

Risk	Possible Effects	Solutions
Poor Location Property can only be let at below market rates	<ul style="list-style-type: none"> <li>Property cannot be let at all</li> <li>Do your research. Visit the area on a number of occasions</li> </ul>	<ul style="list-style-type: none"> <li>Gather the opinions of letting and estate agents</li> </ul>
Property is in poor condition	<ul style="list-style-type: none"> <li>Property cannot be let at full price because it is not desirable</li> <li>You have to spend large amounts of money bringing it up to standard</li> <li>Lender may not lend on the property</li> </ul>	<ul style="list-style-type: none"> <li>Do your research before you buy. Be aware older properties may have higher maintenance costs.</li> <li>Establish the achievable rent before you buy, with the help of a letting agent.</li> </ul>
Bad tenants	<ul style="list-style-type: none"> <li>Tenants may damage the property</li> <li>They may not pay rent on time</li> <li>They may upset neighbours</li> </ul>	<ul style="list-style-type: none"> <li>Vet potential tenants, including taking up references. Employ a letting agent</li> <li>Let the property under an Assured Shorthold Tenancy. This gives you the most protection for evicting poor tenants.</li> </ul>

**Please note that the Financial Services Authority (F.S.A.) do not regulate Buy-to-Let mortgages and the Financial Ombudsmen Scheme (F.O.S.) does not apply. However the F.S.A. recommend the Council of Mortgage Lenders own guides which are available on the following link: -**

**<http://www.cml.org.uk/cml/consumers/guides/buytolet>**

**If you cannot access this, please contact us and we will be happy to provide a copy for you.**

**YOUR PROPERTY MAY BE AT RISK IF YOU DO NOT KEEP UP PAYMENTS ON YOUR MORTGAGE OR ANY OTHER LOAN SECURED ON IT**

(ref MGN 10/11)



## **A Guide To Mortgages – Your Questions Answered**

### **How much can you borrow?**

Recently it has become more common for lenders to make an affordability assessment when calculating how much they will lend you. Your total income, minus loans and living expenses are used to calculate disposable income and affordability of the new monthly payments. All lenders that work this way have different methods of calculating affordability against your disposable income. Some lenders still work on the basis of lending a certain number of times your gross income, after the deduction of loan expenses. Please be aware that affordability results can vary significantly from lender to lender.

### **Fees and Costs**

This depends on each transaction, but all the mortgage related costs are set out clearly in the Key Facts documents (including a Key Facts Illustration – KFI), which we will give you as soon as possible. The lender will also give you a KFI with any mortgage offer they make to you. Some other fees you have to pay include estate agency fees, stamp duty land tax, legal fees and survey fees. We will be able to provide more accurate estimates of these costs once we are aware of your personal circumstances.

### **How To Repay Your Mortgage**

You can choose to pay your mortgage in the following ways: -

- Repayment
- Interest only
- A combination of the two

### Repayment (also called "capital & interest")

The payment you make to the lender every month reduces the amount you owe, as well as paying the interest on the loan. So each month you pay off a small part of your mortgage.

It's a simple, clear approach – you can see your loan getting smaller. If you make the agreed payments, the loan will be fully paid off by the end of the mortgage term. However, in the early years your payments will be mainly interest, so if you want to payoff the mortgage completely or move house, you'll find that the amount you owe won't have significantly reduced.

### Interest Only

Your monthly payment only pays the interest charges on your loan – you don't reduce the loan itself. Because you are only paying off the interest, your monthly mortgage payments will be lower than an equivalent repayment loan. **Interest only should not be chosen for affordability reasons.**

It is very important you arrange some other way to repay the loan at the end of the term. Examples are:-

**Investment or Savings Plan (ISA, pension or endowment)** - You build up a lump sum that will pay off the loan at the end of the term. You should check the progress of the plan regularly. If it doesn't grow as expected, you will have a shortfall and you will need to think about ways of making this up. Think carefully about using an investment plan to build up the money you need to repay the mortgage. An investment plan invests in the stock market and the value of your investment can go up or down. If you are not comfortable with this risk, think about a repayment mortgage instead. Failure to keep up repayments to your plan will result in you facing a likely shortfall when it comes to repaying your mortgage.

**Use a lump sum from somewhere else** - Say, an inheritance, or selling something such as another property or a business. This may be risky – for example, how sure are you that you will get an inheritance, or what happens if your business fails?

**Sell the mortgaged property to pay off the loan** – This is suitable only if you won't need to live in the property – for example, if it is a buy-to-let property or a second home, or you are buying something smaller or cheaper.

