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Mortgage Guide

Glossary of Information
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**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP
UP REPAYMENTS ON YOUR MORTGAGE.**

C O N T E N T S

This Glossary is designed to provide you with some essential mortgage information to assist you in your mortgage process. Here at Watts Mortgage & Financial Services, we aim to ensure that our clients are always kept fully informed at all times, and we hope this booklet provides you with all the detailed information you may require.

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1. MORTGAGE PRODUCTS – OPTIONS

Below is an explanatory summary of the various types of products typically on offer in today's market place. Please ask for any further clarification if required:

- The term "**variable interest rate**" means the standard interest rate charged by the lender that may be varied from time to time at the lender's discretion. Changes to the Bank of England base rate can impact upon this rate.
- The term "**fixed interest rate**" means that the interest rate is guaranteed to remain unchanged for a specified period. Upon expiry of the fixed interest rate period the interest rate applicable to your mortgage will usually change to the variable rate prevailing.
- The term "**discounted interest rate**" means the rate charged after a specified discount has been applied to the lender's standard variable rate. The discounted rate will apply for a specified period and may increase or decrease as the lender's standard variable interest rate itself increases or decreases.
- The term "**capped interest rate**" means that the interest rate payable on your mortgage is guaranteed by the lender not to rise above a stated level for a specified period. At the end of this period the interest rate payable will be the lender's standard variable rate. If it is higher than the capped rate then your monthly payments will increase.
- The term "**capped and collared interest rate**" means that the interest rate payable on your loan will not rise above or fall below specified upper and lower limits for a specified period. Whilst this will save you money if the lender's standard rate rises above the "cap" rate, it will equally prevent you from saving money if rates fall below the "collar" rate. At the end of the specified period the interest rate payable on your loan will be the lender's standard variable rate.
- The term "**deferred interest rate**" means that for an initial period, the amount of interest payable by you will be less than the standard rate. The difference between the amount that would have been paid and the amount actually paid is added to the original amount of the loan. At the end of the deferral period the monthly payments will increase so as to repay the interest due on the original loan, plus the unpaid interest accrued during the deferral period.
- A "**base rate tracker interest rate**" mortgage offers a rate linked to the Bank of England base rate for an agreed period. With a base rate tracker mortgage, as the base rate goes up or down, so do your monthly payments. When the tracker period ends, your mortgage reverts to the standard variable rate. You need to be sure that you have budgeted for, and will be able to afford, the increased payments at the end of the tracker period.
- A "**flexible mortgage**" offers the facility to make overpayments in addition to your monthly mortgage payments, enabling you to pay your mortgage off quicker and save money in the long term. When an over-payment is made, your mortgage interest is re-calculated immediately, therefore reducing your mortgage cost in the long term.
- A "**cashback mortgage**" offers an initial cash lump sum payable upon completion of the mortgage. The borrower then pays the lenders standard variable rate for a pre-agreed period of time.
- An "**off-set mortgage**" offers the facility to link your mortgage and savings together. By doing this you will not receive interest on your savings and reduce the interest payable on the mortgage amount. Please ask your Adviser for more details on how these schemes operate.

2. METHODS OF REPAYMENT

One of the other main considerations to be made is the way your mortgage is to be repaid:

- Capital and Interest Repayment Method

In essence, this means that your monthly repayment will contain an element of capital in addition to the interest payable on the loan. The proportion of each will change through the term of the mortgage – the amount of capital increasing with each monthly payment, and, provided all payments due are made in full and on time, the loan will be repaid.

- Interest Only Repayment Method

Payments to the Lender represent only the interest due on the mortgage plus any attaching charges such as buildings insurance. Your mortgage balance will not reduce and the full amount will remain outstanding at the end of the mortgage term. The repayment of the loan will take place at the end of the mortgage period by utilising a suitable investment product:

- ISA
- Endowment
- Pension

(Please ask to speak to one of our Independent Financial Advisers for more details on these options)

- Pure Interest Only

On a pure interest only basis, you will still owe the full amount originally borrowed at the end of the term. You will need to have other separate means of raising sufficient capital to repay the loan, from your own resources.

