August 2008

Our MONEYmadeclear™ guides – here to help you

This guide is part of our Buying a home series.

Available from our Consumer Helpline or website

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No selling. No jargon. Just the facts.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.

Plain Language Commission
Clear English Standard
Winning Document

No selling. No jargon. Just the facts about mortgages.

MONEYmadeclear™

from the UK's financial watchdog (FSA)

With our MONEYmadeclear™ range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts about mortgages.

We try to ensure that the information in this guide, some of which comes from sources outside the FSA, is correct at the time of print. It is possible that some of it is oversimplified, or may become inaccurate over time, for example because of changes in the law. You should check the current position before you take any action.

This is general information to help you make financial decisions. It is not advice, and cannot take account of your individual circumstances. When making decisions about your own circumstances you should consider whether to consult a financial or other professional adviser.

FSA®

The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.

This guide is for you if

You want

to take out a mortgage to buy your home; or

You want

to stay in your home but change your mortgage (remortgage).

It's about mortgages and:

- explains the different types;
- tells you how to get one; and
- answers some of the questions you may have.

Contents

How mortgages work

A mortgage is a loan to buy your home. You borrow money and pay it back with interest over a period of time (the 'mortgage term') that you agree with the lender – usually a bank or building society.

The loan is secured against your home so if for any reason you can't repay it, the bank or building society can sell your home to get back its money.

Remember, this guide is not for you if you want to take out a second mortgage on your home or a buy-to-let mortgage.

See the *Jargon buster* on page 28 for an explanation of some words you may come across.

How much can you borrow?

This depends on your personal circumstances, such as your income, your outgoings and whether you're buying alone or with a partner – see page 4.

How to repay your mortgage

You can choose to pay your mortgage back in the following ways:

- **repayment** – your monthly payment is split between paying off the loan and paying off the interest you owe on the loan;
- **interest-only** – your monthly payment pays only the interest charges on your loan, and you must arrange some other way to repay the loan; or
- a combination of the two.

For more information see page 5.

The standard mortgage term is 25 years, but you can choose a different term if it suits you and the lender agrees that you can afford it.

With a shorter term, you'll have higher monthly payments but pay less in total. With a longer term, you'll pay less each month but more in total.

Beware of having a mortgage term that continues past the age you retire unless you're sure you'll be able to afford the payments then.

Mortgage features and interest-rate deals

Once you've decided how to repay your mortgage, you can choose from different mortgage features and interest-rate deals – see page 14.

Where to get help

You can find mortgage advisers on the high street or online. Make sure they're regulated by the FSA or are agents of regulated firms. This means they must meet certain standards we set so you can get the advice or information you need to help you make an informed choice – see page 8.

Key points

- The FSA regulates the way most mortgages are sold, but we don't regulate second-charge and most buy-to-let mortgages – see page 17.
- You are responsible for paying back your mortgage – think carefully about which repayment option will suit you.
- If you get into arrears (fall behind with your payments), the lender can, as a last resort, sell your home to get its money back.
- Read the keyfacts® documents you'll be given – they have important information for you – see page 8.

Key things to think about

How much you can borrow

Lenders should lend responsibly. This means that they should consider whether you can afford the mortgage repayments now and throughout the mortgage term. For example, some lenders offer a discounted rate to start with, but will you be able to afford the repayments when the discount ends?

Mortgage lenders have in the past offered to lend a sum based on a multiple of your salary (before tax).

If you have other money coming in, such as bonuses, overtime or commission, lenders may take account of only half of this because it isn't guaranteed income.

Recently it has become more common for lenders to make an **affordability assessment** when calculating how much they will lend you.

Each lender has its own method, but generally they all try to calculate your disposable income, taking account of:

- your total income;
- any money you owe, such as loans and outstanding credit card balances; and
- household bills and living expenses.

You can use our online **Mortgage calculator** to find out how much your monthly mortgage repayments may be. This can help you estimate the size of mortgage you can afford at a particular interest rate – see *Useful contacts*.

Think carefully about how much you can afford. See also our **Paying your mortgage** guide – see *Useful contacts*.

Self-certification

Usually, the lender needs proof of your income, but sometimes they will rely on what you say your income is (self certification). For example, they may do this if:

- you are self-employed and your income varies;
- you find it difficult to prove your income; or
- your earnings are made up largely of non-guaranteed commission.

