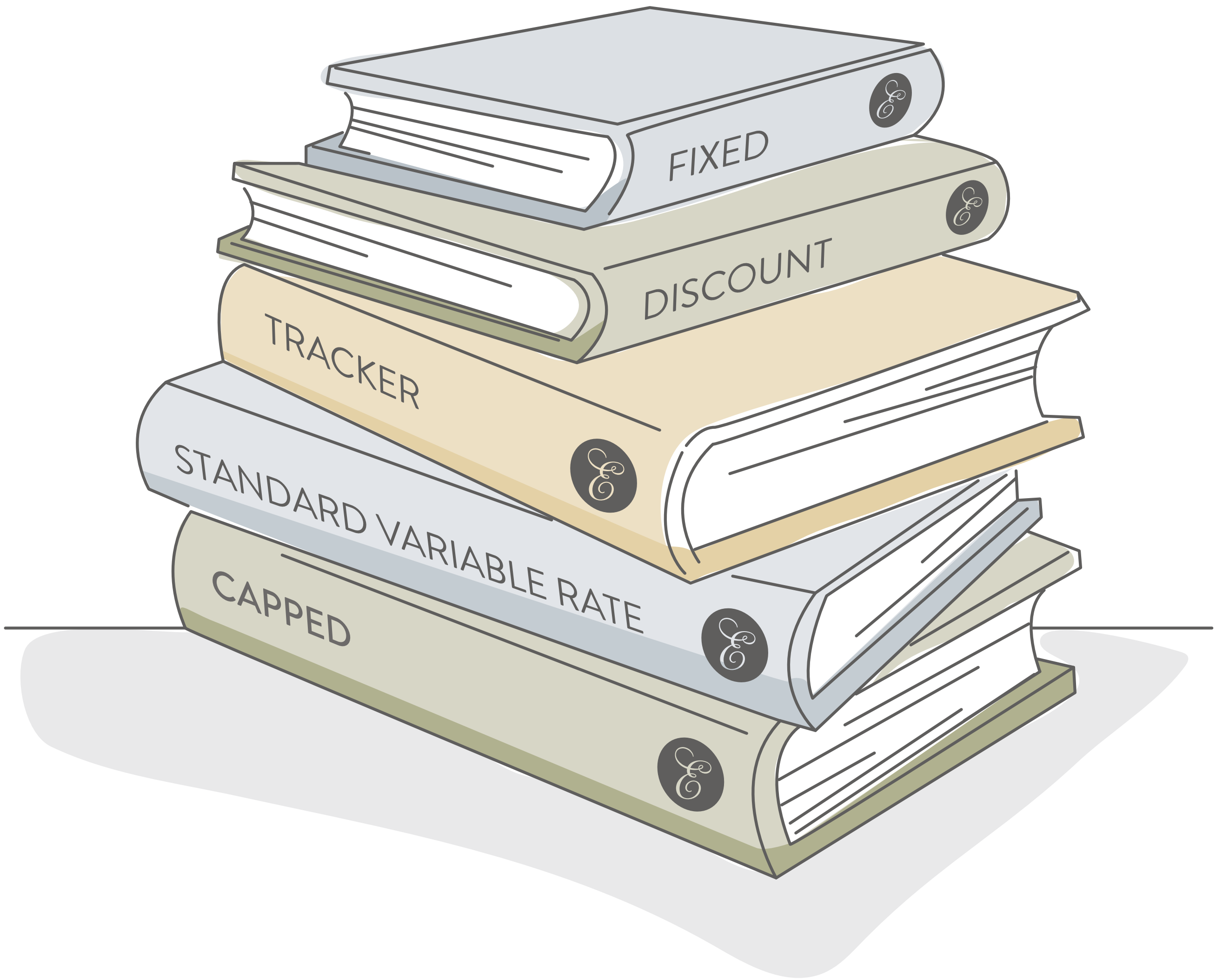
ENNESS



THE MORTGAGE PRODUCT WHITE PAPER BY ENNESS

THE MORTGAGE PRODUCTS GUIDE

With so many products available, it can be hard to know where to start when securing your mortgage. So we've produced this guide to help find the very best option for you.

"Mortgages have evolved, responding to changes in the property market itself. With new products constantly entering the market, it can be difficult to know which is preferential for your circumstances."

– Islay Robinson, CEO

Introduction

Whether you're buying your first home, remortgaging or financing a buy to let, finding the right solution can be confusing, with many considerations before you apply.

