

Mortgage Loan Fact Sheet

Types of mortgage
Loan interest schemes
Some essentials
A business and personal checklist
Further terminology

This document is issued to you as a prospective borrower to assist you in making a competent and suitable mortgage choice. It is not a legal document. It is intended to provide an overview and is not an in-depth study. As there is considerable variation in the many different mortgage contracts available, readers must examine the lender's documentation which takes precedence over any comment or content in this document. Furthermore, this does not constitute investment advice, the adviser providing this document may or may not be authorised to give advice on investment related products. If more information is needed on any topic, please ask your adviser

Taking the steps towards your mortgage

YOU are about to undertake one of the largest and most important purchases of your life
Please read this important document carefully

and remember

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Provided by:

Lighthouse Financial Advice
www.CasseldenIFA.co.uk

The first step: Select the mortgage type

There are two types: either a Capital and Interest Repayment Mortgage or an Interest Only Mortgage

1. Capital and Interest Repayment Mortgages

REQUIRE payments to the lender which consist of a combination of interest and capital repayment. At the beginning of the loan term, interest is charged on the full amount of the loan and the monthly level of repayments are mainly interest charges and very little capital is repaid. As the loan progresses, however, and more capital is repaid, the interest is charged on a steadily decreasing amount and the proportions of interest and capital shift. In the later stages of the loan, the repayments are mainly capital repayments and the final payments will pay the final amount of capital owed and the last interest rate on it. Providing that payments have been amended in line with the interest rate being charged and the borrower has kept up repayments, the mortgage should be repaid by its expiry date.

- Payments (often called repayments) are comprised of two elements, (a) the return of the capital borrowed (the mortgage loan) and, (b) the payment of interest on the money lent to a borrower.
- Payments, usually monthly, normally vary in accordance with the interest rate charged by the lender. Notice of a rate change is usually given by press advertisement, the change may be implemented immediately or from four to eight weeks before a change is made.
- In the early years, most of each repayment goes towards paying off interest charged on a loan. It takes about two thirds of the duration of any loan agreement before more of each payment goes towards paying off capital.
- A legal charge on a property will not be removed until the mortgage debt and any outstanding interest is repaid in full.
- Borrowers should note when lenders actually apply capital and interest repayments to their account because some lenders only apply incoming funds once a year which might be disadvantageous to the borrower.

2. Interest Only Mortgages

REQUIRE payments which cover the interest but make no reduction to the amount borrowed. The lender will require the borrowing to be repaid in a lump sum at the expiry date of the loan. It is usual for an investment plan to be put in place to provide for the repayment of the loan on the due date. Capital repayment is usually enabled by regular investment over the required number of years into one or more of the following plans: Individual Savings Accounts, unit trusts, investment trusts, endowment policies and the tax-free cash from personal pension plans. Further information on these investment plans may be obtained from your independent financial adviser (IFA) (your adviser will inform you if they are authorised to provide advice on investment products).

- The savings plan aim is to normally increase in value to provide sufficient capital to be able to settle an outstanding mortgage debt (but there is no guarantee).
- In the case of a shortfall in savings plan proceeds, a lender will require a borrower to pay any difference between savings plan proceeds and the outstanding debt.
- In the case of a surplus in the proceeds of an assigned savings plan, a lender will refund the difference between the debt and savings proceeds to a borrower.
- The capital or savings element is normally paid to an insurance company or fund manager and **not** to the lender.
- Payments to the lender normally vary in accordance with the interest rate charged. Notice of a rate change is usually given by press advertisement, the change may be implemented immediately or from four to eight weeks before a change is made.
- The amount of the outstanding loan remains unchanged throughout the term of the mortgage loan (unless the customer has effected either a further advance or made capital repayment).

The second step: Select the loan interest scheme

There are several interest rate schemes and eight will be discussed here. It may also be possible to arrange for a cashback sum (*see 'The fifth step' of this document for further information*) to assist with initial expenses or improvements. Mortgages may be arranged using a variety of different interest rate schemes. The principal schemes are listed here. Not all may be available at any particular time. Some have a pre-set period, such as 1, 3 or 5 years.

As property transactions take time to complete, there will be occasions when it is impossible to place an 'order' for a particular interest rate scheme and a suitable option may be lost. Usually, another similar scheme will be available – possibly with a different lender.

A. Variable Rate Scheme

THIS is the normal method of charging for the money borrowed from a mortgage lender. As (national) interest rates change, a lender will announce its rates will vary – up or down – and the rate will change after a notice period.

