Feburary 2025

Your complete guide to mortgages

0330 320 5048

office@verve-financial.com

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

At some point in our lives, most of us will need to take out a mortgage if we aspire to own a home. Yet, mortgages and the process of securing one can still be filled with jargon and other complexities. This guide aims to provide you with all the information you need when searching for a mortgage.

If you plan to take out a mortgage, you're not alone. In August 2024, the Bank of England reported that net mortgage approvals rose by 3.8% to 64,900, marking the highest level since August 2022. By the end of the second quarter of 2024, the total value of outstanding residential mortgage loans increased by 0.4% to £1,660.9 billion a figure that's expected to climb even further. In September 2024, UK house prices grew at the fastest pace in two years, with a 0.7% rise from August, bringing the average price to £266,094

So, when will you need to take out a mortgage?

Mortgages are often associated with moving home, whether you're a first-time buyer stepping on to the property ladder or you're moving to a new property. However, even if you're remaining in your current home, searching for a new mortgage when your current deal runs out can help you secure a competitive interest rate and more favourable terms.

You might also plan to purchase other properties. From second homes to a Buy to Let investment, unless you have the money to pay outright, you'll need a mortgage for these.

Mortgage definition

A legal agreement by which a bank or similar organisation lends you money to buy a property.

Deposits

When you're a first-time buyer, saving a deposit is usually where your home buying journey starts and can be a challenge. You'll usually need 5-10% of the property's value to use as a deposit. However, your own circumstances and the wider economic situation may mean that the deposit required is higher.

As property prices have increased, so has the amount first-time buyers need to save. As of 2024, the average deposit required for first-time buyers in the UK is approximately £53,414, a decrease from £62,471 in 2022, though this varied significantly across regions.

If you're hoping to buy a second home, holiday home or Buy to Let investment, you'll usually need a much higher deposit. Expect lenders to require you to have a deposit of at least 25% to secure a mortgage.

LISA: Helping first-time buyers

First-time buyers struggling to save a deposit may want to consider using a Lifetime ISA (LISA). You can contribute up to £4,000 per tax year and receive a 25% bonus from the government. You must be aged between 18 and 40 to open a LISA, but keep in mind that if the money is used for a purpose other than buying your first home, you could face hefty penalties for withdrawals. The value of investments can fall as well as rise. You may get back less than you invested.

Your loan to value (LTV) ratio

If you're moving up the property ladder or remortgaging, a deposit isn't usually a concern, but the loan to value (LTV) ratio is important for all those taking out a mortgage.

The LTV refers to the size of the mortgage in relation to the property you want to purchase or remortgage. So, if you're a first-time buyer with a 10% deposit, your LTV will be 90%. As you pay off your mortgage, your LTV will fall.

Why is LTV important?

Firstly, if you're looking to move to a new property it will help you understand the amount you have to put down on a new home and the size of the mortgage needed.

Secondly, your LTV will affect the amount of interest you will pay on a mortgage. The lower your LTV, the lower the interest rate you'll be offered, reducing your payments. This is because you're viewed as less of a risk by lenders as the amount of equity you own rises. We'll look at the impact interest rates can have on your outgoings later on in this guide.

LTV rates are usually in bands. When looking for a mortgage, if you are just outside of a band and have the funds to do so, making an extra payment to move into a lower LTV band can mean saving money in the long run.

Your mortgage options

Within the mortgage market, there is more than one type of product. Understanding the different types of mortgages can help you choose the one that's most appropriate for you.

Firstly, you'll need to decide between an interest-only or repayment mortgage.

An interest-only mortgage, as the name suggests, means you're only paying the interest the mortgage is accruing. As a result, the amount you owe will still be the same as the original amount borrowed. Unless you've made other provisions to pay off the debt, you won't own your home outright at the end of the mortgage term.

In contrast, a repayment mortgage means you pay interest and a portion of the debt each month. By the time you reach the end of the mortgage term, you will own the property outright and have no further payments to make.

Interest-only mortgages mean your monthly repayments are lower but it's important to have a long-term plan. While it's still possible to take out an interest-only mortgage, these are rarer than repayment mortgages.

Which mortgage should you choose?

There's no 'right' option when choosing between the different mortgage types. What's right for you will depend on your priorities. A fixed mortgage will mean you can plan outgoings, but you wouldn't benefit if interest rates were to fall.

Fixed, tracker or variable?

The second thing you'll need to consider is whether you want a fixed, tracker or variable mortgage. These terms all refer to how the interest on a mortgage is calculated.

- **Fixed:** A fixed-rate mortgage means the amount of interest you pay is fixed for a defined period. This is often two, three, five or ten years. It can provide security as you know what your outgoings will be each month. However, you won't benefit if interest rates fall.
- **Tracker:** A tracker mortgage will track the Bank of England's base rate. You will pay the base rate plus a defined amount, for instance, the base rate plus 2%. The Bank of England's base rate can increase and decrease, and as a result, your repayments can rise and fall too. When interest rates fall, you'll benefit, but if they rise your mortgage outgoings will increase.
- **Variable:** A variable mortgage is similar to a tracker mortgage. However, instead of tracking the Bank of England's rate, it follows your lender's rate, though this often moves in line with the central bank's base rate. Again, this means monthly mortgage repayments can change.

Once a mortgage deal comes to an end, you'll usually move on to your lender's Standard Variable Rate (SVR). For most borrowers, the SVR won't offer the most competitive rate, so it's important to weigh up the benefit of remortgaging by taking out a new deal once an existing one ends.

How will interest rates change?

The Bank of England takes numerous economic factors into consideration when making changes to the base rate. As a result, predicting how interest rates will change is challenging. In November 2020 the base rate is at a record low of 0.1%, but the bank hasn't ruled out negative interest rates.

