



## Your guide to Mortgage Planning

Choosing the right mortgage for your needs and ensuring that you can make payments both now and in the future is a crucial decision, requiring careful thought and consideration.

It is also important that you understand the benefits and drawbacks of each mortgage option, as well as the costs and risks involved.

To help you we have produced this guide which comprises:

- Budget Planner
- Guidance Notes (explaining the different types of mortgage available)

If you have any questions with regard to any aspect of this information or mortgages in general please do not hesitate to speak to your financial planning adviser **Jeff Barnes**



# BUDGET PLANNER

Taking out a mortgage for the first time (or increasing your borrowings) is an expensive business.

We have put together this Budget Planner to help you determine how much you can reasonably afford each and every month.

The amount a lender is prepared to allow you to borrow is not necessarily based on your individual affordability and it is vital that you can afford the repayments in the long term as **your home may be repossessed if you are unable to meet the monthly payments.**

Debts (monthly repayments)		Expenditure (continued)	
Car Loans		Internet access	
Student Loans		Shopping Bills	
Bank Loans		Clothing	
HP Loans		Charitable Donations	
Credit Cards		Petrol / Motoring costs	
Store Cards		Insurances	
Other Mortgages		Membership Fees e.g. Gym	
Other Loans / Debts		Cleaning Costs	
<b>Monthly Expenditure</b>		Holidays	
Maintenance/childcare/school fees		Savings	
Utilities (gas, electric, phone)		General purchases	
Council Tax		Regular Savings	
Mobile phone		Other Bills	
TV (license, cable, satellite)		Miscellaneous	
Rates (water, sewerage)			
<b>Total (A)</b>	<b>£</b>	<b>Total (B)</b>	<b>£</b>

Monthly Income (after tax)	<b>£</b>
Less total (A) above	<b>£</b>
Less total (B) above	<b>£</b>
Total excess income *	<b>£</b>

- This is a guide to assist you.
- You may have other expenditure that is not included in this table.
- You should take all of your regular monthly expenditure into account to determine a figure that is and will remain affordable to you both now and in the future.

# Guidance Notes

## Types of Interest Rate

- **Fixed**

Here the rate is guaranteed to stay fixed for a specified period, after which time it can be expected to revert to the lender's normal standard variable rate, or you may have the option to transfer to a new fixed rate.

- **Standard Variable**

This is the traditional type of mortgage interest rate, which fluctuates from time to time depending on the government's economic and monetary policy. If the rate is set at a particular amount above or below the Bank Base Rate is referred to as a "Tracker".

- **Discount**

This is a discount to the lender's standard variable rate, lasting for a guaranteed period of time. It will vary in that period with any change in the standard variable rate, and will revert to standard variable rate at the end of that period.

- **Capped**

This is a form of variable rate where the rate is capped at a specified level over a specified period of time; i.e. it is guaranteed not to exceed the capped rate during the period.

The rate may fall during the term, and at the end of the period will revert to the lender's prevailing standard variable rate.

- **Libor**

London Inter-Bank Offered Rate is the notional rate at which banks buy and sell money to each other.

It varies from day to day and is closely linked to Base Rate.

The relationship of LIBOR to Bank of England Base Rate can give you an indication of the possible future direction of base rates.

If LIBOR is significantly above Base rate it indicates that the money market believes interest rates are about to increase.

If it is significantly below, the reverse is true.

The key LIBOR rate is 3 month LIBOR; however rates are also quoted for one, six and twelve month periods.

## Repayment Methods

For most types of mortgage, the alternative methods of repaying the mortgage loan amount are as follows. Advice relating to the repayment method suitable to you will be outlined under separate cover.

- **Repayment of Capital & Interest**  
As well as interest payments being made, the mortgage loan amount is gradually paid off year by year throughout the term of the mortgage, so at the end of the term (subject to you maintaining the correct payments) your mortgage is guaranteed to be repaid.
- **Interest-Only Mortgages**  
Only interest payments are made throughout the term of the loan, with the original mortgage loan amount remaining payable at the end of the term.
- **Investment Backed Interest-Only**  
Only interest payments are made throughout the term of the loan, and the original mortgage loan amount remains payable to the lender.

