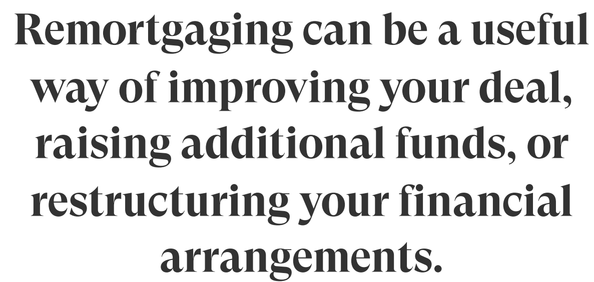
A Short Guide to Remortgaging



Remortgaging can be a useful way of improving your deal, raising additional funds, or restructuring your financial arrangements.

In this guide, we look at how it works, when it might be a good idea, and the risks you should consider.

HOW THE PROCESS WORKS

If you switch to a different deal with your own provider, the process will usually be seamless and straightforward.

If you decide to move to a different lender, there are a few more steps involved.

The new lender will carry out a credit check to assess your ability to repay the mortgage. It's worth checking your own credit score, which you can do online for free. This will give you an indication of how lenders may view your credit history, and give you time to improve your score if you need to.

The lender will also need to consider affordability, so expect to provide proof of your income (such as payslips or a copy of your tax return) and details of your essential expenditure.

You may need to have your home valued, although depending on the property, a 'desktop survey' might be sufficient. This means that a surveyor assesses the market value without actually visiting the property. You may need to pay for this, or the cost might be bundled within the overall cost of your mortgage deal.

You will also need a solicitor to sort out the conveyancing side of things. Your lender will usually have a preferred solicitor, although you can appoint your own if you wish. Again, the costs may be covered by the lender, or could be in addition.

Most lenders offer the option to incorporate fees into the amount borrowed. This can seem like a relatively painless option, as an extra £1,000 or so in borrowings won't significantly increase your monthly payments. But remember, you will be paying interest on those fees for the duration of the mortgage term. Once you add this up, paying fees at outset can be a more attractive option.

GETTING A BETTER DEAL

You might also find that your home has increased in value, while your existing mortgage balance has reduced. This means that your 'loan to value' requirements are lower, and you could qualify for a better rate than you received previously.
If you took out a 25 year mortgage for £200,000 on an interest rate of 3%, your monthly repayments would be around £950.

However, based on an interest rate of 1%, your repayments would reduce to £754. The extra £196 per month could be put to better use, such as topping up your pension, clearing other debts, or even repaying your mortgage more quickly.
Price comparison sites can give an indication of interest and repayments, but they don't always show every provider, or the likelihood of you being approved.

Remember, every unsuccessful application shows up on your credit report, and could affect your eligibility in the future.

A mortgage adviser can help you navigate the options and find the best deal.

HOME IMPROVEMENTS

You may also be able to borrow against the value of your home to undertake improvements. There are a few things to consider first:

- Will the improvements increase the value of your home?
- How will the additional borrowing affect your loan to value, and will this mean a higher interest rate?
- How long do you intend to live in the property?
- Can you afford the repayments, even if interest rates rise or your circumstances change?
- Are there other methods of borrowing that could be cheaper in the long-term, for example a personal loan or interest-free credit with the contractor? These options might appear more expensive, but will be cleared more quickly, ultimately saving money.
- Do you actually need to borrow? You might be able to pay for the work through savings and shopping around for the best deals.
- Would moving to a new home solve the issue?

Borrowing more on your mortgage can be risky, so you need carefully think through the options, seeking advice if required.

CONSOLIDATING OTHER DEBTS

If you have expensive debts that are causing you stress, it may be tempting to consolidate them with your mortgage. On the one hand, this is likely to reduce your monthly outgoings.

But it also means that you will be paying interest on your debts for longer, probably spending more in the longer term.

Consolidating debts will also increase your borrowings, without adding any value to your property. Some lenders assess the criteria differently when you are borrowing for this purpose, and you might find it more difficult to get approved.

If you are struggling with debt, the Money Advice Service can give you some tips, including where to go for further advice.

CHANGING THE TERM OF YOUR MORTGAGE

You may also want to change the term of your mortgage.

An earlier repayment date means that you will pay less interest over time, and will be debt-free more quickly. It also means that your monthly repayments will be higher, which could put you under pressure if rates increase or your income drops.

A longer repayment term can give you more flexibility, particularly if you are borrowing a higher amount. But this will be more expensive over the term of the mortgage, and it may affect your retirement plans.

Another option is to stick with the existing term, but make overpayments when you can. This retains flexibility, while still reducing your total costs. Most lenders will allow you to make penalty-free overpayments up to a certain percentage of the original loan.

REPAYMENT OR INTEREST ONLY?

If your existing mortgage is on an interest-only basis, this means that the capital value of your borrowings are not reducing. You will need to repay your mortgage by other means, for example from savings or by selling the property.

You can usually convert your interest-only mortgage to repayment, which means that you will be chipping away at the capital as well as servicing the interest. This is a less risky option, although your monthly payments will usually increase.

Converting a repayment mortgage to interest-only is a bit more complex, but could suit your requirements if you need to temporarily reduce your outgoings. Borrowing criteria will be even more stringent, and your lender will want to know how you intend to repay the capital. This can be a risky move, particularly if you are relying on investment returns.

It's worth seeking advice around your mortgage options.

Please don't hesitate to contact a member of the team to find out more about your mortgage options.

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