The term of your mortgage

Finally, you'll also need to decide the term of your mortgage. This is the length of time you'll repay the loan over.

Traditionally, first-time buyers take out a mortgage over 25 years. However, as house prices have increased, mortgage terms have been getting longer. It's now common to take out a mortgage over 30 years or even longer. When you remortgage, you may also be able to decide to shorten or lengthen the term, too, allowing you to repay debt quicker or over a longer period.

A longer mortgage term means monthly repayments will be lower, making purchasing a home more affordable. However, it also means you'll pay more interest over the long term.

When deciding on a mortgage term, one thing to keep in mind is your retirement date. Lenders will usually want you to finish paying your mortgage before you reach retirement, which may restrict you when choosing a longer mortgage term.

Interest rates: What impact do they have?

When you're looking for a mortgage, one of the areas you likely focus on is the interest rate. As this will affect your monthly repayments and the cost of the loan over the term, it's an important factor to consider.

As of February 2025, the Bank of England's base interest rate stands at 4.75%. This marks a significant increase from the record low of 0.1% set during the COVID-19 pandemic. The recent rate hikes are part of the Bank's strategy to address inflation and stabilize the economy. Consequently, mortgage rates have risen in tandem with the base rate. However, as you'll probably be paying your mortgage over several decades, interest rates are likely to vary significantly during this time. So, it's important to understand how increasing or decreasing interest rates will affect affordability.

Even a seemingly small change in the interest rate can have a significant impact on how much you'll pay over the term of a mortgage. Let's say you borrow £200,000 over 25 years on a repayment mortgage:

Interest Rate	Monthly repayment	Total interest paid over the full term
2%	£848	£54,357
4%	£1,055	£116,570
6%	£1,289	£186,658

As you can see, interest rates can affect your finances over the short and long term. Finding a competitive deal can have a huge impact on the cost of buying a house. Shopping around for an appropriate mortgage product that suits you with a competitive interest rate should be a priority. This is where working with a mortgage broker can help. They'll help you identify the lenders who can offer the right deal for you. Please get in touch to discuss your mortgage needs.

Looking beyond the interest rate

While the interest rate of mortgage deals is important, you need to consider other factors when selecting a mortgage product too. Depending on your circumstances and plans, they could have a significant impact and save you money. Some of the other areas to consider are:

Application and arrangement fees

Some mortgage products will charge you an initial cost when applying, or once the mortgage is in place. These costs can vary but can be as high as £1,000, adding to the cost of moving home or remortgaging.

However, there are many products available that don't include these fees, but they often have a higher interest rate, meaning your monthly repayments will be higher. You should take some time to calculate if you'll save money in the long run by paying an arrangement or application fee. You should also consider your circumstance. If you're a first-time buyer there are a lot of additional costs with setting up a home, for example, and you may want to keep your current outgoings down.

Valuation fee

All lenders will carry out a valuation on the property you want to buy. This is where the lender checks that the property is worth the money you're paying, if they believe your offer is too high, they may reject your application on this basis. In some cases, a valuation is conducted through online research, In others, it will be a physical visit to the property.

Some lenders will charge you a fee for this work, or offer you a chance to upgrade to a homebuyer report, which will highlight potential problems with the property.

Keep in mind that a basic valuation is not a survey. A homebuyer report does look at some of these issues, but only those that are easily visible. A building survey will be more comprehensive and can be valuable, especially if you're buying an older or unconventional property.

Exit fees

As the point of taking out a mortgage, you're probably not thinking about moving any time soon. But, if you decided to move home before the mortgage ends, what fee would you face? Even if you have no plans to move, it's important to understand this fee as factors outside of your control may mean you need to exit the mortgage.

It's worth noting that many lenders will allow you to port your mortgage, subject to certain criteria. This means you can move your existing mortgage to a new property.

Overpayment fees

Overpaying your mortgage can help you pay off the debt quicker and reduce the amount of interest you pay. If you're in a position to do so, overpaying your mortgage can be beneficial. Some lenders will charge for making overpayments, so it doesn't always make financial sense.

Usually, you can pay up to 10% of the remaining mortgage each year without incurring charges. However, make sure you check before agreeing to a mortgage or making any overpayments.

Finding the right lender for you

With so much to consider, finding the right lender and mortgage product for you can be challenging.

There are hundreds of mortgage lenders, many unavailable on the high street, that could offer you a mortgage and all will have their own lending criteria. Searching through these and understanding which products are appropriate for you, as well as which lenders are likely to approve your application, can be time-consuming and complex. This is where a mortgage broker can help you.

A mortgage broker understands the market and will be in a position to offer you advice and guidance throughout the process. Working with a mortgage broker can help you save money
in the long run, through securing a mortgage with a lower interest rate, as well as helping you to handle the paperwork and other aspects of applying for a mortgage.

If you'd like to discuss your mortgage needs as either a first-time buyer or you're looking to make a Buy to Let investment, we can help. Please get in touch to arrange a meeting with one of our team.

0330 320 5048

office@verve-financial.com

Please note: Your home may be repossessed if you do not keep up repayments on your mortgage , some BTL are not regulated by the Financial Conduct Authority.

You will incur a lifetime ISA government withdrawal charge (currently 25%) if you transfer the funds to a different ISA or withdraw the funds before age 60 and you may therefore get back less than you paid into a lifetime ISA.
By saving in a lifetime ISA instead of enrolling in, or contributing to an auto-enrolment pension scheme, occupational pension scheme, or personal pension scheme:
(i) you may lose the benefit of contributions from your employer (if any) to that scheme; and
(ii) your current and future entitlement to means tested benefits (if any) may be affected.