- Lenders do not normally charge arrangement fees for variable rate loans.
- Early redemption charges (for early settlement) are not normally applied.
- This type of mortgage interest offers the greatest flexibility but does not allow a borrower to budget precisely in the short to medium term.

B. Discounted Variable Rate Scheme

THIS scheme gives a borrower a guarantee that for a given period of time the normal variable interest rate will be reduced by a specified percentage.

- As an example, if the current interest rate is 6.5% and the discount rate scheme is discounted by 2%, then the borrower will pay 4.5%. However, if interest rates rise by 1% then the applied rate would also rise, in this case to 5.5%. If interest rates fell by 1.5%, the discount rate scheme would fall to 3% being 2% below the new rate of 5%.
- Using a discount rate scheme will reduce a borrower's outgoings for a fixed period; this is particularly useful when starting a new mortgage or re-mortgage when initial expenditure (eg, building alterations, redecoration costs) is high.
- The reduction in interest is a genuine saving.
- An application fee and/or an arrangement fee is usually

required when setting up this type of scheme.

- An early redemption charge usually applies if a discount rate scheme is ceased during or after the discount period. This normally takes the form of a charge related to a number of months' interest. Charges usually apply for a time after the set period.
- When the discounted rate period expires, the borrower will revert to the normal variable rate scheme at the prevailing interest rate.

C1. Capped Rate Scheme

THIS scheme gives a borrower a guarantee that for a given period of time the applied mortgage interest rate will not rise above a 'cap' or ceiling rate for a period of time.

- If underlying interest rates vary downward, then the rate applied does fall.
- If underlying interest rates move upward, the new rate will not exceed the cap.
- The reduction in interest is a genuine saving.
- An application fee and/or an arrangement fee is usually required when setting up this type of scheme.
- Early redemption charges usually apply if a capped rate scheme is ceased during or after the set period. This normally takes the form of a charge related to a number of months' interest. Charges usually apply for a time after the set period.
- When the capped period expires, the borrower will revert to the normal variable rate scheme at the prevailing interest rate.

C2. Capped and Collared Rate Scheme

THIS is a variation of the capped rate scheme where a borrower is given a guarantee. For a given period of time the maximum and minimum interest rate will not rise above a 'cap' (upper ceiling rate) or fall below a 'collar' (lower interest rate) should interest rates vary during the period of the scheme.

- If underlying interest rates vary downward, then the rate applied falls only as far as the collar. Fully variable rates could fall below the collar. If underlying interest rates move upward, the new rate will not exceed the cap.

- An application fee and/or an arrangement fee is usually required when setting up this type of scheme.

- Early redemption charges usually apply if a capped and collared rate scheme is ceased during or after the set period. This normally takes the form of a charge related to a number of months' interest. Penalties usually apply for a time after the set period.

- When the capped and collared period expires, the borrower will revert to the normal variable rate scheme at the prevailing interest rate.

D. Fixed Rate Scheme

THIS scheme gives a borrower a guarantee that for a given period of time the applied mortgage interest rate will be fixed and unaffected by either rises or falls in underlying interest rates.

- A borrower is able to budget for mortgage costs for a fixed period of time, certain that mortgage outgoings cannot change until the fixed rate period expires.
- If interest rates fall during any fixed period, then a borrower

could be paying a higher rate than those on a fully variable rate scheme.

- The lender will not repay any interest charged above the current variable rate to a borrower.
- An application fee and/or an arrangement fee is usually required when setting up this type of scheme.
- Early redemption charges usually apply if a fixed rate scheme is ceased during or after the set period. This normally takes the form of a charge related to a number of months' interest. Charges usually apply for a time after the set period.
- When the fixed period expires, the borrower will revert to the normal variable rate scheme at the prevailing interest rate or may be offered a new fixed rate.

E. Flexible Mortgage

THIS type of mortgage allows the borrower more control over the payment made to the lender. The minimum will be the amount necessary to cover the interest at the prevailing rate. However, to clear the debt a greater sum will be required. This may be funded from annual bonuses, a second income or regular payments greater than the minimum. Caution is urged.

- Overpayments may be drawn down for use as cash when needed – a wedding or school fees are suggestions.
- The outstanding balance is calculated either daily or monthly, etc.

- This arrangement is likely to be of greater value and offer more flexibility to those with higher incomes or to those who have significant control over their earnings. Those who are company directors or business partners may benefit most.