Key points

Don't be tempted to overstate your income to get a very large loan because you could end up with a mortgage you can't afford and could lose your home; you'll also be committing fraud and could get a criminal record.

How to repay your mortgage

You can choose to pay your mortgage back in the following ways:

- repayment;
- interest-only; or
- a combination of the two.

Repayment (also called a 'capital-and-interest' loan)

The payments you make to the lender every month reduce the amount you owe as well as paying the interest on the loan. So each month you pay off a small part of your mortgage.

It's a simple, clear approach – you can see your loan getting smaller. If you make all the agreed payments, the loan will be fully paid off by the end of the mortgage term.

However, in the early years your payments will be mainly interest, so if you want to repay the mortgage or move house, you'll find that the amount you owe won't have gone down by very much.

Interest-only

As the name suggests, your monthly payment only pays the interest charges on your loan – you don't reduce the loan itself. Because you're only paying off the interest your monthly payments will be lower than an equivalent repayment loan. It's very important you arrange some other way to repay the loan at the end of the term, for example, through an investment or savings plan.

Make sure you know from the outset how you intend to pay off the loan.

Examples are to:

- **Save regularly** – so you build up a lump sum that will pay off the loan at the end of the term. You should check the progress of the plan regularly. If it doesn't grow as expected, you will have a shortfall and you'll need to think about ways of making this up.
- **Convert later to a repayment mortgage**. This might be a suitable option if, say, your earnings are low now but you expect them to be much higher in future. However, because you're putting off repaying the loan you will end up paying more interest and more in total for your mortgage over the term.
- **Use a lump sum from somewhere else** – say, an inheritance, or selling something such as another property or a business. This may be risky – for example, how sure are you that you will get an inheritance, or what happens if your business fails?
- **Sell the mortgaged property to pay off the loan**. This is suitable only if you won't need to live in the property – for example, if it is a buy-to-let property or a second home, or you are buying something smaller or cheaper.

Think carefully about using an investment or savings plan to build up the money you need to repay the mortgage.

An investment plan invests in the stock market and the value of your investment can go up and down. If you are not comfortable with taking this risk, think about a repayment mortgage instead.

When choosing a mortgage:

Check that

you borrow what you can afford to pay back – use our **Mortgage calculator** to help you. Don't be tempted to overstate your income to get a bigger loan. You could end up with a loan you can't afford. You'll also be committing fraud and could get a criminal record.

Check that

you understand how 'repayment' and 'interest-only' options work, and what you must do to ensure you pay off your mortgage at the end of the term.

Check that

you understand the interest-rate deals on offer, and their advantages and disadvantages. Make sure you know when a special deal will end, and think how you will make your repayments when they do increase – see page 14.

Check that

you get keyfacts® documents from your adviser or lender. These contain important information that we require the firm to give you about their service, and the costs and features of the mortgage – see page 8.

Where to get help

Information or advice?

When you ask about a mortgage, the lender or mortgage adviser will normally give you information. This may include printed leaflets, and the person you speak to may describe the mortgage or service. But this doesn't mean you're getting advice specific to your needs and circumstances.

If you're uncertain about which mortgage is right for you, then consider getting advice.

Buying with advice

Only FSA-regulated firms and their agents should give advice about mortgages, and these firms must follow our standards when dealing with you. So check they are regulated, and therefore on our Register, before you deal with them – see *Useful contacts*.

You have a right to expect the adviser to recommend only products that are suitable for you.

If the product they recommend is unsuitable for your specific needs and circumstances based on the information you gave them, you can complain to the firm and expect compensation for any loss.

Information you will get

Whether or not you take advice, you should get two 'keyfacts' documents. This information is important because it explains the service you will receive and helps you to compare products – see below.

keyfacts® about our mortgage services

This document explains the service being offered and whether:

- you'll have to pay for it – and if so how much;
- the firm offers products from all companies, a limited number of companies, or a single company. If you want information or advice based on the full range of schemes, choose a firm that offers products from all companies; and
- the firm offers advice. Not all firms do. If you want advice make sure that the firm can provide this service before making an appointment.

Use this document to help you shop around to choose the service you want and the firm you want to deal with.

keyfacts® about this mortgage (KFI)

This is sometimes called a Keyfacts illustration or KFI. You will get a KFI if you ask for a written mortgage quotation, whether or not you choose to get advice. It summarises the most important features and costs of the mortgage in a standard way so you can compare it with other similar mortgages.

