, a few months before your special offer ends, it's good practice to start looking to see if you can get a cheaper remortgage deal, as for every 1% interest you cut per £100,000 of mortgage, that's at least £60 a month saved.

The one warning is that a few lenders do levy what are called 'extended tie-ins' or 'overhangs'. These are early repayment charges that last even after the special offer period has ended. They are few and far between, but do check, and try to avoid.

What happens if I need to move house within the mortgage term?

Many mortgages are now 'portable' (check yours), so moving home doesn't have to involve a new deal, which can be important if you have early repayment charges. Though again, not all will let you, so check.

However, if you need additional funding, be careful to choose the right product so that the end dates of your existing scheme and new scheme are similar, enabling you to move both mortgages, if necessary, to secure a better rate. Having no penalties on the top-up sum can often be good a policy.

Is the mortgage available for remortgages?

Seems obvious, but not all deals are, so ask.

Do I meet the lender's borrowing criteria?

Check whether you meet other requirements, eg, minimum salary or employment status. Beware if your circumstances have changed since you took out your current mortgage – you may not be able to borrow as easily – or as much – as before.

The size of your mortgage is no longer based on your income or your joint income in the case of couples. As mentioned in chapter 4, nowadays lenders look at 'affordability' which means taking all your bills into account, even the cost of childcare and other loan repayments, compared to your mortgage to make sure you can afford the monthly repayments.

Moving house

If you're buying your next property, then you don't need a remortgage, you either need to:

1. Take your current mortgage product to the new house, or
2. Get a new 'home mover' mortgage.

I want to take my current mortgage product to a new house

First thing you need to do is to find out if your current mortgage is 'portable', by checking your mortgage paperwork or ringing your lender.

If it is, it means you might be able to take your existing deal to a new property. You would pay off the mortgage on your current property (either by selling it or replacing it with a buy-to-let mortgage). For example, you're two years into a five-year fixed rate when you sell your current home and get to take the fixed rate to your new property for the remaining three years.

My mortgage is portable. Can I definitely take it with me?

Alas, no. Just because your mortgage has the feature, it doesn't mean the lender will always allow you to use it.

The lender will want to check you are (still) creditworthy. That seems odd because you already owe it the money, so why would it say no, but it's a great opportunity to get rid of borrowers it no longer wants. Even if it's happy with you, it'll also want to check out the property that you're looking to move to, in order to check that it's worth what you're paying for it and that it'll be good security for the mortgage.

You might be thinking, "Why don't I just get an entirely new mortgage?". This can be a good option for some, but the big advantage of porting your mortgage is that you get to keep the rate (and get to avoid early repayment charges, if there are any).

Of course, if rates have dropped since you first took the mortgage out, you may want a new one anyway.

How much will the lender let me 'port'?

The lender is likely to only let you port the amount you currently owe on the same deal. If the new property you're buying is more expensive and you need to borrow more money, you'll usually have to take the extra out on a different mortgage product. Or, sometimes the lender will lend you the rest on its standard variable rate (SVR).

I can't or don't want to port, so I need a new homemover mortgage

In this case, you need to pay off the mortgage on your current home, usually with the sale proceeds (or with funds from a new buy-to-let mortgage if you're going to rent the current place out). Then you need to get a new mortgage for your new home.

Because that mortgage is for a new home, the process is exactly the same as getting a first-time buyer's mortgage, so read our free printed first-time buyers' guide, available at **www.moneysavingexpert.com/mortgageguide**.

Don't forget the fees

Before rushing ahead with your new remortgage application, stop and look at the fees. Fees have shot up; in fact, they've tripled over the last decade and can add £2,000 or more to the cost of your mortgage.

So you need to do your sums to take into account the full costs of remortgaging. You can try to minimise these – and some lenders will give you help towards them – but you can't magic them away. To make matters worse, there are a host of fees given different names by different lenders, making them harder to compare.

Realistically you might have to add them to your mortgage. But remember that's expensive as you'll be paying interest on the money for the length of the loan.

- **Arrangement fee.** This is the highest charge by far and has risen sharply in recent years. In some cases, arrangement fees can be over £2,000.

