

# Mortgages – A time to reflect

By Doug Cowan

Since the start of the recession in 2008 it is fair to say that the mortgage market has gone through some change. The banking crisis which saw money lending dry up for the vast majority, was tempered by the lowest interest rates since records began.

Accessing these rates was difficult as lending criteria tightened up, with the demise of the 100% mortgage and self certification to name but a few. Is this a bad thing?

There are arguments for and against but it is generally agreed that lenders need to get back to lending and maybe some of the changes were too punitive. So, what's happened in 2010?

## More mortgages on offer at high LTVs

The number of mortgage deals available at up to 85% loan to value (LTV – requiring a deposit of 15%) is at its highest since October 2008, while the number on offer up to 90% LTV is at its highest since December that year. According to price comparison website moneysupermarket.com the average rates of interest charged on these deals has also been falling, and are now cheaper than at any time since the credit crisis peaked in October 2008.

Since September 2009 the average interest rate charged on an 85% LTV mortgage has dropped by 0.68% to 5.5% in that time, while the average rate of a 90% LTV mortgage has dropped by 0.33% to 5.98%.

These are positive signs for people who can only muster a small deposit, or have little equity built up in their home. For too long the supply of mortgages to this group of people has been too limited. The launch of a new range of 85% and 90% deals from the Post Office should really help stimulate competition and get this market moving again. One of the most telling trends of the last two years has been lenders' near obsession with equity. The simple fact is that plenty of people can afford mortgage repayments but struggle to save the many thousands of pounds usually required for a 20 to 30% deposit. This means that many people have been needlessly locked out of the mortgage market, perhaps now this will begin to change. Potential borrowers should remain aware that they will find a significantly better deal if they can pull a sizeable deposit together. Whilst we can be pleased the average rate of a 90% mortgage has finally fallen below 6%, we should also lament the fact that this is still nearly 5% above the Bank of England Base Rate.

We have seen a gradual reduction in lenders' standard variable rates which better reflects the Bank of England reductions since 2008. This is certainly good news for existing borrowers as their initial mortgage deals come to an end.



### Are we taking advantage of low rates?

For the last couple of years many borrowers have chosen to remain on their lender's standard variable rate (SVR) after their existing product has come to an end, rather than switching to a new mortgage product. They have continued on this rate, as in many cases this has meant a reduced payment to the lender due to the low SVR. It has generally been reported however, that borrowers have not taken advantage of these low rates and used the opportunity to make overpayments to their loans and reduce both their mortgage and its term.

So, should we stay complacent? Will interest rates always remain this low? Are they likely to increase and if so when? Is there a right time to move from the SVR? So many questions and individual circumstances will give an individual answer.

Bearing all this in mind, it is worth reflecting on what options are available for you now and moving forward.

### Types of mortgages

When you apply for a mortgage, you'll be able to choose from several different types of deals.

#### Fixed Rate mortgages:-

Your interest rate will stay the same each month, whatever happens to interest rates generally, until a set date.

#### Tracker mortgages:-

With this type of mortgage the interest rate tracks a rate that is outside the control of the lender, such as the Bank of England base rate. Every time that rate goes up or down, so does the interest rate on your mortgage.

#### Discounted interest rate mortgages:-

With this type of mortgage product you'll receive a lower standard variable rate from the lender for a certain period of time, for example two years. During this time your monthly payments could go up or down.

#### Offset mortgages:-

An offset mortgage links your mortgage to a current account or savings account (or both). With this type of mortgage you're using the money in your current or savings account (or both) to offset the amount you need to pay on your mortgage. So when your current account and savings balances go up, your monthly mortgage payment will be less. If they go down your monthly payment will be higher.

### What happens when I apply?

When you apply for a mortgage a lender will review your application based on your income, outgoings, as well as your credit history. They'll arrive at a figure they are prepared to lend you and that you can afford.

If you're a first-time buyer, it always helps if you can show you've been paying regular rent for a similar amount that you're hoping your mortgage payments will be. You could also get a copy of your credit report to make sure your credit history is in good financial shape.



#### For technical assistance and advice call:-

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### Conclusion

*It is clear that the mortgage market can be a complex and changing place. Regular reviews and advice is always recommended, and should be sought when any change occurs.*