F. Tracker Mortgages

A tracker mortgage is a variable rate mortgage where the interest 'tracks' another rate or index, ie the Bank of England base rate, at an agreed rate, or the lenders Standard Variable Rate. For example:

- A base rate tracker mortgage which sets out your mortgage at 1% above the Bank of England's base rate, sometimes for a limited period, sometimes for the life of the mortgage.
- You pay a rate that follows an independent interest rate throughout the tracker period.
- Often allows more flexibility by having no tie-ins or early repayment charges, so you are free to change mortgages or pay off lump sums at will.

G. Offset and Current Account Mortgages

There are both automatic forms of the flexible mortgage (ie overpayments are automatically used to reduce the mortgage loan, even for short periods). With an Offset mortgage the customer usually has three separate accounts for their mortgage, savings and current

account from one provider, with differing interest rates applying to each. Positive balances in either the savings or current account are offset against the negative balance on the mortgage account. Interest is usually calculated daily.

With Current Account Mortgages the customer has one account (a current account) in which the customer's salary and savings are paid, and the mortgage loan debited. Therefore, excess income and savings over outgoings reduces the mortgage loan.

With both:

- Unlikely to be charged for arranging the mortgage, or for any early repayment charges.
- These types of mortgage usually have less choice regarding the rates available compared with other types of mortgages. The advantages of flexibility and debt reduction may more than offset the lack of access to reduce interest rates.
- Extra benefits, like payment holidays and the ability to make overpayments and flexibility to withdraw them later.
- These types of mortgage should only be considered if you are disciplined with your money, as borrowing on overpayments could put you in financial difficulties with the secured loan.

The third step: Some essentials to understand

A vital section which is intended to help you to prepare for your financial commitment. It also explains what happens if certain things go wrong.

1. Failure to pay the lender

The consequences of failure to meet the conditions of any mortgage or loan are important. In particular, please remember the warning “**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**”. Accordingly, you are reminded that:

- If you fail to make regular repayments to the mortgage lender in accordance with the terms of your contract with that lender, you will first be warned of the arrears (and sent the FSA information sheet on mortgage arrears) and then, in due course, the lender may apply to repossess the property.
- The legal and other costs associated with repossession will be payable by you to the lender together with the outstanding mortgage amount and, if applicable, the amount of negative equity resulting from a forced sale.
- Any order for repossession or notifications of arrears to credit reference agencies could adversely affect your creditworthiness in the future.
- If you have selected an Interest Only Mortgage, the lender will expect you to make arrangements so that, at the end of the term of the mortgage, you will have a capital sum available with which to pay off the loan.
- For Interest Only Mortgages, a separate contract will provide you with benefits and rights but these are conditional upon maintaining regular premiums or contributions. If you fail to meet the obligation to pay regular premiums or contributions then there may be an insufficient sum available to repay the mortgage lender at the end of the term. If, during the term, the lender should

become aware of any lapse in the elected method of loan repayment, separate action could be taken by the lender in accordance with the lending terms.

2. Credit reference agencies

THE lender will pass details of your mortgage transactions to various credit reference agencies. This is not an option. You will have agreed to this condition as part of the mortgage lender's agreement. You may access your own record on payment of a very small fee. You must remember that:

- If you owe money and do not make repayment, you may be taken to court so that the money can be recovered. If the person or organisation suing you is successful in securing a county court judgement – a CCJ – against you, the legal costs will also be payable by you.
- CCJs can arise if, for example, you do not pay your parking fines, water and local authority charges, suppliers or credit card companies.
- If any court records a debt against you, the record will remain on your credit rating agency file for six years or more and may adversely affect any new application for credit, including a mortgage.
- New mortgages invariably attract higher interest terms for those with a history of previous CCJs.

3. A change for the worse...

BAD news with your general circumstances may have adverse financial consequences although help and assistance may be available to you if you ask.

- Some potential problems may be insurable – for example property loss because of fire; death, critical illness or

involuntary unemployment of a breadwinner, particularly during the term of a mortgage. It is unlikely that every possible contingency is insurable.

- The lender may be able to restructure your mortgage.
- The breakdown of a relationship or a divorce may lead to the (forced) sale of any property held in joint names. However, your legal adviser may give you formal advice about this before you make a mortgage commitment.
- In some cases, the state may assist with mortgage interest payments. However, there is no support for the first 9 months of income loss. Even then, means testing is normal. Insurance contracts, such as MPPI cover, may replace lost earnings one month after making a claim following sickness, involuntary unemployment or an accident. If you have been with the same lender since October 1995, you may be entitled to additional support with your mortgage interest payments.