Please ensure you understand how repayment and interest only options work, and what you must do to ensure you pay off your mortgage at the end of the term. Remember all interest only mortgages carry an element of risk and it is your responsibility to ensure that your chosen repayment method is in place and will produce sufficient funds to clear the mortgage debt in full at the end of the term.

### Notes for Buy-to-Let Mortgages

A Buy-to-let mortgage is a loan taken out to buy a property which you intend to rent out to tenants. Before purchasing we recommend you seek independent advice from an accountant or tax adviser, regarding the potential benefits and costs of owning an investment property, as well as a legal adviser regarding the various obligations you have under landlord / tenant legislation.

**Important – Davidson Deem Ltd can recommend a suitable mortgage for your buy to let property, but we do not give advice on the suitability or otherwise of the suitability of owning a property as an investment.**

Risk	Possible Effects	Solutions
Costs rise unexpectedly	<ul style="list-style-type: none"> <li>Your mortgage payments could rise following interest rate rises</li> <li>You may need to undertake major repairs to the property</li> <li>Letting agents fees could rise.</li> </ul>	<ul style="list-style-type: none"> <li>Consider a mortgage with a fixed rate</li> <li>Build in a margin for such events when deciding on the suitability of property as an investment</li> </ul>
Prolonged periods of the property being empty	<ul style="list-style-type: none"> <li>Short or long periods of no rental income may put a strain on your finances</li> </ul>	<ul style="list-style-type: none"> <li>Build in a margin for such events when deciding on the suitability of property as an investment</li> <li>Do not take a bigger mortgage than you can afford</li> <li>Consider employing a letting agent to find new tenants</li> </ul>
House prices fall, or do not rise as much as you hoped	<ul style="list-style-type: none"> <li>Upon property sale your after-tax gain is less than you hoped, or you may even make a loss</li> <li>In extreme circumstances there may be negative equity</li> </ul>	<ul style="list-style-type: none"> <li>Be aware there is no guarantee you will make a profit</li> <li>Be prepared to hold onto the property for a long time.</li> <li>Consider a repayment mortgage, so that loan balances reduces over time.</li> </ul>

simultaneous and the new mortgage is for the same amount or more. Please be aware that with some lenders, in order to avoid early repayment charges, the original balance has to be ported, as opposed to the current outstanding balance.

**Important.** Although portability of a mortgage product is seen as a benefit if utilised, it can carry the following potential problems: -

- Your next mortgage application must meet the lender's requirements on status (income etc.) and property, otherwise you may have to switch to another lender anyway.
- If your next mortgage is smaller than the current one, you may have to pay reduced early repayment charges
- If your next mortgage is higher than the current one, the "top up" borrowing may be restricted to a limited number of mortgage products from your lender.
- Your current mortgage product may have become uncompetitive compared to new products available in the marketplace.
- Most lenders allow a short period of time between sale and purchase. However, some lenders insist they will only allow portability when sale and purchase are simultaneous.

Please ensure you refer to your lender for full details regarding porting your mortgage, and be aware even though you may port your existing rate, under certain circumstances (such as those above), you may still have to pay an early repayment charge.

You may consider letting out your residential property, for example due to work relocation, in genuine cases most lenders will allow you to do this for a period of time, subject to certain criteria. The lender may impose extra charges or increase your interest rate as a result. We also strongly recommend that you see a tax specialist before you consider this course of action.

**There are also other helpful articles available on the FSA website [www.fsa.gov.uk](http://www.fsa.gov.uk)**

**We strongly recommend that you pay particular attention to the document entitled "Just The Facts About Mortgages". This is available on: - <http://www.moneymadeclear.fsa.gov.uk/pdfs/mortgages.pdf>**

**If you do not have access to the internet, please let us know and we will provide a paper copy.**

**Davidson Deem Ltd is an appointed representative of The Whitechurch Network Ltd, which is authorised and regulated by the Financial Services Authority.**

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**

## **Different Mortgage Types Available**

### **Fixed**

Your payments are fixed at a certain level for a set period, for example two, five or ten years or maybe even longer.

**Pros:** Peace of mind, you know exactly how much your mortgage payments will be for a specified period, which can help you budget.

**Cons:** If interest rates fall, your payments will still stay the same - they won't go down. Fixed rates normally have limited overpayment flexibility.

### **Tracker**

With this variable rate loan, you agree that your mortgage rate will follow a set amount above or below the Bank of England Base Rate (or another bank rate), for a set period of time.

**Pros:** Your payments will go down if the Base Rate falls and sometimes they are available with good overpayment flexibility built in.

