Derbyshire™
Mortgage Services

Remortgage Guide

There are many reasons why you might want to remortgage your home, but have been hesitant to do it. We've created this remortgage guide to show you that remortgaging your home can actually be a stress and hassle free process.

If you've reached the end of your current mortgage deal, remortgaging is a great option that might just save you a considerable amount of money in the long term, as well as being a great way to release equity held within your home. Before you remortgage your home, however, it is important to consider all of your options, as well as to calculate all of the additional costs that might come with a remortgage on your property. From knowing when and why to remortgage your home, to completing the remortgage application, this guide will provide a handy source of information about the entire remortgaging process.

1. Remortgaging: The Basics

1.1 What is remortgaging?

Remortgaging is replacing one mortgage with another – your new mortgage essentially repays your existing mortgage. This can happen for a wide variety of reasons, from coming to the end of your current mortgage deal to wanting to free up equity in your home. If you've finished your current mortgage deal, remortgaging could save you a lot of money, and if you're looking to generate equity then that money could be used to purchase an additional property, make home improvements, pay off other debts or be used for divorce settlements.

Typically, you can borrow around **4 to 4.5 times** your income

1.2 How do you remortgage your home?

The first step to remortgaging your home is to assess your financial position. Our advisors will be able to help you complete this assessment, as well as checking the existence of any early repayment charges on your current mortgage deal so that these can also be taken into account. Following this assessment, we will then recommend the most suitable mortgage product for your individual needs and, when you are happy, we will complete a mortgage application for you and liaise with the lender until you receive your new mortgage offer. It might be that the best offer is actually found with your current lender – they often have good deals available for existing customers too.

Some lenders will offer fee free remortgage deals which include the use of a free legal solicitor. If you do not want to make use of this solicitor, and prefer to hire your own for the conveyancing services, you will need to make this arrangement. We can recommend a number of local reputable firms, and your lender may offer you cashback towards your legal fees if you choose not to use their free legal services.

1.3 How much can I afford?

When calculating how much you can afford on your remortgage, as well as taking into consideration your income and outgoing expenses, you will also need to assess whether your mortgage deal contains any payable early repayment charges (ERCs) or exit fees. These charges can be costly, so don't just assume that you are free to leave your current deal whenever you want – check with your current lender whether you have ERCs, how much they are, and when they will end.

When switching your mortgage to a new lender, you may be able to find a fee free mortgage deal. While some lenders will provide such a product, others may include a valuation fee, product fee or solicitors fee depending on the deal you choose. However, we will always find the deal most suited to your circumstances, as fee free doesn't always mean the best deal.

If you want to gain an estimate of how much you can afford to borrow with your remortgage, why not try our mortgage calculator? If you would like a more accurate assessment, then please don't hesitate to contact one of our expert advisors – it's free!

1.4 When should I remortgage?

When you should remortgage your home will completely depend on your own personal situation. If you are looking to remortgage because your current deal is ending, you should start to look for new deals around 3 to 4 months before this happens. At the end of your existing deal your mortgage rate will revert to your lender's Standard Variable Rate (SVR), which is usually higher than the rate you were previously paying. As the remortgaging process can take time, if you waited to remortgage until your current deal ended, you could find yourself paying your lender's SVR for several months. Looking to remortgage 3 to 4 months in advance, however, can both reduce your monthly repayments and save a considerable amount of money in the future.

It can be a very good time to remortgage if interest rates are low. Lenders are constantly creating new mortgage deals and, especially if your current mortgage has existed for a number of years, finding a better and cheaper deal can be quite easy. For example, with a fixed rate mortgage you could lock into a particularly low interest rate and be confident that your repayments will remain the same for the next few years, whatever happens.

Many people also choose to remortgage when they own a large enough portion of the equity in their home, whether to free up that money for further investment elsewhere, or just to get a better mortgage rate. The more equity you own, which in a remortgage is the equivalent of a deposit, the better remortgage deal you can get.

1.5 What type of mortgage do I want?

There are a variety of different types of mortgages which will be more or less suited to you depending on either your circumstances or the current fluctuations of interest rates. Mortgages typically fall into two categories: Repayment Mortgages and Interest-Only Mortgages. Repayment mortgages are the most common way of repaying your mortgage, where each month you will repay some of the capital and interest until you have paid back everything and own your home outright. Interest only mortgages are difficult to obtain without a repayment vehicle or a large amount of equity in your property. They will require you to just pay the interest month by month, but pay the capital outright at the end of the period – it requires a lot of planning to ensure you have a suitable repayment vehicle in place. Within these two categories, however, there are further variations:

- Standard Variable Rate (SVR) Mortgages are a rate determined by the lender. These tend to be higher rates and lenders can change these. The interest rate will also fluctuate as mortgage rates change.

- Fixed Rate Mortgages will hold the interest rate on your mortgage as fixed for a certain number of years (anywhere between 2 and 10!), before reverting to the lender's SVR. While on the fixed rate you will know exactly how much you will be repaying each month, but you could be stuck on a higher rate if other mortgage rates go down. You can get out of a fixed rate mortgage if you choose, but you will have to pay a charge for switching before the end of the period.

- Tracker Mortgages adjust in line with a nominated interest rate, typically the Bank of England base rate. For example, if your base rate is 0.5%, and there's an add-on rate of 1%, your overall mortgage rate will be 1.5%. Some lenders might set a minimum rate to how far your interest rate will drop, but there's no limit to how high it can reach.

- Discount Rate Mortgages are a reduction on the lender's SVR, but the discount will only last for a fixed period (often 2 to 5 years) before returning to the SVR. If the lender changes their SVR, however, this mortgage can also go up and down.

