

March 2009

Our **MONEY**madeclear™ guides –
here to help you

This guide is part of our **Buying a home** series.



Available from our Consumer Helpline or website
www.moneymadeclear.fsa.gov.uk

No selling. No jargon. Just the facts.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.



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**No selling.
No jargon.**

Just the facts
about paying
your mortgage.

You can afford your mortgage
now, but what if...?

MONEYmadeclear™
from the Financial Services Authority (FSA)

With our **MONEY**madeclear™ range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts about paying your mortgage.

You can afford your mortgage now, but what if...?

We try to ensure that the information in this guide, some of which comes from sources outside the FSA, is correct at the time of print. It is possible that some of it is oversimplified, or may become inaccurate over time, for example because of changes in the law. You should check the current position before you take any action.

This is general information to help you make financial decisions. It is not advice, and cannot take account of your individual circumstances. When making decisions about your own circumstances you should consider whether to consult a financial or other professional adviser.

This guide is for you if

You are

taking out a mortgage; and

You want

to think about how you will be able to afford your mortgage payments if things change.

It's about planning ahead and:

- sets out key things to think about; and
- answers some of the questions you may have.

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How to repay your mortgage

Taking out a mortgage is one of the biggest financial commitments you can make, because of the amount you borrow and the time you take to repay it.

You may be able to afford the repayments now. But if you borrow a large amount over a long period think what may happen if, for example, your income falls or you lose your job. Or what if interest rates rise and your monthly repayments go up?

Bear in mind that a mortgage is a loan secured against your home, so if you fall behind in your mortgage payments, the bank or building society can sell your home to get back its money.

See the *Jargon buster* on page 12 for an explanation of some words you may come across when taking out a mortgage.

For more information about mortgages, get our **Mortgages** guide – see *Useful contacts*.

How to repay your mortgage

You can choose to repay your mortgage in the following ways:

- **repayment** – your monthly payment is split between paying off the loan and paying off the interest you owe on the loan; or
- **interest-only** – your monthly payment pays only the interest charges on your loan, and you must arrange some other way to repay the loan. (This will usually mean having an investment or savings plan to build up a lump sum to pay off the mortgage when the term ends); or
- a **combination** of the two.

Mortgage term

The standard mortgage term is 25 years, but you can choose a different term if it suits you and the lender agrees that you can afford it.

With a shorter term, you'll have higher monthly payments but pay less in total. With a longer term, you'll pay less each month but more in total.

Beware of having a mortgage term that continues past the age you plan to retire unless you're sure you'll be able to afford the payments then.

Key points

- Use our online **Budget calculator** to help you work out what you can afford – see *Useful contacts*.
- Think about whether you need a fixed rate so that you know your mortgage payment will stay the same for a given period – but don't forget that if rates fall, your payments won't.

Key things to think about

You can afford your mortgage now, but think about how you'd manage if your, or your partner's, income fell or if interest rates increased.

How your income could fall

Your income could fall if you or your partner:

- lost your job(s), or had to take a drop in income;
- stopped work to have a child or to look after a dependant; or
- became ill and couldn't work.

How your mortgage payments could go up

Interest rate increases

Your mortgage payments could go up if interest rates increase. Mortgage interest rates are related to the interest rate set by the Bank of England and your lender will usually apply some or all of any increase to your mortgage.

Unless you have a fixed rate for the full term of your mortgage, interest rate increases will affect you.

After a period of staying low and stable, interest rates have changed considerably over the last few years. In the past, interest rates rose much more rapidly, from 7.5% to 15% in just a few years. Interest rate rises could increase your monthly payments considerably, making them difficult to afford.

Special rates ending

Often, special rates are for a set period only, so when this ends your payment will change – it could be much higher.

The following examples show how different interest rates can affect your payments.

