TOPIC 27

Transferring mortgages

LEARNING OBJECTIVES

A mortgage is a long-term commitment, often lasting twenty years or more. Inevitably, over such a long period, most people want or need to make changes to their borrowing arrangements – to secure a better deal, to facilitate a property move or to reflect changes in their personal circumstances. This topic explores the different ways in which these needs can be met.

By the end of this topic, you should have an understanding of the considerations and processes involved in:

- converting to a different mortgage with the same lender;
- remortgages;
- property moves;
- transferring equity – removing a party from or adding a party to a mortgage and the SDLT implications of doing so;
- redeeming a mortgage early;
- making capital repayments during the term.

THINK . . .

You should now have a good understanding of the different processes involved in buying a property and securing a mortgage. To help you to prepare for this topic, think about the following questions:

- What do you think the advantages and disadvantages might be of staying with an existing lender rather than switching to a new one? (Think about the MCOB affordability requirements, for instance.)
- What costs might be involved in a property move, in addition to the cost of the property itself?
- If a couple splits up and one of the mortgagors asks to be released from the mortgage, why might a lender refuse such a request?

TOPIC
27

27.1 Changing the mortgage

The mortgage market is a very competitive environment, and lenders are always looking to increase their share of quality customers by offering tempting deals to potential new customers. If a borrower wishes to reduce the cost of their mortgage or take out a different type of arrangement, or is reaching the end of a special rate, it is an opportunity to review mortgage arrangements and look at offers available from other lenders, as well as finding out what their existing lender can offer.

The decision as to whether to remain with an existing lender or move the mortgage to another lender is not always easy. Reductions in monthly repayments achieved by remortgaging could be outweighed by fees charged on the new arrangement by the new lender. In addition, some lenders offer loyalty deals to encourage borrowers to stay with them.

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CHECK YOUR UNDERSTANDING

In Topic 10, we considered the situation where an existing borrower wishes to vary the terms of, or replace, an existing mortgage with the same lender, either on the original property or a new property. Does a lender have to carry out an affordability assessment for an existing customer in these circumstances?

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CONSIDERATIONS FOR SWITCHING TO A NEW ARRANGEMENT WITH THE EXISTING LENDER

- Application and/or product fees for the new deal.
- Early repayment charges might apply to the original arrangement, although lenders might waive the charge if a new offer is taken up.
- Switching with the original lender does not involve substantial legal costs, and no formal valuation will be required unless a significant increase in borrowing is proposed. This contrasts with a remortgage, where there will be legal costs and a valuation fee, unless the new lender pays them as part of the remortgage package.
- The process should be much quicker than switching to a new lender, once approval has been given.

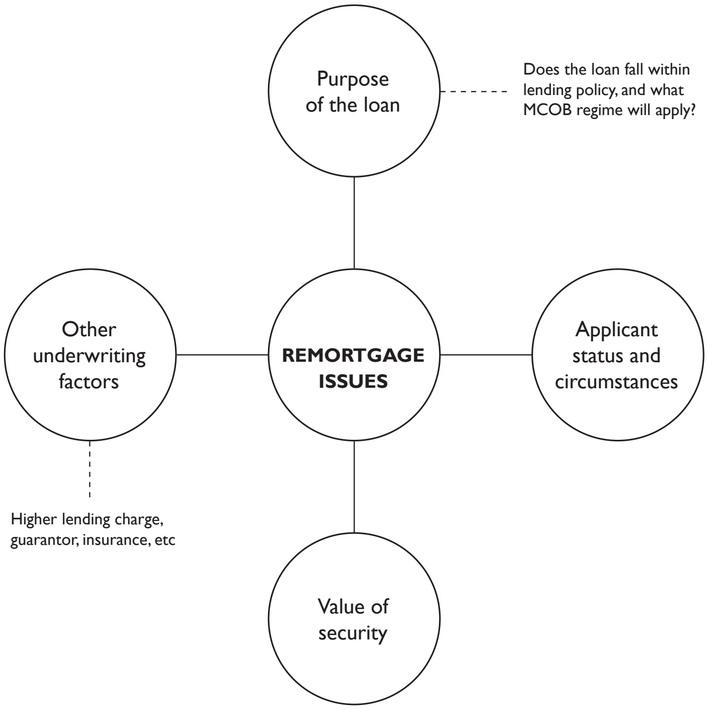
- We saw in Topic 10 that a lender can waive the normal affordability checks in favour of a proportionate affordability assessment for consumers who are up to date with their existing mortgage and want to switch to a more affordable one (with their existing lender or a new one) without borrowing more.
- Lenders who are signatories to the Mortgage Charter (see section 28.2.9) will allow borrowers nearing the end of a fixed-rate deal to lock in a new deal up to six months ahead. Borrowers can manage the new deal and request a better like-for-like deal until their new deal's term starts, depending on availability.