To help you shop around, ask for a KFI when you know how much you might want to borrow and the type of mortgage you want. By comparing KFIs for different mortgages you can work out which one is best for you.

Your lender or mortgage adviser must always give you a KFI before you apply for a mortgage, so you can make sure it's right for you.

Buying without advice

You don't have to take advice, but if you don't and the mortgage you choose turns out to be unsuitable, you will have fewer grounds for complaint.

If you do not have grounds, it is likely that you will have to pay to switch your mortgage – see page 25.

Poor credit history

Whether or not you take advice, the KFI must say if the mortgage is designed for someone with current or previous financial difficulties.

Each lender considers mortgage applications in its own way, and it may look at a number of factors. For example, some lenders may ignore minor credit problems in the past if all other aspects of your application are good (such as your employment history, income, and record of making mortgage or rental payments).

Key points

Look out for keyfacts® documents

- They're important – read them.
- Make sure you understand them – ask questions about anything that's unclear.
- Use them to compare the services and products of different firms.
- If the adviser or lender doesn't give you these documents, ask for them.

Fees and costs

Buying a house is always expensive, but the costs of getting a mortgage can vary between products and providers. Make sure you shop around to get the best deal; our online, **Compare products** tables can help you – see *Useful contacts*.

All the mortgage-related fees you must pay are set out clearly in the KFI (which the lender or mortgage adviser gives you) see pages 12–13.

But the KFI won't include other costs such as stamp duty land tax or your conveyancing fees – see below.

Adding fees to the mortgage

Often you can add some fees charged by the adviser and lender to the mortgage. This means that you don't have to pay these fees at the time. But it will cost you more in the long run as you will pay interest on the fees. If you want to do this, ask your lender or adviser to give you a KFI on this basis. Or if they have already done so, ask for a KFI where the fees aren't added so you can see the difference.

Compare the costs in the *Overall cost of this mortgage* and *What you will need to pay* sections of the KFI before you decide what to do.

Some other fees you may have to pay

Fee or charge	Who to and what for?	How much?
Estate agency fee	To the estate agency, for marketing and selling your home	Typically 1-3% of the selling price – ask for a quote.
Stamp duty land tax	To the government, as a tax on buying property	Varies depending on the purchase price. You can find more information on the government's website at www.direct.gov.uk.
Legal fees	To the solicitor for searches, land registry fees and so on	Budget for at least £400 – ask for a quote.
Survey fee	To the surveyor, if you want a more detailed report on the property	Varies according to the surveyor and the type of report – ask for a quote.

Incentives

Lenders sometimes offer incentives that reduce the cost to you of taking out a mortgage, such as a free valuation or payment of legal fees. Always compare the total costs of mortgages that have these incentives with those that don't. You may find that products without incentives have a cheaper rate and will be cheaper in the long run. Check the *Additional features* section of the KFI to see what incentives are on offer.

Insurance

You can buy many types of insurance with a mortgage. Your adviser or lender may try to sell you a range of policies. You must have some to get the mortgage, some are optional and others may depend on your circumstances. We regulate the sale of most types of general insurance.

Buildings insurance

Most people need buildings insurance to cover their home in case the building is damaged or destroyed while they have a mortgage.

If you buy a leasehold property (such as in a block of flats), the freeholder may have arranged buildings insurance for the whole block, in which case you may not need your own buildings policy.

Some lenders insist they arrange your cover. This is called **tied insurance.**

Others insist you take insurance but you don't have to arrange it with them. This is called **compulsory insurance.** If you decide to arrange your own cover, check whether the mortgage company will charge you a fee for doing so.

The *Insurance* section of the KFI shows you if you must have tied or compulsory insurance, and other relevant information.

Other insurance

There are various types of insurance that will **pay off your mortgage** or **meet the monthly payments** if something unexpected happens, such as you have an accident, get sick, lose your job or die.

Whether they are right for you depends on your personal circumstances – ask your adviser for more information.

You can compare insurance to meet your monthly payments on our online **Compare products** tables – see *Useful contacts*.

You may also want **contents insurance** to cover your furniture and possessions against loss, theft or damage.

For more information about different types of insurance, get a copy of our **Insurance** guide or visit our website – see *Useful contacts*.

