PFP Erasmus+
Module 5: Mortgages

Teacher's Guidance Notes

1.1: What is a mortgage?

A loan taken out for the purchase of property. Usually over a 25 year time span. A mortgage is a secured loan which means if you fail to meet your repayment the bank may take back ownership and sell the asset to recover their initial loan. Typically you must be at least 18 years old to take out a mortgage.

Mortgage interest rates tend to lower than general bank loans and much lower than credit cards. This is because the loan is secured against an asset that can be sold in the event of default.

1.2: The main types of mortgage

Types of mortgage

Most mortgages in the UK are repayment mortgages. This means your monthly repayments pay back part of the initial capital and also the interest owed.

Standard Variable Rate (SVR)

Standard variable rate mortgages are the default mortgage for many lenders. Whilst only a few customers start on a SVR mortgage, it is the rate that borrowers usually pay once any initial offer/deal ends. Typically they are approximately 3-4% above the Bank of England Base rate. Currently the BoE rate is 0.5% and the Halifax mortgage SVR is 3.99%.

Fixed Rate

With fixed rate mortgages, the borrower pays the same interest rate for the agreed term of the deal. In the UK fixed rate deals are typically of a 2 or 5 year duration. The key benefit of this type of mortgage is that the borrower knows exactly how much they will need to pay each month for the set deal period and this makes budgeting easier. The main disadvantages are that interest rates may fall but the repayments would not fall, there can be high set up fees, high redemption penalties and the need to keep re-mortgaging to get a good deal after the fixed rate period ends.

Did you know: 2 year fixed rate deals are currently the most common type of mortgage amongst 1st time buyers in the UK.

Tracker

A tracker mortgage usually tracks the Bank of England (BoE) base rate plus a certain premium. For instance if the BoE base rate was 1% and the premium was 2.5% the borrower would pay 3.5%. This type of mortgage interest rate can rise or fall.

Discounted

A discount mortgage involves paying a certain discount below the lenders current SVR. If the banks SVR was 4% and the discount was 1% the borrower would pay 3%.

Offset

An offset mortgage means that any money in the lenders savings account is offset against money owed on a mortgage. If a person has a £100,000 mortgage but also has £25,000 in savings with the bank then interest will only be charged on £75,000.

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Interest only
This type of mortgage is relatively rare for purchases other than buy to let property. The mortgage repayments only cover the interest cost of the loan and not the initial capital (amount borrowed).
Did you know: There are mortgage brokers and online comparison sites that help you find the best mortgage deal.

1.3: Choosing the most suitable mortgage
What to look for in a mortgage

Feature	Answer
The interest rate payable	
Deposit size required	
How often is interest charged	
Set up fees	
Redemption fees	
Are over/under payments allowed	
Length of special deals	
Are payment holidays allowed	
Is the mortgage portable if you want to move home	
What is the lenders SVR after any deal ends	

Did you know: The typical mortgage interest rate is usually 3.5% above the BoE base rate.

1.4: Getting the best mortgage deal
The best mortgage deals are reserved for borrowers with three key characteristics:
1. The higher the deposit the lower the mortgage interest rate tends to be. Typically a deposit of 40% will secure the best deals. A minimum deposit is usually around 10% but some

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mortgages offers are based on 5% but the interest rate payable tends to be high compared to bigger deposits.
Did you know: The current average first time buyer deposit on a home is £33,000. There are large regional differences in the UK. .
2. Your ability to make the regular repayments. This is based on your disposable income after expenses and other loans. It also assesses job security.
3. The borrowers credit history score. This shows if you have been a reliable borrower in the past. Data is gathered from credit card information and/or how often you are overdrawn on your savings account.

1.5: Mortgage comparison tools
Mortgage comparison sites enable you to compare a variety of mortgages from a large number of potential lenders.
Top tip: Use a mortgage comparison site such as https://www.moneyexpert.com/mortgages/ to find the best deals

1.6: Mortgage calculators
Mortgage calculators are a very useful and free tool. They can help you determine your monthly repayments, impact of overpayments, impact of interest rate changes and various other useful calculations.
https://www.hsbc.co.uk/1/2/mortgages/mortgage-calculators

1.7: Sourcing a mortgage
Getting mortgage advice to find the right product
There are so many mortgage products on the market that finding the right deal can feel overwhelming. A good starting point is the bank you currently use for your day to day banking. Alternatively you could see a mortgage broker/adviser who can advise you on the best deals. Sometimes they charge a fee but other times it is free and the broker makes money by charging the lending a commission. There are many mortgage comparison sites available and a search in Google for ‘mortgage deals’ will give a variety of useful hints and tips.

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Worked example
House selling price: £150,000
Deposit paid: £15,000 (10%)
Amount borrowed £135,000
Term of the mortgage 25 years
Interest rate 5%
Minimum salary required based on a 4 x income multiple £33,750
Monthly repayment £789
Total interest payable £101,759
Total repaid (capital + interest) £236,759
Top tip: Try and overpay your mortgage each month and/or with a lump sum. Alternatively you can ask to repay your mortgage over a shorter period. If you can afford it, try and pay a bigger deposit. All these methods result in significant savings.
A £50 per month overpayment would reduce interest paid to £88,962 and reduce the term of the mortgage by 2 Years 9 months
A bigger deposit of £25,000 would reduce the monthly payments to £731 and total interest paid would be £94,221.
A shorter mortgage term of 20 years would increase the monthly payments to £825 and total interest payable would be £72,987

1.12: Costs of buying a home
Buying a property
Stamp duty (A government tiered tax based upon the purchase price of a property). Currently first time buyers are exempt up to £300,000
https://www.gov.uk/stamp-duty-land-tax/residential-property-rates
Mortgage fees, valuation fees, survey fees. This can often be over a £500
Legal fees. Typical mortgage conveyance fees are approximately £1,500
Extension task: Running costs of owning a property
Utility bills gas, electric, water
Maintenance costs such as boiler repair
Council tax. This increases with the rateable value of the property.
Ground rent and maintenance fees (if leasehold)

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1.13: Mortgage jargon

Agreement in principal
Annualised Percentage Rate (APR)
Bank of England base rate
Buy to Let (BTL)
Capital
Deposit
Equity
Individual savings Account (ISA)
Interest rate
Loan to value (LTV)
Redemption fee
Standard Variable Rate (SVR)

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