- Capped Mortgages are variable rate mortgages with a cap on how high the interest rate can rise, giving comfort that repayments can't exceed a certain level while you can still benefit from any decline in rates.

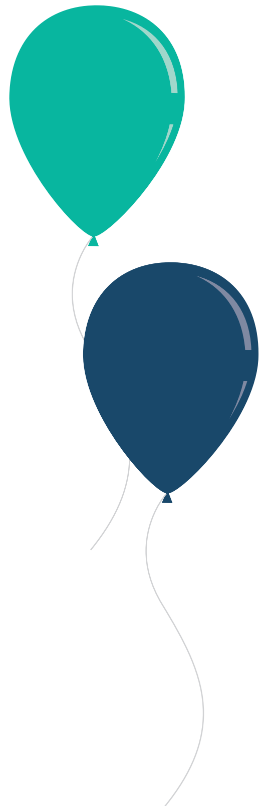
2. Should You Remortgage?

2.1 Purchasing another property

Remortgaging your property is one way to get into the buy to let market, and is a particularly good option for anyone with a lot of equity stored in their home. A remortgage will allow you to remove some of this equity and use it as a deposit on a buy to let property, or even purchase the property outright. This could be cheaper than taking out a specific buy to let mortgage as interest rates for these loans are typically higher.

However, your remortgage will then be considerably larger than your existing mortgage, so you'll have to demonstrate to a lender that you can afford higher repayments. For more information on being a landlord or buy to let mortgages, why not take a look at our Buy to Let Mortgage webpage or Guide, or give one of our advisors a call to discuss your options. It's free.

2.2 Paying off other debts



Before you choose to remortgage your home to pay off other debts, it is important that you consider all of your available options. While consolidating your debts can ease monthly financial commitments, you must remember that by using a remortgage to do this, you are taking a short-term debt and turning it into a long-term loan. Although the interest rate on your mortgage is likely to be lower than for a credit card, overdraft or other personal loan, in the long run you will pay back a lot more money.

The biggest thing to be aware of if you're considering using a remortgage to consolidate your debts is that this loan is secured against your home. If you fail to make repayments, your lender might repossess it to retrieve the money you owe, meaning that you and your family would lose their home. Think carefully before securing other debts against your house.

2.3 If you're getting divorced or separating

A divorce or separation can be a very difficult time, and separating finances can be a challenge. As your home is most likely the biggest asset you have to divide between you, for most people there are three key options:

1. Sell the house to repay the outstanding mortgage and divide the money that's left

2. Keep the house and take over the mortgage by buying out your partner

3. Allow your partner to keep the house and take over the mortgage by buying you out

If you decide you want to keep your home, contact your lender to ask if you can transfer the existing joint mortgage to your name alone – the lender will want to make a personal assessment of your income to ensure you can afford the repayments on your own income.

If the lender won't agree to the transfer, you might be able to find a good deal on a remortgage with a different lender that allows you to become the sole owner of the property. Our advisors specialise in matrimonial cases, and can offer further information about this process which will involve legal services to transfer your ex-partner's share to your name.

2.4 Getting a better mortgage deal

If you are on the lenders SVR, or your current deal is coming to an end, then remortgaging is a great way to find a better mortgage deal and save yourself a considerable amount of money in the long-term. If, over the years, you have managed to store up a larger portion of equity within your property, perhaps around 25%, then you will almost certainly be able to find a better mortgage rate.

3. The Application Process

3.1 We do it for you!

We believe that mortgages should always be as stress and hassle free as possible, whether it's your first mortgage or your tenth. This is why we will always complete your mortgage application on your behalf, and ensure that all of the correct documentation is where it needs to be at the right time. We also promise that we will never charge you for our services – our only priority is to make sure that you have the best mortgage deal for your situation.

To help us find you a new mortgage deal as quickly and efficiently as possible, it is always helpful to have 3 months' worth of payslips and the latest P60, or the last 2 years Tax Computations (previously known as SA302s) and corresponding Tax Year Overviews if you are self-employed. We will also need the last 3 months' worth of bank statements that show salary credits, and any other credit commitments being paid, as well as proof of address and ID and details of your existing mortgage.

3.2 Your new mortgage offer

Your new mortgage offer will be made in the same way as any other mortgage – the lender will assess your property through a valuation, as well as taking into account your own financial situation. We will liaise with them on your behalf to ensure that the process is as stress free as possible.

Once your mortgage offer has been issued, we are then happy to sit down with you and go through the entire offer to make sure you understand exactly what you're committing to. If you have any questions, we're always happy to answer them – we want you to be happy with your new deal, and we want to make sure that it works for you and your situation.

3.3 Your current lender

Once your new mortgage offer has been received, your solicitors will arrange for your old mortgage to be repaid by your new mortgage, and for any additional funds raised to be released to you on completion.

3.4 Insurance and protection

As with any other mortgage, it is important to ensure that you and your family are still protected should you become ill, be unable to work, or in the event of your death. If you are unable to make your remortgage repayments, your home may still be repossessed by your new lender to retrieve the money you owe.

As with your previous mortgage, buildings insurance will also be compulsory, so make sure that you invest in this and continue to keep it renewed so as not to break any agreement with your mortgage lender.

4. What Next?

We hope that this guide has been useful for understanding the remortgage process. Our priority at Derbyshire Mortgage Services is always to find the best deal on a mortgage that is suited to you and your circumstances, and our dedicated team of expert advisors will be with you every step of the way, from first meeting until the day you move in.

We will never charge you for our services, so if you're ready to find the best remortgage deal, or if you have any queries, or even if you're just considering your options for the future, why not give us a call on 01332 554098 and let us help you start planning today.