27.2 What is involved in remortgaging?

A remortgage is a replacement loan for one already in force. The replacement loan may be with the original lender or with a different lender, although the need for a remortgage from the original lender is rare. Nearly all mortgage deeds have clauses allowing a further advance to be made without having to draw up a new deed, and most lenders will allow an existing borrower to move to a new mortgage product without the need for a remortgage.

From a regulatory perspective, a remortgage is an entirely new arrangement, and the new lender must apply MCOB rules to the application. As the arrangement starts after 21 March 2016, it will be an MCD regulated mortgage, which must be suitable and affordable. This means that the normal checks, including affordability, must be carried out, unless the remortgage is for the same amount, in which case the lender can apply a proportionate affordability assessment (covered in section 10.7.1). Regardless of the MCOB requirements, the lender will need to be satisfied that the borrower can maintain the mortgage repayments and that the property is adequate security for the mortgage.

FIGURE 27.1 WHAT FACTORS WILL THE REMORTGAGE LENDER CONSIDER?



27.2.1 What is involved in the remortgaging process?

The procedure for remortgaging is relatively straightforward and mirrors in many ways the normal mortgage application procedure, including the rules on advice and execution-only. It is also important to remember that a remortgage will now be an MCD regulated mortgage.

As mentioned above, the necessary status and security information has to be gathered. In particular, details of the existing mortgage have to be confirmed – the lender should obtain details of the existing mortgage, together with statements going back over a reasonable period of time.

The lender should check whether the information given at application stage is consistent with evidence presented by the existing lender. For example, the borrower might state that the switch is to get a lower rate of interest, but evidence might suggest that the existing lender is at an advanced stage of action for recovery.

The borrower should obtain a redemption statement in order to establish accurate borrowing requirements – otherwise there may be a shortfall that cannot be met from personal resources.

Once the lender has assessed the application as acceptable, a formal offer of advance will be issued. Assuming the borrower is happy with this, the conveyancing work can start.

The solicitor acting for the borrower will arrange to pay off the existing mortgage from the proceeds of the advance cheque, alongside any other costs, fees, or expenses involved.

27.2.2 What issues does the borrower need to consider?

Remortgaging can be a painless way of raising extra money, and the costs can be reduced by taking a deal that offers free valuations and legal services. However, the borrower should be aware of the following issues before remortgaging.

- **Terms and conditions** – replacing a mortgage without raising additional capital can be a good way to reduce the interest paid, or to take advantage of special offers. The borrower should make sure they understand the terms and conditions that apply to the proposed new arrangement – often there are tie-in conditions with financial penalties for early redemption, or other conditions that may not be immediately obvious.
- **Fees and other costs** – there are likely to be fees and costs associated with remortgaging, unless the lender offers free valuations and legal services. Costs would include application and/or product fees with the new lender, valuation and conveyancing fees, and potential redemption penalties from the existing lender. Many legal processes would have to be repeated, including local authority searches, although SDLT will not be charged again. In view of this, the borrower should consider the impact of the costs on the overall arrangement. For example, if the fees on a three-year fixed-rate deal amount to £500 and the borrower pays them from their own resources, they will need to save at least £14 a month in order to make it viable. If they choose to add the costs to the amount borrowed, they should consider the impact of paying interest on it for the term of the mortgage.
- **Debt consolidation** – replacing an existing mortgage with an increased loan to consolidate other debts can be a money saver in the short term, as mortgage rates are lower than other forms of borrowing. However, the following considerations need to be taken into account:
  - The borrower will be paying interest on the consolidated debt until the end of the mortgage term, which will usually be longer than the original loan it replaced. Over the full term of the mortgage, the costs will be higher.
  - If the borrower is classed as a ‘credit impaired customer’, MCOB rules require the lender to take reasonable steps to ensure the consolidated loan is repaid on completion of the mortgage where the borrower would not be able to afford the increased mortgage if it remained in place, or add the existing debt repayments as a committed expense in the affordability calculation.
  - Moving unsecured loans to secured status can be risky for two reasons:

- The borrower's equity in the property will be reduced, which could reduce their options if they wanted to move in future.
- If the borrower has difficulty meeting monthly costs and defaults on a mortgage, the lender might commence possession proceedings, whereas this would not happen with an unsecured loan.

- **Financing non-property purchases** – using a remortgage to raise additional money for other purposes (car purchase, holidays, etc) can be attractive at the time, as mortgage rates are generally lower than other forms of borrowing. However, the borrower will be repaying the increased borrowing to the end of the mortgage term; this could mean the car is financed for upwards of 20 years, even though it will lose value rapidly.
- **Higher lending charge** – increasing the level of borrowing may result in an LTV in excess of the new lender's threshold for an HLC. In this situation, the HLC should be taken into account when calculating the overall benefit of the new arrangement. HLCs already paid to the current lender will not be refunded or transferable to the new mortgage.

— Any second charges will either need to be settled on completion of the remortgage, or the second charge holder will need to agree to postpone their charge to allow the new lender to establish a first charge on the property. If this was not done, the new loan would become a second charge itself, due to registration after the existing second charge. There may be a fee to settle the second charge.

ISSUES TO CONSIDER IN RELATION TO THE EXISTING MORTGAGE

- **Early repayment charges on the existing mortgage** – if the existing mortgage is based on a special deal (eg a fixed rate), the borrower might be charged by the lender for transferring to another lender during the term of the special deal. Typically, such a charge would apply until the end of the fixed-rate term but some deals are subject to an 'overhang', where the penalty continues beyond the term.
- **Administration fees** – most lenders charge a fee to close a mortgage account.
- **Loyalty offerings** – some lenders offer borrowers special loyalty bonuses after a specified period. For example, the borrower might be given a 0.5 per cent discount from the standard variable rate once they have held the mortgage for five years. A borrower close to becoming eligible for such a discount might find it more cost-effective over the longer term to remain with their existing lender.

- **Relationships** – many borrowers develop a positive relationship with their lender and feel a degree of loyalty. In some cases the relationship has enabled them to overcome repayment problems, or to arrange lending outside the lender's normal criteria.

27.3 Property moves

Moving home is an opportunity for the borrower to reassess existing arrangements and decide whether better terms can be secured elsewhere. Factors that could influence the decision include:

- the existing lender's service standards;
- the existing lender's interest rates compared with the market;
- special deals available elsewhere and the existing lender's efforts to retain the borrower;
- the comparative costs and attractiveness of offerings from new and existing lenders.

Many lenders offer a portability option. For example, a borrower with a £75,000 five-year fixed-rate deal would be allowed to move without penalty within the five-year term, providing that £75,000 of their new mortgage was on the same deal. Effectively, they would be transferring that mortgage to the new property, although from a technical standpoint the original mortgage would be redeemed and then another mortgage arranged. Any increase in borrowing would be on a deal offered at the time. If the borrower wished to reduce the amount ported, any early repayment charge applicable to the mortgage would usually be applied to the reduction. Other companies offer portability on the basis that the new mortgage must be for at least the same amount but may be on different terms. This could save a significant amount in early repayment charges compared with arranging the new mortgage with a new lender.

PORTABILITY

The facility to transfer an existing mortgage to a new property during the term of a special deal without penalty.

