UNDERSTANDING THE DIFFERENT

# TYPES OF MORTGAGES

TIM RUSS & COMPANY

| Mortgage Type | Description | Advantages | Disadvantages |
|---|---|---|---|
| **Fixed Rate** | The interest rate is fixed by the lender for a set period. It will normally revert to Standard Variable Rate (SVR) after the initial period. | Your monthly repayments stay the same even when interest rates rise. You can budget knowing what your monthly repayments will be. | Your monthly repayments stay the same even when interest rates lower. |
| **Tracker** | During a set period the interest rate tracks the Bank of England's base rate. The interest rate is expressed as base rate + x%. The monthly repayments change every time the Bank of England changes interest rates. | You benefit immediately from any reduction in interest rates by the Bank of England. Usually repayments are lower than an SVR mortgage. | You have no certainty over monthly repayments and you suffer immediately from any increase in interest rates. |
| **Discounted Rate** | Your lender gives you a discount against its SVR for a set period of time. It will normally revert to SVR after the initial period. | Repayments are lower than an SVR mortgage. | You have no certainty over monthly repayments. |
| **Offset** | The balance of your savings or current account is subtracted from your mortgage debt, decreasing the net balance on your mortgage and reducing the amount of interest you pay. | You pay interest on a lower balance than with a traditional mortgage. You can usually overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit. Your savings effectively earn interest at the mortgage rate. | The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term. If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate. |
| **Capped** | The rate will not rise above a certain level for a set period. | Offers similar security to the fixed rate and initial rates are usually competitive. | Rates are often higher than a fixed rate, and caps are normally only two or three years. |
| **Standard Variable Rate (SVR)** | Your monthly repayments rise and fall in line with changes in your lender's standard variable rate of interest, not necessarily linked to the Bank of England base rate. | The lender does not usually charge an arrangement fee. There are usually no penalties if you redeem the mortgage – often called early redemption penalties. | You have no certainty over monthly repayments and monthly repayments will be more expensive than other options with an incentivised rate for an initial period. |

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