Title:
Switch your mortgage today

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Summary:
Having taken out a mortgage, you are not locked into that particular loan for the full mortgage term. Lenders compete fiercely for your custom and you may be able to reduce the cost of your mortgage by switching to a new lender.

Keywords:
mortgage

Article Body:
Having taken out a mortgage, you are not locked into that particular loan for the full mortgage term. Lenders compete fiercely for your custom and you may be able to reduce the cost of your mortgage by switching to a new lender. Against this you must set the costs of making the switch. These might include: valuation, legal and land registry fees; arrangement fee and mortgage indemnity insurance premium charged by the new lender; discharge fee, deeds fee and any early redemption charge levied by the old lender. The costs can easily come to £1,000 or more, but the savings can be substantial too. For example, each 1 per cent cut in the mortgage rate on a 25-year £50,000 loan could save you around £360 in interest each year. Although this is not widely advertised, rather than losing you to another lender, your existing mortgage lender might be willing to give you a better deal: for example, by extending to you discounted rates normally available only to first-time buyers. It is certainly worth talking to your existing lender before going ahead with any switch, since it will cost you less to stay put.

If you are interested in switching mortgage, check what deals are currently on offer. Get quotes for the loans you are interested in, including the associated charges. Check what fees your existing lender might charge and check out whether your existing lender might be prepared to offer you a better deal than your current loan in order to keep your custom.

Bear in mind that switching mortgage counts as taking out a new loan, so you could be entitled to less help from the state if you ran into problems keeping up the payments.

Deciding how much to borrow

When you take out a mortgage, the amount you borrow is driven by three main factors:

·The price of the home you want to buy The amount you can borrow will generally restrict your choice of properties. But, often, if you need to live in a particular area – for work, say – there will also be a minimum amount you must borrow if you are to buy anything at all.
·The value of the home you buy The lender will have the property valued. Usually, they will not be prepared to lend you the full value of the property. Commonly, the maximum will be 90 per cent or 95 per cent of the property's value – called a 90 per cent or 95 per cent loan-to-value (LTV) proportion. Bear in mind the value of the property for this purpose may be less than the price you required to pay for it.
·What you can afford to pay Lenders often work on the basis of crude income multiples. For example, you might be able to borrow three time your gross salary. If you are a couple, you might get, say, two-and-a-half times your joint salaries. But you should never take out the maximum loan offered unless you have worked out that this is an amount you can afford to pay.

What you can afford

Write down your monthly budget:

·Look at the money you have coming in each month – your pay after tax and other deductions, income from investments, any child benefit or other state benefits, maintenance payments from a former partner, and so on.
·Deduct your monthly expenses for, say, council tax, water, heating and lightening, food, travel to work, telephone, and so on. Apportion annual and quarterly bills as if they were spread out monthly. Do not include rent or current mortgage payments if these will be saved one you have bought your new home.
·In the first instance, deduct non-essential spending – for example on holidays, meals out, cinema trips and so on. But, if it looks unlikely that you can afford the size of mortgage you want, go back and consider what non-essential spending you could do without. Be realistic – you must not count on savings which in practice you will not really make.
·Deduct your total spending from your income to see how much you can afford to pay each month for a mortgage. If you plan to choose a variable-rate mortgage, bear in mind that your mortgage costs will increase if interest rates rise. Similarly, if you choose a discounted mortgage, make sure you have allowed for the increase in payments one the discount period has finished.