



# FORDYCE & PLAYLE

independently different

## guide: remortgage

Looking for a more competitive rate on your current mortgage or looking to raise funds for debt consolidation or home improvements, the first port of call for many is to apply for a remortgage.

We have asked our mortgage team to put together a handy guide to help explain what to look out for when remortgaging.

# guide: remortgage

## early repayment charge (ERC)

The Early Repayment Charge is a penalty that the mortgage lender will impose on you if you repay your mortgage earlier than they would like you to. You will commonly see ERCs on fixed rate mortgages and other special deals.

ERCs tend to be a percentage of the outstanding mortgage amount which means they can be quite high. For example a 3% ERC on a £150,000 mortgage would be £4,500... £4,500 just to pay off your mortgage!

If possible it is always best to remortgage when the ERC penalty no longer applies. These fees will always be thoroughly detailed in your mortgage offer if you wanted to check. A quick tip is if your mortgage is fixed until 01/01/2020 then that is usually the exact same date your ERC will no longer be in force.

At Fordyce & Playle we have a very detailed diary system whereby we will get in touch with you around 3-4 months before your ERC is due to come to an end so we can effectively plan your next move but always feel free to get in touch with your adviser if you have any questions.

Some mortgage lenders will offer you an overpayment facility. This means you can pay more than your set monthly payment without incurring any ERCs. Overpayments are capped and tend to be around 10% of your mortgage balance outstanding per year, but each lender has different criteria so feel free to ask your adviser for more information.

## standard variable rate (SVR)

Every mortgage lender has a standard variable rate, this is the interest rate they will charge you when your special deal ends (fixed rate, tracker rate etc).

As it says on the tin this type of interest rate is variable and can go up and down at any time. Lenders make their own choice as to what this rate should be and are meant to follow the patterns of the Bank of England Base Rate (BBR).

Because lenders can choose what this rate should be they tend to be higher (much higher in some cases) than rates you would expect to see for fixed and tracker rate mortgages. The idea behind this is for example the lender draws you in on an especially low rate special deal mortgage, when this low rate comes to an end you move onto the lenders SVR rate which is inevitably much higher... This is where the lender is hoping you don't realise or don't look to move away and you forever more pay them the inflated interest rate.

There are millions of homeowners who are on SVR rates who could be saving money so remember to tell friends and family there is an alternative!





## freebies & incentives

One of the many benefits of a remortgage is competitive lenders want you to be paying them interest rather than your current lender. With this competitive spirit comes incentives... most lenders will offer special interest rates for remortgage customers and these tend to come with some freebies...

**Free Valuation** – Similar to the standard valuation you had done when you first brought your home but this time you haven't got to pay a penny for it!

Due to the power of the internet on most occasions these valuations can be done online or by way of a drive-by which simply means a valuer will drive up to your home make sure it the correct property and the property is in a good general state of repair from the outside and drive off.

**Free Legal Service** – The legal process of completing a remortgage is very straight forward but still requires some work.

A conveyancer will organise the repayment of your current mortgage and the opening of the new, as well as updating the Land Registry.

Due to the simple nature of the process lenders will pay the conveyancers fees as long as you go with their chosen solicitor.

It is worth noting there may be a small charge in respect of costs to transfer funds (typically around £35) and also if any additional works need doing such as removing/adding a name to the mortgage you may be liable for a small cost (typically around £200).

**Cashback** – If you don't like the idea of the lender choosing a solicitor for you some have the option for you to choose your own and they will pay you a cash sum on completion of your mortgage to help cover the costs typically around £250.

## capital raising

Capital raising simply means to borrow more than your current mortgage, usually for a specific purpose, examples;

- Home Improvements
- Debt Consolidation
- Deposit to buy another property
- Divorce Settlement

Each lender has different criteria around capital raising and some may not accept certain reasons to raise money and others may cap the amount you can borrow for a specific purpose. Your adviser has expert knowledge in lenders criteria and will be able to help steer you in the right direction.

Capital raising should be considered very carefully as raising funds on your home not only puts your property at an increased risk but the paying interest over an extended period of time usually works out more expensive overall.

## debt consolidation

If you have un-secured debt such as credit card, loans, store cards etc or even a secured loan (second charge) it may seem wise to add this debt to your mortgage. But be very aware though that this is usually a short term gain as paying interest on these debts over a longer period of time is likely to cost you more overall.

Also remember that by clearing these debts by increasing your mortgage could put your home at risk. This is because the money is now secured against your property so if things go terribly wrong your home is at risk of repossession.

It's not all negative; debt consolidation is very common and can be a good solution to immediate money worries but the decision should be made carefully. If your new mortgage monthly payments are much cheaper and your new lender offers an overpayment facility it is sensible to use the savings you have made by putting the monies back into the mortgage to clear the additional balance quicker.



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