If this money does not become available as expected, it is likely that you will not have the funds to repay the mortgage. Furthermore, it is possible that your property may have to be sold to pay off the mortgage if there is no capital available.

TERMS OF MORTGAGES

Whilst mortgages are commonly arranged for a term of 25 years, there is no valid reason why this has to be the case. A mortgage can be arranged for a minimum term of typically five years and in some instances for a maximum term of 40 years – occasionally even longer. In practice, the longer term of mortgage selected, the lower the monthly repayments will be, but the greater the total amount of interest paid over the whole term.

The main consideration when assessing the term is your ability to repay and it is normally preferable to repay the mortgage before your selected retirement age (unless you have suitable income in retirement to maintain a mortgage). Where a mortgage extends beyond retirement age Lender may ask for confirmation of your projected income in retirement.

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3. TYPES OF VALUATIONS

To allow your application to be finalised, a valuation report will be required. The report will be undertaken by a surveyor, on behalf of the lender to ensure that the property is suitable for the loan requested. This is called a **Mortgage Valuation**.

In addition to the lenders valuation you may wish to have your own survey carried out by a qualified surveyor. This can take the form of a **Home or Flat Buyers report or Full Buildings survey**. This can normally be carried out at the same time as the valuation report done by the lender. **Watts Mortgage & Financial Services Ltd are not valuers or surveyors** and you must make up your own mind as to which survey is most suitable.

Once a valuation has been carried out the Valuation fees are **NON-REFUNDABLE** even if the property down values.

MORTGAGE VALUATION

A valuation inspection is designed to confirm to your lender whether or not the property represents suitable security for the mortgage you want. It might recommend a retention of part of the loan until certain essential repairs are carried out but is based upon a limited inspection and will not give an exhaustive list of defects.

It should not be regarded as a survey report on the structure of your future home.

This report is carried out for the benefit of the lender only. You have no claim against the valuer or lender should the miss any defects with the property.

The price of your valuation will depend on your lender and it is usually linked to the purchase price of the property you are intending to buy.

HOMEBUYERS REPORT

A homebuyers report which is now required for all house sales as from the 14th of December 2007 is a form of report which is designed particularly for properties built since 1900 although in many instances it will be entirely appropriate for many urban Victorian properties especially those of generally standard type built from 1875 onwards. However, all modern properties would benefit from a report of this type.

It is a popular report because it is presented in an easy to read format with standard headings and the minimum technical jargon. It is an economy report and therefore less costly and less detailed than a comprehensive building survey.

The report will enable you to:

Make a reasoned and informed judgement on whether or not to proceed with the purchase of a property.

Assess whether or not the property is a reasonable purchase at the agreed price.

Be clear what decisions and actions should be taken before contracts should be exchanged.

The report also provides a statement as to how much the property should be insured for in order for you to arrange buildings insurance.

BUILDING SURVEY

A building survey is suitable for any residential property and provides a full picture of its construction and condition.

If the property is extensive, has been altered or is in a run down condition then this is the report to opt for, as it has the scope to give you all the information you may need. A Building Survey is a highly detailed report, designed around your specific requirements.

The report will usually comprise of:

A comprehensive appraisal of the means and materials of construction

A technical analysis of significant defects revealed and advice on appropriate further actions

Identification of less significant defects, general disrepair and shortcomings in the physical condition, maintenance and design of the building

Typically a buildings insurance figure is not part of the standard report but can usually be included for a small additional fee.

All of the above comments are provided as a guideline only, and for further detailed advice on survey reports you should always contact a qualified Surveyor.

Please note that property prices fluctuate according to market conditions and the value of your property may go down as well as up. In future, this could mean that your mortgage loan exceeds the current market value of the property

4. LEGAL PROCESS

When buying and selling a home it is important to choose the right solicitor, and the right firm to represent you with your house move.

The conveyancing process whilst relatively straightforward does require a certain level of experience. It is imperative that an experienced Solicitor handles the conveyancing process of buying and selling your property professionally and efficiently. If you do not have a Solicitor we can provide you with details of Solicitors within your local area.