When porting a mortgage, the borrower will have to submit a new application and the lender will be required to carry out an affordability assessment, although MCOB 11.6 does allow the lender to waive affordability checks if there is no increase in borrowing and the change will not impact on affordability. It is possible that the application could be declined if there have been problems with the account or the borrower fails to meet the affordability requirements for increased borrowing.

Some lenders insert a condition requiring the borrower to pay the standard early repayment charge when the original mortgage is redeemed, and will then refund it when the new loan is completed. In most cases, the lender will only impose the condition if there is a time lapse between sale and purchase, but as a potential charge that may affect cash flow during the purchase process, it is important to check the exact terms and conditions of the portability facility.

27.3.1 Considering whether to move

Moving home is an expensive process, and the owner should weigh up the benefits of moving compared with the costs. Depending on the reasons for their wish to move and the degree of flexibility they have, an owner might be fortunate enough to move to an area where house prices are lower, in which case they might be able to reduce borrowing or choose a larger house. Conversely, they might be forced to move to an area where prices are higher, resulting in a much larger mortgage or a smaller property for their money.

Common reasons for moving include the following:

- **Relocating as a result of a change of job** – in this case, a buyer should be sure that they have researched the proposed area, assessed property available within the budget, and ensured family needs can be met by local facilities such as schools, shops, medical facilities and so on. Proximity to work might also be a consideration: a non-driver who works locally might need to be on a bus route; and a commuter might like to live within walking distance of a railway station.
- **Family circumstances** – a growing family or a need to provide a home for dependent elderly relatives may require a bigger property in the same area; a separation may result in the sale of the family home and downsizing into smaller properties.
- **Personal preferences** – an owner might decide to move because they want to, rather than from necessity. For instance, they might want to move from an urban area to a rural area, or to a more attractive or larger home. This is more likely to be the case with buyers who have yet to start a family, or whose family members are independent.

27.4 What is involved in transfers of equity?

IN BRIEF

TRANSFER OF EQUITY

A transfer of equity arises when:

- a joint owner transfers their 'share' of the property into the other owner's sole name;
- a sole owner wishes to add another person as joint owner.

There are many reasons for such a move, but the most common are:

- the property is to be transferred to one party as part of a divorce settlement or relationship break up;
- an existing owner is marrying and wishes their new spouse to become joint owner.

From a legal perspective, a transfer of equity must be agreed by all the owners, who can then arrange for a solicitor to register the transfer at the Land Registry. However, a mortgage must replicate ownership of the property, so if the transfer will involve removing a joint mortgagor or adding a new mortgagor, the lender will have to agree to the transfer of equity as well. The legal charge, or standard security, is made between the parties specified in the original contract, and the contract can only be varied with the agreement of those parties.

If there is any threat to the security of the mortgage, the lender is unlikely to agree and the transfer cannot go ahead. Often, this has led to a situation where divorced couples are still joint mortgagors and, to compound their problem, are unable to arrange a mortgage on a new property because the existing mortgage affects their affordability assessment.

A transfer of equity request is often made at the same time as a request for a further advance – for example, the remaining borrower needing to raise finance to buy out the borrower who is leaving the property. It is normally the borrower who originates the request.

Similarly, a person may wish to be added to the mortgage when a relationship is formed and that person moves in with the existing borrower. This makes little difference to the occupant's rights if the two people legally marry – under the Family Law Act 1996, an occupying spouse has certain rights whether named on the mortgage deed or not. The Civil Partnership Act 2004 extends the same rights to civil partners.

MORTGAGE RELEASE TO ESCAPE CREDITORS?

A less common reason for a request to release a borrower from the mortgage contract is where that party is seeking to escape creditors. It is a common fallacy that a person faced with bankruptcy can protect assets by transferring them to a partner or spouse; as we saw in Topic 11, in practice the trustee in bankruptcy can seize those assets anyway.

27.4.1 The purpose of the request

The purpose of the request may be straightforward or concealed. The lender will investigate the request in order to understand the borrower's motives for the approach.

