

FIXED RATE

A Fixed Rate mortgage is one where for a period of time the interest rate is set and will not be affected by changes in interest rates. At the end of the period the interest rate will become the Standard Variable Rate applicable at that time (see Standard Variable Rate). Usually the rate is fixed between 2 and 5 years, although, sometimes longer periods are available.

Advantages:

- Provides guaranteed Mortgage repayments for the duration of the Fixed period giving protection from rising interest rates.
- Variety of periods beginning as short as six months, so likely to be one to meet most needs.

Disadvantages:

- There is often an upfront application fee and/or an arrangement fee once the loan is taken out.
- If interest rates fall below your Fixed Rate you may be left paying a higher rate than the Standard Variable Rate.
- If you redeem your mortgage during the fixed period and often for a period afterwards, you may have to pay a penalty. This is usually several months' interest repayments.

VARIABLE RATE

A Variable Rate mortgage is one that changes when the Lender announces interest Rate changes. So unlike a Fixed Rate, if the mortgage rate goes up then you will be paying more each month. Equally if it goes down then you pay less.

Advantages:

- Your monthly repayments will fall with reductions in interest rates.
- Gives you flexibility.

Disadvantages:

- Your repayments will rise with interest rates.
- Does not give you the ability to budget for repayments.

FLEXIBLE AND CURRENT ACCOUNT

These types of Mortgage have been introduced more recently. They have been introduced to cater for the changing patterns in working and life styles.

There are several attractive features; one of the main ones is that interest is usually calculated daily rather than being applied monthly or yearly. Consequently interest does not accumulate and therefore, monthly payments are kept to a minimum.

This type of mortgage allows over payments. Should you decide to pay off a lump sum this will reduce the interest payable over the term of the Mortgage. It is possible that you may be able to pay off the Mortgage early as a result.

Some accounts allow you to draw down overpayments if you need the money you overpaid at a later date.

Current Account mortgages group together all borrowing and saving. This means that all your borrowings are charged at the Mortgage Rate, which is usually considerably less than personal loan or credit card rates.

Usually your savings are held in this type of mortgage account and your salary paid into it. As interest is calculated daily you only ever pay interest on the actual amount you owe.

Advantages:

- Daily Interest.
- Over payment facility - potential to reduce amount paid in interest and reduce the term.

- Under payment facility - particularly useful in times of hardship.
- Current Account Mortgages give good rates of interest on borrowings and savings.
- Current Account Mortgages ensure your interest payments are kept to a minimum.
- Tax advantages; there is no tax on the interest earned on savings as this is applied to the mortgage.

Disadvantages:

- These mortgages need to be managed carefully to take advantage of the benefits and, more importantly, make sure they are repaid at the end of the period of the loan. This makes them less attractive to people who do not want to have to manage their mortgage.
- This type of mortgage could encourage people to over stretch themselves on their borrowings.

LIBOR & TRACKER MORTGAGES

These mortgages are a variation of a Standard Variable Rate Mortgage. They guarantee to be a certain percentage in excess of the London Interbank Ordinary Rate (LIBOR); which is the interest rate that the Bank of England lends to commercial banks, or the Bank of England Base Rate (BBR) in the case of most Tracker mortgages. As the LIBOR or Bank of England Base Rate change, the LIBOR or Tracker Mortgage Rate does by the same amount. If the Bank of England Base Rate were 5% and the Tracker Mortgage guaranteed to be 2% greater, you would pay 7%. If the Base Rate were then to increase by 1% to 6% you would pay 8% (i.e. new Base Rate (6%) plus the 2% guarantee).

Advantages:

- The Interest rate you pay moves immediately when the Base Rate changes.
- You are guaranteed the percentage rate that your loan will exceed the Base Rate by. This prevents you being at the mercy of the Lender if their Standard Variable Rate is uncompetitive.

Disadvantages:

- There is a danger that the Lender could use an uncompetitive base, rather than using an independent rate such as LIBOR or Bank of England Base Rate.
- When rates rise you are subject to the increase immediately.

CAPPED RATE

A Capped Rate mortgage puts a ceiling on the rate for a period of time. This means that the payments cannot go above the rate set during that time. It can of course change if the rates go down.

Advantages:

- Gives you a guaranteed rate which your repayments cannot exceed
- If interest rates fall your repayments will reduce with them

Disadvantages:

- Usually the Capped rate is higher than a Fixed rate because repayments can fall with interest rates
- Usually have to pay application and/or arrangement fees
- If the loan is redeemed during and in some cases for a short while after, a penalty fee of several months repayments is payable.

COLLARED

Some Capped rate mortgages have a "Collar". This means that the Lender sets an interest rate below which, the mortgage cannot fall.

These may offer a better Capped rate but if the interest rate falls below the "Collar" Rate then you do not benefit.

DISCOUNT RATE

A Discounted Rate gives you a guarantee that for a period of time your interest rate will remain at a fixed percentage below the Standard Variable Rate.

Example: If the current interest rate is 7% and your rate is discounted by 2% (i.e. 5%) then the interest rate was to be increased by 1% your rate would rise to 6%.

Advantages:

- Gives a reduced repayment over the period of the discount.
- Repayments will reduce with interest rate reductions.

Disadvantages:

- Repayments will rise with interest rates.
- May have to pay application and/or arrangement fees.
- Usually a penalty payment of several months' interest is payable if the Loan is redeemed during or shortly after discounted period.

CASH BACK

Some lenders offer Cash Back. This is an incentive payment to the borrower, paid on completion of the loan.

Advantages:

- Can be very useful, especially to cover moving costs and any work or redecoration that may need doing.

Disadvantages:

- If the mortgage is redeemed within a preset period some or all of the cash will have to be paid back to the Lender.

PRODUCT INNOVATION

With Lenders coming up with ever more innovative products they are becoming even more diverse. Here are two examples:

STEPPED RATE

Instead of there being a period of say a Fixed Rate then going to the Standard Variable Rate there may be Stepped Rates. This could be 2 or 3 Fixed Rates "stepping" up before the Standard Variable Rate applies. For instance a mortgage may have a fixed rate of 5.5% for the first year, then a 6.5 % rate for another year and then after that the Standard Variable Rate would apply.

This could also apply to Stepped Rates for Capped or Discounted Rate products. In some cases the product may be more than one. e.g. Fixed Rate for one year followed by a Discounted Rate for another year and then the Standard Variable Rate.

COMBINATION RATES

It is possible to get products that are a combination of two rates. For instance you may be able to fix 50% and have the other 50% at the Standard Variable Rate. The Fixed Rate would apply for a period of time before the full mortgage reverts to the Standard Variable Rate