Fees and costs included in the keyfacts® documents

Fee or charge	Who to and what for?	How much?
This will be shown in the *What will you have to pay us for this service?* section of the keyfacts® about our mortgage services document *and* in the *What fees must you pay?* section of the KFI		
Mortgage adviser fee (if you use a mortgage adviser)	To the mortgage adviser for arranging the mortgage or advising you.	This depends on the adviser, but if they charge (some don't) they must tell you in the keyfacts® documents.
These fees will be shown in the *What fees must you pay?* section of the KFI		
Mortgage booking fee and/or mortgage arrangement fee	To the lender, usually to reserve your mortgage funds for you or to cover the administration costs of processing your mortgage. Some lenders may link the fee to special deals with a lower initial interest rate.	These vary and can be significantly higher if linked to a special deal. These large fees can greatly increase the overall cost, particularly if you add the fee to the loan – and so pay interest on it. Check the *Overall cost of this mortgage* section of the KFI to find out the overall cost for these special deals.
Valuation fee	To the lender for assessing the value of the property and so whether it is safe for the lender to lend against.	Depends on the lender and the property's value.
Fee for arranging your own buildings insurance	To the lender, if you don't insure your property through them.	Typically £25 but may be payable yearly or each time you change insurer.

Fee or charge	Who to and what for?	How much?
Re-inspection fee	To the lender, if they need to re-inspect the property after the original valuation, usually to check if you've made agreed repairs.	Typically £50 – £100.
Higher lending charge	To the lender, if you're borrowing a high percentage of the property's value. The lender may charge this fee to take out insurance cover. This protects them if you can't pay back your loan and they have to sell your house at a loss.	Depends on how much you borrow and the size of your deposit.
Telegraphic transfer	To the lender, for transferring the mortgage funds to the buyer's solicitor. There can also be a charge for forwarding the funds to the seller's solicitor.	Typically £40 – £50.
Fees to repay the mortgage	To your lender, whenever you repay your mortgage at the end of the agreed term.	Typically £75 – £300.
This charge will be shown in the *What happens if you do not want this mortgage any more?* section of the KFI		
Early repayment charge	To your lender, if you repay all or part of your mortgage before the end of the agreed term.	This may not always apply, but this section of the KFI will explain when it applies and give cash examples. Check the terms and conditions of the mortgage for full details.

Mortgage features and interest-rate deals

As well as choosing between a repayment and interest-only mortgage, you can choose different features and interest-rate deals to go with it.

Offset mortgage

With an offset mortgage, your bank current account, savings accounts, or both are linked to your mortgage. Your accounts are usually, but not always, held with the mortgage lender. Each month, the mortgage lender reduces the amount you owe on your mortgage by the amount in these accounts, it then works out the interest due on the balance of the mortgage. So, as your current account and savings balances go up, you pay less interest on your mortgage. As they go down, you pay more interest – see the table on the right.

An offset mortgage can be tax efficient if you pay tax on your savings. This is because you don't earn any interest on your savings and so don't pay any tax on them. Instead you pay less interest on your mortgage.

The interest you save on your mortgage is usually more than the interest you would have earned after tax on your savings. This benefit is greater if you are a higher-rate taxpayer.

Some lenders let you combine the savings accounts of family members to offset against one person's mortgage. This could be useful if, say, you want to help your child buy their first home.

Offset mortgage: interest-only example

	Initial amount borrowed	Money in offset current or savings account	Amount on which interest is charged each month
Month 1	£100,000	£25,000	£75,000
Month 2	£100,000	£20,000	£80,000

Current-account mortgage

A current-account mortgage is similar to an offset mortgage in that it takes the balance of your account off your mortgage.

But, in this case, rather than your mortgage and current account being separate pots of money, they are usually combined into one account. This means that the account acts like one big overdraft.

The mortgage lender draws up a plan for you that includes the minimum amount you must leave in your account each month to repay your mortgage over the agreed mortgage term. If you leave more than this in your account each month, then you pay less interest and may pay off your mortgage early. But if you leave less in your account, you will end up paying more for your mortgage.

The *Description of this mortgage* section of the KFI tells you whether it is a current account or offset mortgage; and whether it is a condition of the mortgage to have a current account with the lender.

Flexible mortgage

This type of mortgage offers a number of flexible features (described below). You can change your mortgage payments to suit your ability to pay.

