

MORTGAGES

Everyone knows the term “mortgage”. Publicity about changes in interest rates means this is a word in everyone’s vocabulary, but many people do not actually know what a mortgage is.

If you want to buy a house and do not have the cash to pay the full price, you will probably approach a Bank or Building Society and ask them for a loan. The Lender will want to make sure that they have some protection if you do not repay the loan so they ask you to sign a document giving the house as security for the loan. This is the MORTGAGE or CHARGE.

There are many different types of mortgage but the main ones are:

REPAYMENT

ENDOWMENT

PENSION or ISA

REPAYMENT MORTGAGE

This is the simplest to understand. At the start of the mortgage you agree with the Lender how many years you will take to repay the loan. The monthly payment is part of the interest and part repayment of capital. In the early years, most of the repayment is for the interest, in the last years, most is capital. Over the years, you will see on your statement the amount owing going down.

To protect your family, if you die before the mortgage is paid off, you should have some life insurance though this can be arranged quite cheaply.

ENDOWMENT MORTGAGE

If you have an endowment mortgage, all of the payments you make to the Lender are to cover interest only. You will owe the same amount on the day you start the mortgage as you will ten years later. So that the capital you borrowed can

be paid back when the mortgage term ends, you take out an endowment policy with an insurance company. When the policy matures, the money you get should be enough to cover the capital sum you borrowed at the start of the mortgage. The policy also guarantees to pay out the capital owing to the Lender if you die during the term of the mortgage.

PENSION OR ISA LINKED MORTGAGES

These are similar to the endowment mortgage with you paying interest only to the Lender. The capital is then provided from a pension or ISA (Individual Savings Account).

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Commission is generally payable when Endowment, ISA or Pension plans are arranged. This must be disclosed to you by the person arranging the plan. You need to be comfortable with your chosen repayment method and ensure it has been fully explained to you.

Endowment, ISA and Pension mortgages will only repay your mortgage if the investments grow at the rate assumed at the outset. They may do better or worse than projected. If they under perform there could be a shortfall and the mortgage may not be repaid in full.

Also, where anyone previously had a PEP (Personal Equity Plan) to repay a mortgage, advice needs to be obtained as a result of their abolition. As many endowment policies are underperforming, it is important to be aware of how much money you can expect to receive and consider steps to pay any shortfall.

It is important that you take expert independent advice and our financial adviser Steve Burton will be able to help you.

## **SPECIAL DEALS**

Having decided how to repay the loan, many Lenders offer special deals to encourage you to use their services. The Lenders are constantly thinking of new deals but the following can often be found:

### **FIXED RATE MORTGAGE**

The interest rate is fixed for a period of years. After that you pay the usual rate. A good idea if interest rates are likely to rise but if they fall, you can be trapped into paying more than the going rate for some time. If you try to remortgage the house or move house (without going to the same Lender on a similar arrangement) while you are in the fixed rate period you will have to pay a large penalty. However, some people like these mortgages as they can budget accurately and not have to worry if interest rates rise.

### **DISCOUNTED MORTGAGES**

Here you pay a certain percentage less than the normal rate for a fixed period. Again, should you want to remortgage or sell during the first few years after obtaining the loan you will have to pay a penalty, although if you sell and buy simultaneously, and go to the same Lender, the penalty is usually waived. Also, you must not pay more than the payments the Lender asks for as this would also trigger the penalty payment.

### **CASH BACK, FREE VALUATIONS, LEGAL COSTS PAID**

These incentives sometimes have to be repaid if you sell or remortgage within a given period. No other problems, although particularly large cash gifts might be viewed by the tax authorities as taxable.

This is a very brief guide and you do need to check the particular terms of your loan. We will explain your terms, but if you have any queries, ask your legal adviser at Parkinson Wright.

## **MORTGAGE GUARANTEE PREMIUMS**

Anyone who borrows more than 75% of the value of this property will have to budget for this. Lenders are using many different names – ‘Lenders risk premium’ – ‘Loan to house value’, etc. On a 95% mortgage for a £60,000.00 property, the mortgage guarantee premium could be approximately £840.00.

This is an important added expense. You may be able to add the cost to your mortgage, which is expensive, or you may be expected to pay the fee immediately. (There are some Lenders who will pay this for you, our independent adviser can help you.)

The Lender will take out an insurance policy so if you have your house repossessed and when it is sold there is not enough to pay all of the mortgage and the cost of selling the house, the Lender can get money from the insurance company. That insurance company can sue you for the money it has paid to the Lender and if there is still a deficit, the Lender can sue you as well. This is not very fair but unless you have a very large deposit, there is no choice.

## **ADDITIONAL PROTECTION**

It is likely that your mortgage will be your largest liability and you may wish to consider additional protection:

- Critical Illness Cover – this ensures the mortgage is paid if you are diagnosed as having a critical illness
- Income Replacement – this replaces a percentage of your lost income if you cannot work due to illness, accident, injury etc
- Redundancy Cover – will pay your mortgage for a specified period if you are made redundant

## **FUTURE FINANCIAL PROBLEMS**

If you find yourself in difficulty paying your mortgage or are threatened with possession proceedings come and see us at Parkinson Wright before it is too late.

The Rules governing assistance with mortgage payments are quite complicated and only limited relief is available in certain restricted circumstances.

The Benefits Agency only assist with mortgage payments if you are in receipt of income support or income based job seekers allowance. Depending on your circumstances and the date at which you took out your mortgage, you may not receive help with your mortgage payments for up to 9 months from the time that you make your claim. During this period, arrears accrue on the mortgage and the Lender may be forced to consider possession proceedings.

For some people who took on mortgages before the 1<sup>st</sup> October 1995 and some people in special circumstances (such as single parents with dependant children) no payments will be made for the first 8 weeks of any claim and thereafter only half of the mortgage interest payments are made for the next 18 months.

You should be aware that the assistance is only available for mortgage interest payments and therefore there is no help with endowment policy premiums or payments into an ISA linked to the mortgage.

You should seriously consider protecting your position by taking out mortgage protection insurance cover to help you with repayments if you lose your job. Our Financial Adviser can give you expert advice about mortgage protection insurance cover.

## **GENERAL MORTGAGE TERMS**

You may not let or rent your house without the consent of the Lender. They may impose special terms such as increasing the interest rate.

Most lenders do not allow you to have a second mortgage to someone else without their consent. You should advise your Lender if you want to carry out extensions and alterations.

## **WARNING**

**YOUR HOME MAY BE AT RISK IF YOU FAIL TO KEEP UP PAYMENTS IN RESPECT OF ANY LOAN OR MORTGAGE SECURED ON IT.**

**It is important to have the right mortgage for your particular circumstances and you should obtain financial advice.**

We offer a complementary Financial Advisory Service to assist our clients. Our Financial Adviser is Steve Burton, of Ashwood Law LLP, a reputable and highly respected company who work with the clients of professional practices like Parkinson Wright. We can arrange a meeting if you need advice or just to make sure the advice you have already been given is in your best interests.

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