We Are Impartial

GUIDE TO REMORTGAGING

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Who is this guide for?

Your home is likely your biggest obligation. Many people call it an asset but, for most people, it's the single largest expense in their lives. This guide is for all homeowners who wish to manage this expense & to switch their mortgage to the best rate possible for their situation.

If you have a mortgage & would like to shop around, this guide is for you.

If you are moving home too, this guide is for you,

If you're a first-time buyer, you'll likely need a bit more information. Some of the principles in this guide will be useful for you. Our first-time buyers guide, however, might be more useful. This is the next guide we are developing but if you would like an advance copy, please email us at contact@weareimpartial.co.uk & we'll send one out to you.

Why remortgage?

Like anything in financial circles, remortgaging means a degree of effort. Banks rely on people finding the process of switching bank accounts too much effort. The process of remortgaging, however, can be worth the time taken to do so.

The main reason for remortgaging is saving money. You can save money each month & every month going forwards.

Remortgaging allows you to take aim at your single biggest expenditure & to reduce it. Focusing your efforts on your biggest debt should have a much bigger impact than by focusing on anything else & so it's worth doing.

Many mortgages have an introductory offer: those on a fixed rate will have the rate fixed for a period of time &, when that time is up, they will move onto a standard variable rate. This rate is not normally very competitive and, as the UK mortgage market is competitive, you will likely find a better offering out in the market that could save you a significant amount of money each month.

We are currently at a time of record low interest rates. This means that, if you have taken out a mortgage in the past, it is likely to be more expensive than mortgages on offer now. Furthermore, you may have paid off enough of your mortgage in order to get a better rate from the lender (interest rates tend to reduce as the

loan to value rate from the lender drops as there is less risk to a lender to lend a small proportion of the value of a property than a large proportion).

Saving money is a significant reason for remortgaging but there are other reasons that relate to your situation. These include:

Your current mortgage no longer works for you - you might have taken out an interest only mortgage to get you moving but realise that you'd rather switch to pay off the capital or vice versa

Your situation has changed - there are many changes in situation that can be reflected in a more suitable mortgage. If you're being paid more, you might want to be able to make extra payments without being penalised, if you've had an inheritance, you may wish to put some of that money towards paying off your house or you might be changing job or situation & want a mortgage that will give you flexibility during this period

You want to consolidate debt - perhaps you have taken on some debt & are paying a high interest rate. By remortgaging, you may be able to completely pay off that debt & pay a lower rate of interest through your mortgage

You would like to fix your payments - perhaps you are worried that interest rates will go up or perhaps you would like to be able to predict your outgoings. A fixed-rate mortgage will help with this

Who shouldn't remortgage?

Although remortgaging can make a huge difference to most homeowners, you might be one of the lucky ones & you might not want to move. You should be careful if:

There are penalties for moving away within a given timeline - for many lenders there are penalties for moving your mortgage too soon - these often coincide with the fixed period of the mortgage. Before remortgaging, you need to determine whether there are any exit fees or early repayment charges you will be subject to. If this is the case, you need to weigh up the savings against the cost & determine whether it is worthwhile or whether you can save even more by waiting until the penalty period ends

You have a really good deal - some people may be on a great rate & there might not be a better deal in the market. It's worth speaking to a broker to see if any improvement can be given to your deal. They should be able to give you an outline of what your costs or savings would be by moving

Your credit history is not good - if you have missed payments or if your credit score is poor it will be difficult to remortgage & you might find that there are not as many lenders willing to give you a mortgage

Increased regulation means that lenders are selective about who they lend money to & so you may not get a better deal if you remortgage. It is worth checking whether this is the case, however, before writing yourself off

Your mortgage is small - there are often fees attached to switching a mortgage. Brokers will enable you to calculate whether it's worth paying a fee for switching and, in most cases, the savings outweigh the costs many times over. When you have a smaller mortgage, however, the fees relative to the size of the mortgage may be too high to bother with. Generally speaking, if mortgages are below £50,000, the number of lenders who will be interested diminishes. It is still worth checking whether you can get a better deal but this is, as a rule of thumb, where the costs of switching begin to increase against the savings that can be made from switching

What do I need to know before I can remortgage?

In order to make it easy to remortgage, it is worth checking a few things to give you the best possible chance of getting the best deal for your situation:

Your credit score

Determine what your credit score is. If it's good or better you will be in a good position to get a good rate. If it isn't you may want to address this in order to improve your chances of getting the best rate. Even if your credit score is poor, you can still see if you can improve your rate & your situation but it is helpful to know before you start so that you can explain your situation to your broker & so that they can speak to the lenders on your behalf.