Several flexible features are becoming more common, and they aren't confined to loans that have 'flexible' in their name. Consider which of the features below are important to you.

Overpayments

You can pay more than the normal monthly mortgage payment, pay a lump sum off the loan, or both.

Overpayments can have two effects:

- if you pay off a lump sum you benefit straight away from paying less interest each month (because the amount you owe is now less); or
- if you continue paying at the higher level, you will pay off your loan more quickly. Sometimes you can cut years off your mortgage if you overpay regularly.

To get the benefit of overpayments straight away, choose a mortgage on which interest is calculated daily or monthly.

Truly flexible mortgages won't penalise you for making overpayments. The *What happens if you want to make overpayments?* section of the KFI tells you whether there are any restrictions.

Underpayments and payment holidays

You pay less than the normal monthly payment (known as an 'underpayment') for a limited period say, 6 or 12 months. You may even be able to stop making payments altogether for a while (a 'payment holiday').

While you are underpaying or taking a payment holiday, interest will still be building up on the remaining loan. This means you must make higher repayments in future to get back on track. Or you may be able to extend the term of your mortgage to keep the normal repayments affordable. Either way, you will usually end up paying more for your mortgage in the long run.

This could be useful if, say, you lose your job or take time out to care for a child. Most lenders require you to have built up some overpayments first.

Borrowing extra (sometimes called 'loan drawdown')

You can borrow extra without further approval from your lender, as long as the total loan is below an overall limit. Or, you may be able to 'borrow back' against earlier overpayments. With a more traditional mortgage, you usually need to apply for a top-up loan, which could take longer to arrange.

The *Additional features* section of the KFI tells you whether the mortgage offers these features and what restrictions apply.

These flexible features are just one aspect of a mortgage. You also need to consider the other features – such as the cost of the mortgage, and the type of interest rate. These are set out in the KFI too.

Cashback mortgage

Your lender may offer this with any of the interest-rate deals (see the table on pages 20-21). The lender pays you a large sum (for example 3-5% of the amount you borrow) shortly after you take out the loan.

If you move to another lender in the early years, you must repay some or all of the cashback you received.

Buy-to-let mortgages and second-charge mortgages

We regulate the way most mortgages are sold, but we don't regulate the mortgage if one or both of the points below apply:

- the mortgage is a second charge on your home – this means if you already have a loan secured against your home; or
- you or a family member will use less than 40% of the property on which the loan is secured as a home by you – for example, if you're renting out the property.

This means for second-charge and most buy-to-let mortgages the firm will not give you a KFI. It also means you have less protection if things go wrong.

For information on things to think about when considering buying to let see the Council of Mortgage Lenders' leaflet 'Buying to let' – see *Useful contacts*.

Interest-rate deals

Whichever mortgage you choose, you'll then need to look at the interest-rate deals on offer.

Mortgage lenders offer different interest rates and also different deals.

Here we tell you about the most common types to help you narrow down your choice. Bear in mind that mortgage rates tend to move in line with the Bank of England base rate, which is reviewed monthly.

You have two important decisions when choosing an interest-rate deal:

- whether to choose a fixed or variable rate mortgage; and
- whether to choose a short-term or longer-term deal.

Each one has advantages. The best for you depends on your particular needs and circumstances.

Don't choose an interest-rate deal solely for the cheapest initial monthly payments. Consider what the mortgage is actually going to cost you over the longer term and whether it is the most suitable for you.

What looks like a more expensive mortgage today, because it has a higher monthly repayment, may end up being more suitable for you.

For example, it may:

- have a long-term fixed rate, which protects you against rises in interest rates; or
- cap monthly payments, even if interest rates rise unexpectedly; or
- have lower initial charges or no early-repayment charges, if you want to repay early or make overpayments.

You can compare mortgage features and costs online using our **Compare products** tables – see *Useful contacts*.

With a variable-rate deal your monthly payments may rise, so you may be unable to pay. But with a fixed-rate deal, you may lose out if interest rates fall.

What are the risks?

Your income may drop or interest rates may change significantly.

The *Are you comfortable with the risks?* section of the KFI will give you an example of how much your monthly payment will go up if interest rates rise by 1%. You can use this to work out how much your payment will rise if the rates increase by more than this.

You can also use our online **Mortgage calculator** to see how interest-rate rises would affect your monthly payments for the amount you wish to borrow – see *Useful contacts*.