A request to transfer equity can result in additional business arising from unfortunate circumstances. Often when two people split up, additional mortgage finance is required by one person to buy out the other, and for the person leaving to buy a new home. There are other related product needs that a revised factfind for both parties would reveal.

27.4.2 Status

If a person is to be removed from the mortgage, the lender will examine the remaining borrower's financial circumstances in order to establish whether their income and expenditure will enable them to support the outstanding mortgage on their own. This may involve taking references and/or examining statements, as well as carrying out a credit search for details of any other bad debts. Although this process will have been carried out when the original mortgage was arranged, circumstances might have changed in the interim. For example, the remaining party might not have been the main earner when the original assessment was carried out, or their income might have changed significantly.

If the transfer request is due to separation or divorce, the lender should be aware that the remaining borrower might have to make maintenance payments, or, conversely, might expect to receive such payments. Maintenance arrangements might not be finalised at the time of application, but they can substantially affect the borrower's ability to repay the loan.

27.4.3 Value of the property

The borrower's ability to repay must be considered alongside the current LTV ratio on the mortgage. Only by looking at these two factors will the lender better identify the risk. A revaluation of the property may be necessary.

27.4.4 New occupier

If a person is moving in, it must be established whether they intend to become a party to the mortgage contract. If so, the lender will carry out normal status and affordability checks before agreeing to the transfer.

If another person aged 17 is already living in the property at the time of transfer, or will be moving in once the transfer is complete, and does not intend to become a joint owner and mortgagor, they will be required to complete a ‘consent to mortgage’ form, waiving rights of residence should the lender have to seek possession. Failure to do this can result in the occupier enjoying a right of residence that overrides the mortgage under section 70 of the Land Registration Act 1925 (England and Wales only). In effect, the lender will not be able to obtain vacant possession following litigation for possession unless the consent to mortgage has been obtained.

27.4.5 Track record

The track record of the account to date is important, but the lender also needs to make sure that the individual who is to remain in the property is fully aware of the consequences of releasing the other party to the mortgage.

If the borrowers have a longstanding relationship with the institution, it may be possible to learn quite a lot from examining the past conduct of the account, as well as (sometimes) the adviser’s knowledge of the individuals concerned. Less can be learned from looking at the track record if the loan is relatively new.

27.4.6 Guarantee

If the loan is supported by a guarantee, any proposed changes in the terms and conditions of the guaranteed mortgage must be agreed by the guarantor(s).

27.4.7 Life assurance policies

If the mortgage is interest-only, there may be a joint life endowment policy in existence to repay the loan at the end of the term.

If the policy is assigned to the lender as security, the lender must be involved in any variation of the policy terms. If the policy is not assigned, it should be transferred or assigned to one or other of the policyholders, usually as part of any settlement. Where a party is to be added to the mortgage, they should consider the way in which the mortgage will be repaid. For example, if both original parties had ISAs to repay the loan, there will be a shortfall as the person ‘leaving’ the mortgage takes their ISA with them. The new party to the mortgage will need to consider how to address the shortfall.

27.4.8 The transfer process and costs

The lender will charge a fee for the transfer of equity, which will be borne by the borrower. It is normal to take legal advice and arrange for a solicitor to act, and the transfer will be arranged by a deed of transfer (or a deed of variation in Scotland).

27.4.9 Stamp duty land tax (SDLT)

A transfer of equity may create a liability to SDLT in some situations, regardless of whether it was paid on the original purchase of the property. The rules are relatively complex, but the key points can be explained relatively simply.

SDLT: ADDING A JOINT OWNER

Where a sole owner is getting married, entering a civil partnership or setting up home with someone, and they want to transfer ownership into joint names, there may be a charge to SDLT.

The charge arises where the transfer is agreed in exchange for a consideration, which includes a cash payment and/or an assumption of liability to pay a mortgage.

EXAMPLE ASSUMING AN SDLT THRESHOLD OF £250,000

Alison owns her house, which is worth £550,000, with a mortgage of £180,000. Her partner Brian will move in soon and she would like to transfer the house into their joint names. Brian has agreed to pay Alison a cash sum equal to half the equity in the house, and to be added to the mortgage.