An investment plan, which pays out a lump sum in later years, is used to repay the mortgage loan amount remaining at the end of the term.

- **Part Repayment/Part Interest Only**  
This is a combination the first two mortgage types shown on this page. Payments to the lender consist of interest and a proportion of capital repayments. A part of this mortgage would remain unpaid at the end of the mortgage term.

The most common forms of investment used to back Interest Only (or part Interest Only) mortgages are:

- **Endowment plans**  
Endowments are a form of savings based life assurance, frequently used to repay home loans, the most common form being a low-cost endowment.
- **Individual Savings Accounts (ISAs)**  
ISAs are tax efficient savings vehicles, introduced with effect from April 1999.
- **Personal Pensions**  
The tax-free cash sum from a personal pension may be used to repay the mortgage under current legislation.

## RISKS ASSOCIATED WITH INTEREST ONLY OR PART INTEREST ONLY

If you fail to make suitable arrangements to repay the mortgage loan amount at the end of the full term then the lender may have no option but to undertake proceedings to repossess your property. It is your responsibility to ensure that an adequate repayment method is in place. Your lender will remind you annually of the need to make sure that an adequate repayment method is in place. It is important to understand that most Investment Linked methods of mortgage repayment are NOT guaranteed and you should carefully consider your ability to pay any shortfall if you are considering this option.

**Your home may be repossessed if you are unable to make the mortgage payments.**

## **Adverse Financial Consequences**

Depending on the particular type of mortgage, early repayment of the mortgage may incur penalties imposed by the lender.

If you have an investment backed interest only mortgage, early surrender of that investment may adversely affect the amount of capital you have accumulated to repay the mortgage loan. Additionally fund performance is NOT guaranteed and values can fall as well as rise meaning that you may not have sufficient means to repay the debt.

### **What if:**

- You are unable to work due to illness or injury?  
Will you be able to maintain your mortgage payments?  
Your home may be repossessed if not.
- What if you should die?  
Will your partner/spouse/dependents be able to maintain the mortgage payments?  
Their home may be repossessed if not.
- What if you were to lose your job?  
Will you be able to maintain your mortgage payments?  
Your home may be repossessed if not.

## **Insurance Requirements**

We are able to arrange insurance policies that may be required. Such policies could ensure that:

- In the event of death, sufficient funds could be made available to repay the mortgage loan in full
- In the event of serious illness or injury, sufficient funds could be made available to repay the mortgage loan in full
- In the event of prolonged absence from work due to illness or injury, an income could be made available to meet your monthly mortgage payment and other household costs
- In the event of redundancy, an income could be made available to meet your monthly mortgage payment and other associated costs

You should talk to your adviser if you require more information.

## **Lender Conditional Insurance**

The lender may insist on you arranging insurance with them under some mortgage arrangements. It is your responsibility to ensure that you are adequately protected.

However, the lender will always insist that arrangements be made to insure the full rebuilding cost of the property before the mortgage loan will be provided.

With regard to any insurance cover that we arranged, we will explain the essential provisions of the cover, draw attention to any restrictions or exclusions under it, as well as the consequences of non-disclosure of material facts.