Remember

Take time to assess the risks and choose a mortgage deal that's right for you.

Key questions to ask yourself

Question 1 **Which payment option?**

Repayment ☐	**Interest-only** ☐	**Combination of repayment and interest-only** ☐

Question 2 **Which type of mortgage?**

Standard ☐	**Offset** ☐	**Current account** ☐

Question 3 **Which type of interest rate?** (see page 20)

Fixed ☐ **Variable** ☐ **– if so –**

Tracker ☐ Discounted ☐ Capped ☐ Collared ☐

Length of mortgage term ☐ **Length of interest rate deal** ☐

Question 4 **Do you want any other features, for example flexible features** (see page 15) **or cashback** (see page 17)**?**

Interest-rate deals – how do they work and which is right for you?

Type of interest rate	How it works	Early-repayment charges: During the deal period	Early-repayment charges: For some time after the end of the deal period
Fixed	Your payments are the same for a certain period, say, two years, five years, ten years or even longer. Unless the rate is fixed for the whole term, you must pay the lender's standard variable rate* at the end of the fixed-rate period.	Yes, with most loans	Yes, with some loans
Tracker (changes in line with a specified rate)	With this variable-rate loan, the interest rate is a set amount above or below the Bank of England or, some other, base rate, and so always 'tracks' changes in that rate. At the end of the deal period, the lender usually charges you its standard variable rate*.	Yes, with some loans	Yes, with some loans
Discounted	Your payments are variable, but they are set at less than the lender's standard variable rate for a period of time. At the end of this period, the lender usually charges you its standard variable rate*.	Yes, with most loans	Yes, with some loans
Capped	Your payments are variable and often linked to a base rate, but fixed not to go above a set level (the 'cap' or 'ceiling') during the deal period. At the end of the period, the lender usually charges you its standard variable rate*.	Not applicable	Not applicable
Collared	This may be used in combination with either, or both, a capped rate or a tracker. Your payments are variable but won't fall below a set level (the 'collar' or 'floor').	Not applicable	Not applicable
*** Standard variable**	Your payments go up or down when the lender's mortgage rate changes. Mortgage rates tend to move in line with the Bank of England base rate but there is sometimes a delay.	Not usually, except when offered with a large cashback deal	

Shop around

Many mortgage deals are available. Lenders can choose how they want to make their deals available – some may only be available through a broker, but others are available from the lender. Whichever route you take, it always pays to shop around, and here are some sources of information you might use.

Making sense of mortgage adverts

Firms selling mortgages must make sure that adverts, brochures and other promotions are clear, fair and not misleading.

If you think an advert doesn't meet these criteria, then tell us – see *Useful contacts*.

Comparing mortgages

Use our impartial online mortgage tables at **Compare products**, which compare hundreds of mortgages from different providers and help you narrow down your choice. The tables are updated every working day – see *Useful contacts*.

Many newspapers carry tables in their personal finance sections listing 'best buy' mortgages. Don't assume that these deals are the best for you, as very often they won't consider all the products available in the market.

Only deal with regulated firms

Mortgage advisers must be regulated by the FSA or must be agents for other regulated firms. This means they have to meet certain standards when dealing with you. For example, they have to give you certain documents with the keyfacts® sign. These will help you shop around and compare what's on offer. Make sure you read them as they contain important information about the service you will receive and the costs involved – see pages 8 and 9.

Approvals in principle and credit checks

A lender or mortgage adviser may offer to give you an **approval**, or **agreement in principle (AIP)** or a **mortgage promise**. This is a certificate that sets out the amount the provider will probably be willing to lend you based on certain terms and conditions. This can be helpful when you have chosen your mortgage and are ready to make an offer on a property.

The firm will usually do a credit check before giving you an AIP. This will register on your credit file.

The KFI can help you compare mortgages. If you are shopping around but not ready to apply, the firm you are dealing with should be able to give you a KFI without doing a credit check. Tell the firm if you don't want them to check your credit rating at this stage.

Your questions answered

Question

How can I prepare for buying a property?

Answer

- Build up your savings.
- Plan your budget based on the most you may have to pay for a mortgage, and don't forget to include mortgage-related costs and fees.
- Try not to take the maximum mortgage on offer.
- Think about whether you need a fixed rate so your mortgage payment will stay the same for a set period.
- Work out how long you could live on your savings if you lost your job.
- Check what benefits your employer will provide if you get ill.
- Consider taking out insurance in case you are made redundant, get critically ill, or have an accident.
- Use our online **Mortgage calculator** to work out how much a change in interest rates would affect your own loan – see *Useful contacts*.

