Speak to one of our professional advisers on:
020 8363 2525

Choosing the right mortgage...

There are many types of mortgages available on the market, and it can be confusing to know which one is right for you. We've outlined the basics in this guide, but our advice would be to speak to one of our qualified mortgage experts to talk through in more detail.

We give clear honest advice, which means we find the right mortgage and protection policies to suit your needs. Our advisers will ensure you understand the difference between the types of mortgages on offer and will give you honest advice on the right deal for you.

Repayment mortgages

With this type of mortgage (also known as capital and interest) you repay part of the amount borrowed together with the interest being charged each month. In the earlier years, the majority of your monthly repayment is made up of interest, however towards the latter part of your mortgage term the situation is reversed with the majority of your monthly payment reducing the amount borrowed.

Interest-only mortgages

With this type of mortgage you are only paying interest each month. This means that although your payments will be lower, the amount you borrow will still be outstanding at the end of the mortgage term. You'll need to make alternative arrangements to pay off the mortgage to avoid the property having to be sold, such as an ISA.

Our exclusive mortgage deals

We have access to exclusive deals, some of which are only available to our customers. Our expert mortgage advisers will be able to let you know what the latest exclusive deals are and whether they fit with your personal circumstances. These deals are not available anywhere else on the high street.

Buy to let mortgages

Apart from the purpose of the mortgage, the main difference with a buy to let mortgage is that the lender takes into account the rent you will earn from the property when assessing the affordability. Some may also take the landlord's personal income into account.

Typically lenders will want prospective rental income, verified by independent sources, to meet at least 145% of the monthly interest payment on the loan. This will either be based on the pay rate for fixed or tracker deals (i.e. the initial rate before the deal ends) or the lender's standard variable rate (potentially plus an extra 1%+). Lenders will generally only lend to those with larger deposits, with most deals asking for at least 30% put down by borrowers. The best deals are at the lowest loan to values of 60% or below.

For insurance we offer products from a choice of insurers.

Your home may be repossessed if you do not keep up repayments on your mortgage.

There may be a fee for mortgage advice. The actual amount you pay will depend upon your circumstances. The fee is up to 1% but a typical fee is 0.2% of the amount borrowed.

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that rental income will be sufficient to meet the cost of the mortgage

Standard variable rates

With this type of rate your payments should rise and fall in line with the Bank of England Bank rate changes, but not necessarily at the same time or by the same amount. You will almost certainly be paying a higher interest rate than the Bank of England Bank rate. Most borrowers are transferred to their lender's standard variable rate once their initial incentive rate period comes to an end.

Benefits:

- They are simple to understand
- There are often no early repayment charges if you switch from a standard variable rate unless it is a capped deal

Drawbacks:

- The monthly repayments on your mortgage may rise rapidly if interest rates rise
- Unpredictability of interest rates movements may make it hard to budget