With such a variety of options available, it's easy to find yourself swamped under research or led into an expensive, more restrictive product. Yet there is a mortgage option suitable for almost every circumstance, lifestyle and priority.

If you are currently scouring the market, you have probably heard the terms repayment, interest only and offset, which although common types of mortgage product may not be familiar to you. Essentially, the type of mortgage you choose is determined by how you wish to pay back the loan, whether you will be using other assets to prove affordability, and how much you can afford.

So if you're struggling to understand the intricacies of the mortgage market, don't panic. We at Enness, can help you consider all of the above and determine the right option for you.

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Repayment or Interest Only?

When securing your mortgage, the first thing to consider is how you would like to pay it back; on a repayment or interest only basis.

If you opt for repayment, you will pay a portion of the capital, plus interest, monthly. The full balance of the loan is cleared through the life of the mortgage by monthly payments, enabling borrowers to complete their purchase or remortgage to the required level, while still utilising the interest only facility.

Pure interest only, however, means your monthly payments only cover the interest on the loan, rather than repaying any capital. The full amount is then repaid at the end of the mortgage term. The selling of the property itself is often the only repayment vehicle necessary in this instance. Our brokers can source this quickly and achieve approval with minimum fuss. The only constraint is the maximum loan to value tends to be around 50% on the high street.

Private Banks are generally more flexible with pure interest only, but will usually only go through carefully vetted and experienced brokers, so please contact us if you'd like to find out more.

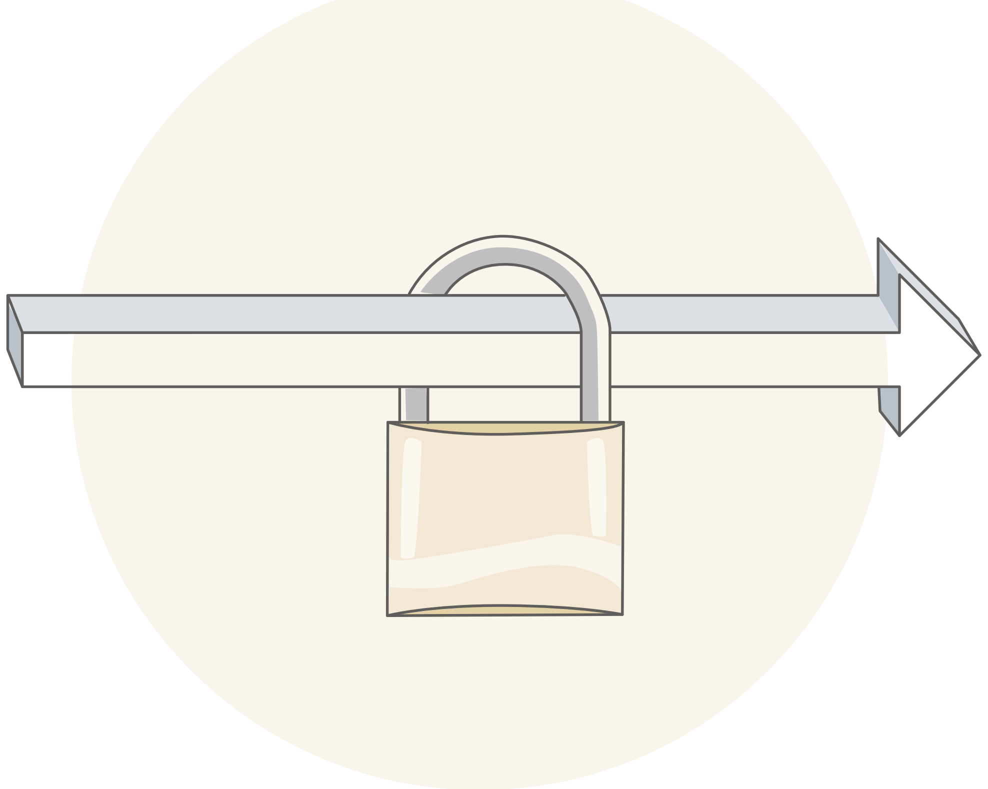
Or, you can have a combination! However, you must have evidence of a 'credible' alternative to repaying the loan, such as a second property, pension fund, or managed investments and endowment policies, varying from lender to lender.