The main conveyancing stages are listed below:

- Instruct a Solicitor** – we can instruct on your behalf
- Legal Searches**
 - Land Registry Search
 - Local Search
 - Brine Search
 - Bankruptcy Search
 - Mining Search (if required)
 - Other Searches may be applicable

In order to start the conveyancing process your Solicitor will require payment of search monies. We normally recommend that you do not pay your search fees until you have received your mortgage offer from the lender, these fees are not refundable if the transaction does not proceed.

If you want to complete promptly, the searches typically take 2 weeks, therefore you may choose to pay these at the beginning of the transaction.

However in the event of that transaction being cancelled the search fees will not be refunded.

- ❑ **Verification of your Identity & Residency**
- ❑ **Review Plan of your property & land then review with you:**
 - Lender rights and responsibilities
 - Borrowers responsibilities
 - Tenure of property
 - Any other information which you may need to know before making a legal commitment to the purchase of the property
- ❑ **Mortgage Offer – ensure you satisfy all lender requirements**
- ❑ **Arranging Exchange of Contracts** - when you are legally compelled to purchase property
- ❑ **Organising release of funds from Lender-** confirming all lender requirements have been met
- ❑ **Set a completion date.**

When arranging a mortgage it is important to stay in regular contact with the Solicitor, so that all the above points are dealt with, within your timescales. You are responsible for the costs you incur with your Solicitor, so it is important that you are clear on the costs at the outset. If you do not proceed with the Transaction, even through no fault of your own you may still incur costs for Solicitors time and search fees.

5. BOOKING FEES / ARRANGEMENT FEES

With some lenders when you apply for a mortgage you will incur a booking fee to reserve funds for a particular product. In these circumstances if you cancel your application you will lose this fee.

Arrangement Fees can be sometimes be added to the mortgage advance or they will be deducted from your mortgage amount prior to completion, and you will need to make this payment directly to your Solicitor.

Our fees: You can choose how we are paid.

- We can be paid by a combination of fee and commission from the lender, our typical representative fee figure will be usually £295 depending on your circumstances.
- Or
- We do not take commission from the lender and we charge 2% of the loan amount (minimum £1,000)
Please ask your adviser for specific details.

Any specific fees relating to you will be contained in your key facts illustration.

6. EARLY REPAYMENT CHARGES

With many mortgages there may be early repayment charges and it is important that you refer to your Key Facts Illustration regarding this.

If you are re-mortgaging you need to check with your existing lender if any early repayment charges or administration fees are payable.

PORTABILITY

In the event of moving house, some mortgages offer a portability option and therefore with its terms and conditions can be transferred to a new property without paying any early redemption charges.

7. STAMP DUTY

Stamp duty is a tax levied by the Government applicable to all property transactions where the value of a transfer exceeds £125000.

The rates that currently apply (from 23rd March 2006) are:

1% of the purchase price from £125000 to £250000

3% of the purchase price from £250001 to £500000

4% when the price exceeds £500000.

There are some areas that have exemptions from Stamp Duty (due to regeneration/redevelopment areas). Ask your solicitor for further clarification on this matter.

In some instances when you may want to add or remove another individual from a mortgage deed, stamp duty may be payable, so please refer to your Solicitor for further guidance on this matter.

Stamp Duty is payable upon completion of your mortgage to your Solicitor. Please check with your Solicitor for the full costs of Stamp Duty.

8. HIGHER PERCENTAGE LENDING

If your mortgage exceeds a certain % (normally 75%) of the valuation of the property, a Mortgage Indemnity Guarantee (MIG) premium may be payable. **(Please note that the criteria for higher percentage lending can vary from lender to lender; please ask your Mortgage Advisor for more information).** This premium is a single payment paid to the lender upon completion of the mortgage transaction or in some circumstances can be added to the Mortgage Loan. Mortgage Indemnity Guarantees provide cover for the lender in the event of the lender having to take your property into possession. Please note that this does not protect you: should you default you remain liable.

9. APR

The details you received on your mortgage include details about an annual percentage rate, commonly known as APR. This represents the total interest payable on your mortgage and any additional charges which may include amongst others; arrangement fees, mortgage indemnity charges, any legal or valuation costs incurred by the Lender. It is designed to allow you to compare products with all the costs included.