For SDLT purposes, there is a cash sum of £185,000 (50 per cent of the equity), plus a mortgage of £90,000 (50 per cent of the mortgage). As the total of £275,000 is above the threshold for SDLT, tax will be payable at the standard rate(s) on the excess.

In our example, if Brian did not pay a cash sum but was purely added to the mortgage, there would be no liability as the consideration would only be £90,000 (50 per cent of the mortgage). However, this might not be fair to Alison or any potential heirs, who are, in effect, giving away a large sum of money to Brian.

The rules also mean that if Brian already owned another property, the SDLT second home surcharge would apply to his ‘consideration’.

SDLT: REMOVING A JOINT OWNER

A charge may also arise where joint owners separate and the property is transferred into one name. In the case of a court order or agreement between the partners in a divorce, judicial separation or dissolution of a civil partnership, the transfer will be exempt from SDLT. In all other situations a liability may be created. The charge will be based on the consideration given in exchange for the transfer.

EXAMPLE ASSUMING AN SDLT THRESHOLD OF £250,000

Jeff and Dave are good friends who bought a flat jointly to get on the housing ladder. Dave has accepted a job 200 miles away and would like to buy his own flat near to work. The flat he and Jeff currently own is worth £180,000, with a joint mortgage of £140,000.

Jeff has agreed to pay Dave £20,000 to buy out his share of the flat's equity and will take over the mortgage in his sole name.

For SDLT purposes, the consideration is a cash sum of £20,000 (50 per cent of the equity), plus a mortgage of £70,000 (50 per cent of the mortgage). As the total of £90,000 is below the threshold for SDLT, no tax will be payable. Had the total consideration been above the threshold, Jeff would have to pay the appropriate rate of tax.

27.4.10 Regulatory considerations (MCOB 7.6)

When a party is added to a mortgage contract, the lender must provide them with an ESIS for the whole loan. When a party is removed from a mortgage contract, the remaining borrower must be provided with an ESIS for the whole loan.

In each case the ESIS must meet the requirement for pre-application disclosure in MCOB 5. However, the lender can make changes to the wording and add, remove or alter information to ensure the content reflects the context of the change and avoids misleading information.

Where the removal of a party is due to death, the lender does not have to provide a new ESIS.

27.5 What is involved in early redemption?

It is the right of any borrower to redeem a mortgage at any time. The law prohibits lenders from obstructing this right, although they are allowed to make a reasonable charge to cover their lost income.

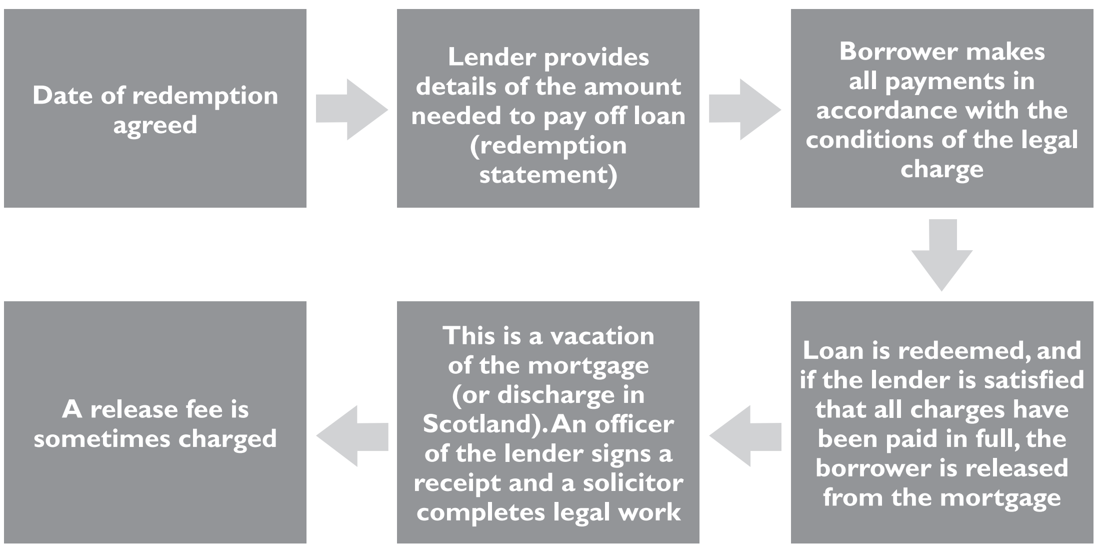
When a mortgage is created, the deed will contain a legal date of redemption, which is usually six months after the mortgage is created. Either party to the mortgage has the right to ask for early redemption after that date has passed, although the lender will usually only do so if the borrower has breached the conditions of the mortgage.