  Even worse are percentage fees, especially if you're taking out a large mortgage. These can be as much as 1.5% to 2% of the loan. On a £200,000 mortgage that would be £3,000 to £4,000. And in the worst cases, these are non-refundable if you pay upfront.

  So you actually need to look at the arrangement fee as part of the price of a mortgage. For mortgages under £150,000, the fee is a disproportionately large cost. It is often cheaper to go for a deal with a higher interest rate and lower fee.

  Therefore you always need to do a calculation incorporating both. Generally the best way is to factor in the fee over the life of the fix or discount (ie, two or five years). It's easy to do with our mortgage calculator at **www.moneysavingexpert.com/mortgagecalculator**.

- **Booking or reservation fee**. A few lenders also charge a separate reservation fee to secure a fixed-rate, tracker or discount deal. This costs about £100 to £200 and is always payable upfront and non-refundable.

- **Valuation fee.** This covers the cost of a survey of your new home. The good news is it's usually free with a remortgage product.

  It's to check a) the property exists and b) estimates its value (which may be different to what you paid for it) to assure the lender it has security for the loan, ie, that if it repossesses because you miss payments, it will get enough money back to cover the debt. The cost of the valuation depends on the property's value and your lender, but estimate about £250 if it's not included.

- **Legal fees.** Again, often free with your remortgage product. Paid to a solicitor (usually selected by the lender), this covers the cost of all the legal work associated with remortgaging a home.

Don't forget if you use a mortgage broker you may have to pay their fees. More on that in a moment.

Is it worth remortgaging?

To establish whether it's worth remortgaging, you need to work out whether the new deal in total is cheaper than the old one. Our mortgage calculator will help: www.moneysavingexpert.com/comparefixedrates.

- **Add up the cost of staying put**. Work out how much you'll pay to stay where you are. This could be on your current tracker rate, or it may be the standard variable rate if your current mortgage deal is ending. Just find out what the monthly repayments will be and multiply those monthly costs by the number of months your potential new deal will last to calculate the costs of staying put.

- **Add up the total new deal cost**. Now see what the monthly repayment will be with the new lender for borrowing the full amount and calculate the cost over the special offer period. If it's a two-year deal, multiply by 24 to get the total two-year cost. But make sure you also add in any fees to leave your old lender and to join your new lender. Then compare the final figure to the cost of staying put to work out which is cheaper.

How to get the best remortgage deal

OK, so now you're getting down to the nitty-gritty of actually picking a remortgage. Ideally you'll start your search around 14 weeks before you want to remortgage, but don't panic if you're needing to do it much later. The actual remortgage process can be really quick, but assume somewhere between six to nine weeks.

We suggest starting earlier because some lenders allow you to apply and hold the rate for three months before you have to complete, while others only allow you to hold for one month.

The cutting-edge technique is to find the top mortgage that can be held for three months and apply for that, then search the market again one month before to see if there are better rates.

If there are, then by all means apply to the new lender (just don't tell the original lender until you've secured a formal offer… or you could end up with neither).

Where to start?

Since you've done this before, you may think you don't need help, but depending on when you last did it, you could find that the mortgage market has changed massively and the choice is quite overwhelming.

First of all, ask your current lender what it will offer

After all, it makes money from your debt, so it should want to keep your custom.

Some lenders have a range of mortgages called 'product transfers' that are specifically designed to keep borrowers who are considering leaving. Your lender probably won't advertise them but it's definitely worth asking the question. As a product transfer is not a remortgage, you're just changing the terms of your current deal. It's usually a very quick and straightforward option and may have lower fees.

Plus if you're not increasing the mortgage debt, your lender won't be forced to check your affordability and earnings in as much detail as a new lender would.

Then, ask your bank account provider too

Your bank might be keen to increase its share of the mortgage market so might be willing to offer you a special deal, seeing as it knows you well. Don't be too hopeful here, but if you don't ask, you don't get.

Once you know what the best product offers from these are, it's time to search other remortgage deals to see if you can beat it. You have the option of using a broker or going it alone (with the help of comparison tables).

