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Mortgages and Remortgages - Which One Will Suit My Circumstances?

If you're using a mortgage to buy your home but are not sure which one will suit your needs best, read this handy guide to mortgage types in the UK. Taking out a mortgage has never been easier.

Fixed Rate Mortgages - the lender will set the APR (Annual Percentage Rate) for the mortgage over a given period of time, usually 2, 3, 5, or 10 years as an example. The APR for the mortgage may be higher than with a variable rate mortgage but will remain at this 'fixed mortgage rate' level, even if the Bank of England raises interest rates during the term of the mortgage agreement. Effectively, you could be said to be gambling that interest rates are going to go up, above the level of your fixed rate mortgage interest rate. If this happens, your mortgage repayments will be less than with a variable rate mortgage.

Variable Rate Mortgages - the lender's mortgage interest rate may go up or down during the life of the mortgage. This usually happens (though not exclusively) soon after a Bank of England interest rate change. Most people consider that opting for a variable interest rate mortgage is best done when interest rates in general are likely to go down. They can then take advantage of these lower rates when they occur. It's a bit of a gamble but if they are right, it could really work in their favour.

Tracker Mortgages - have a lot in common with variable interest rate mortgages in that the APR of the mortgage can go up or down over the term. The key difference between a tracker mortgage and a variable interest rate mortgage is that the lender will set a margin of interest to be maintained above the Bank of England base lending rate. So, as the Bank of England, in line with monetary policy, raises or lowers the base lending rate of interest, so the tracker mortgage interest rate will follow. Over the lifetime of the mortgage, it could be said that the borrower will neither be better off nor worse off because of interest rate fluctuations.

Repayment Mortgages - you will be required to pay a proportion of the capital element of the mortgage (how much you originally borrowed) together with a proportion of the interest that will have accrued on the capital element, with each monthly repayment. In recent years, repayment mortgages have become highly popular over the previous favourite - endowment mortgages. This is because, unlike endowment mortgages, as long as you keep up your monthly repayments, you are guaranteed to pay the mortgage off at the end of the agreed term. Monthly repayments may possibly be a little more expensive but many borrowers say that at least, they have peace of mind.

Interest Only Mortgages - very common amongst borrowers who are looking to secure a second property. The reason being, with an interest only mortgage, the borrower will only be required to make monthly repayments based on the interest element of the mortgage. The lender will require the capital element to be repaid at the end of the term of the mortgage. Again, as with variable rate mortgages, this could be regarded as being a little bit of a gamble because the borrower is hoping that the property will be worth at least as much at the end of the term of the mortgage, as it was at the beginning, allowing it to be sold and the capital element of the mortgage to be paid off. Any capital gain on the property (although possibly subject to tax) is yours. It could be argued that experience tells us that property prices rarely go down in the long term, but it can never be guaranteed.

Capped Mortgages - a combination of the fixed rate mortgage and the variable interest rate mortgage. A cap or ceiling is fixed for a set period of time. During this period, if interest rates in general rise, above the capped interest rate, the borrower will not pay anything above the capped level. Correspondingly, if interest rates fall, then the rate of interest charged by the lender, will also fall so it could be argued that the borrower gets the best of both worlds. It could also be said that a capped rate is like having a set of brakes on your mortgage, but beware, the lender is also likely to charge a redemption penalty on this type of mortgage, making it less portable than some of the other options available.

Discounted Rate Mortgages - here, the lender may offer a reduced level of interest to be charged over a set period at the start of the mortgage term. Many first time buyers or people who expect their salaries to rise considerably during the discounted rate period opt for this type of mortgage but it should be noted that the reduced rate period will come to an end and when it does, the monthly mortgage repayments to the lender may rise sharply. The lender may also charge a slightly higher rate of interest compared with other types of mortgage over the rest of the term of the loan in order to recoup the monies that they have foregone during the discounted rate period. There's no such thing as a free lunch!

Offset Mortgages - an interesting newcomer to the UK mortgage market, although still comparatively rare in terms of choice and availability. The mortgage is linked to the borrower's current account. Every month, the minimum mortgage repayment is paid to the lender but where there is a surplus of cash in the account after other uses and debts have been paid, this is also paid to the lender. Over the months and years, the borrower can potentially pay off their mortgage much quicker and have accrued much less interest than with other types of mortgage provided that a reasonable surplus is maintained in the current account.

So, to sum up, the UK mortgage market has many types of mortgage; any or all of which may be open to the potential borrower, dependent on their circumstances. If you're looking to take out a mortgage, remember that whilst your broker will take care of the vast majority of the work on your behalf, it may still take around 3 months to complete as there is an enormous amount of work that goes on behind the scenes with solicitors and searches, valuations etc. At least now you're armed with all of tehinformation you need on each type of mortgage available to you.

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