> **WHEN MIGHT A MORTGAGE BE REDEEMED EARLY?**
>
> When the borrower:
>
> - receives a legacy;
> - wants to move and take a new mortgage;
> - has funds to clear the mortgage and feels it will be of benefit to do so.

Early redemption may not always be the best course of action for the borrower. The borrower should be encouraged to take an overall view of their financial circumstances to decide whether there are more efficient ways of using the funds.

27.5.1 The process for early redemption

FIGURE 27.2 REDEEMING A MORTGAGE EARLY



27.5.2 Early repayment charges

Many lenders impose an early repayment charge to offset loss of anticipated interest from special deals. Details of such a charge are included in the mortgage deed or conditions at the time the mortgage is completed, are detailed in the annual mortgage statement, and can be obtained from the lender on request. These fees are usually expressed in terms of so many months' interest or a percentage of the loan. The amount can be significant and must be taken into consideration in the overall calculation. It is over and above the relatively small mortgage exit administration fee imposed to complete the account closure and any associated administration work.

Mortgage exit fee

The mortgage exit fee is often charged by the lender to cover its costs in closing the account and carrying out the required procedures when the borrower redeems a mortgage.

The fee used to be relatively low, often around £50, though many lenders increased the fees for existing customers, often to amounts as high as £500, which led to controversy, complaints and some refunds or reductions.

MCOB rules require the lender to state the amount of any fees to be paid on redemption of the mortgage, although it is acceptable for the lender to state the current fee (ie it may change over the life of the mortgage). The FCA's guidance for lenders is based on principles of fairness outlined in the Consumer Rights Act 2015.

The FCA considers the following to be acceptable components of the lender's costs of redeeming a mortgage:

- deed release fees;
- Land Registry charges;
- staff processing cost;
- a reasonable proportion of general overheads.

Where a borrower considers a mortgage exit fee to be unfair, they have the right to refer the case to the Financial Ombudsman Service where the case will be considered on the basis of fairness.

An increase in a mortgage exit fee from the amount originally stated is likely to be reasonable if the contract contains a valid reason for an increase. The most likely valid reason would be increases in the lender's administration costs between the start of the contract and redemption. Any increases must represent the true costs to the lender and the right to vary the costs should be explained clearly in the contract.

CLOG ON THE EQUITY OF REDEMPTION

In rare circumstances, a court can decide that an early repayment charge is a 'clog on the equity of redemption'. This means that the court feels an unreasonable condition has been imposed deliberately to prevent or discourage a borrower from paying back the loan. In such cases, the court can set aside the clause in the mortgage, thereby allowing the borrower to make early redemption.

For example, in the 1990s, Northern Rock imposed a relatively high early repayment charge in the first seven years of its variable-rate mortgages. A court ruled this was an unreasonable charge and ordered the lender to remove it.

We discuss 'equity of redemption' in Topic 29.

27.5.3 Part-redemption

Sometimes a borrower may wish to pay a lump sum to reduce the mortgage balance. This is called a part-redemption.

Most lenders set down a minimum capital repayment, mainly to enable completion of the transaction as a capital reduction rather than an earlier-than-scheduled monthly repayment. As more lenders move towards calculating interest on a 'daily rest' basis, the need to differentiate between capital reductions and other payments becomes less important.