Using a broker

What is a broker?

A broker is simply a qualified and regulated mortgage adviser.

As there's a mass of choice and deals can disappear fast, using a broker is a good idea for many people.

Quite simply, they save you trawling through deal after deal to find the cheapest one for you. Of course, you don't have to use one. If you're confident and prepared to do the work and research yourself then you can go it alone – and we've guidance on how to do that.

However, brokers do have some advantages.

Martin's Mortgage Moment

Mortgage brokers can make it easier and faster

What you really want to do is get the best deal from across the market.

That's where a good mortgage broker can help. I often favour sorting your finances out yourself. But as mortgages are such a big single transaction, getting professional help can be a boon.

A broker should be able to quickly source a relevant product that fits your credit history, offer an extra layer of protection if things go wrong, and carry more clout with lenders to ease acceptance on otherwise unobtainable mortgages.

There are also some lenders which only work with brokers and some broker-exclusive deals from lenders that are simply not available to individual customers; these are rare, but can be market-leading.

The key questions to ask a broker

To ensure you pick a good broker, ask the following questions:

1. "Do you check all the lenders?"

Some mortgage brokers are tied to one or a small panel and we'd dodge those.

The real choice is between one who checks all the lenders that work with brokers (these used to be known as 'whole of market') and ones that check all those plus the few extra 'direct-only' deals that brokers can't set up for you.

The first type has the advantage that some of them (mainly working by phone rather than face-to-face) are fees-free, including London & Country, this guide's sponsor. For the second type, while you pay, you get a belt and braces service, so every possble deal is looked at.

If you do go for the 'fee-free' option, which we'll show you in a few pages, then if you're confident enough, you can quickly check the direct-only deals yourself if you like.

2. "How will you make your money?"

As mentioned earlier, brokers can make money in two ways:

- **Receiving a procuration fee from the lender.** This is roughly £350 per £100,000 of mortgage. It doesn't affect what you pay.
- **Charging you a broker fee.** If your broker does charge you a fee, this can be anywhere between £300 and £1,000 (don't pay more – some do it via a percentage of loan value, if that's too high, avoid).

  While it's legal for them to do so, we'd avoid any broker that charges upfront or even before you complete your mortgage. In other words, don't pay unless you get the mortgage.

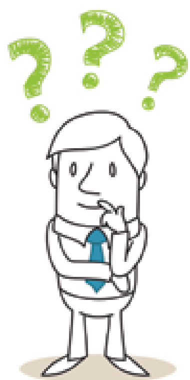
  Don't think just because a broker's charging you, it won't be getting a fee from a lender. If the total fee from you and the lender is over £800 and it's not complicated by issues such as your credit history not fitting, there may be room to haggle. And as the lender fee is usually a percentage of the loan amount, that really means haggling on bigger mortgages.

Mortgage brokers are regulated by the FCA, so the fact they earn commission shouldn't influence their recommendation. The advice should be genuinely unbiased. If you're not sure, ask the broker to explain what they based the recommendation on. If you're not convinced, get a second opinion.

For a full rundown of top brokers, see www.moneysavingexpert.com/mortgagebrokers.

3. "Are you qualified?"

Make sure you're getting advice from a qualified adviser (the most recognised qualification is called CEMAP). They will assess your needs and eligibility before recommending the most suitable product for you. This route also offers the most protection for you as a consumer.



If the advice turns out to be wrong, the Financial Ombudsman will be able to investigate any wrongdoing. But if you choose a product yourself online, you'll have no comeback if you make the wrong choice.

How to find a broker

For our updated guide to the cheapest big national brokers, see www.moneysavingexpert.com/mortgagebrokers.

But there are lots of extremely good local brokers and if you choose one carefully using the earlier questions, you should get decent face-to-face service. If that's your chosen route, and you don't know one, you can check www.unbiased.co.uk to find one in your local area.

On the other hand, the big brokers boast greater market power and sometimes negotiate exclusive deals for their customers with lenders. They are independent of the lenders. If they charge a fee and are going to be paid commission on top by the bank or building society you go with, ask if they'll rebate some of it back to you.

