



# DENTAL & MEDICAL

## FINANCIAL SERVICES

### Dental & Medical Financial Services

1 Market Square, Horsham,  
West Sussex RH12 1EU

**T:** 01403 780 770

**F:** 01403 780 771

**E:** [info@dentalandmedical.com](mailto:info@dentalandmedical.com)

**W:** [www.dentalandmedical.com](http://www.dentalandmedical.com)

## Fixed vs. variable rates explained

Find the best fit for your financial future

Navigating the mortgage market can be a daunting task, especially with the array of products and financial terms to comprehend. Securing a mortgage is one of the most significant financial commitments you will ever make, so it is vital to approach the application process with a clear understanding of your options. The decision you make will have a lasting impact on your finances for years to come.

Before you start looking at properties, it is wise to get your financial affairs in order. Lenders will conduct a thorough assessment of your income, outgoings, and credit history to determine your borrowing capacity and reliability. This involves checking your bank statements, payslips, and any existing debt, so being prepared can smooth the process and improve your chances of a successful application.

### Understanding interest rates

The most important decision you will face when choosing a mortgage is whether to choose a fixed-rate or a variable-rate deal. This decision affects how the interest on your loan is calculated and, consequently, how much your monthly repayments will be. A fixed-rate mortgage locks in the interest rate for a set period, usually between two and ten years, providing you with certainty over your monthly payments.

In contrast, a variable-rate mortgage has an interest rate that can change over the term of the loan. This means your monthly repayments could increase or decrease, typically in line with the Bank of

England's base rate or the lender's own standard variable rate (SVR). While these can sometimes start with a lower initial rate, they come with a degree of uncertainty that you need to be comfortable with.

### The case for certainty

For many homeowners, particularly first-time buyers, the stability of a fixed-rate mortgage is highly appealing. Knowing exactly what your mortgage will cost each month makes budgeting far simpler and provides peace of mind, as you are protected from any sudden interest rate increases. If rates rise during your fixed term, your payments will remain unchanged, shielding you from higher costs.

This security, however, can come at a cost. Fixed rates are often slightly higher than the initial rates offered on variable deals. Additionally, if interest rates fall, you will not benefit from lower repayments and will continue to pay the agreed-upon rate. Exiting a fixed-rate deal early can also incur significant early repayment charges (ERCs), which can amount to thousands of pounds.

### Embracing flexibility

Variable-rate mortgages, such as tracker or discount mortgages, present a different option. A tracker mortgage follows the Bank of England's base rate, with your rate set at a certain percentage above it. For example, if the base rate is 5% and your deal is 'base + 0.75%', your rate would be 5.75%. If the base rate falls, so will your repayments, which can be a considerable benefit.

Discount mortgages provide a reduction off the lender's SVR. While these can seem appealing, it's important to remember that the SVR can be altered by the lender at any time, not just when the Bank of England's base rate changes. The main risk with any variable product is that an increase in interest rates will result in higher monthly payments, which could put a strain on your finances if you haven't budgeted for it.

### Making the right choice for you

Ultimately, the best decision depends on your personal circumstances and attitude towards risk. If you have a tight budget or prefer financial predictability, a fixed-rate mortgage is probably the safer choice. It enables you to plan your finances with confidence during the initial period.

If your budget allows more flexibility and you believe interest rates are likely to fall or stay low, a variable-rate mortgage could save you money. You should be prepared for potential increases in your monthly payments and regularly review your financial situation. Carefully consider how much of a payment increase you could comfortably handle before making a decision. ■

### Are you ready to talk about your mortgage options?

For more detailed guidance tailored to your specific circumstances, please speak with us today. We look forward to hearing from you.