Send your question to one of our brokers

CONTACT US

Interest Rate Options

Interest rates outline how much interest you will pay on your mortgage and in what way; essentially, how expensive it will be. Here is an outline of the options available and their unique qualities...



FIXED

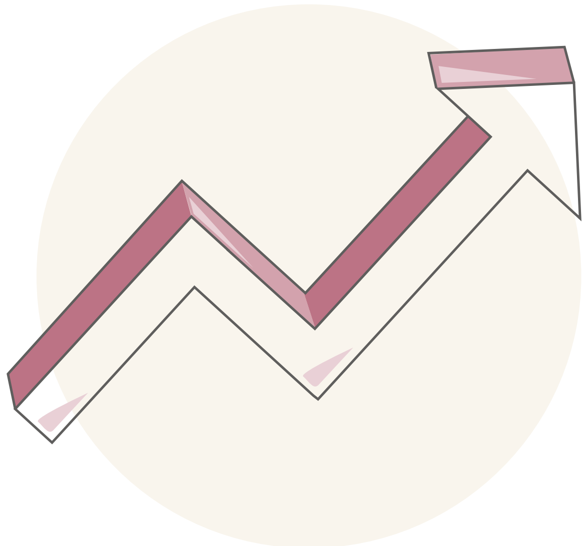
Fixed rates are generally the most popular as they are fixed for the term of the mortgage, giving the borrower security of knowing exactly what they are paying, regardless of changes to the base or mortgage rates. As they normally sit significantly lower than any lender's SVR.

Fixed rates charge a certain amount of interest for a given period (the mortgage term), reverting to the SVR once it ends.

STANDARD VARIABLE RATE (SVR)

This is the rate borrowers are generally transferred to once an existing product reaches the end of its term – unless you remortgage or switch products beforehand.

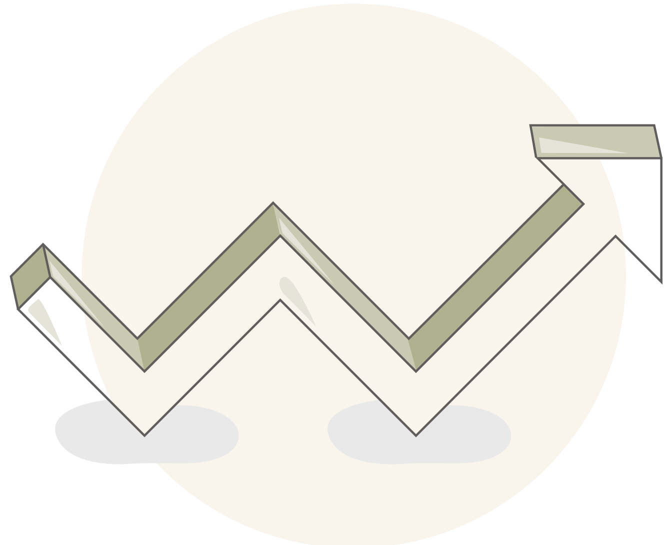
The SVR will often fluctuate in line with the Bank of England base rate.

