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Decoding mortgage choices

Making the right mortgage choice could save hundreds or even thousands of pounds

When choosing a mortgage, many borrowers gravitate towards a fixed-rate deal that spans two to five years. This option brings predictability, with repayment amounts staying constant for the duration of the deal.

Fixed Rate or Tracker Mortgage?

Nonetheless, this doesn't necessarily mean a fixed rate mortgage fits everyone's situation best. If the base interest rate were to drop, they would miss out on having lower monthly repayments. Conversely, they would be in for higher costs if the rate increased. This variability may lead some to choose a tracker mortgage, especially with some commentators predicting a dip in base rates later this year. A tracker mortgage could offer instant reductions in the interest you pay. The choice, therefore, boils down to whether you prefer certainty or flexibility.

Evaluating mortgage term lengths

The term length of the mortgage also plays a significant role in someone's decision. Traditionally, 25-year terms have been popular, but with rising house prices, more people are leaning towards 30-year mortgages to minimise their monthly repayments. However, with mortgage rates soaring over the past year, committing to such a long-term deal may not be the wisest move. Making the right mortgage choice could save hundreds or even thousands of pounds, whether buying a home or remortgaging.

Fixed Rate Mortgage

A fixed rate mortgage is appealing if someone seeks predictable monthly repayments. It offers the comfort of knowing exactly what their repayments will be for the duration of the deal, helping them budget effectively and avoid unexpected bills if interest rates increase. However, with mortgage rates having risen significantly since December 2021, it's crucial to opt for a fixed deal only if you plan to retain your house for the duration of the deal, typically two to five years. Exiting the deal early could result in an early repayment charge.

Standard Variable Rate Mortgage

The Standard Variable Rate (SVR) is the lender's default rate and is typically higher than fixed rate or tracker deals, making it an unlikely choice for most borrowers. The SVR can fluctuate and doesn't necessarily track the base rate like tracker mortgages. Generally, someone will roll onto the SVR automatically if their fixed deal expires and they haven't arranged a new deal.

The Guarantor Mortgage

A guarantor mortgage involves having a parent or another family member agree to cover mortgage repayments if someone cannot make them. This arrangement might allow them to borrow more and take the first step onto the property ladder, even with a small deposit. However, it requires careful consideration as the family members will be liable to cover the repayments should they fall behind.

Long-Term Mortgages

Opting for a longer mortgage term can lower monthly repayments, making it easier to manage finances. However, longer terms mean paying interest for a more extended period, leading to higher overall costs. On the other hand, shorter mortgage terms allow for quicker repayment but come with larger monthly payments. It's important not to overstretch financially. ■

Ready for expert advice to guide you through every step of the mortgage process?

We're here to ensure that your mortgage journey is smooth and straightforward. Whether it's your first time dipping your toes in the property market or looking to switch up your mortgage deal, we've got you covered. Our experts will guide you through every step, providing advice tailored to your unique circumstances. To learn more about how we could help, please contact us.