Question

How can I review my mortgage?

Answer

You'll get a statement at least once a year. Check to see what you're paying, when any special deals end, and the balance of the mortgage left to pay.

Your questions answered

Question

Am I still on a special deal or has it ended?

Answer

Check your statement to see if you are still on a good deal, note when this finishes, and remember to review it again closer to this time.

Question

Does my mortgage have an early-repayment charge?

Answer

Check the KFI. Your annual statement will also show if there is an early-repayment charge and when it ends – make a note of the date, in case you want to switch to a new mortgage.

Question

Should I switch my mortgage?

Answer

You can change your mortgage to get a better deal – known as **switching**. You can shop around every few years to make sure you are getting a good deal. You don't have to move house to move your mortgage.

Switching can cut your monthly payments. But you'll need to weigh up these monthly savings or other benefits against the costs of making the switch.

Get a KFI for mortgages that you are interested in, and check that you will save money by switching.

Question

What will switching cost me?

Answer

Especially in the early years, your mortgage might have **early-repayment charges**. These can be hefty if you are still on a special deal, such as a fixed, discounted or cashback mortgage. Even if there are no early-repayment charges, your lender might make an administration charge – this could be quite expensive.

If you are switching to a new lender, they must value your home and there will be legal costs to pay. With some mortgage deals, the lender will pay these fees for you.

Make sure you get back the costs of switching before any special deal ends – for example, in less than two years if you switch to a two-year discounted rate.

If you are switching lender, check whether they will **charge you interest to the end of the month** even if you pay off the mortgage earlier by switching. If they do, make sure you switch your mortgage at the end of the month.

Remember that if a deal has no fees, the rate might not be as good as one that does.

When you've found a good deal, it's worth going back to your existing lender to see if it will offer you a similar deal to keep you as a customer.

Next steps

Getting a mortgage

Step 1

Shop around for mortgages at **Compare products** or get professional advice – see *Useful contacts*.

When you are ready to apply for a mortgage read the KFI and check that you understand all the features of the mortgage. Whether or not you take advice, you should still do your best to ensure that the mortgage is right for you.

Step 2

After you apply the lender will assess your application by valuing the property, checking your identity, and assessing whether you can afford the mortgage.

Step 3

You will then get a mortgage offer document and an updated version of the KFI. Compare this with the original KFI. This is your final chance to check you are happy with all the terms and conditions of the mortgage. If anything is unclear or if there are differences you don't understand between the KFIs, talk to the lender.

Step 4

Before you accept the offer make sure you read and understand the mortgage offer document. Ask the lender to explain anything you don't understand. Don't sign until you're sure the mortgage is right for you.

If things go wrong

Complaints and compensation

If something goes wrong, contact your adviser or lender to put it right. They must follow a set of procedures when dealing with complaints.

If you're not satisfied with their response, you may be able to take the matter to the Financial Ombudsman Service. The adviser or lender will give you details. See also our **Making a complaint** guide – see *Useful contacts*.

If the adviser or lender has stopped trading and can't (or is likely to be unable to pay claims against it, the Financial Services Compensation Scheme may be able to help – see *Useful contacts*.

Both services are free to consumers.

You won't lose your home simply because a lender stops trading, but you must continue to pay your mortgage.

Mortgage difficulties

If you can't pay your mortgage, talk to your lender – they have a set procedure for dealing with this.

For more information read our guide **What to do when you can't pay your mortgage** – see *Useful Contacts*.

You may be able to get State benefits – but sometimes only after an initial waiting period.

For more information contact your local Jobcentre Plus (details will be in the Phone Book).

No selling.
No jargon.
Just the facts about mortgages.

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Jargon buster

Some key words and phrases explained.

Approval in principle
A certificate that some lenders give you, showing the amount they will probably be willing to lend you. This isn't a guarantee, but can be helpful when dealing with estate agents.

APR
Annual Percentage Rate – this shows the overall cost of a loan, taking into account the term, interest rate and other costs.

Buy-to-let mortgage
A loan you take out to buy a property that you intend to rent to tenants.

Capital
The amount you borrow to help buy your home.