**Cons:** You need to have enough flexibility in your budget to absorb any payment increases caused by Base Rate changes.

### **Discounted**

Your payments are variable, but they are set less than the lender's standard variable rate for a set period of time.

**Pros:** If the lender reduces their standard variable rate (usually following a Base Rate reduction), then your payments go down.

**Cons:** Remember, your lender sets the rate, so if it increases the standard variable rate, your payments will increase and there is no guarantee the lender will follow the Base Rate down in all cases.

### **Cashback**

The lender gives you a "cashback", usually a percentage of the mortgage loan, when the mortgage loan starts.

**Pros:** Useful if you need the cash for home improvements etc.

**Cons:** You will need to pay for this "cashback" somewhere – usually a higher rate, or extended early repayment charge.

### **Capped**

Your mortgage rate is variable and often linked to a base rate, but won't rise above a set level ("cap") during the product period.

**Pros:** Peace of mind your payments won't rise above the agreed cap and your payments will go down if interest rates fall

**Cons:** Often more expensive than a traditional fixed or tracker rate for the same period.

### **Flexible**

Allows you to overpay and then re-borrow, underpay or take payment holidays.

**Pros:** May suit your financial lifestyle, especially those with irregular income.

**Cons:** Often you pay for all the "extras" – it could be cheaper with a traditional mortgage offering less flexibility.

### **Offset & Current Account**

Your savings are used to reduce the interest charged on your mortgage, e.g. your loan is £200,000 and your offset savings are £50,000, so you only pay interest on the difference, i.e. £150,000. Some lenders will also link a current account (with normal bank account features) to the mortgage if you wish.

**Pros:** If you have enough savings “offset” you should be able to repay the mortgage more quickly. It can be a tax efficient way to make use of your savings.

**Cons:** Interest rates charged on these mortgages tend to be higher.

Please bear in mind that all of the above products often carry arrangement / booking fees. As a general “rule of thumb”, the lower the rate, the higher the fee you will pay. Often these fees can be added to the loan if you wish, although this will of course increase the interest you are charged. In addition, early repayment charges (ERC) will often apply. This is a charge that applies should the mortgage be repaid in full, or part within a given period. This period is normally the same as the rate period, although sometimes it can be longer than the rate period.

### **Surveying and Valuing Your Property**

Banks and Building Societies will always want the property valued before making a mortgage offer. We strongly recommend that you obtain a more detailed report on the condition and value of the property (survey). There are three types of report available: -

- Basic Valuation – A brief inspection of the property for the lender, so they can ensure it is suitable security for the mortgage.
- Survey (House Buyers Survey) – A detailed report for you on the condition of the property you are planning to buy.
- Survey (Full Building Survey) – As above, but in even more detail – often used for older or unusual properties.

Please let us know as many details as possible about the property you are purchasing / re-mortgaging, such as age, construction type, location, length of lease, property usage and state of repair, as these can affect the suitability of the property as security for the mortgage.

If you need any further guidance, please contact us, or ask your solicitor, legal adviser or a qualified surveyor for help.

### **Insurance**

#### **Buildings Insurance**

It will be a condition of the mortgage offer that the property is insured to the satisfaction of the lender. We will inform you if it is a condition that the lender’s own insurance is required, otherwise it is your responsibility to arrange and

involved in getting this advice is your responsibility.

As you will be aware, property prices can go down as well as up. You are advised not to “chase up” the price of a property if you are in competition with other buyers. This is especially important if you are borrowing a high percentage of the purchase price. Please be aware that if property prices fall, your mortgage could, eventually, be higher than the price you paid for the property. This is called “negative equity”. Being in this situation could severely affect your future house moving plans.

If your mortgage represents a high percentage of the price or valuation of your property (usually 75% or more), you may have to pay a Higher Lending Charge. Some or all of this fee may be used by the lender to obtain mortgage indemnity insurance for its sole benefit. If this is the case, the lender will give you a written explanation, stating that:

- Such insurance will not protect you if your property is subsequently taken into possession and sold for less than the amount you owe;
- You will remain liable to pay all sums owing, including arrears, interest and your lender’s legal fees
- If a claim is paid to your lender under such insurance, the insurers generally have the right to recover this amount from you.

**If you are borrowing more than 75% of the purchase price or valuation of your property the lender may well arrange this insurance on your behalf, but pay the premium for you. You will therefore still be bound by its terms and conditions.**

**Please be aware that should your property purchase fall through for any reason, it is not guaranteed that the lender will honour your chosen interest rate product for the replacement property. In such circumstances the lender may keep any fees already paid for arrangement / booking charges, and in addition may well charge you new fees for the replacement interest rate product.**

A common problem that arises on the completion of mortgages is customers query the first payment. Interest is charged from the day your mortgage is drawn down. This will often be added to your first payment, or collected separately. In addition, your previous mortgage payments may have been collected in arrears and your new ones in advance, meaning in effect you pay two payments in one month.