10. MONEY LAUNDERING

The Prevention of Money Laundering procedures have been primarily driven by the implementation of the Money Laundering Regulations 2003 (which take effect from 1st March 2004), the recently enacted "Proceeds of Crime Act" and the resultant alterations made to the joint Money Laundering Steering Group Guidance Notes.

It is a **legal requirement** that as part of the Mortgage Process you will be asked to prove your identity. It is a requirement that we confirm both your identity and your current and previous residency.

Mortgage Advisers have an obligation to certify to lenders that original identification has been seen prior to your application being made:

Listed below are some of the acceptable forms; this list is not definitive, but is useful as a guideline:

Proof of Identity	Proof Of Residency dated within the last 3 months
Driving Licence	Utility Bill
Passport	Mortgage Statement
State Pension or Benefits book	Local Authority Rent Card
Inland Revenue Tax notification	Council Tax Bill
	Bank Statement
	Electoral Roll check
	House/Motor Insurance Certificate
	Driving Licence
	Inland Revenue Tax Form
For further information on other suitable forms please ask your adviser	

POSTAL APPLICATIONS

For mortgage applications dealt with through the post and via our telephone service. It is always recommended that when sending in original documentation, this is sent via Recorded delivery, and that prior to sending you retain copies of all the identification you are posting. This reduces the risk of important documents being lost.

Original documents sent to ourselves through the postal system are sent at your own risk, we cannot control the Post Office and our preferred route is that your Solicitor can certify your identification and forward copies directly to ourselves.

11. DATA PROTECTION

We will treat your personal information as private and confidential (even when you are no longer a customer) except where we are permitted by law or where the disclosure is made at your request or with your consent in relation to arranging your mortgage.

Under the Data Protection Act 1998 you have rights of access to your personal records held by this firm. When you make an application with ourselves you will be giving your consent to the processing and storage of personal information on computer and paper files. You are aware that processing may occur outside the European Economic Area.

The lenders may undertake credit enquiries on receipt of your mortgage application, details of which may be retained by one or more credit reference agencies. They may also supply information to a Credit Reference Agency regarding the way your account is managed.

The lender may hold in its computer records, or pass on to a credit reference agency, information relating to the conduct of the mortgage account in accordance with the data protection registration held by the lender under the Data Protection Act 1998.

PLEASE REFER TO DATA PROTECTION ACT 1988 – USE OF YOUR PERSONAL INFORMATION FORM

12. MUTUAL LENDERS

When considering which lenders to utilise for your mortgage facilities you should be aware that some lenders are still mutual organisations.

This means that by having a mortgage account with such Companies, it may or may not allow you membership rights to the Company.

You will need to satisfy yourself concerning what, if any these membership rights are and should you already have a mortgage with a mutual lender, you should always consider the impacts of moving your mortgage to another lender.

Should a mutual organisation demutualise and become a quoted company on the stock exchange, members may be entitled to membership rights, which could mean a windfall payment. However this cannot be guaranteed and Watts Mortgage & Financial Services cannot provide advice on the membership rights of mutual lenders within the industry.

13. LIFE ASSURANCE

Life Assurance is designed to provide peace of mind so that however your lives may change, you and your loved ones will always be protected. Protecting your mortgage balance in the event of death/critical illness will ensure that no burden or debt is left with your family should the unforeseen ever happen.

You can choose from a full range of options, some of which are listed and detailed below:

DECREASING TERM ASSURANCE

The amount of the life assurance decreases each year in line with a standard Capital repayment mortgage. At the end of the term when your mortgage balance is repaid, you no longer have any life assurance remaining. This is one of the cheapest forms of life assurance available in the Market Place today.

LEVEL TERM ASSURANCE

The amount of the life assurance remains constant throughout the term of the mortgage/policy. This provides level cover so that should you make a claim even in the final years the full amount will be payable. These are primarily designed to protect interest only mortgages, where the balance does not reduce, but these can also be used as protection planning purposes.

With both of the above policies you can add the following benefits:

- Critical Illness
- Waiver of Premium Benefit
- Terminal Illness Benefit
- Mortgage Payment Protection

NOTE: Both the above policies have no cash in value at any time

Again for further detailed information please refer to your Mortgage Adviser

CRITICAL ILLNESS

Can be bought as a stand alone protection policy or can be incorporated into the 2 policies stated above.