Example 1: repayment mortgage

You borrow £100,000 over 25 years on a repayment mortgage, initially at a rate of 4%:

Interest rate	Monthly repayment	Increase from 4%
4%	£528	–
6%	£644	+ £116
8%	£772	+ £244
10%	£909	+ £381
Interest calculated monthly		

Example 2: interest-only mortgage

You borrow £100,000 over 25 years on an interest-only mortgage, initially at a rate of 4%:

Interest rate	Monthly repayment	Increase from 4%
4%	£333	–
6%	£500	+ £167
8%	£667	+ £334
10%	£833	+ £500
Interest calculated monthly		

Don't forget that rates could go higher than those shown here.

Key things to think about

Key points

- Use our online **Mortgage calculator** to help you work out what you can afford now and what your mortgage payments will be if interest rates rise – see *Useful contacts*.
- Consider taking out insurance to help you pay your mortgage if you, or your partner, lost your job or became critically ill. But first find out about any restrictions for paying a claim.
- Think about setting up a savings account to help pay your mortgage in case of emergencies.

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No jargon.
Just the facts about paying your mortgage.

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When deciding how much to borrow:

Check that

you don't overstretch yourself by borrowing the maximum on offer. Just because you can afford it now doesn't mean you can afford it in the future.

Check that

you understand how the 'repayment' and 'interest only' options work, and what you must do to ensure you pay off your mortgage by the end of the term.

Check that

you get **keyfacts**® documents from your adviser or lender. Read them because they contain important information that we require the firm to give you about their service and the costs and features of the mortgage. They'll also tell you how much your payments will increase if the interest rate rises by 1%. Remember that rates can rise by more than this.

Check that

you understand the interest-rate deals on offer and how they work. Make sure you know when a special deal will end and what will happen to your payments when it does (they are likely to be higher than before).

Your questions answered

Question

How can I choose a savings account to build up an emergency fund?

Answer

There are lots of savings accounts with varying interest rates. You can compare savings accounts including cash ISAs using the **Compare products** tables on our website – see *Useful contacts*.

Question

Who should I talk to if I can't pay my mortgage payments?

Answer

If you get into difficulties and find that you can't meet your payments, **talk to your lender**.

They will have a set procedure for dealing with your situation. For example, they may make your payments more manageable, but this will depend on your circumstances.

Question

Can I get help from the State?

Answer

You may qualify for State benefits to help you pay your mortgage. Even so, you're only likely to receive help in certain circumstances and after an initial waiting period. If you do qualify for State benefits:

- payments will only cover the 'interest' part of the mortgage; and
- payments will only cover the interest on mortgages up to a certain limit. If your mortgage is above this limit, you will have to pay the interest on any amount over this limit yourself.

To find out the current limit, waiting period and more information, contact your local Jobcentre Plus (details in the Phone Book).

Find out about tax credits, such as the Working Tax or Child Tax Credits – see *Useful contacts*.

Your questions answered

Question

What insurance can I get to help me pay my mortgage if I lose my job or become ill?

Answer

You can buy various products to insure yourself in case of redundancy, critical illness or an accident. Consider these but make sure they meet your needs: there are restrictions on when and how much they will pay out.

Make sure you understand the limits of any policy and how it protects you. Ask a professional adviser for help if you are unsure. For more information, get our **Insurance** guide – see *Useful contacts*.

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Next steps

Protect yourself against the risks of changes in your circumstances or interest rate rises.

Step 1

Plan your budget based on what you might have to pay in future as well as the initial cost of a mortgage. Don't forget to include all your household expenses, such as buildings and contents insurance premiums and council tax. This will help you decide how much you can afford to borrow.

Step 2

Check what benefits your employer will provide if you become ill and can't work for a long time.

Find out if you're eligible for tax credits - see *Useful contacts*.

Step 3

Put some money aside to help you in emergencies. For example, if you lost your job but had some savings, you would still be able to pay your mortgage and bills for a while.

Step 4

Work out how long you could live on your savings if you lost your job. You may want to think about getting insurance to protect your mortgage payments, but make sure you understand its limitations.

Jargon buster

Some key words and phrases explained.