4. Early repayment charge

You should be aware that the early repayment charge of a mortgage or the early surrender of an investment might result in you losing money.

- For example, early repayment of a fixed rate mortgage might mean that early repayment charges would apply.
- Similarly, the early surrender of either a with profits or unit linked endowment policy may result in you receiving less than you might have expected or less than you have paid in premiums or even no return at all.

5. The end of a discounted period

AT the end of any discounted, capped or fixed rate period, the mortgage interest rate normally

reverts to the prevailing variable rate which might be substantially higher than the discounted, capped or fixed rate and would therefore involve substantial increases in your monthly payments.

- There may be financial penalties if you do not stay with your lender for a certain length of time **after the end** of the discounted, capped or fixed rate period.
- Flexible mortgages (including offset/current account mortgages) do not attract such penalties.

6. The Annual Statement

EVERY year, your lender will provide you with an Annual Statement. This document will remind you of the current debt and of any payments made during the year to date. It is also usual for a provider (of a savings plan) to issue a Report on a regular basis.

- Your adviser is not responsible for either the issue or the content of either document.

7. Costs, Valuations and Fees

TAKING out a mortgage is very commonplace nowadays but it is still a costly exercise. A borrower must be prepared to pay legal fees, valuation fees, surveyor's fees, arrangement fees, as well as insurance premiums. In addition, many properties are subject to Stamp Duty Land Tax.

- Further, early repayment charges for an existing mortgage may be payable to the (previous) lender.

8. Freehold & leasehold

In England, Wales and Northern Ireland, property can be held "freehold" or "leasehold". In Scotland, all residential property is held freehold.

- "Freehold" means that both the building and the land it stands

on is owned until such time as the owner sells it or dies.

- "Leasehold" means that the land on which a building stands is not owned outright by the buyer. Instead, it is leased from the person who owns the freehold rights at a nominal ground rent. At the end of the term, the land and the buildings(s) on it revert to the freeholder.

9. Higher Lending Charge

A Higher Lending Charge is applied where the ratio of borrowing value to property value is high.

The borrower pays the premium but the lender claims the proceeds of the insurance contract if a property is repossessed or sold for less than the value of the outstanding mortgage.

- A higher lending charge will not protect the borrower in any way, save to reduce the lender's potential civil claim for debt. The borrower will still be liable for any remaining sums owed, any arrears, interest and the lender's legal costs.
- The insurer may also seek to recover from the borrower the amount paid out to the lender.
- Remember, upon claim, payment is made to the lender, never to the homeowner.

10. An agreement is for a specific property only

MORTGAGE agreements refer to a particular security (property). Such contracts are not transferable to a new property.

- Some insurance contracts, savings policies, life assurances, critical illness, sickness and accident and PHI contracts are normally transferable (as they are not property-dependent) but contracts, such as buildings insurance, which relate to a particular property, must be re-negotiated.

- A lender may offer to continue your selected mortgage terms if you move house. For details of such arrangements, you must examine the lender's documentation or contact the lender.
- You must be aware that if a early repayment charge applies (a charge for ceasing a contract which has a time duration such as a rate of interest guaranteed for a specified number of years) this charge will apply even if the same lender is used for a new property.

11. Windfall payments?

IN RECENT years several mutual organisations, both lenders and insurance companies, have either demutualised or been taken over by another company. If you are an existing member of a mutual society, you may be entitled to windfall payments should the society vote for an alteration to public company status or be taken over. If you decide to cease being a member of a mutual society, either because you are redeeming your mortgage, surrendering a with-profits policy or closing a savings account, you must take responsibility for any loss of future windfall payments.

12. Property values fluctuate

PROPERTY values, like other investments, may fall as well as rise. Therefore, it is possible for your mortgage (debt) to exceed the value of your property. Such a possibility is less of a problem if you do not have to sell and are able to ride out the storm.

If you feel unable to accept this risk – because, for example, you are aware of impending job relocation then the potential liability needs to be discussed before proceeding further.

