YOUR MORTGAGE ESSENTIAL GUIDE - Residential Home Mortgages

Since the financial crisis in 2008 and Euro debt crisis in 2010, western countries' financial systems have been damaged seriously. All governments blamed the crisis were partly caused by the banks' irresponsible lending. They did not properly assess the affordability of the borrowers. This caused many people lost their home and the bad debts of the banks. Like tax evasion, declaration of less income in order to pay less tax or declaration of more income in order to get more mortgage loan are criminal events. Offender can be jailed with criminal record too. The government authority and the banks have already set up systems to make routine and regular random checks the accuracy of the income via tax department. Any serious and unexplainable difference may cause suspicion of breach of law. The government also needs to respond to its mistake of lose control, strict impose of law and heavy penalty are predictable. Don't test the law. In fact, under certain conditions, criteria and special arrangement, some banks can lend up to 6 times of annual income. For full details, please contact the qualified, professional and trustworthy mortgage advisor. Regarding buy to let property, it is not directly under control Financial Conduct Authority. The control and restriction is less than residential home mortgage. Under certain conditions, rental income greater than mortgage interest to a certain percentage, some banks do not require minimum income level. There is no need to declare more than actual income in order to obtain mortgage.

Other than the affordability control, it is become more requirements for the source of funding. Law of Money Laundering discourages the threat of drug smuggling and anti-terror. It also starts to show effect on tax avoidance behavior. Many western countries have believed that, many big and small businesses have tried to use various tax evasion methods or to use tax heaven to legally avoid tax. It causes many governments losing of their tax revenue seriously. The banks become part of the blame. It is because they did not seriously care about the source of income and their accuracy. This directly or indirectly facilitates the tax evasion, terror activity, money laundering and financial arrangement. In result, many international banks got their penalty amounted to billion figure. All countries had no mercy for penalty. It also helps to cover some loss of taxation due to economic recession. In short term, it is believed that the strict control of source of funding requirement will continue. Banks would not afford the second time penalty again. Therefore for those their source of funding is not clear, they may not be able to satisfy the money laundering requirements. Sometimes, there are repeated and several fund remitted out. Sometimes, there are repeated and several fund to remitted in and accumulated to large sum of money. These are difficult to explain satisfactory and fulfill the bank and the law requirements. If in doubt, please consult professional mortgage advisor.

For those who are interested in mortgage information, please read the following guide:

Their Aims

Residential home (self-occupy) mortgages are loans secured against residential property which aim to:

- enable you to own your property.
- release some of the value of the property, against which the loan is secured, for another purpose.

Risk Factors

- Your home may be repossessed if you do not keep up repayments on your mortgage.
- The lender may make a redemption charge if you want to redeem your mortgage earlier than you originally planned.
- Your mortgage valuation fee and, in some cases, any initial arrangement fee that you pay may be lost if your mortgage does not proceed. Even if you withdraw your application before a valuation is carried out, you may be charged an administration fee.
- While the lender will insist on a level of buildings insurance, it is your responsibility to ensure adequate home contents cover is in place.
- There may be changes in the law and Inland Revenue practice, which cannot be foreseen. Tax benefits and liabilities also depend on individual circumstances.
- If you are made redundant or are unable to work due to illness, you would have to wait for up to nine months before you may be entitled to any help from the Government with your mortgage interest payments (not inclusive of principle). You must have sufficient protection insurance to protect yourself and those who rely on you.
- Interest Rate, your income and house price may go up or down, make sure you can afford your mortgage.

Your commitments

- You will need to make monthly repayments to the lender for the term of your mortgage.
- You may need to make regular payments to a life assurance or other mortgage related plans to ensure that the mortgage can be repaid during the term of your mortgage.
- In the case of an interest only mortgage you will also need to make separate arrangements to repay the mortgage. If you do not do this, at the end of the term, you will have to negotiate new terms or may risk losing your home.
- Whatever repayment method you decide on, you will need to carry out regular checks to ensure you have sufficient funds to repay your mortgage.
- You need to disclose all relevant information and in particular about your income and credit history.

Choosing your mortgage

Your home purchase may be your largest commitment in life time. All lenders' advertisements say their mortgages are the best. For an ordinary people, it is quite difficult to compare their advantages and disadvantages. Most comparable tables publish in newspapers, magazines and websites are too concise without details. Some terms, traps or charges are very complicated and difficult to understand. Due to large money involved and term of mortgage usually longer than 20 years, a small premium in interest rate or a hidden charge may cost you a lot of money. It is worth to consult a professional mortgage advisor to help you shop around for special real incentive schemes and you can avoid the mortgage traps or hidden charges. For example, some schemes may impose heavy early redemption charge and extended tied in period.