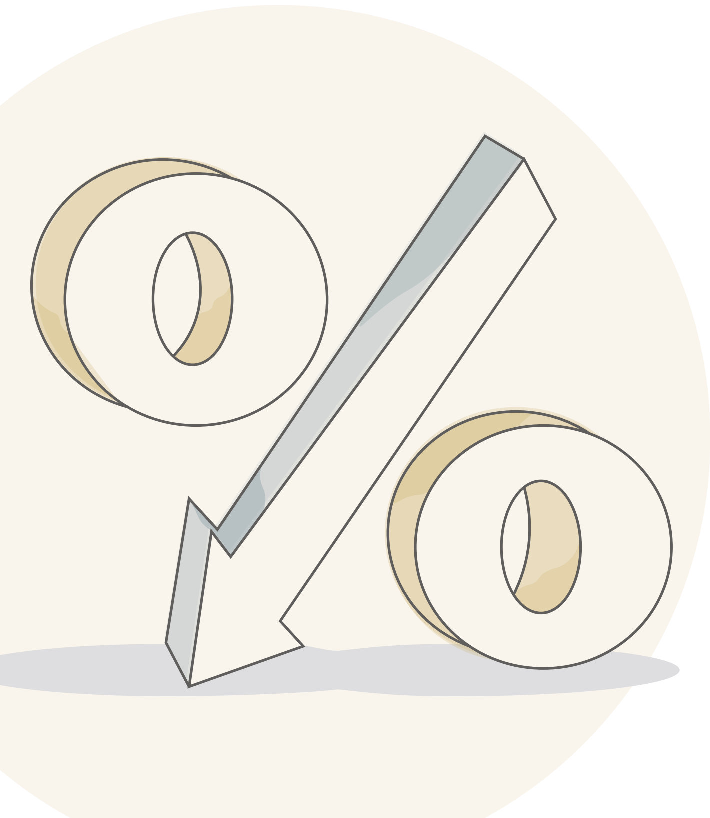


TRACKER

Tracker rates move in line with the Bank of England base rate by a certain percentage and is likely to currently be the most competitive rate on the market.

This means the interest rate you pay on your mortgage will rise and fall in line with the base rate and market movement.





DISCOUNT

A discounted rate does exactly what it says on the tin; offers a discounted amount from the lender's SVR.

Generally, the larger the reduction, the shorter the discount period will be, where the loan will then revert to the SVR.

CAPPED

A capped rate means your mortgage interest rate will not rise above a certain level for an agreed period. A capped product offers something in between a tracker and fixed rate mortgage.

This means whatever happens with your lender's SVR, your interest rate is guaranteed to not exceed a certain amount.

Pros & Cons

There are pros and cons applicable to every option, so we've outlined these to help you choose the most beneficial product for your circumstances...

Standard Variable Rate (SVR)

PROS
Lenders' SVRs rarely have early repayment charges, meaning you can pay the loan and switch to a cheaper product – even if it's before the end of the term – at no extra charge.

CONS
This is unlikely to be best for value, as the rate will fluctuate in line with the market.

Discount

PROS
Discounted rates allow you to make a significant saving on the SVR and secure a cheap product.

CONS
These often come with very high early repayment charges, which will fall in line with the bank's SVR and give you less security over the future.

Fixed

PROS
Fixed rates will give you certainty of what you're paying over a period of time, allowing you to plan your finances with security.

CONS
If the base rate were to drop, fixed rates may end up more expensive than a discount or tracker rate, leaving you trapped on a higher rate, with early repayment charges stopping you from switching.

Tracker

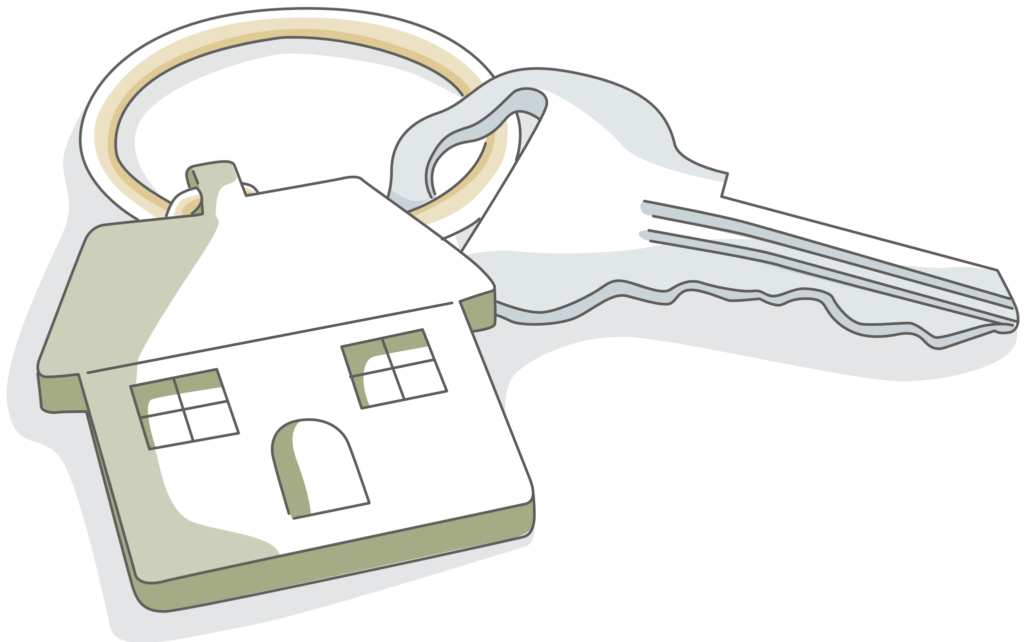
PROS
Tracker rates allow you to benefit immediately if the base rate were to drop, even if the lender's SVR remains the same.