Here are the steps to getting a remortgage with a broker:

Step 1 **Choose a broker**. You should be told explicitly what advice will cost at what stage and how you'll be expected to pay.

Step 2 **Discuss your circumstances with the broker**. They'll recommend a deal.

Step 3 **Check direct-only deals**. See if you can beat your broker with deals they can't access. If you can, discuss it with your broker.

Step 4 **Select a mortgage/accept the broker's recommendation**. The broker should recommend a remortgage deal that meets your requirements.

Step 5 **You (if you go direct) or your broker will make the application to the lender**.

Step 6 **Valuation and legal work**. This should take about two months.

Step 7 **Completion**.

Martin's Mortgage Moment

Always check non-broker deals too

There are deals that brokers can't access, because lenders cut them out by offering them direct to consumers only or not paying commission. If you're paying a large fee then you should ask your broker if they will check these deals for you too. If not, you need to check these deals yourself.

The big lenders doing this are HSBC, First Direct, Yorkshire Building Society and Britannia. They can offer some very competitive deals and are always worth checking, but they do tend to cherry-pick the best credit scorers and reject many applicants.

Some lenders which do offer deals through brokers sometimes restrict certain specific deals to direct-only customers. Any company may decide to do this from time to time.

So for belt and braces, as well as using a broker, it's also worth using comparison sites **www.totallymoney.com/mortgages**, **www.google.co.uk/mortgages** and **www.moneyadviceservice.org.uk/mortgages** that also list direct-only deals – just in case there's a mortgage there that suits you. There's then nothing wrong with telling your broker you've spotted it and asking for their views.

As a final thought, it is a worry that some lenders occasionally try to cut out the broker market. Many people go ahead in getting a remortgage knowing very little (without reading a guide like this) and brokers at least stop people making mistakes. Far better in my view that there's an active, regulated, broker market to help.

Going solo

If you're confident you know what you want, there's nothing to stop you getting a remortgage on your own, though as explained in a moment, most people are better off using a broker.

As a start point, the internet can help you get details of different products and compare rates. For more information on a range of comparison sites, see www.moneysavingexpert.com/mortgagebestbuys. Newspapers also regularly publish best buy tables. Beware – tables often don't include all the fees you'll have to pay, which can make as much difference as the interest you'll pay.

Step 1 **Select the remortgage deal or deals you fancy**. Get detailed quotes from the lender(s).

Step 2 **Add up all the fees to get a figure for the total cost**.

Step 3 **Work out the cost over a set period** – the length of the fix or variable rate deal, or the life of the mortgage.

Step 4 **Check you and the property are eligible before starting the application process by contacting the lender**. For example, check if your income is sufficient and whether the lender will lend on your current property (some don't like high-rises or homes above shops).

Step 5 **If you decide to go ahead, apply to the new lender**. You can speak to the lender and get advice on their range of products. Or you can apply online without advice, but remember, without getting advice, you're taking full responsibility for your choice being right for you.

Step 6 **Valuation and legal work**. This should take about two months.

Step 7 **Completion**.

> **"There are a few deals that brokers can't access."**

Watch out for the hard sell on...

As the mortgage market has developed some lenders – and brokers – try to make more money elsewhere in the mortgage process. So be prepared for the hard sell on the following:

Life cover from your mortgage seller

Would you ask the man who sold you a computer to be your fashion stylist? No, so don't assume just because someone sold you one financial product they will automatically get you a good deal on extra bits such as life cover or other insurance.

Don't rush in and grab the first one offered to you. In some cases you can save 50% on the life cover sold by your lender or broker.

For a full guide on how to find the cheapest cover, see **www.moneysavingexpert.com/lifeinsurance**.

Mortgage payment protection insurance (MPPI)

Sometimes called accident, sickness and unemployment insurance (ASU), MPPI covers your mortgage payments if you have an accident, become ill and can't work, or you're made redundant.

There is limited help from the Government but, at best, it will only cover your interest. So it's sensible to consider, before you take out a mortgage, how you would manage to meet your repayments in these events.