Early repayment charges

If your mortgage has been fixed for a period of time, the lender will likely have included an early repayment penalty. This is to ensure that they can make money from lending to you before you switch away. By remortgaging before this period ends, you can incur costs. Knowing this means that you & your broker can decide whether it's best to wait for the fixed period to end & when is the best time to commence your remortgage.

The end of the fixed or special discount period

In the same way it's helpful to know when the penalty fees end, it is also important to know when you move to the bank's standard variable rate. At this point, you will likely be paying a higher interest rate every day until you move. If you can time your remortgage so that you do not incur this higher rate or so that you spend as little time as possible on the standard variable rate, you will be better-off. If you can remortgage the working day after your current rate ends, you will escape paying a higher rate.

Is there an exit fee?

There may well be an exit fee for your mortgage. In most cases, this is an administrative fee for passing on the paperwork to your solicitor. In some cases, you won't have a fee. If there is a fee, you will want to factor it into your costs so that you can determine how much you will save by remortgaging & whether you are indeed getting a good deal.

Your mortgage balance?

Understanding how much you've got left to pay will help when looking to remortgage so that lenders can assess how much money they need to lend against the value of your house.

The value of your house?

Knowing the value of your house & taking into account any rises in house prices can put you in a better situation when it comes to getting another mortgage. If your house price has increased you may find that the loan to value from the bank will drop & that you'll

able to get a better interest rate. The loan to value of your mortgage will be affected by how much you have paid off as well as the value of your property. If you have increased the equity in your property by paying down your mortgage & the value of your property has gone up then the amount you need from the bank will be a smaller proportion of the total value of the property & they will consider you a less risky investment.

What paperwork will I need before I can remortgage?

Entering into mortgages & remortgages can feel onerous & like you're having to air your dirty linen in public. This is simply because, in order for a lender to lend you a significant amount of money, they want to ensure that they're not throwing it away. With this in mind, it helps to expect to be asked for paperwork & to be asked follow-up questions: don't take it personally, it happens to everyone.

By knowing what you need, however, you can make the process much simpler & save a lot of time & energy.

Before getting a mortgage, you will need the following to support your application process:

- Some proof of income (this is usually your last three months' payslips, or two to three years' accounts for self-employed people or small business owners)
- Your last three months' bank statements to demonstrate your income & to support the affordability of your mortgage by showing your expenses

- Proof of any bonuses or commission that you will need in order to support your case for borrowing
- Your latest P60 tax form (showing your income and tax paid from each tax year)
- Self-employed people will usually be asked for the last two or three years of SA302 forms (these are copies of your self assessment tax return
- Small business owners will often be asked for the last two or three years of their limited company accounts to demonstrate the stability of their business & its ability to support them

How much can I borrow?

The amount that you can borrow has changed in recent years: it's no longer a multiple of your income. Because of the changes to the financial system, a more holistic approach is taken. This means the amount that you can borrow is determined by how affordable it is for you. If you can afford it, you can borrow it.

This means that, in order to get a mortgage, lenders will want to look at your income & outgoings. Some people find this invasive but it's one of the rules of the game & so it's best to know about it. It's also worth evaluating your outgoings in advance of making a remortgage application to ensure that you are not wasting money & that there is little that the lenders will come back on with regard to your expenditures.

The rules governing lending will stipulate that you've not only got to be able to afford a mortgage now but also in the future when interest rates may change. This will mean that your affordability will have to be evaluated against a higher mortgage rate (often 5% over the current rate).

It is worth speaking to a broker to determine how much you can borrow & to get you in the best position to get the best rate for years to come.

Do I have enough equity in my property?

Lenders will be more comfortable lending when you have a greater amount of equity in your property. Equity is the proportion of the value of the house that you own rather than is being lent by the bank.

If you are wanting to borrow 90% from the bank & property prices drop then the lender does not have much of a cushion & they may worry that you will find it easier to walk away from the property & your financial obligations. If you only want to borrow 50%, lenders will be more comfortable because a drop in property prices is less of a risk to their lending.

If you are remortgaging then it is likely you will have enough equity in your property & even that your equity has increased & the risks of a lender has decreased since you took out the mortgage. If you have a repayment mortgage then you will have paid down a proportion of the amount you have borrowed in addition to the interest payments of the lender. This will mean you should be in a better position to get a good interest rate than you were before. Furthermore, if the value of your property has increased, then the value of your mortgage against the total value of the property will have gone down & your equity will this have increased.

If the equity in your property is extremely low (5% or less) you will struggle to find a better deal. People in negative equity (where the amount that they owe is worth less than the value of their home) may find that they do not have any options when it comes to remortgaging. Luckily for most of us, however, we have been in a market where house prices have risen steadily & so our equity should have increased since we last took out a mortgage.

Can I improve the loan to value when I remortgage?