## Mortgage Fees Before or on Completion

The following costs may be incurred (full details will be provided to you in advance of any application):

- Valuation Fee – charged by a lender to pay for a report from a surveyor commenting on the general condition of the property being mortgaged. This report is provided for, and is intended to protect the lender, not the borrower. More in depth survey reports can be arranged at an additional cost. Speak with a Chartered Surveyor to discuss the options.
- Lender's Booking Fee – payable on application, this is usually a charge to cover the cost of their administration. Sometimes this forms part of the valuation fee. In some circumstances this fee "reserves" a mortgage product which has limited availability. Rarely is this type of fee refundable once paid.
- Lender's Arrangement Fee – usually charged on fixed, discount or capped mortgages; this fee can sometimes be added to the mortgage advance.
- Mortgage Adviser's Arrangement Fee – we may charge you a fee for our role in assisting you to secure a mortgage. This fee may not be refundable if a mortgage does not proceed. Full details of any fees we charge will be disclosed in writing in our Initial Disclosure Document. You would also sign a fee agreement before any fee is charged. This fee may be in addition to any introduction fee paid to us by a lender.
- Legal Fees – Solicitors will make a charge for their services. In addition, they will ask you for funds to pay Land Registry and Local Authority Search fees, which will vary depending on the area and transaction. Before instructing a solicitor ask for an itemised, all-inclusive quote for all costs.
- Stamp Duty - this is payable upon completion and is calculated as a percentage of the value of your property. The Stamp Duty rates are illustrated below.

Up to £150,000	-	Nil
£150,000 - £250,000	-	1% of the purchase price
£250,000 - £500,000	-	3% of the purchase price
over £500,000	-	4% of the purchase price

Special rules apply for property purchases in certain designated disadvantaged areas.

- Mortgage Indemnity Premium – Sometimes referred to as a higher loan risk fee and may be charged if the loan exceeds 75% of the value of the property. The cost may on occasion be added to the mortgage advance. Some or all of this may be used by the lender, at its discretion, to obtain indemnity insurance to act as extra security for its sole benefit. If this is the case, the lender will give you a written explanation, stating that;
  1. such insurance will not protect you if your property is subsequently taken into possession and is sold for less than the value you owe,
  2. you will remain liable to pay all sums owing, including arrears, interest and your lender's legal fees'
  3. if a claim is paid to your lender under such insurance, the insurers generally have the right to recover this money from you.

## Mortgage Fees Payable After Completion

When you fully repay your mortgage, either at the end of the term or earlier, including if you remortgage, the lender may charge you a fee. Typically this fee is called the Deeds Release Fee but it may be called something else.

You should also be aware that if you pay off a mortgage early, either by a cash settlement or re-mortgaging with another lender, you might be liable to early repayment charges.

## Future Potential Repayment

At the end of a fixed, discounted, or capped rate period, the interest rate payable on the mortgage will normally revert to the lender's standard variable rate at that time.

Even if there is no change in the current variable rate, you may find yourself paying a higher monthly payment.

For example, if you take out an interest-only mortgage of £60,000 at 5.75% for 3 years, your monthly payments will be £287.50, and if a standard variable rate of 8.45% applies after the 3 year period your monthly payments will become £422.50.

Remember that if you have a capital and interest (repayment) mortgage, the future monthly payments will be based on the reduced loan amount at that time, not on the original loan amount.

## Debt Consolidation

Consolidating your debts into your mortgage may reduce your monthly costs but you will be paying these for a longer term generally resulting in a larger overall repayment total.

For example: £10,000 at 6% over **5 years** = £197.90 per month (**total £11,874**)  
£10,000 at 6% over **25 years** = £65.20 per month (**total £19,560**)

## Portability

A mortgage may be portable, which means that if in the future you move it can be transferred to the new property. This may be advantageous if you would otherwise have incurred early repayment charges by paying off the mortgage on the property you are selling. It is subject to you, your new mortgage requirements and the new property being acceptable to the lender.

## Mortgage Sourcing

As disclosed in our Initial Disclosure Document Grosvenor Beaumont Financial Services Limited act on your behalf. In almost all circumstances we will use a computer database to review the whole mortgage market to select the most appropriate product available at that time to meet your individual circumstances and needs. If we should ever select a mortgage provider from a limited panel of lenders we would advise you of this fact and give you details.

## Credit Referencing

In order to consider your mortgage application, the lender will normally pass your name and address to credit reference and fraud prevention agencies.