Fixed rates

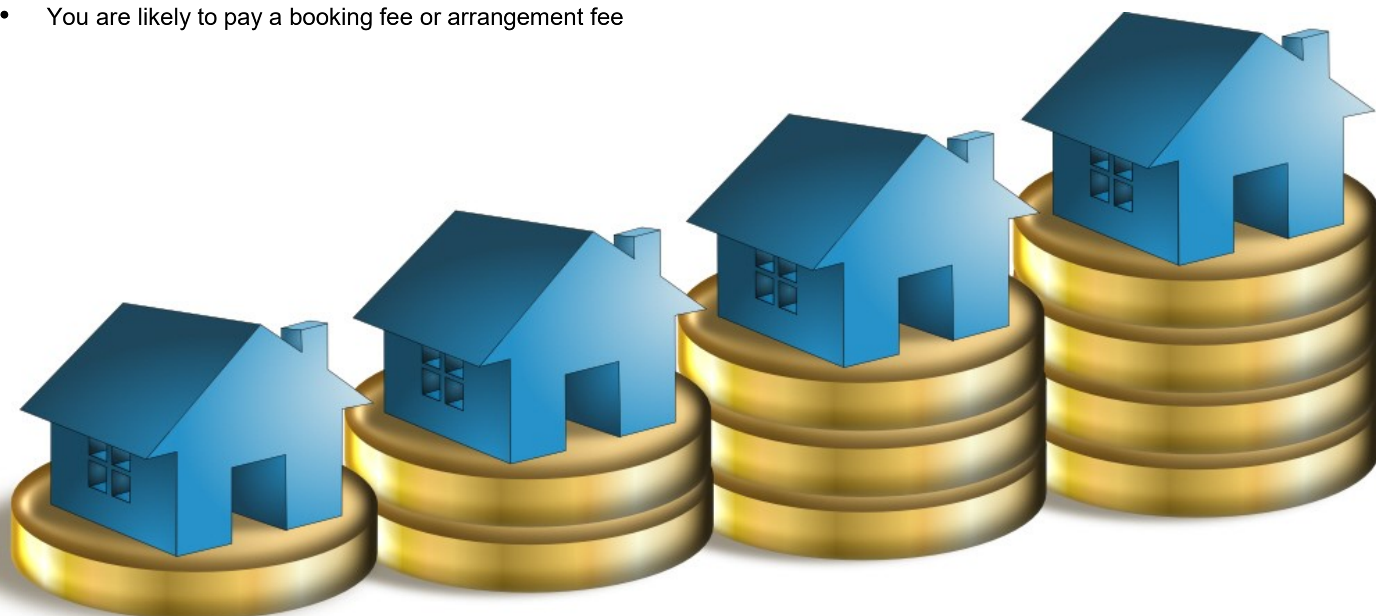
Fixed rates give you the security of knowing that your monthly payments are the same. With this type of mortgage, you pay a fixed rate of interest for a set period typically over 2, 3 or 5 years, so you know exactly what you'll be paying each month even if interest rates change.

Benefits:

- Offers you the security of knowing exactly how much you will be repaying during the fixed rate period
- Makes budgeting easier
- Security of knowing that if interest rates do rise, your monthly repayments won't rise

Drawbacks:

- Early repayment charges are likely to apply
- You are likely to pay a booking fee or arrangement fee



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Tracker variable rates

Your payments change when interest rates fall or rise. Tracker variable rates are usually linked to the Bank of England Bank Rate, which means they'll change in line with changes to the Bank rate. Tracker variable rates usually offer an initial incentive, typically two or three years. At the end of the incentive period the rate payable will continue to track the rate to which it is linked but usually at a larger percentage above the rate being tracked.

Benefits:

- Gives you the certainty of knowing the interest rates you pay will move in line with the rate being tracked
- They generally offer an initial incentive rate which is lower than a fixed rate mortgage over the same period
- Some trackers offer the option of switching to a fixed rate deal with the same lender without early repayment charges

Drawbacks:

- If the rate being tracked increases, your interest rate and monthly mortgage payments will also increase, which can make budgeting more difficult
- Some tracker variable rates come with a collar - this means the rate you pay never falls below a set level e.g. a rate tracking the Bank of England Bank Rate + 1% with a collar at 1.5% means that even if the Bank Rate falls to below 0.5%, you will never pay less than 1.5%.

Capped rates

You will know the maximum you will pay for a set period of time. This type of mortgage offers you the option of knowing the maximum monthly repayments you would have to make during a set period, typically 2 or 3 years. Capped rates work in a similar way to variable rates, but also offer similar security to fixed rates. The initial interest rate will be set but will vary in line with interest rates. The rate will not exceed a specific upper limit (the cap) for the set period.