Choosing your mortgage advisor

The Financial Conduct Authority regulates most mortgage sales from 31 October 2004. From 2013, the control would gradually take over by the Financial Conduct Authority. Certain procedures are required to comply with the law. To protect your own interest, make sure you choose the authorized advisors.

Professional people are specialized in different areas. Solicitors specialize in legal work. Accountants specialize in taxation and accounting work. Financial advisors specialize in investment. Mortgage advisors specialize in mortgage lending. As your home purchase may be your largest commitment in life time, make sure your mortgage is handled by mortgage specialists with comprehensive financial knowledge in economics, interest rate, mortgage and property markets. Years of experience and trustworthiness are important too. Besides, you need to check that your mortgage advisors can access to the whole market. The UK mortgage market is very specialized. There is Chartered Institute of Bankers for professional training. Professional advisor can use professional software to check the interest rate, fee and the criteria of all lenders in UK. It also helps to match up the borrower background and lender criteria with suitable mortgage schemes to both parties.

How much should you borrow?

Typically, a lender will offer to lend:

- up to four times the main earner's annual income before tax, plus one times any second earner's income; or
- three to four times their joint annual incomes (if this is larger, credit score point will have effect too)

Other than basic income, some lenders will only consider half of any other income, such as overtime, commission or bonuses, unless this is guaranteed. Lenders will reduce the amount they will lend if you have substantial outgoings such as other loan payments. However, if you have sufficient income proof with good credit records, some lenders are willing to lend amount about four to five times of your annual income. Under certain conditions, situations, and special arrangements, some lender may able to lend at six times annual income. For more details, please enquire through the qualified, professional and trustworthy mortgage advisor. However, don't borrow more than you can afford to repay. Get detailed illustrations from mortgage brokers or lenders before committing yourself. It may be tempting to borrow as much as possible when the initial cost is manageable, particularly at low interest rate period, but you could get into difficulties and lose your home if you can't keep up your repayment.

Lenders are required to lend responsibly. This means that, their lending need to base on criteria like your income, expenditure and other circumstances, they should consider whether you can keep up the mortgage repayments now and in the future; for example the increase of mortgage payment after an initial discount period comes to an end.

Fast track / Self-certification Mortgage

Usually, the lenders will need proof of your income. But under certain circumstances, lenders may base on your own declaration of income. For example, if your credit score is high and your borrowing requirement is less than 75%, fast track mortgage does not require you to produce proof of income. Fast track means that the lender will take minimal references about your status but reserve the right to make further enquires. They may require other alternative evidence. Before financial crisis, if you are self-employed and your income varies, or your earnings are made up largely of non-guaranteed commission, you may able to borrow 85% of the property value under self-certification mortgage schemes, income proof was not required. Lenders are no longer able to offer self-certification schemes after financial crisis in 2008. Nevertheless, don't be tempted to overstate your income. Like tax evasion, mis-stating of income is criminal event. If you end up with a mortgage you can't afford, you could lose your home. Interest rate may go up and your income may go down. To prepare an income and expenditure budget will help you to foresee any financial problem. Besides, if your income is marginal or not stable, sufficient insurance protection must be taken. It is very important to protect yourself and the people who are depend on you.

Credit Checking and Credit Scoring

In UK, Credit Reference Agencies hold credit information about individuals based on your residential address, which is of relevance to lenders. Registered to the electoral poll register is a solid proof of residence. Credit information includes county court judgment, payment histories of credit cards, current account performance, personal loans and mortgages. Most lenders use credit report and credit scoring to assess credit risk for mortgage decision. Any delay payment, negative or positive credit history will affect your credit score and chance of mortgage application. If you don't have any credit card or loan history, your credit score may be very low. It is because there is no record to assess your trustworthiness. Besides, if you have not registered to the electoral poll register, or you have too many loan applications record, you will lose many valuable points and may create difficulty in mortgage approval. If your credit history is judged to be poor, some lenders may be willing to lend to you, but at a lower amount and a higher-than-normal interest rate. Therefore, it is important to have prompt repayment record and positive credit history. Registered to electoral poll register and don't have unauthorized overdraft are also important too.

What type of interest rate schemes are there?

Variable Rate

The monthly payment fluctuates in line with the lender's mortgage rate. This can cause budgeting problems in times of increasing interest rates. Some lenders offer an annual review so that the amount you pay only changes once a year with the difference adjusting your outstanding mortgage. Lenders may also offer a version where your monthly payment fluctuates in line with the Bank of England Base Rate – "Base Rate Tracker".