APR

Annual percentage rate – this shows the overall cost of a loan each year, taking into account the term, interest rate and other costs.

Buy-to-let mortgage

A loan you take out to buy a property that you intend to rent to tenants.

Capital

The amount you borrow to help you buy your home.

Deposit

The amount of money you put into buying a home (not including the money you are borrowing).

Early repayment charge

A charge you may have to pay if you pay back a mortgage early (including if you move to another lender).

Fixed rate

An interest rate that is fixed (in other words it doesn't move up or down) for a set time.

Income multiples

The number by which a lender multiplies your earnings to find out how much you can borrow.

Interest

The charge that lenders make when you borrow their money.

Interest-only mortgage

A mortgage in which you pay only the interest charges of the loan each month.

Interest rate

The figure that decides how much interest you pay. It is usually linked to the Bank of England's rate and can move up or down.

keyfacts documents

Standard documents that all regulated lenders and advisers must give you. The documents explain their services, costs and details of the mortgage you're interested in.

Loan-to-value

The amount of money you want to borrow compared (as a percentage) to the value of the property.

Mortgage

A loan secured on your property. If you don't keep up the mortgage repayments your home may be repossessed.

Mortgage adviser

A mortgage adviser helps you get a mortgage from their available range. Only FSA-regulated firms and their agents should give advice about mortgages, and these firms must follow our standards when dealing with you. Check our Register to see if they are regulated – see *Useful contacts*.

Jargon buster

Remortgaging

Changing your mortgage for a better deal, without moving home.

Repayment mortgage

A mortgage in which you pay off both the loan (capital) and interest at the same time.

Secured

If you do not repay your loan, the lender can sell your home to get its money back.

Standard variable rate mortgage

The lender's normal rate – ie without any discounts or deals.

Term

The length of your mortgage, normally expressed in years.

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Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other **MONEY**madeclear™ guides, check our Register, report misleading promotions, or for general information or guidance

Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other **MONEY**madeclear™ guides

- Getting financial advice
- Insurance
- Making a complaint
- Mortgages
- What to do when you can't pay your mortgage

On our **MONEY**madeclear™ website you can find

- A **Mortgage calculator** to help you estimate your monthly mortgage payments.
- Tables to help you **Compare products** like mortgages and savings accounts.
- A **Budget calculator** to help you work out if you have enough money coming in to cover your bills.

Go to www.moneymadeclear.fsa.gov.uk and click on **Useful Tools**.

Useful contacts

Other organisations that can help you

Association of British Insurers (ABI)

020 7600 3333

www.abi.org.uk

For information on insurance products.

Council of Mortgage Lenders (CML)

020 7438 8956

www.cml.org.uk

For leaflets on buying to let, equity release and home buying in England, Wales or Scotland.

Directgov

Tax credits helpline: 0845 300 3900

Textphone: 0845 300 3909

www.direct.gov.uk

(‘Money, tax and benefits’ link)

For information about tax credits and State benefits.

Ethical Investment Research Service

www.eiris.org

Information about product providers and other sources which provide ethical investments.

Finding a financial adviser

IFA Promotion

www.unbiased.co.uk

Provides a list of 8 independent financial advisers in your area.

Institute of Financial Planning

0117 945 2470

www.financialplanning.org.uk

Financial planners can help you to achieve your goals by planning your finances.

My LocalAdviser

www.mylocaladviser.co.uk

For a mortgage, insurance or investment adviser in your area.

The Personal Finance Society

www.findanadviser.org

Will provide a list of up to 6 financial advisers in your area.

Complaints and compensation

Financial Ombudsman Service

South Quay Plaza

183 Marsh Wall

London E14 9SR

0845 080 1800

www.financial-ombudsman.org.uk

Complaints resolution.

Financial Services Compensation Scheme (FSCS)

7th floor, Lloyds Chambers

Portsoken Street

London E1 8BN

020 7892 7300

www.fscs.org.uk

For claims against your adviser or lender if they have stopped trading.

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