Your loan to value can have a significant effect on the interest rate you pay. When it comes to remortgaging, it makes sense to see which band you were in when you took out your last mortgage and which band you could be in. With every 5%, you move up a band & with each band may come a better interest rate. Rates improve with every band from 95% loan to value down to 60%.

This can impact your monthly repayments for one of two reasons: you pay a lower interest rate and/or you have a lower amount of borrowing because you have paid down some of your debt.

For example, if you have a £200,000 house & take out a 2-year fixed mortgage at 90% loan to value, you may be paying 2.14% on a (rates will vary from when this document was published). This will give you a repayment of **£775** per month.

By moving to 20%, you may get a rate of 1.94%, saving you £674 per month because you only have £160,000 ro pay off & because you have a lower rate. Inching up to 25% could mean you only pay £1.79% &, at 40% you might be paying 1.69% or **£491** per month, meaning a saving of **£284** per month

over someone borrowing 10%.

If you can improve your loan to value by remortgaging (either because there is more equity in your house or because you might be able to add some savings to your equity when you remortgage to get a better rate) you could save yourself a significant amount of money each month.

Furthermore, even if you can't put any money into your mortgage, if the value of your equity has increased (because you've paid off some of your mortgage & because your property price has increased) you can get a better interest rate even if you are not borrowing a lower amount.

Simply put you can improve your loan to value by:

- Borrowing less
- Having more value in your home

How to get the best mortgage

In order to get the best mortgage, it's important to know the rules of the game. The UKs financial markets have changed as a result of the issues that stem from the 2008 financial crisis. These kinds of problems cause lenders to tighten their lending criteria & to adjust their rules.

There are strict rules in place that determine how lenders must check borrowers. This means that you need to be able to demonstrate that you are able to repay a mortgage & that you must let your lender know about your income & expenditure so that the lender can assure themselves & their regulators that they are not burdening you with a mortgage you cannot repay.

In order to get the best mortgage, it's important to be aware that you will be evaluated & why this is the case. By knowing the rules of the game, you can then play it better.

With this in mind, you can better demonstrate your ability to be a good borrower by:

Improving your credit score

Your credit score is a number that relates to your ability to repay your debts & your history of being able to do so. If you can make repayments on debts, you are considered a better risk than if you can't & so a better credit score is what lenders look

for when determining who to lend against. If you can make repayments on debts, you are considered a better risk than if you can't & so a better credit score is what lenders look for when determining who to lend against.

Improving your credit score can take time & so it's important to manage this on an ongoing basis: it's worth knowing both now & from now before you next remortgage, buy a property or take out a loan as it will give you the best shot at getting the best rate.

If your credit score is poor, your options will be limited. Your credit score can be determined & evaluated for free. Experian, one of the companies that provide a credit score, provide a free service that lets you see your score & determine what you can do to improve it.

Improving your affordability & making sure you are acceptable to your lender

In order to improve your affordability, it is helpful to look at and to reduce your outgoings: if you earn a lot but spend a lot you might not be in a better position than someone who does not earn as much but that does not have a lot of outgoings.

In addition to keeping an eye on your expenses, it is important to stay out of your overdraft, avoid or pay off loans, particularly payday loans & to ensure that you are paying off any credit cards you may have in full each month.

Finally, if you have savings, you may consider using these in order to give you a better interest rate & to lower your monthly repayments. You can use a mortgage calculator in order to see how much you can save per month by getting a better interest rate & weigh that up against the opportunity cost of having those savings available for other uses.

What types of remortgage are there?

There are two main types of mortgage: fixed & variable. There are different versions of these mortgages & so here's an outline:

Fixed-rate

Fixed-rate mortgages enable you to have consistent monthly payments: they do not vary as interest rates vary, at least for the length of the fixed-rate period.

With fixed-rate mortgages, you select a length for the fixed period (eg 2 years, 5 years, 10 years) & the rate remains the same for that period.

What is happening here is that you are effectively insuring yourself against a rise in interest rates so that you can have a consistent monthly payment.

This may mean that you pay a slightly higher rate than you would if your interest rate was variable but the pay-off is that the amount you have to pay won't go up or surprise you during the fixed period & that you may prefer this.

It is worth checking that these mortgages are portable just in case you need to move house: portability is the ability to move and take your mortgage with you rather than incurring fees to end this mortgage & start a new one should you move house.

Fixed rates are great if you want a predictable payment rate & if you are concerned that interest rates might rise. They can be more expensive than variable rate mortgages, however and, if rates drop, your payments won't drop. Furthermore, you may be restricted in your ability to remortgage to a better deal for the length of the fixed period, meaning that there will be a fee to pay if you want to remortgage earlier.