Unless otherwise stated, all residential mortgage products we illustrate are portable. This means that they can be taken to another property if you move house within the early repayment charge period, without the payment of early repayment charges to the lender, provided that your sale and purchase are

initial cost savings.

The Office of Fair Trading (OFT) has produced guidance on this matter in the form of a booklet called "Debt Management Guidance". It is available from the OFT (ref OFT366), or from their website ([www.oft.gov.uk](http://www.oft.gov.uk)).

**You should think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.**

Stamp Duty Land Tax (SDLT) is a "property" tax payable as a percentage of the purchase price (unless the purchase price is less than £125,000, when no amount is payable). Rates are determined by H.M. Treasury and can vary from time to time. It is currently payable on all purchases above £125,000 at a rate of 1%, £250,001 – £500,000 at a rate of 3%, £500,001 - £1 million at 4% and above £1 million at a rate of 5%. There is currently an exemption on stamp duty for first time buyers on properties up to £250,000 until 24.3.2012. Your solicitor should advise you of the exact amount and when it is payable by you. In addition, recently the Inland Revenue have applied existing stamp duty rules more rigorously to re-mortgages. In cases where there is a change of ownership or transfer of equity, stamp duty has been levied. If this is the case, your solicitor will confirm if you are liable and how much you will have to pay.

When purchasing, it is usual to have to pay a deposit at exchange of contracts – this is usually 10% of the purchase price. Your solicitor will tell you the correct amount. **Important – if you are borrowing more than 90% of the purchase price, because the lender does not release any funds until legal completion (the day of purchase), you may have to make arrangements yourself to pay the deposit.** Please feel free to call us for advice on this matter. If exchange of contracts is urgent, it is imperative you let us know. Often lenders with the best rates are the busiest, and so delays can occur. Consequently, if an urgent exchange is imperative this will be a contributing factor to the lender we recommend.

Arranging a mortgage will involve some necessary legal work. For purchases, **it is your responsibility to instruct a solicitor or conveyancer to act on your behalf, establish the total costs (including legal disbursements), when they are payable and to pay them yourself.**

Please note that many lenders insist on firms with at least two partners, otherwise they may refuse to deal with them, or charge a fee to cover increased indemnity costs, typically £50.

Sometimes circumstances dictate that you may require independent legal advice as part of the mortgage transaction (e.g. for guarantors, or when a lender's free legal service is unable to assist you). If this happens, lenders now insist it is obtained from a solicitor approved by them. Please be aware that any cost

maintain such insurance throughout. The lender may charge a small administration fee if you arrange your own buildings insurance.

**If you intend to extend / refurbish / redevelop the property, or do not immediately occupy the property, please advise us straight away, as this may affect your insurance as well as delay any mortgage application. If you subsequently consider letting out the property, your insurance may not be valid in its current form.**

#### Mortgage Payment Protection Insurance (MPPI)

For all mortgages taken out after 1<sup>st</sup> October 1995, Income Support for Mortgage Interest (ISMI) payments has recently been changed.

With effect from 5<sup>th</sup> January 2009, payments will be made for the first 13 weeks (reduced from 39 weeks). Payments will continue to be means tested and eligibility is therefore not automatic. Eligibility is also limited to the first £200,000 only of any mortgage (increased from £100,000).

Taking into account ISMI and your entitlements to benefits from your employer I recommend that you protect your mortgage against the effects of accident, sickness and unemployment.

#### Life Assurance

We strongly recommend that life cover to repay the balance of the loan outstanding is in place prior to drawdown of the mortgage funds. We also recommend that you monitor the adequacy of the life cover arrangements on a regular basis.

Remember that early repayment of the mortgage loan, early surrender of an investment product e.g. endowment policy, or changes in personal circumstances (e.g. long-term illness) can have adverse financial consequences, depending on the particular type of mortgage or investment you have. In all cases, we would strongly urge you to take the necessary professional advice from an individual or company authorised to give such advice. Davidson Deem is not authorised to give such advice.