Capped mortgage
A mortgage with a maximum limit on the interest rate you'll pay during the deal period.

Cashback mortgage
A mortgage that comes with a cash sum (often a percentage of the amount you're borrowing).

Collared mortgage
A mortgage with a minimum interest rate you'll pay during the deal period.

Deposit
The amount of money you put into buying a home (not including the mortgage money you're borrowing).

Discounted mortgage
This has a lower variable rate of interest for a set period, then the rate increases.

Early-repayment charge
A charge you may have to pay if you pay back a mortgage early (including if you move to another lender).

Fixed rate
An interest rate that is fixed (in other words it doesn't move up or down) for a set time.

FSA Register
A list of firms that we regulate to sell financial services in the UK. You can check online to see whether a firm is on our Register – see *Useful contacts*.

Home information packs
The government requires sellers of most properties in England and Wales to provide this pack. The pack must contain title deeds, local searches and an energy performance certificate for the property for sale.

Income multiples
The number by which a lender multiplies your earnings to find out how much you can borrow.

Interest
The charge that lenders make when you borrow their money.

Jargon buster

Interest-only mortgage
A mortgage in which you pay only the interest charges of the loan each month. You are not reducing the loan amount (the capital), and you must repay this in some other way.

Interest rate
The figure that determines how much interest you pay. Usually linked to the Bank of England's rates and can move up or down.

keyfacts® documents
Standard documents that all regulated lenders and advisers must give you. They explain their services and detail the mortgage you're interested in.

Loan-to-value
The amount of money you want to borrow compared (as a percentage) to the value of the property.

Mortgage
A loan secured on your property.

Mortgage adviser
A mortgage adviser helps you get a mortgage from their available range. They may recommend a mortgage or give you information to help you choose.

Remortgaging
Changing your mortgage for a different one, without moving home.

Repayment mortgage
A mortgage in which you pay off both the loan (capital) and interest at the same time.

Secured
If you do not repay your loan, the lender can sell your home to get its money back.

Stamp duty land tax
A government tax that home buyers must pay on properties above a set amount.

Standard variable rate mortgage
The lender's normal rate – ie without any discounts or deals.

Survey
A report on the condition of the property you are planning to buy.

Tracker mortgage
A mortgage with an interest rate usually linked to the Bank of England or other base rate, moving up or down with it.

Term
The length of your mortgage, normally expressed in years.

Valuation
A brief inspection of the home you hope to buy, so the lender can ensure it is suitable security for the mortgage.

No selling.
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Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other MONEYmadeclear™ guides, check our Register, report misleading promotions, or for general information or guidance

Financial Services Authority (FSA)
Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other MONEYmadeclear™ guides

- Getting financial advice
- Insurance
- Making a complaint
- Paying your mortgage. You can afford your mortgage now – but what if...?
- What to do when you can't pay your mortgage

On our MONEYmadeclear™ website you can find

- A **Mortgage calculator** to help you estimate your monthly mortgage payment
- Tables to help you **Compare products** like mortgages, savings accounts and mortgage payment protection insurance
- A **Budget calculator** to help you work out if you have enough money coming in to cover your bills

Go to www.moneymadeclear.fsa.gov.uk and click on **Useful tools**.

Other organisations that can help you

Association of British Insurers (ABI)
020 7600 3333
www.abi.org.uk

For information on insurance products

Council of Mortgage Lenders (CML)
020 7438 8956
www.cml.org.uk

For leaflets on buying to let, equity release and home buying in England, Wales or Scotland.

Ethical Investment Research Service

www.eiris.org

Ethical mortgages and insurance

Financial Services Compensation Scheme (FSCS)
020 7892 7300
www.fscs.org.uk

For claims against your adviser or lender if they have stopped trading.

Finding a financial adviser

Brokerfinder
www.brokerfinder.co.uk

Mortgage broker search.

IFA Promotion
0800 085 3250 (freephone)
www.unbiased.co.uk

Provides a list of 8 independent financial advisers in your area.

Institute of Financial Planning
0117 945 2470
www.financialplanning.org.uk

Financial planners can help you to achieve your goals by planning your finances.

MyLocalAdviser
www.mylocaladviser.co.uk

For a mortgage, insurance or investment adviser in your area.

The Personal Finance Society
www.findanadviser.org

Will provide a list of up to 6 financial advisers in your area.