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wattmoney

CAN YOU MOVE YOUR MORTGAGE?

Options for those who have found their next home.

If you are in a position to upsize or pay off more of an existing mortgage, make sure you understand the small print first.

One might expect the property market to dampen considerably now the stamp duty holiday has ended. But while the number of transactions dropped off significantly after the first deadline, house prices still rose 2.1% in August.

Mortgage activity also remains strong – approvals are up 28% so far in 2021, compared to the equivalent period in 2019.

More space in the home and garden are bigger priorities for many, prompting swathes of people to consider a move.

If you are among those thinking of upsizing, or even just reviewing your financing options, it's important to understand the constraints attached to your current mortgage.

Sometimes you may be free to do what you want, but often there will be penalties for overpaying, early repayment or moving the mortgage to a different property.

To help you understand your options, we'll take a look at the features of some of the main types of mortgage.

FIXED-RATE MORTGAGES

If you currently have a mortgage, the chances are it is at a fixed rate as this is the most common type of mortgage.

These provide peace of mind that the monthly amount you pay will not change for the initial term. You are protected if interest rates go up, but you do not benefit if they go down.

This valuable benefit does come at a cost; albeit one which most people are happy to accept. The fixed rate tends to be slightly higher than an equivalent tracker mortgage.

The fixed nature of the initial term does also take away some flexibility if your circumstances change.

Scenarios could include choosing to move house, getting a pay rise and wanting to make overpayments, or receiving an inheritance and deciding to pay off your mortgage completely.

Transferring your fixed-rate mortgage to another property (porting) or paying it off completely will normally result in an early-repayment fee. This could be up to 5% of the loan value – a big cost which would need to be factored into your finances.

When it comes to establishing any potential liability, start by either calling your provider or speaking to your mortgage broker.

'PORTING' YOUR MORTGAGE

If you are moving, 'porting' your mortgage might be an option.

This involves transferring your existing mortgage to the new property, although in reality you will be paying it off and restarting it on the same terms (if the lender permits it). Therefore, you may still be subject to early-repayment fees plus other administration costs.

It is not a foregone conclusion that a porting request will be successful. Your lender will reassess your eligibility and may not accept your application if you do not meet their current criteria.

If you are upsizing and need to extend your borrowing, that will need to be agreed. It could raise your loan-to-value ratio and result in an increased interest rate.

On the other hand, your income may have risen, or you can plough extra capital into the new property, and your improved circumstances might cause the lending decision to be seamless, or on better terms.

OVERPAYMENTS

What about if you are not interested in moving, but your income or cash in the bank has risen and you would like to make overpayments on your mortgage?

In most cases with fixed-rate mortgages, you will still face restrictions on doing this. However, it is normal for lenders to permit up to 10% of overpayments per year.

If this is the case for your mortgage, stay within the annual limits and you can pay off extra without incurring penalties.

Given the low interest rates on cash savings, this can be an attractive option. You can make a net gain as your money is working harder for you in paying off the mortgage than it would be in your savings account.

Another benefit is that interest on cash may be taxable if you have no allowances left, so the net value of the interest to you is even lower compared to the interest saving on the mortgage.

In fact, overpaying and increasing the equity in your home may yield a double benefit: accessing better rates at your next renewal if you have gone into a lower loan-to-value band.

It's always wise to ensure you keep enough in cash savings to act as an emergency fund and while paying off your mortgage may improve your interest rate position, it will eat into that cash.

A review of the best interest paying savings accounts may improve what you get, without tying up your rainy-day fund.

SVR & TRACKER MORTGAGES

If you haven't got a fixed-rate mortgage, the two other most likely mortgages you might have are standard variable rates (SVR) and tracker mortgages.

By their very names it is easy to tell that the interest rate on these types of mortgage can fluctuate, although there are some important differences between the two.

A tracker mortgage will have a variable rate; but one that is directly linked to something like the Bank of England base rate. It will often be set competitively as it is one of the lenders' main ways of attracting new business.

Like a fixed-rate mortgage, these are offered for a set period of time, such as two or five years. During this time, there are likely to be similar restrictions to overpayments (such as a cap of up to 10% a year) and early repayment, with breaches of the limits incurring penalty charges.

A SVR mortgage is usually the default product when nothing else is chosen, or when an initial fixed or tracker product expires.

As with default options in other walks of life, like utility bills for example, they tend not to be competitive. Therefore, SVRs are not typically a good long-term strategy as the extra interest payments will be substantial over time.

Lenders can alter the rates, but unlike tracker mortgages are not directly linked to an external factor like the Bank of England base rate. Without direct link, borrowers can be disadvantaged.

However, importantly, they do not normally come with any penalties for overpaying, or paying up early.

This means that if you want to overpay more than 10% per year, know you are coming into money and want to pay off your mortgage completely, or you are thinking of moving house and refinancing, being on an SVR mortgage can be helpful.

OTHER SPECIALIST MORTGAGES

Different types of mortgage are designed for specific purposes. Think buy-to-let mortgages for property investors, for example.

Some are particularly suited to people who have the means to make overpayments: for example, offset mortgages, which link a savings account to the mortgage and allow you to use your savings to reduce the mortgage interest you pay.

This enables you to keep access to your cash savings in the event of an emergency, and pay less interest on your mortgage.

Speak to us for a financial review.

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