**Davidson Deem Ltd do not offer or arrange any form of life, accident, sickness or unemployment insurance.** We will inform you if it is a condition of the mortgage that the above or some other form of compulsory insurance is taken with the lender. If it is not compulsory with the lender then it is **your responsibility to arrange and maintain throughout such insurance, if required. To protect you and your family, we strongly recommend that you seek independent financial advice regarding all of the above insurances.**

#### Re-mortgaging (Switching Lenders)

A re-mortgage is when you keep your property, but move your mortgage from one lender to another (e.g. for a better interest rate). We would urge you to check if

your current lender will offer you another rate or product. **It is most important that details are obtained as soon as possible regarding any early repayment charges which would be payable should you pay off your current mortgage, or change your mortgage product.** Davidson Deem cannot ascertain this information on your behalf without clear written authority from you. Your existing lender will not divulge any details concerning you or your existing mortgage to us under the terms of the Data Protection Act without this written authority. You are able to directly obtain information on your mortgage without the need for written authority, thus saving you time and inconvenience. However, if you still wish us to do this for you, we will need to charge you a fee of £150 for this service.

If you are re-mortgaging, please be aware that the average time period from formal application to completion is 6 – 7 weeks. You should start the process in sufficient enough time for this to complete, but not too soon so that either the product reservation expires, or the term of the product is drastically reduced.

The re-mortgage process requires the services of a solicitor or legal adviser, who liaises with both lenders and ensures correct completion of all legal paperwork. You are free to use (and pay for) your own solicitor. However, many lenders as part of your new product will provide this basic service free of charge, via their own nominated firm of solicitors. However, there will be instances when they may charge you a fee (and a delay could occur), e.g. transfer from unregistered to registered title, any other deed amendments, such as adding or removing parties on the deeds, dealing with second charges, freeholder enquiries for leasehold properties and telegraphic transfer fees (this is not an exhaustive list)

**Pros of using free solicitors:** Your own solicitor is likely to cost you around £400, so using a free legal package results in a big saving. Also, due to large volumes, these specialist firms have streamlined their processes so that straightforward cases normally complete relatively quickly.

**Cons of using free solicitors:** They represent and are paid for by the lender, not you, so i) they will not provide you with any detailed legal advice, ii) we have little influence to speed up the process or sort out any problems, and iii) any complications with your case or spikes in the volume of cases they receive, could result in a delay to the completion of your mortgage, costing you money as a result of higher interest charges with your current lender.

Drawing on our experience of many re-mortgage cases, your attention is drawn to the following frequent occurrences: -

Identity. Anti money laundering regulations apply to us, the lender and the solicitors. Therefore, you should expect to provide suitable identification more than once in the re-mortgage process.

**Early Repayment Charges. The solicitors will contact you to ask when you want the mortgage with the new lender to start. Please ensure that this date**

**is after the end of any early repayment charge period that applies to your current mortgage.**

Shortfalls. Special care needs to be taken over the loan amount you apply for from the new lender. Depending on whether your current and new mortgage are paid monthly in arrears or advance, and the day in the month when the new mortgage starts, it is not unusual for there to be a small shortfall. Unless you have sufficient funds to cover this, it is well worth considering borrowing a little more than you think to cover this amount, if required. You will probably be able to pay any excess back into the mortgage shortly after it starts.

Valuations. It is common for a lender to carry out a free (or heavily subsidised) valuation of your property as part of its “fees free package”. The valuation report is for internal use and the lender may not disclose the finding to you. It may not represent a true market value (e.g. they may use an automated postcode based system, or employ a surveyor to just drive by a property). We recommend you resist over estimating the property’s valuation for mortgage purposes, as we have found that once a valuation has been generated, it is extremely difficult to get the lender to change / increase the figure.

### **Other Important Information**

If you arrange your mortgage on a joint basis with another (related or unrelated) individual(s), the mortgage lender will consider all parties to the mortgage **'jointly and severally' liable** for any outstanding debt and costs or contravention of the terms of the mortgage. Please consult your legal adviser if you are unsure of your position in this respect before entering into any financial commitment with another individual(s).

Some lenders are not prepared to lend beyond your normal retirement age. If you wish us to arrange a mortgage to run after your planned retirement date, **it is your responsibility to clearly demonstrate future anticipated earnings** e.g. personal pension or an alternative that would be used to fund any outstanding loan. **Continued affordability of the mortgage in retirement is vital to avoid potential financial hardship.**

When you apply for a mortgage, lenders will carry out a credit reference agency search, which is recorded. This information is stored centrally and can be seen and used by other financial institutions.

If you intend to consolidate any short term debt e.g. personal loans, credit card balances into your mortgage loan, there are often long term financial implications that you need to be aware of. You may benefit immediately by reducing your monthly outgoings, but, especially if the debts only have a short term remaining, the effect of the long term interest added to the mortgage loan may outweigh any