Fixed Rate

The monthly payment is fixed over an agreed period of time and will remain the same regardless of whether interest rates rise or fall. At the end of the fixed rate term the interest rate usually reverts to the lender's standard variable rate or you may be offered the choice of another product, on the terms available at that time.

Discounted

The lender offers a true initial discount, on their normal standard variable rate for a given period. At the end of the discounted period, the rate reverts to the lender's standard variable rate. No interest is deferred so the outstanding mortgage will not increase.

Cashback

Some lenders offer cash payment on completion of the loan, either based on a percentage of the total loan or a flat amount.

Capped Rate

The Interest rate is guaranteed not to go above a certain level throughout the capped rate period, which can be from 1 to 10 years, but you will benefit from any reduction in interest rates.

Collared Rate

The interest rate will not fall below a certain level for the collared rate period.

Some points to consider

- Don't choose an interest rate deal solely based on the cheapest initial monthly payments. Consider what the mortgage is actually going to cost you over the longer term and whether there is any hidden charges and tied in period.
- If you want to know exactly how much your mortgage payments will be for a given period of time, consider a fixed rate.
- If you don't think you could cope with increased mortgage payments if interest rates rise, consider a fixed or capped rate.
- If you need a payment which is as cheap as possible now but will get more expensive later when you can afford it (possibly because your salary will increase), consider a discounted rate or a short-term fixed rate.
- If you want to be able to repay all or part of your mortgage without paying an early repayment charge, choose a rate that allows you to repay early or allows you to make overpayments

How does a repayment mortgage work?

Monthly payments are made up of interest charged on the amount borrowed and a portion of the capital to repay the mortgage. During the early years most of each month's payments are interest and it is only later on that you start to repay any significant element of capital.

Advantages

The mortgage will be repaid at the end of the term providing that payments are maintained.
You can see the mortgage reducing each year (albeit very slowly in the early years).

Disadvantages

It does not contain any form of investment, so there is no possibility of additional return or early repayment.

How does an interest only mortgage work?

Monthly payments to the lender consist of interest only and the outstanding mortgage remains the same. You make payments to a separate investment with the aim of producing enough capital to repay the mortgage in full at the end of the term. There are a number of different investments that can be used.

Depend on the investment return, there is potential to provide a lump sum and above the mortgage amount, or to pay off the mortgage early. However, there is also a potential risk that the lump sum will not be sufficient to pay off the mortgage at the end of the term. In such case, you may need to increase the contribution.

An interest only mortgage does not pay off any of the amount you have borrowed. Make sure you make arrangements to pay off the loan when the mortgage ends. If you don't, you could lose your home. If you are not comfortable with stock market risk, an interest only mortgage is usually not suitable. Think about a repayment mortgage instead.

Mortgage Features

Flexible Mortgages

These schemes allow you to overpay, underpay or even take a payment holiday. Any unpaid interest will be added to the outstanding mortgage. Any overpayment will reduce your outstanding mortgage. Some have the facility to drawdown additional funds to a pre-agreed limit.

Offset Mortgages

These schemes allow your deposit in current account to offset the debit balance of the mortgage account and this reduces the mortgage interest. For example, if you have a mortgage of £100,000 and have savings in your "offset account" of say £25,000, you pay interest on £75,000 only. If, in the next month you spend £5,000 and so only have £20,000 in your "offset account", you pay interest on £80,000. They can also be tax-efficient if you pay tax on your savings. This is because you do not earn any interest on your savings and don't pay any tax on them. Instead you pay less interest on your mortgage. This amount is usually greater than the interest you would have earned after tax on your savings, if they were not offset against your mortgage. This benefit is greater if you are a higher rate taxpayer. For business man or people with savings, offset mortgage looks attractive as it provides the flexibility to save interest payment and the accessibility of fund in the "offset account". For offset mortgage, it is not easy to understanding, the above mentioned borrowers should ask professional mortgage advisor for details.

Incentives vs. cost of mortgage

Lenders that offer any type of fixed rate, discount, cashback or other beneficial facilities to attract customer, usually build in some cost in the interest rate or require the mortgage to stay with them for a period of time to recoup their costs. They may impose a redemption charge for a given period, which can extend beyond the benefit period. They will usually make a redemption charge if you want to redeem your mortgage early. You should also make sure that you could afford the standard variable rate that will be charged at the end of the discounted or fixed rate period.

What costs and fees are there likely to be?

Valuation Fee

This may include a non-refundable administration fee and must normally be enclosed with the application. The whole fee is non-refundable once the valuation has been carried out. The type of valuation you choose will depend on factors such as the age and condition of the property and whether there is any history of subsidence in the area.