13. Valuing your property

LENDERS insist upon a valuation to make sure that the mortgaged property is a suitable security for the loan. This is only part of the story. There are three main kinds of valuation and all purchasers should seriously consider taking an option which is better than the cheapest, and basic, lender's valuation. Consider these options:

Cost: £ moderate £££££ higher

Lender's valuation £

THIS valuation is intended for use by the lender only. The borrower does not normally receive a copy. It is short and gives detail of any obvious defects together with an opinion of the property valuation and whether this represents adequate security against the proposed loan.

- The valuer represents the lender not the purchaser.
- The purchaser has no access to the valuation or any comments contained in the report.
- The valuation is not intended to locate or to disclose general faults.

Homebuyer survey £££

THIS is suitable for most houses and is tailored to the purchaser's needs. It will give information on the general condition of a property and will indicate any matter which may have an effect upon the property's value. It will assess defects of an obvious or significant nature and may suggest the cost of rectification. The valuer will give the approximate cost of reinstatement for insurance purposes.

Building survey £££££

THIS is for purchasers who require a thorough and detailed property survey, incorporating every item of the Homebuyer Survey together with an assessment of the construction and costs to make repairs or improvements. The purchaser normally instructs the surveyor as to his needs and intentions for the property.

14. The value of insurance: protection against disaster

INSURANCE contracts could protect you from many – but not all – unforeseen circumstances. This is a reminder of the generic cover that may be available to you. Your adviser will provide further information.

Insurance contracts do vary considerably. This is not an advisory list, merely an *aide-memoire* to be read whilst considering your new mortgage.

You will be required to maintain a fire and other perils policy on mortgaged property.

Often this policy is issued (but charged to your account) by the lender. If this policy is arranged by the policyholder or his adviser, the lender may charge an upfront fee to cover administrative costs.

These are some of the more common contracts which might suit your requirements:

Home Buildings Policy

- This is an essential cover, which is often provided (at a charge) by the lender. It pays upon loss by fire or other perils.

Home Contents Policy

- This is a very wise precaution against loss by theft, flooding (inc water pipes, leaking roofs, etc) and other perils.

Mortgage Payment Protection

- This is an inexpensive, short-term contract (typically one year) which may be set up to provide a range of cover against potential problems including redundancy and involuntary unemployment. It is highly recommended for all borrowers.

Permanent Health Insurance

- This is a policy written on the life of the insured (voluntary and involuntary unemployment are not covered) which may pay a claim for loss of income because of illness until

retirement or an earlier return to work.

Life Assurance

- This is a life policy which pays a capital sum upon the death of the policyholder within the term of the contract. *It may be set up to pay an income as a cheaper alternative.* It is prudent to arrange life assurance, irrespective of the type of loan, to repay the outstanding borrowing should any party die before the loan is repaid.

Critical Illness Contract

- This is another form of life policy which pays a claimant a capital sum upon diagnosis of one of a number of specified illnesses (cancer, stroke, heart disease, etc). It is prudent a borrower arranges this cover to repay the outstanding loan in the event of the borrower/s serious or long term illness.

15. Mortgages are complex! Retain your documentation safely

PURCHASING a house is a complex transaction and is probably the largest financial purchase you will make. There are likely to be a number of documents and information sheets, often cross-referenced: please read the documentation carefully. You must keep policy documents in a safe place.

Property deeds are not given to or held by borrowers: the lender retains possession as legal security for the loan. It is worthwhile making a good copy of documents stored by banks and lenders.

16. Affordability in retirement

IF the term of the loan you are taking out extends beyond your expected retirement age, consideration should be given to whether or not the commitment will be affordable in retirement bearing in mind your likely (reduced) income.

The fourth step: A self-check

Only you and your spouse/partner may realistically consider the questions raised in this section. ***This checklist is for your use only and may help you to identify potential problems. You may wish to tick the appropriate boxes (shaded or otherwise) in answer to the questions***

