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Remortgaging to a more competitive deal

27% of homeowners with a mortgage are still on a Standard Variable Rate

If you're currently on your mortgage lender's Standard Variable Rate (SVR), you will have noticed a considerable increase in your monthly repayments due to numerous interest rate hikes by the Bank of England in recent times. According to data, 27% of homeowners with a mortgage are still on their lender's SVR[1].

Given the current economic climate, one in ten homeowners on an SVR were concerned about lenders scrutinising their finances. They didn't realise getting a more competitive mortgage deal could be possible.

Remaining on or transitioning to a high-cost SVR

Homeowners with fixed-rate mortgages remain unaffected by these increases until their current mortgage deal ends. That's why it's advisable to consider remortgaging to avoid either remaining on or transitioning to a high-cost SVR.

There is some good news, however, with many commentators reporting that mortgage rates look set to have peaked this summer, with inflation and swap rates (the rates the banks pay to borrow money) on the way down. Swap rates are based on what the markets think the interest rate will be in the future.

Each homeowner's reasons for remortgaging may differ. Here are some reasons to consider switching your mortgage deal.

The potential savings of remortgaging

When your current mortgage deal is about to end, you'll be transitioned to your mortgage lender's costly SVR. A new mortgage deal could save you money, especially as interest rates are predicted to rise soon.

Suppose you have more equity in your property now than when you initially took out your mortgage deal; you could secure a new deal with a lower interest rate. This is due to your Loan-to-Value (LTV) ratio decreasing, which makes you less of a risk to your mortgage provider and typically results in a lower rate.

Financial security and remortgaging

If you're on a fixed-rate mortgage deal, the Bank of England base rate may not be a concern for you at present. However, if you're nearing the end of your deal, you may want to consider remortgaging.

For those with variable-rate mortgages, rising interest rates could significantly impact you. If appropriate, switching to a new mortgage deal to fix your rate can provide predictable repayments and help manage your monthly expenses, which have increased for most households over the past year.

The possibility of a more competitive interest rate

If you didn't refinance or transfer products after your last deal ended, you're likely paying your lender's default SVR. This means you could be paying more than necessary, so shopping around for a new deal with a lower rate is advisable.

Deciding on the right time to remortgage

Remortgaging can be a savvy financial move if timed correctly. Ideally, you should secure a new mortgage deal before your current one expires. This approach allows you to transition smoothly into your new mortgage, avoiding your lender's SVR.

Understanding the lifespan of mortgage offers

Mortgage offers usually have a lifespan of three to six months. Therefore, initiating the remortgage process a few months before your existing deal concludes is beneficial. If you've already secured a deal, review the terms for any exits without penalties should a more affordable deal present itself during the interim.

Navigating the remortgaging process

The remortgage process may typically range from a few weeks to three months, contingent on your unique circumstances and the complexity of your application. Remortgaging mirrors the process of a new mortgage application, necessitating property valuation and pertinent checks.

Preparing for lender evaluations

Lenders are keen on assessing your capacity to make repayments presently and in the future, especially if interest rates rise. Lenders may require additional proof of income for those whose employment status has changed since obtaining the initial mortgage or who have become self-employed, potentially prolonging the process.

Getting ready for a remortgage

If you're considering remortgaging, there are several steps you should take to ensure you're well-prepared.

Review your credit score: This should be your first step, even before lenders get a chance to do it. A clear understanding of your credit score will give you an idea of your chances of getting remortgage approval.

Avoid new credit applications: It's advisable to only apply for new credit

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after seeking a mortgage. This could affect your credit score and, consequently, your eligibility for a remortgage.

Start early: It's always a good idea to begin the remortgage process well in advance. Some lenders allow you to agree on deals up to three months before you start paying them. This lets you secure favourable rates and protect against potential hikes amid rising living costs.

Estimate your property's worth: An idea of your property's value is essential when remortgaging.

Choose a remortgage date wisely: Be sure to pick a date that helps you avoid unnecessary fees.

Organising your paperwork

To expedite the remortgage process, it's crucial to have all necessary paperwork sorted and ready.

Here's what you'll need:

Bank statements: The last three months' statements will be required.
Payslips: Lenders will ask for your last three months' payslips.
Accounts/tax returns: If you're self-employed, you must provide accounts/tax returns for the last three years.
Bonus proof: Any proof of bonuses received will also be needed.
Latest P60 tax form: This form shows your income and the annual tax paid.
Identification: Usually, a passport is sufficient for this.
Proof of address: Utility bills often serve as adequate proof of address.

Remortgaging for the self-employed

If you're self-employed, the remortgage process might require more preparation. Lenders often find it challenging to assess the finances of self-employed individuals, thus requiring more detailed evidence of your ability to remortgage.

You may need to provide three years of financial records and evidence of future work. It's also crucial to review your credit score before applying. A good credit history signifies responsible borrowing behaviour, increasing your chances of approval.

It's essential to remember that lenders have different criteria, so don't be discouraged if one lender turns you down. However, multiple applications resulting in hard credit checks could negatively affect your credit score. ■

Need help surveying the market to find the right remortgage deal for you?
When considering a remortgage, it's crucial to have expert advice. Considering your unique circumstances and needs, we can survey the market to find the right remortgage deal for you, To learn more. Please contact us to discuss your requirements.

Source data:
[1] Zoopla research 02/08/23.