MPPI isn't a bad policy but it can be quite pricey and has been mis-sold in the past to people who couldn't actually claim on it. This happened because the insurer wasn't required to carry out any checks to make sure the insurance was suitable when you first applied, only when you went on to make a claim.

Be extra careful if you are self-employed, have any reason to suspect you might be made redundant or have any existing medical conditions.

If you do decide to take out an MPPI policy, check carefully:

- That it will pay out if you claim.
- When you are covered (you may have to wait several weeks before the policy kicks in).
- How much it'll pay, for how long and when (it'll usually only cover your mortgage repayments for 12 or 24 months and you'll probably have a period after claiming before it starts to pay).

Buying MPPI from your mortgage broker

Be careful when buying from your mortgage broker here. It may not be able to get you the best priced policy and it's common for a broker to offer mortgage from all lenders but then be tied to a single insurer or a small panel of them.

Read more in our MPPI guide at www.moneysavingexpert.com/mppi.

Bundled buildings / contents insurance

All lenders will insist there is adequate buildings insurance in place.

If you already have buildings insurance, there's no harm in getting a quote from your new mortgage lender to see if it's better than what you have. Be wary of remortgage deals that insist you take out that lender's buildings insurance – it's usually not competitive.

Some lenders will charge around £30 if you decline to take their insurance and arrange your own, so it's worth asking.

If you go elsewhere for your home cover, some seriously cheap deals are possible. By using cashback incentives, some people have even been PAID to take out insurance. See www.moneysavingexpert.com/homeinsurance.

Remortgages quick Q&A

A few final questions some of you have:

Q. Will the lender lend on my property?

A. Just because you have a mortgage on your current property, it doesn't mean that the next lender will be willing to lend to you. For example, some won't lend on homes near commercial premises, without a working kitchen or bathroom (even if you plan to refurbish), in a high rise, if it's on a council estate, or if it doesn't like the material used to construct the building.

So declare EVERYTHING on day one of your application so you don't waste valuable time, and really interrogate the lender to ensure it has no restrictions which could kibosh your application.

A good broker can be worth their weight in gold here, as they should know which lenders are more likely to grant a remortgage based on your property.

> **"Can I leave my property and rent it out to someone else?"**

Q. What is the mortgage APR?

A. All lenders have to tell you their APR and do so prominently. This is rather annoying as it's a rate in most cases you'll never have to pay and is meaningless – that's why we haven't really referred to it here.

The APR shows you the effective averaged annual interest rate if you held your remortgage product for the entire term (ie, normally 25 years).

Therefore if you had a fixed rate at 4% for two years and then the SVR afterwards was 5.5%, the APR would be around 5.4%.

So why do we say it's mostly meaningless?

- You never pay 5.4%; it's an averaged rate over the entire term.
- You're likely to remortgage again long before the term ends.
- The SVR is a variable rate so is likely to move anyway during the term.

What you really need to focus on is the initial discount/fixed rate, the fees and the rate it goes to afterwards.

Q. Can I leave my property and rent it out to someone else?

A. Probably, but you have to get permission from your lender before renting it out, called a 'consent to let'. In most cases you'll be able to keep your mortgage. However, the lender may increase the rate, or you'll be told to move onto a buy-to-let mortgage, which is typically more expensive. The lender can refuse your request, so don't assume it will be okay.

Final thought

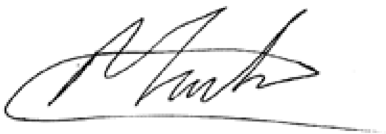
Just because you've remortgaged once doesn't mean you should rest on your laurels. Today's best deal could have tumbled from the best buy tables in six months' time. If you want to keep saving you need to keep your eye on the ball.

In particular, if you've chosen a rate for a period of time – say two years – then ideally you need to start thinking about checking your rate is still decent at least three to six months before your time is up.

Timing is crucial. Don't let yourself forget and risk squandering the money you saved by remortgaging in the first place. Put a reminder in your diary or in your computer calendar.

Happy hunting!

I hope you save some money.



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