Income and expenditure	YES	NO	MAYBE
EMPLOYMENT Is this likely to be secure for the foreseeable future?			
EMPLOYMENT STATUS Will changes occur (eg, promotion/end of training)?			
ANOTHER MOVE Will employment possibly require a move soon?			
INCOME Is a joint income needed to support the mortgage costs?			
SALARY/WAGES Will your earnings be sufficient for the required borrowing?			N/A
EXPENDITURE Is this likely to remain stable – particularly not rise?			
EXISTING SAVINGS Have you any which could reduce mortgage needs now?			N/A
EXTRA FUNDS Will new cash be needed for anything in 3 to 7 years?			
NEW ASSETS Are you likely to benefit from any gifts within 3 to 7 years?			
Your family (a major consideration)	YES	NO	MAYBE
MARRIAGE/PARTNERSHIP Is this sufficiently stable for this new commitment?			
PARENTAL SUPPORT Are you receiving financial help at the moment?			N/A
CHILDREN Are additions being considered in the near future?			
PRIVATE EDUCATION Are you considering this for your children?			
OLDER CHILDREN Will they need substantial cash help in the near future?			
ELDERLY PARENTS Are they likely to need your help (cash or housing)?			
Financial matters	YES	NO	MAYBE
EARLY REPAYMENT CHARGES Are there any penalties on the existing mortgage?			N/A
NEGATIVE EQUITY Is there any in the present property?			N/A
CREDIT PROBLEMS Have you any CCJs registered against you?			N/A
HP, LEASING, CARD DEBTS Have these been fully disclosed?			N/A
LENDERS Have you any preferences with regard to lenders?			N/A
FIXED RATE MORTGAGE Is this a preference for the next 3 to 5 years?			
CASHBACK Will one be needed to help with early costs?			
NEW EARLY REPAYMENT CHARGES Would these be acceptable to you?			N/A
ENDOWMENT POLICY Do you already have a policy(s)?			N/A
MORTGAGE PAYMENT PROTECTION Do you think you need such a policy?			
LETTING Are you intending to let all or part of the new property?			
BUSINESS Will the new property be used for a business purpose?			
Only consider if self employed or a controlling director	YES	NO	MAYBE
ACCOUNTS Will your business accounts support the new purchase?			
BUSINESS CREDIT Is this likely to be a problem (eg, CCJs)?			
SELF-CERTIFICATION Is this likely to be required?			

If any shaded boxes have been ticked, there may be questions that should be discussed with your adviser NOW so that potential problems might be avoided.

The fifth step: Some terminology may need explanation

This list is not intended to be exhaustive but mentions various terms in common usage

Additional mortgage

THIS is the term applied to a further mortgage advance on the same property, usually negotiated through the lender holding the first charge.

Bridging loan

THIS is a temporary loan which may be required to cover a period before long-term finance can be put in place. It may be used, for example, when a vendor owning two properties wishes to sell them to purchase a third utilising some or all of the proceeds of the original two.

- Bridging is also applied where a purchaser is unable to sell a property in time to meet the requirements of the vendor of the new property or of a “chain” attached to the property.
- Banks are not inclined to offer borrowers *open* bridging (ie, no definite dates available) unless it is adequately covered by other assets.
- The interest rates are usually higher.

Cashback

THIS is an incentive offered to borrowers by some lenders which may prove useful as the payment may be used for any purpose.

- The borrower may have to pay a higher rate of interest for this benefit.
- If the loan is redeemed within the early years, the cashback usually has to be repaid *in full*.

Endowment mortgage (low cost)

THIS is a method of repaying your mortgage debt. The term “endowment” refers to an insurance policy commonly connected to a mortgage.

A low cost endowment policy is a savings plan designed to attain

a capital value projected – but not guaranteed – to repay an interest only mortgage at its maturity or to pay a sum assured in the event of a claim (usually death but increasingly, with an extra cost option, ie, upon diagnosis of a critical illness). Almost all endowments are packaged as “low cost endowments”.

The proceeds of the endowment policy will only repay the full mortgage debt at the end of the borrowing term if the policy conditions have been adhered to, if the maturity date of the policy coincides with the mortgage maturity date, if the sum assured is equal to or greater than the mortgage debt and if the actual performance of the savings element of the policy is equal to or greater than the projected performance.

- In the event of the death of the policyholder before the maturity date, the endowment policy will pay out the sum assured which may be used to pay off all or part of the debt.
- Although the endowment policy is projected to provide sufficient capital at the end of the term to meet the capital debt advanced by the lender, there are no guarantees that it will do so.
- It is normal for the insurance company to check the rate of growth during the term of the policy. If the savings element of the policy does not grow in line with projections, the policyholder(s) is warned and suggestions are made to increase premiums.
- Whilst this is not the primary purpose of an endowment policy, insurance companies sometimes incorporate a potential savings surplus into contracts which may result in a small cash surplus at maturity.