CONS
If the base rate rises, so will your rate – even before fixed rate products change.

Capped

PROS
Capped rates provide peace of mind that your monthly payments will not rise above a certain level and may even drop in line with the bank's SVR.

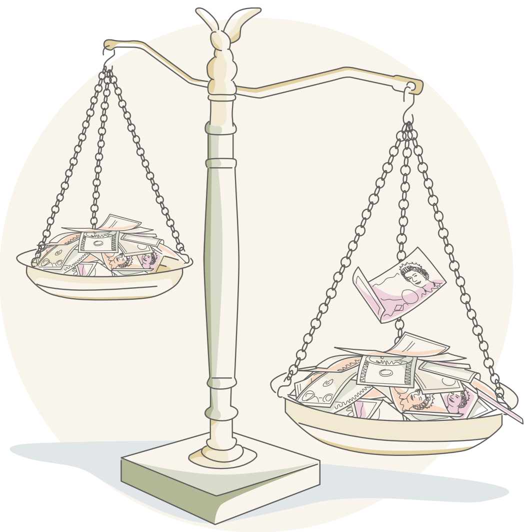
CONS
Capped rates are usually higher than fixed products and tend to last no longer than three years.



Flexible Mortgages

Flexible mortgages cater to those with more complex circumstances and affordability. The term usually refers to a residential mortgage offering flexibility in its repayment requirements, however, there are plenty of products which although not officially 'flexible', offer additional benefits.

Flexible mortgages allow you to vary your monthly repayments, so, depending on the product, you could:



MAKE OVER OR UNDERPAYMENTS

Make additional payments over the normal monthly amount, drastically reducing your balance and saving interest, so you can finish paying sooner.

Or make a lower payment than normal for a set period (subject to prior approval or previous overpayments).

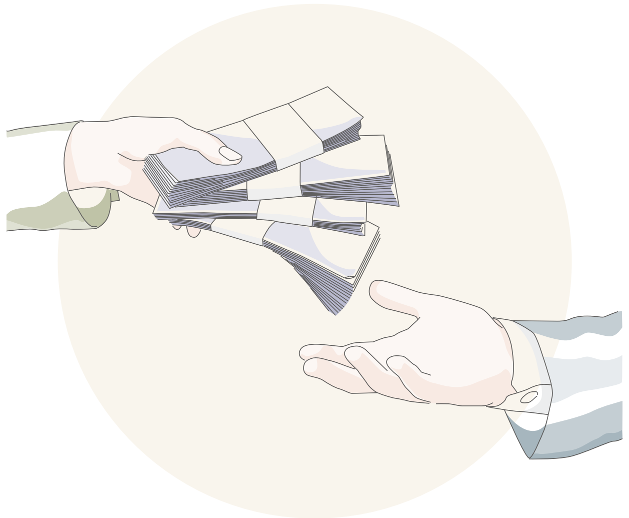
MAKE A LUMP SUM REPAYMENT

Pay an additional amount as a lump sum rather than a regular payment.

TAKE A PAYMENT 'HOLIDAY'

Under certain circumstances, some lenders will allow you to take a break from your mortgage payments.

You will need to check this with your specific lender and still apply separately. Interest will also continue to be charged, resulting in potentially higher payments on your return.