This protection is designed to pay out the sum assured (whether that is decreasing or level) upon the diagnosis of a specified critical illness, even if you then make a full recovery.

Typically, Critical Illness protection may cover:

- Some Forms of Heart Attack
- Some Forms of Cancer
- Stroke
- Coronary Bypass Surgery (plus other conditions)

For a full list of these conditions please ask your Adviser

14. INCOME PROTECTION

Taking out a mortgage is one of the biggest financial commitments you can make both in terms of the amount you borrow and the length of time it may take you to repay the mortgage.

- How would you manage if your income reduced?**
- How would you manage if you lost your job?**

There are a variety of policies available in the Marketplace today, which are designed to protect your income in the event of accident, sickness or unemployment.

MORTGAGE PAYMENTS PROTECTION COVER

In the event of an accident, sickness or unemployment, under current DSS regulations you will not be eligible for any mortgage interest support for an initial period of 9 months, and only the first £100,000 of any loan is eligible.

This protection policy is designed to provide a means of continuing your monthly mortgage payments for up to 12 months should your financial circumstances change in the event of your being unable to work due to accident, sickness or involuntary unemployment.

As with all policies of this type exclusions do apply and for full details of the criteria for a successful claim please speak to your Mortgage Adviser.

For accident sickness & unemployment cover we usually offer products from a single provider.

INCOME PROTECTION POLICY

Just think what would happen if you were unable to maintain your income whilst off work due to illness or injury. Income protection policies are designed to replace your income and can be set up to pay out after 3 days or up to 104 weeks dependent upon your circumstances

Permanent Health Insurance PHI is medically underwritten when you apply for the policy and therefore any exclusion/s is/are drawn to your attention at the start before you pay any premiums.

The benefit of these policies is that providing you have made accurate disclosure of existing medical history at application, the policy cannot be cancelled by the insurer, no matter how heavily claimed upon.

For example:

If you went off sick at age 35 and could not work again in a qualifying situation, the policy would pay you the benefit up to your specified retirement age.

OPTIONS

- Guaranteed or Reviewable Premiums
- Index Linked Cover
- Waiver of premium in a claim situation

Please ask your Adviser for more details.

15. HOUSEHOLD INSURANCE

Protecting your property both buildings and contents against damage and loss is vitally important.

It is a condition of all lenders that **Buildings Insurance** at least must be maintained under a Householder's buildings policy for a sum not less than that specified by the Lender's valuer. This will be based upon the Surveyor's estimate of the current re-building costs and will be increased in line with the House Rebuilding Cost index. The policy will need to be drawn up in the joint names of the Lender and yourself.

It is important that you have suitable insurance in place for exchange of contracts.

In addition you will also need to give consideration to insuring the **contents** of your property; protecting the contents of your home is important; please ask your adviser for more information regarding the types of cover available, and the options of combining this with your Building Insurance policy.

For household we usually offer products from a limited number of providers.

16. LETTINGS

When considering buying a residential property it is important to remember that any future letting/sub-letting of the property without the lenders prior approval means that you are in breach of the mortgage conditions.

BUY TO LET PROPERTIES

Buying properties to rent out, is becoming a popular choice for people nowadays, and listed below are some of the KEY factors to take into consideration.

Minimum Deposit typically required is 25% of the Purchase Price

The loan amount is based on the Rental Income the property can yield.

(Your Mortgage Adviser can provide you with more detail on specific lender criteria)

Lenders will allow you to buy multiple properties as long as you meet their criteria. Currently various Buy To Let lenders will lend individuals up to 2 million for their portfolio as long as the deposit is paid and the rental income covers the mortgage repayments.

You must have in place a formal Assured Shorthold Tenancy Agreement for any tenants.

Income from Buy to Let properties can be subject to UK Tax. You should seek suitable advice from the Inland Revenue on this aspect. In addition upon the Sale of a Buy to Let property, you may be liable for tax, and again, speak to the Inland Revenue for more guidance.

Please ask your Adviser for further information.

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

There will be a fee for mortgage advice. The precise amount will depend upon your circumstances, but we estimate that it will be £495.