- Additional benefits, such as Waiver of Contributions if ill or disabled, may be available from some, but not all, insurance companies at extra cost. A small number of insurance companies will also offer, at extra cost, Mortgage Interest Benefit which provides for the lender’s interest payments to be paid in the event that the policyholder becomes ill or disabled during the life of the policy.
- Another additional benefit, ‘Critical Illness Insurance’ is increasingly common and pays a lump sum to the policyholder upon diagnosis of one of a number of major diseases or medical conditions. All or part of the outstanding debt is normally settled with such proceeds.

Endowment mortgage (low start)

THIS is a method of repaying your mortgage debt. The term “endowment” refers to an insurance policy commonly connected to a mortgage.

All the above points relating to a low *cost* endowment also apply to a low *start* endowment. However, there is also one important difference between the two contracts and this is explained below. It should be noted that **low start endowment policies should only be started following a thorough understanding of the policy terms.**

- The starting premium for a low *start* endowment policy is less than that for a low cost endowment policy which means that the policy might be useful if costs associated with the mortgage have to be kept to a minimum during, typically, the first 5 years of the mortgage. The low *start* endowment policy is packaged so that the (low) premiums paid during the

early years meet the cost of providing life cover with very little going into the savings element.

- The premiums then rise steeply, typically by 20% year on year for the first 5 years, at which point the peak premium is greater than the equivalent level premium of a low cost endowment policy. The steep increases are necessary in order that more money can be put into the savings element to make up for the lost investment time in the early years.
- A low start endowment policy is not recommended for use except by financially aware clients or those who are able to demonstrate a career path with definite or likely income increases. Values (and early surrenders) in the early years are very poor compared with low cost endowments.

Foreign currency mortgage

THIS is a loan taken out by a UK based borrower using a foreign currency rather than sterling. Possible benefits include taking advantage of lower interest rates and potential exchange rate gains.

- Equally, losses and reversals are possible and this type of arrangement is suited only for the financially aware borrower.

Lifetime Mortgages and Home Reversion Schemes

THIS are specialised mortgage schemes, which are usually only appropriate for older homeowners who have little or no remaining mortgage.

- Lifetime Mortgages are split into 2 different types (Interest Only or Roll-up Mortgages).
- For all Lifetime Mortgages, you take out a loan secured against the value of your home
- For Home Reversion Plans, you sell all or part of your home to a lender at less than its current value.

- Interest-only – you only repay the interest monthly not the capital to the lender, you do not repay the debt until you die or sell the property. Providing you pay the interest each month the debt remains the same.
- Roll Up – you do not pay the interest and it rolls up until you die or sell the property. The debt increases.
- Upon death, the property is usually sold in order to meet the debt owed to the insurance company. Any surplus is payable to other beneficiaries.
- This is a specialised field and may not be suitable for everyone.

Pension mortgage

THIS is a method of repaying an interest only mortgage debt by using all or part of the tax free cash available when the borrower/pension plan holder takes benefits at retirement at any age after 55, but more usually between 60 and 65. Pension income does not have to be taken when tax-free cash is taken.

- This method of raising capital is tax-efficient as the underlying pension policy is funded from contributions which receive tax relief at the policyholder's highest marginal rate of tax.
- A pension linked mortgage is not normally suitable for the employed who are in a company pension scheme and is better suited to the financially aware as the advantages/disadvantages must be fully understood.

ISA (Individual Savings Account) mortgage

THIS is a method of repaying your mortgage debt by using a savings contract which can receive either regular or lump sum contributions. The proceeds from the fund which has been built up can be used to repay the debt.

The contract does not include life cover and the borrower

should therefore make arrangements to take out a separate insurance policy which would pay out the sum assured in the event of the death (or critical illness) of the policyholder during the term of the policy.

- An ISA is a savings and investment product with a favourable tax status. Funds grow almost free of taxes and the growth and income is tax free in the hands of the investor. Contributions are paid from after-tax income.
- The government has imposed limits on the amounts which can be invested annually into ISAs (£11280 for tax year 2012/13 with a proposal that this limit goes up in line with inflation for future years)

Remortgage

THIS term is applied to a mortgage when a new contract (or agreement) replaces an existing contract on the same property.

- It is **not** a remortgage if an existing borrower sells mortgaged property "A" (any existing mortgage has to be settled upon completion) and purchases property "B" – with the same or a different lender.

Nominal returns - The income or capital growth generated by an investment.

Real returns - The nominal return after taking account of inflation.

The factors influencing:-

- **Inflation, Mortgage interest rates and Growth rates** - How well the economy is performing, Government borrowing requirements, exchange rates and international economies.