BORROW BACK

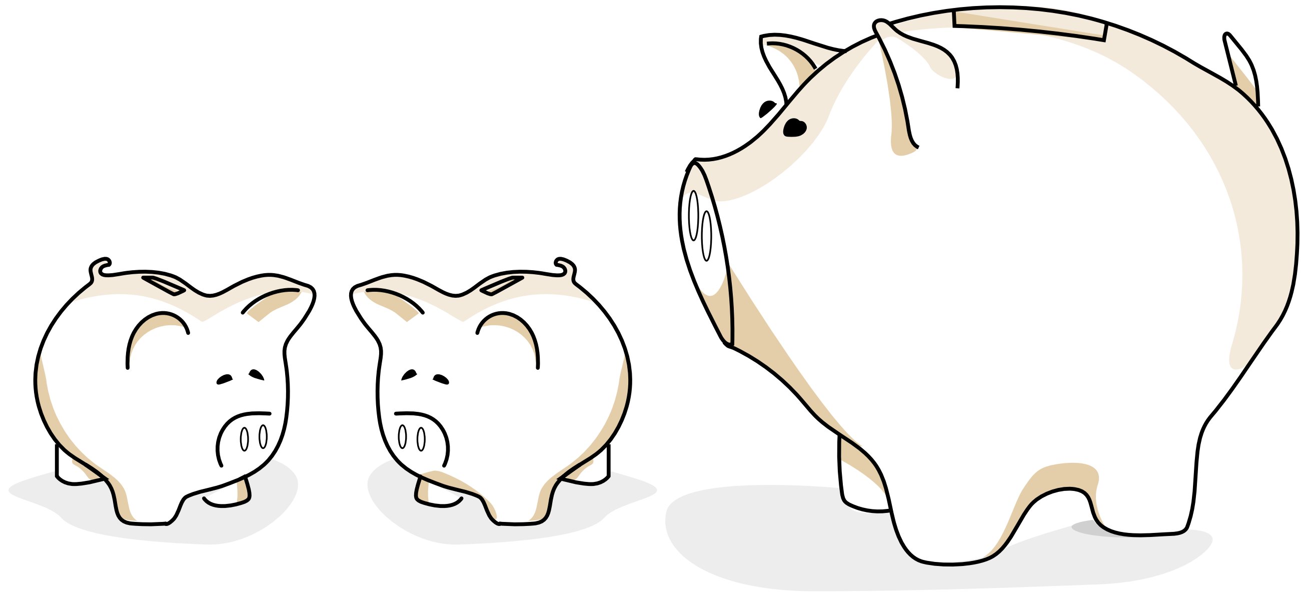
Withdraw some of the money you have previously overpaid, keeping the benefit of paying less interest but with the option to take it back if you need to.

This can prove efficient for saving, as the interest you'll save on the mortgage is likely to be greater than what you would earn by putting money into a savings account.

This flexibility is conditional to you following a pre-determined payment schedule, so a lender can guarantee affordability. We would always recommend discussing lenders' criteria with a broker before going ahead.

Offset Mortgages

This allows you to offset the balance of your loan against any funds you have in savings accounts, as long as it's held with the lender. A lender will calculate what you owe based on your total borrowed amount, only charging interest on the difference between your mortgage and savings accounts. The portion of the mortgage on which interest is charged will then only fluctuate alongside the amount you have in savings.



These can reduce your monthly outgoings and sometimes even clear your loan early. It can also prove beneficial for tax savings, as the taxed interest normally earned on savings accounts does not apply. The interest charged on your mortgage will generally outstrip any earned on your savings, so an offset means you potentially save at your mortgage rate, tax free.

Offset deals can be flexible, allowing you to offset both savings and current accounts.

This can be a good option for borrowers with fluctuating income, or for higher/additional rate tax payers. Parents can also store savings in an offset account to help their child take out a mortgage, remaining in their name and access but reducing the amount of interest the child will pay in the future.

CASE STUDY

£1m offset mortgage to purchase London pied a terre

—Farryl Rabinowitz

THE SCENARIO:

Getting the best return from your savings can be difficult, especially for higher rate tax payers whose savings are usually taxed as income. Because of this, an offset mortgage can be a great way of utilizing your savings to the fullest, by either reducing your mortgage term or the interest you pay.

The best thing about an offset mortgage is the flexibility it provides, especially if you're borrowing money that you don't need to use immediately. Only recently we arranged a million-pound mortgage for a client who wanted to buy a pied à terre in London – but had no immediate need for the money. He was looking to borrow £1 million but wanted to ensure the finance was all in place before beginning his search in earnest.

Mark was a banker who worked in the City and had recently taken an extended sabbatical from work. He lived with his wife Rachael in Hampshire, but wanted to purchase a property in London to use mid-week while working – saving the long commute. Of course, this would not come cheap, so he needed to raise £1 million on his current property in order to make the purchase.

As he was actively in the market, Mark wanted the cash at his disposal so he could be a cash buyer and benefit from a quicker process and purchase. Understandably, he didn't want to pay interest on the funds until he needed to use them. We also needed a lender who wouldn't require a simultaneous purchase, due to the fact that he hadn't yet identified a property.

An offset is always a separate savings account to your mortgage but still links the two, with no interest paid on the savings aspect. This provides the borrower with the benefit of a lower effective interest rate on the mortgage balance – offset by the balance sitting in the savings account – thus saving on the interest and tax you would usually pay. For mortgages on a repayment basis, utilizing the offset pays towards the capital rather than the interest, so although he wouldn't earn any extra interest, this would cost Mark much less long-term with the freedom to pay off the mortgage sooner and reduce the cost of borrowing.

