

# Mortgage Information Sheet



The following is intended to provide general information as a guide. Should you require a more specific explanation please contact Sovereign Financial Planning Limited.

## Credit Enquiries

Your lender will undertake credit inquiries upon receipt of your mortgage application. They may also supply information regarding the way your account is managed to a Credit Reference Agency.

## Interest Rates

Interest Rates fluctuate according to market conditions. Any increase in interest rates may affect your monthly mortgage payment. Where a fixed rate is chosen you will be protected from any fluctuations during the period of the fixed rate, however you will not benefit from any decrease in interest rates.



## Interest Rate Calculations

Your lender will charge interest on the outstanding balance on your mortgage account. If you have an interest only

mortgage this balance should remain reasonably constant, however if you have a repayment mortgage your balance will reduce as capital is repaid. Most lenders calculate their interest payments daily although some use monthly or even yearly calculations.

## Loan Repayment

Clearly you are expected to meet the monthly mortgage payments and to ensure that, where necessary, you have and keep a satisfactory Investment vehicle in place to repay the loan.

## Higher Percentage Loan

Where your loan is for a higher percentage of the property value, usually 90% or more, most lenders charge a one-off fee which allows them to buy insurance called 'mortgage indemnity guarantee insurance' (or a variation of this). This indemnity protects them against potential future losses normally caused by the mortgagor not meeting monthly mortgage payments and eventually the property may be 'repossessed' and re-sold. If the property is sold at a loss (the sale price is less than the outstanding mortgage), the insurance policy covers this loss. This charge can

usually be added to the loan or may be deducted from the amount advanced.

### **Lenders Fees**

Lenders may require additional charges, such as a Valuation Fee, Lenders Administration Fee, Fixed Rate Booking Fee, etc before processing an application. Some lenders allow some of these fees to be added to the mortgage.

### **Mutual Companies**

If you select a lender that is a mutual company, you may not be entitled to membership rights. This means that if a company de-mutualises and becomes a quoted company on the stock exchange, you may not automatically be entitled to membership rights and therefore you, may not receive any windfall payments made. Your lender will explain your entitlement to company membership to you.

### **Debt Consolidation**

If during any mortgage/re-mortgage transaction there is an element of consolidation of unsecured debt, such as loans or credit cards, the following points should be noted.

1. The interest applicable to the debt when added to a mortgage could be in excess of the original loan as the mortgage term will usually be greater, therefore costing you additional interest over the mortgage term.
2. There may be penalties for redeeming any unsecured debt earlier than planned.
3. In the event of non-payment of an unsecured debt such as a loan or credit card the regulation under the consumer credit act or banking act will attract a default or CCJ. However, if this debt is added to

your mortgage it will become a secured loan. Your home is at risk if payments on any loans secured on it are not maintained, therefore there is an additional risk brought to your main residence when consolidating loans on to your mortgage.

### **Change in Personal Circumstances**

In the event that your personal circumstances change, you are still responsible for maintaining your mortgage commitments. Changes can come about through accidents or sickness, relationship breakdown, redundancy, retirement, family commitments or a general reduction in income.



### **‘Joint and Several Liability’**

If you are borrowing jointly the mortgage is granted to you on a ‘joint and several’ basis. This means that if the mortgage is not paid, then the full amount of the debt will be repayable by either joint borrower.

### **Property Values**

Property prices fluctuate according to market conditions and the value of your

property may go down as well as up. In the future, this could mean that your mortgage loan exceeds the current market value of your property.

### **Payment shock**

Repayments following an initial 'fixed', 'capped' or 'discounted tracker/variable rate' can be much higher if underlying interest rates rise over the same period. Please be aware that the resulting increase to repayments could affect your disposable income. You must be aware of this potential rise at inception of the mortgage and you will find details of this likely increased payment within the Key Facts Illustration that is provided to you.



### **Adding Mortgage Related Fees to the Loan**

Where fees are added to a loan, please be aware that the interest payable on these fees over the remaining term of the mortgage can be excessive. To avoid this, you are strongly advised to pay any fees up front when applying for the mortgage.

### **Retirement Age**

A mortgage will usually be recommended within statutory or 'selected' retirement dates, for example, whilst you are still receiving an 'earned' income. If your mortgage term exceeds this, you are advised to take reasonable steps to ensure that you have enough income to maintain mortgage repayments post

retirement or a lump-sum sufficient to repay the loan in full.

### **Life Cover**

The lender may insist that all individuals involved in the loan take sufficient life cover to repay the whole mortgage and it is vital that this life cover is taken and kept in force throughout the mortgage term.

### **Accident, Sickness and Unemployment**

To protect your mortgage repayments and income in the event of accident, sickness or unemployment preventing you from working and therefore meeting your mortgage repayments and associated insurance premiums, it is recommended that some kind of 'Income Protection Insurance' is effected. Ideally, this should cover at least the whole mortgage term (or to retirement date), but there are shorter-term products available, primarily 'mortgage payment protection insurance' which cover 12-18 months mortgage repayments and related costs. Any income received from these arrangements may be taken into account when calculating your entitlement to State benefits.

### **Property Insurance**

You are responsible for ensuring that an acceptable Property Insurance policy is taken and maintained to protect the lender and yourself in the event of damage occurring to your property. When purchasing a flat or apartment this cover is normally arranged by the Freeholder or Management Company and is paid for through your maintenance payments.

### **Will**

It is important that you maintain a suitable and valid Will to ensure that your estate passes in accordance with your wishes.