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Making the right mortgage choice

Helping you make an informed decision for your homeownership needs

Choosing the right mortgage type is a crucial decision. A wrong choice could lead to unnecessary expenses. Identifying the mortgage type that aligns with your financial situation is the first step towards selecting the right lender and mortgage product.

The right mortgage type for you will depend on various factors, including your credit score, deposit size, income and property value. By understanding the differences and considering your financial situation, we can help you make an informed decision that is right for your needs.

Here, we consider some basics of the different mortgage types and factors for consideration.

The Capital Repayment Mortgage: A steady path to ownership

Capital repayment mortgages appeal to borrowers who aim to pay off the principal and interest over the loan term. This strategy allows you to steadily reduce the debt and build equity in the property. As a result, when remortgaging, you may be able to secure a smaller loan.

Traditionally, these mortgages span 25 years. However, some lenders have extended the term to 30 years or more. While this reduces monthly repayments, it extends your mortgage into retirement and increases the property's total cost.

Interest-Only Mortgage: An immediate relief with long-term considerations

Interest-only mortgages gained popularity before the 2008 financial crisis and remain a favourite among buy-to-let investors. With this type of mortgage, you pay only the interest, leaving the principal amount untouched.

This approach offers immediate relief from high monthly payments. However, you could face a sizeable loan upon retirement without an alternative debt repayment plan.

Fixed Rate Mortgage: Predictability amid fluctuations

Fixed rate mortgages provide a consistent interest rate throughout the loan term. They offer payment stability and facilitate long-term budgeting. These loans also protect you from potential rate hikes. You can usually fix the rate on your mortgage for between two and five years at a time, although you may be able to get a fixed rate mortgage for between seven and ten years, or sometimes even longer, too.

Another consideration of a fixed rate mortgage is that your interest rate won't be affected if the Bank of England's interest rate changes. But remember, if rates fall before your term ends, you might pay more. Most fixed rate mortgages also include exit penalties for early loan repayment.

Standard Variable Rate (SVR) Mortgage: The default yet costly option

Standard variable rate (SVR) mortgages are the lender's default rate, applied when a fixed or tracker loan ends. With an SVR mortgage, your monthly payments can change as the rate fluctuates, often tracking the Bank of England's official interest rate.

However, staying on your lender's SVR is rarely recommended, as they are usually priced above comparable fixed or tracker rates in the market.

Adjustable Rate Mortgages: A balancing act

An adjustable rate mortgage (ARM) is a home loan that follows a lender's standard variable rate (SVR) but at a discounted rate for a specific period. After this period elapses, the rate reverts to the SVR. While this might initially seem attractive, it's important to note that your repayments may vary as the SVR fluctuates.

This means you could face a significantly higher rate once your discount period ends. Therefore, it is crucial to keep track of when your discount period ends to avoid any unexpected increases in repayments.

Tracker Mortgages: Tied to the tide

A tracker mortgage is a type of variable rate mortgage that tracks a pre-arranged, independently set interest rate, usually linked to the Bank of England base rate for a set period. The term could be between one and five years or an open-ended lifetime tracker mortgage. Like all variable rates, tracker mortgages go up and down, depending on movements in the Bank of England base interest rate, meaning your monthly repayments can change frequently.

Over the past decade, when interest rates were historically low, tracker rates were often more expensive than fixed loans. However, this trend has reversed in recent times. In our current economic climate, average tracker rates have become cheaper than the average fixed rate mortgage. This is due to markets pricing in more negative news on inflation over the next couple of years. An added benefit of tracker mortgages is the absence of early repayment charges, allowing borrowers to switch at any time without penalty. ■

What type of mortgage is right for your homeownership needs?

Choosing the right mortgage type can seem complex, but you can make an informed decision with the right information and professional guidance. Please speak to our highly experienced team if you require further assistance. We're here to guide you and help you secure the right mortgage for your needs.

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