- Basic mortgage valuation. This is for the lenders own purposes confirming the property provide security for the loan. You may wish to consider one of the more detailed types of survey.
- Homebuyer's report. This provides concise information in a standardized format on the state of repair and condition of the property. The report will include comments on the property's defects and the valuer's opinion as to its marketability.
- Full structural survey. This is a structural report based on a detailed examination of the property. Any areas of concern that you might have about the property will be investigated.

Arrangement Fee

The lender's arrangement fee may be payable either in advance or on completion. All or part of it may be non-refundable if the mortgage is declined or withdrawn. This will be specified in your mortgage quotation.

Legal Costs and Fees

The fees charged by a solicitor include the charge for conveyance (the transfer of ownership of land), the costs of legal registrations and miscellaneous costs (known as disbursements), for example, Local Search fees and Land Registry fees. We recommend you obtain an estimate of these costs early on in the process.

Stamp Duty Land Tax

Stamp duty Land Tax is a 'purchase tax' and is payable by the buyer. The duty is on a progressive scale. The higher the price, the higher is the tax. We recommend you obtain an estimate from solicitor. Or you can visit https://www.gov.uk/stamp-duty-land-tax for updated details.

Higher Lending Charge

This may apply if the amount you wish to borrow is more than, typically, 75% of the value of the property. The lender will require additional security on the amount in excess of this threshold in the form of an insurance policy. This policy is used to protect the LENDER ONLY and is used to cover the lender in the situation where the property is repossessed and the loan plus any unpaid interest exceeds the sale value of the property. You will then owe the insurance company any payment claimed by the lender. The lender will arrange the insurance and the premium will be paid by you, in some cases it can be added to the loan. Because of the unfavourably nature, many lenders have already abandoned such charge or only apply the charge to some high risk schemes.

Redemption Charge

Some lenders make an early redemption charge based on the product selected. Others charge at anytime if you pay off your loan before the end of the normal mortgage term. In some cases this can be a significant amount and extends beyond the discounted or fixed rate period.

Building and Contents Insurance

All lenders require that you fully insure the property for the total cost of rebuilding it, not the property purchase price nor the mortgage amount. The cost of rebuilding is assessed by valuer and stated in the valuer report. It is your responsibility to ensure that you have adequate cover and contents insurance.

Mortgage Payment Protections

You must protect your mortgage and associated payments in the event of being unable to work through accident, sickness, unemployment, permanent health problem or death. It is your responsibility to ensure that you have adequate cover. Relevant protection policies include accident, sickness & unemployment cover, life cover, critical illness cover and income protection cover. If your income is marginal or not stable or you have dependent(s), sufficient protection insurance must be taken.

Mortgage Adviser's Fee

Mortgage advisors normally charge a fee for their services and this will be disclosed in the initial disclosure documents – Keyfacts About Our Service. They will also receive a fee from the lender when the mortgage is completed. The relevant amount will be shown on the keyfacts illustration (KFI).

What type of Protection should I consider?

Life Assurance cover – To protect your dependants and to ensure that the mortgage is paid off if you die.

Critical Illness cover – To provide a cash lump sum which could be used to pay off your mortgage or for your medical expenses if you suffer a critical illness such as a heart attack or cancer.

Permanent Health Insurance (Income Protection Insurance) – To provide you with replacement income to cover your mortgage and associated payments if you are unable to work because of an accident or long term sickness. The replacement income can be paid up to end of the policy or retirement age, whichever is earlier.

Accident, Sickness and Unemployment Cover – This will provide short-term (normally up to 12 months) income to cover your mortgage and associated payments if you are unable to work due to accident, sickness or unemployment.

Building and content cover – To protect your assets and your lender.

Commercial Buy-to-Let Mortgage

Commercial buy-to-let mortgage is not regulated by Financial Conduct Authority. Lending criteria is substantially different from normal home lending. It is a commercial lending. The fee and interest rate are slightly higher than normal residential mortgage. Most lenders require the borrower is a home owner with income £25,000 or higher. The maximum loan amount may up to 85% of the property valuation (most lenders prefer maximum lending ratio to 75% after financial crisis). The maximum loan amount normally restricted by the rental income; the higher the rental income (assessed by professional valuer), the higher the loan amount. Buy-to-Let mortgage should be self-financing. The normal criterion is that the rental income must be higher than 125% - 145% of the mortgage interest payment. Your mortgage advisor can work out the estimated possible loan amount based on the expected rental income from estate agent. Different lenders may impose restrictions on type of allowed tenancy agreements or tenants. For example, most lenders do not allow student lets and tenants claiming housing benefit. There are also some restrictions on House of Multiple Occupants. Some specialist lenders do not impose minimum income requirement to experience landlord. For more details, please enquire the qualified, professional and trustworthy mortgage advisor.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGES.

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