Variable-rate

Variable-rate mortgages change along with interest rates. When interest rates rise (to curb inflation or because the costs of borrowing money increase) so will the rate of your variable-rate mortgage. On the other hand, as interest rates drop, so will your monthly repayments.

There are a few different types of variable-rate mortgage. These include:

Tracker mortgages

Tracker mortgages are pegged to economic indicators (which means that they have to change when the economic indicator changes). These indicators might be the Bank of England base rate or the LIBOR (London Interbank Offered Rate).

This means that tracker mortgages are transparent & will move in line with interest rates. They are less subjective than standard variable rate mortgages but more

Standard variable rate mortgages

Standard variable rate mortgages aim to follow the Bank of England base rate of interest. This is not exactly the case (lenders can make their own adjustments) but is a rule of thumb.

Most borrowers will move onto a standard variable rate once their fixed rate period or discounted rate has ended.

The standard variable rate is usually higher than the Bank of England base rate (it can be from 2% to 5% typically) and it will vary from lender to lender & so it's worth checking what the rate is before you commit. Furthermore, lenders don't always move their standard variable rate in lockstep with the Bank of England: there's no guarantee that you'll get the full advantage of all rate changes.

Discount rate mortgages

Discount rate mortgages offer a discount from the standard variable rate of interest that is applied for the mortgage. For a period of time, you will have an introductory discount rate meaning that your repayments will be lower. This discount period may be two or three years. It is worth checking whether you are on one of these mortgages and whether the discount period has come to an end as this marks a good time to look around for a better deal.

Flexibility

Although the main types of mortgage are fixed rate or variable these mortgages can vary depending upon the amount of flexibility you would like to overpay or repay your mortgage.

By overpaying your mortgage, you can save significant amounts of interest over the term of the mortgage.

Most mortgages enable overpayments but you may be restricted in the amount you can overpay in any given period. For many mortgages the limit is around 10% of the value of the mortgage per year.

Interest only

Interest only mortgages are those where you repay the interest on the mortgage but you have to make your own arrangements to pay down the capital on the mortgage. In this way, each month, you pay off the interest on your borrowing but are no closer to owning your house (unless you put money aside).

You will have to repay the borrowing at the end of the mortgage but you do not have to repay it as you go along.

Fees

When mortgaging or remortgaging you will likely have to take fees into account. By doing this, you can take into account the total costs of a mortgage. Your broker will help you to do this and should provide illustrations demonstrating your fees & savings but here are some of the most common fees that you will need to be aware of:

Arrangement fees

An arrangement fee is an up-front cost from a lender for arranging the mortgage. It is important to look at the costs of the arrangement fee when determining the value you will get from remortgaging: fees can be a greater proportion of borrowing where mortgages are under £150,000. It makes sense to include the cost of the fee in your total costs over the fixed or discounted period of the mortgage.

Booking Fee

Some lenders charge a booking or reservation fee in order to enable you to secure a particular deal. This is payable up-front & non-refundable.

Valuation Fee

The valuation fee enables the lender to be reassured as to the value of your home & to determine what level of borrowing you will get. This will include the costs of a surveyor.

Legal fees

This will include the costs of a solicitor in order to ensure that the lender has the correct security over the property. Some lenders include legal fees within their offering as many remortgages are straightforward in terms of legal work.

Should I use a broker?

Because it is a time-consuming task & because you might not know what the best deal is for your situation, brokers can make a real difference. They can save you significant amounts of time & money by undertaking all of the legwork for you & by using their relationships with lenders in order to ensure that you get the best deal for your situation.

The advantages of using a broker are:

They will better understand how to find a mortgage for someone in your situation
broker should take time to qualify your needs & will have a good idea of which lenders to approach

They should be able to check deals from a wide variety of lenders
if you deal with a whole of market mortgage broker, they will help you to find which one suits you & your situation & to help ensure that your circumstances match the lender's requirements

They will clearly lay out how much it will cost & what you will save
brokers will be able to outline the different types of deal & to help you understand the impacts of those costs & to see if you will be better off than you are now

How are brokers paid?

The advantages of using a broker are:

A fee from the lender
this is typically around £350 per £100,000 of borrowing. This fee does not affect your costs

A broker fee
some brokers charge their customers a fee for the arrangement of a mortgage. This can be used to ensure that they are able to spend enough time to bring about a result (the time taken to work with lenders, to put together the documentation & to ensure that the mortgage goes through can be significant and may not be reflected in the fee from the lender if the amount of borrowing is low

Mortgage brokers are regulated by the FCA, so the money they make shouldn't influence their recommendation. Their advice should be genuinely unbiased. If you're not sure, ask the broker to explain what they based the recommendation on. If you're not convinced, you can always speak to another broker in order to see if they would make the same recommendations.

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