Benefits:

- Offers you the security of knowing the maximum you could be repaying during the capped rate period
- Makes budgeting easy
- You'll benefit from a reduction in interest rates although if a 'collar' applies, there may be a limit below which the rate you pay will not fall

Drawbacks:

- Rates may be higher than for a short term fixed rate mortgage
- Some capped rate mortgages have a 'collar' or lower limit below which the rate which you pay cannot fall, therefore limiting any benefit you gain from falling interest rates
- Early repayment charges are likely to apply for at least the term of the capped rate period
- Some capped rate mortgages have an 'overhanging' early repayment charge - this means that an early repayment charge applies for a longer period than the capped rate period
- There is generally an arrangement or booking fee payable for a capped rate mortgage
- After the capped rate period ends, you will normally have to pay the lender's standard variable rate - so there may be a large increase in your monthly repayments

Discount variable rates

Allows you to benefit from a discount on the lender's standard variable rate. If the lender's standard variable rate (SVR) increases or decreases, so does the discounted rate. For example, if the lender's SVR is 3.5% and they offer a discount of 1.5% for two years, you will start off by paying 2.0%. If the lender's SVR increases to 4.0% after 6 months, you will pay 2.5%. Typically, the shorter the discounted period the larger the discount.

Benefits:

- You can make a saving on the lender's standard variable rate
- If the lender's standard variable rate falls, you will benefit from a similar fall in interest rate

Drawbacks:

- If the lender's standard variable rate rises, so does the discounted rate which can make budgeting difficult
- There is an element of uncertainty
- The lender may increase their mortgage rates independently to any changes to the Bank of England Bank rate
- Early repayment charges are likely to apply for at least the term of the discount period
- There is generally an arrangement or booking fee payable, your adviser will let you know what these are before you go ahead
- After the discount period ends, you will normally have to pay the lender's standard variable rate - so there may be a large increase in your monthly payments

Offset mortgages

Your savings will be offset against your outstanding mortgage.

Your main current account, savings account or both are linked to your mortgage. Each month, the amount in these accounts is offset against your outstanding mortgage before working out the interest you owe. You are unlikely to earn interest on your savings which are offset against your mortgage.

Benefits:

- As soon as your salary and other money is paid into your account, it starts to reduce the amount you owe on your mortgage or the amount is offset against your mortgage and therefore reduces the interest payable
- Can be useful if you would like the option to make overpayments on your mortgage
- Interest is calculated daily, so any payments into your account work to reduce the interest you have to pay straight away
- You may be able to borrow more than the initial mortgage amount, perhaps for some home improvements - up to an agreed limit

Drawbacks:

- They can be difficult to understand as they are quite complex
- You need to be disciplined to make sure you keep on track with your mortgage payments
- Many feature a variable rate which means that an increase in interest rates would be reflected in increased monthly payments (although fixed rates are available too)
- You may be required to move your personal bank accounts to the mortgage lender
- There may be an arrangement or booking fee payable

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Flexible mortgages

Great if you have a variable income. You can vary the amount you pay each month and take payment holidays in some circumstances. It may help to reduce your mortgage with lump sum payments without incurring an early repayment charge.

Benefits:

- By making slightly higher monthly payments than required or paying off lump sums, you may be able to repay your mortgage loan more quickly and save interest over the mortgage term
- You may be able to take a payment holiday when your budget is stretched
- You may be able to borrow more than the initial mortgage amount e.g. for home improvements (up to an agreed limit) - this lets you borrow at the mortgage rate, rather than taking out a loan which is often at a higher interest rate
- Many deals feature daily interest, this means that any payments you make have an impact on the amount outstanding on your mortgage loans within a day

Drawbacks:

- You may not want to take advantage of all the options available and because you are likely to be paying for flexibility with a higher interest rate, you may find you could get a lower interest rate elsewhere
- Many flexible mortgages feature a variable rate which means that an increase in interest rates would be reflected in increased monthly payments
- Early repayment charges may apply for at least the term of any initial incentive deal period
- There may be an arrangement or booking fee payable

And Remember…

Some brokers may be restricted to a limited number of lenders. Robert Sterling is different because our expert mortgage advisers have access to 1000s of mortgage schemes from over 90 lenders. Our experts could not only help you save money on your mortgage payments, but they will also use their detailed knowledge of the mortgage market to advise you on how much each lender will be prepared to lend you. They will provide guidance on the numerous mortgage products available, review the charges each lender makes, and compare the service quality between providers.

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Mortgage & Protection Advisers

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