The borrower needs to know the lender's attitude towards part-repayment. Some lenders will not apply the money to the account until the end of the year, which means it will have no effect until then. Many lenders will accept part-repayment but need to be told to use it immediately to reduce the capital – otherwise it will sit in a separate account until the year end. Where the part-repayment represents part of a special-deal mortgage, a proportional penalty may apply.

WHAT ARE THE BORROWER'S OPTIONS AFTER PART-REDEMPTION?

When a part-redemption is made, subject to the agreement of the lender, the borrower with a repayment mortgage can either:

- continue repayments at the same amount and reduce the mortgage term; or
- reduce the amount of monthly payments and keep the same term.

In the absence of a request from the borrower, the lender normally reduces the monthly mortgage payment.

27.5.4 Early repayment disclosure (MCOB 7A.3)

If a customer wishes to repay the mortgage before the end of the term, the lender must provide them with the necessary information to allow them to make that decision. The information must:

- be provided without delay;
- quantify the implications of early repayment;
- clearly set out the assumptions used when calculating charges. The assumptions must be 'reasonable and justifiable'.

27.6 Changing the mortgage term

It is possible for a repayment mortgage term to be reduced or extended.

To reduce the term, the borrower can make larger monthly repayments than those set out in the mortgage contract. More than the scheduled capital is repaid each month, which reduces the interest charged and the capital outstanding. Some borrowers choose to leave their monthly repayments unchanged when interest rates are falling, on the basis that they have been able to make the payments up to now and can continue to do so. This reduces the mortgage term.

The term of the mortgage can also be extended, with the agreement of the lender; this is sometimes an option for borrowers who have run into financial difficulties. It has the effect of reducing the monthly repayment and so makes the mortgage more affordable.

Lenders will only agree to extend the term if it represents a genuine solution to the borrower's problems. If the lender feels that it will not improve the borrower's ability to repay the loan, an extension of the term will not be granted.

No money will be saved directly by extending the term of an interest-only mortgage; it may be of benefit in that it gives the associated investment vehicle more time to grow.

THINK AGAIN . . .

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- outline the issues a borrower needs to consider when deciding whether to opt for a new arrangement with their existing lender or a remortgage?
- explain what is meant by a 'transfer of equity'?
- outline the issues a lender would need to consider before agreeing to remove a borrower from a joint mortgage?
- outline the steps a lender would need to take before adding a borrower to an existing mortgage?
- describe the regulatory requirements that apply to the lender if a borrower asks to redeem a mortgage early?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Test your knowledge

?

Use these questions to assess your learning for Topic 27. Review the text if necessary.

Answers can be found at the end of this book.

1) Which of the following would **never** apply when a borrower increases their borrowing by remortgaging their house with a new lender?

   a) Local authority search fee.

   b) SDLT.

   c) Early redemption charge.

   d) Product application fee.

2) The facility to transfer a mortgage product to a new property during the term of a special deal, without incurring charges, is called:

   a) transfer of equity.

   b) redemption.

   c) portability.

   d) remortgaging.

3) A transfer of equity occurs when a mortgage or block of mortgages is sold by one lender to another. True or false?

4) The borrower has the right to alter the terms and conditions of a mortgage contract without the lender's agreement in certain situations. True or false?

5) Removing a borrower from a mortgage deed cannot be done without the lender's permission. True or false?

6) Alan and Ann are divorcing and Ann is going to take over their interest-only mortgage. What would be an appropriate course of action in relation to their joint endowment policy?

   a) Do nothing.

   b) Transfer the policy to a dependant.

   c) Transfer the policy to Ann.

7) Jack and Tom have a joint mortgage on their flat, with Jack's mother as guarantor. The couple have split up and Tom wants

to be released from the mortgage. Does Jack's mother have to agree to Tom's request?

8) SDLT is always payable if a new owner is added to the property and the mortgage. True or false?

9) Releasing a borrower from their mortgage obligations when the mortgage is repaid is known in England and Wales as:

    a) discharge.

    b) redemption.

    c) completion.

    d) vacation.

10) What is meant by the term 'a clog on the equity of redemption'?