We managed to speak to a lender whom we have an excellent relationship with, who was willing to proceed despite Mark's income irregularities and having no property in mind.

Initially, my client provided a value for their existing property of £2m, which would result in 50% loan to value (LTV) when borrowing £1m. However, after the lender's valuation of £1.7m, the maximum amount of borrowing on interest only available was £850,000, so I needed to find an effective way of restructuring the loan.

We secured an offset product that meant he was able to put the money into a linked account, which he could then effectively sit on, paying no interest until he needed to use it. This resulted in a mortgage at 50% LTV on an interest only basis amounted to £850,000, with a further £150,000 arranged on a repayment basis to ensure the loan still came to a total of £1 million.

My client was thus able to complete on the £1m loan, which was fixed at 1.99% above the Bank of England base rate for the term of the mortgage – meaning an initial rate of 2.49%*. This was an excellent result for my client, of which he was delighted and proceeded to recommend to his friends.

**Bank of England base rate at the time of completion, before the reduction to 0.25%.*

CASE STUDY

US expat requiring high LTV mortgage – 5-year fixed rate

—Chris Lloyd

THE SCENARIO:

I recently completed a case for an American client who was relocating to the UK. My client was expatriating to the UK for a new position within the same company in the financial sector, something we are seeing a lot of as people look to leave the USA in light of Trump's Presidency, particularly as London property remains to be a safe haven for investors.

She was looking for a property to live in and needed a loan of £1.4million at a loan to value (LTV) of 80%. There were a couple of reasons for her needing a high LTV; she wanted to keep funds tied up in savings and investments, and a higher LTV helped with her cash flow. High LTVs are popular with people who work in an industry where salaries are subsidised by bonuses or tied up in other investments, this US expat mortgage was no different.

As a result of the increased demand for this, we are seeing a number of lenders enter the market who are willing to take a more holistic view of a client's wealth, not only considering their base salary. For example, I knew of a private bank who would take a view of my client's experience in the role – since she would be doing the same thing, for the same company, in a different location.

Working with the private bank, I was able to secure her a rate of 2.99% fixed for five years at 80% LTV. This is a high street competitive rate as getting 80% LTV on a US expat mortgage above £1million is very rare, and most banks would only lend 70-75% on a property at that LTV.

Not to mention she had no UK credit footprint. In addition to securing such a great rate and high LTV, we were able to add the 1% lender arrangement fee to the loan as an exception for this client – which at 80% LTV is not always possible with most banks.

Conclusion

We hope this guide has provided greater insight to the many mortgage products on the market and a clearer idea of the options available to you. We understand how daunting the process can be, but we are at your continued disposal to help you moving forward, should you require it.

This is just an outline of what can be achieved and we are proud to offer solutions to almost every type of circumstances. If your situation is particularly complex and you're unsure of the product for you, do not hesitate to give us a call.

If you have any questions on the information detailed herein, or simply wish to discuss your situation further, we can provide a thorough and personal consultation to outline the opportunities available to you. We will only charge you should you choose to instruct us to take action.

Our expert advisers are available day and night, to help you navigate your way through the mortgage market.

CONTACT US

ENNESS

Are you looking for a mortgage, but unsure which type would suit you best?

Call enness today and an expert broker will talk you through your financing options. We will guarantee accessibility to the best rates.

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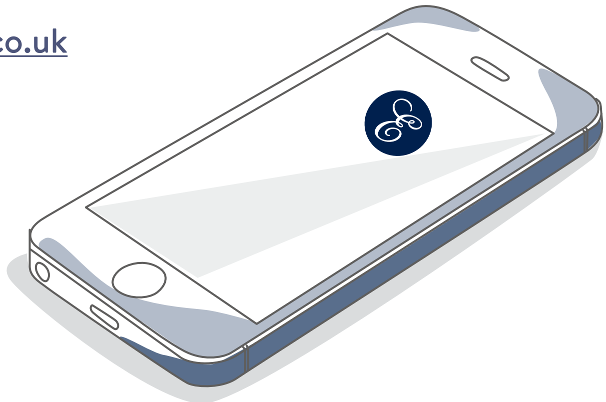

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