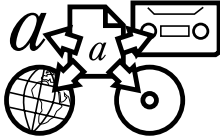


# Mortgage options



beech



This document is available in other languages, larger text, Braille and on audio cd or cassette.

Beech Housing Association is not able to recommend mortgage providers and we would always suggest that you seek the help of an independent financial advisor if you are unsure of what type of mortgage you would like to take out.

We can provide information about the different types of mortgages that are available.

## 100% mortgages

Many first or second time buyers who can easily afford mortgage repayments can not afford the deposit. If you are in this situation you could still buy, 100% mortgages are now available. Some lenders cover the price of the property in its entirety plus a bit more to cover fees, stamp duty, moving costs and so on, all of which can be added onto the loan repayments.

## Costs and charges

In view of the increased risk being taken on by the lender, rates and penalties are high.

**Affordability:** Having a 100% mortgage does make you vulnerable to fluctuations in the housing market. If prices were to drop suddenly in your area, selling your property may not generate enough money to repay your mortgage and you could find yourself in negative equity.

This is only something to be afraid of however, if you decide or are forced to sell. As long as you can afford your mortgage repayments, it doesn't matter what your property is worth because you are still paying off your long-term debt.

It is more important to make sure you can cope with a rise in interest rates rather than a fall in house prices. This is why 100% mortgages are not suitable for people who only want to stay in that property for a short time.

## Flexible mortgages

Flexible mortgages allow you to over and underpay, and take payment holidays. They enable you to take more control over your finances thanks to a number of features that set them apart from more conventional mortgages.

### The standard features of a flexible mortgage are:

**Overpayments:** You can make regular or occasional extra payments without incurring early repayment charges (ERCs). This enables you to pay off your loan more quickly, which means you pay less interest. Equally, should you gain an unexpected windfall; no charge will be levied if you decide to pay the mortgage off in full.

**Underpayments:** You can make reduced payments for one or more months during a period of reduced income or extra expenditure. Most

lenders require you to have built up a sufficient overpayment reserve, although some allow you to overpay from the start. You need to get permission beforehand.

Interest is calculated daily so every overpayment has an instant effect on the total amount you owe, as interest is calculated daily rather than annually. This means that the balance is instantly reduced and no further interest is charged. Equally, underpayments are reflected straightaway in the balance.

**Payment holidays:** You can take a break from paying the mortgage for one or more months. Some lenders limit the frequency of underpayments or holidays, some only permit them after 6, 12 or 24 months and others do not permit them in certain circumstances, such as redundancy.

**Drawdown facility:** You can withdraw money up to a pre-agreed borrowing limit, or equal to the sum of overpayments made previously. Since interest is charged at the same rate as the mortgage, this is a cheaper way of borrowing money than through personal loans or credit cards.

## Control your finances

Flexible mortgages give you control over your finances. You can reduce the term of your mortgage by several years if you make regular overpayments or pay in lump sums. Paying off your mortgage early can also potentially save you thousands in interest repayments.

However, if you make underpayments and take payment holidays, the overall amount you owe will increase. Your mortgage repayments will be re-calculated to ensure the mortgage is still repaid in full by the end of the term.

And if you aren't going to use any of the features of a flexible mortgage there's no point having one, because you will get a more competitive rate elsewhere.

## Cashback mortgages

Cashback mortgages provide a lump sum that you can use during the buying process, usually a percentage of the amount borrowed.

Cashback is designed to be an incentive for borrowers who decide they need a bit more cash available when they buy a home. You receive the money either when you take out the loan or after the first monthly repayment.

## Terms and conditions

Naturally, there are strings attached. If you want to move to another lender or mortgage or pay off a lump sum within the initial or tie-in period, you are likely to incur heavy early repayment charges (ERCs). These will be some, or even all, of the original cash back sum.

## Interest rate type

### Fixed rates

Fixed-rate mortgages are the simple, reliable ones that everyone understands.

The concept is simple; no matter what happens to the base rate, your monthly repayments remain the same for the duration of the initial deal. Rarely the cheapest mortgages on the market, there are nonetheless a range of attractive products offering affordable stability.

### Interest rates

With a variable-rate mortgage, your payments go up or down according to the Bank of England base rate. If interest rates go up, fixed-rate customers have the satisfaction of knowing that their payments will not follow. However, this also means that if they fall, your interest repayments will remain as high as they ever were for as long as the fixed period lasts.

Even if interest rates do remain level, you're still likely to pay slightly over the odds because fixed rates tend to be offered at a higher initial

rate than variable ones. This is a premium for the peace of mind a fixed rate gives you, as the fluctuations in the Bank of England base rate can never be wholly predicted.

## Costs

The price of a fixed rate depends on the length of time you fix for and the amount you need to borrow in relation to the value of your home. As a general rule the greater your deposit or equity in your home, the lower the rate will be. It's important not to fix for longer than you think you will be comfortable with, as one of the biggest disadvantages of fixed rates is that if you want to re-mortgage before the fixed period is up you may have to pay sizeable early redemption charges (ERCs). You also need to consider the length of time you could be tied into the mortgage at the end of the initial period. This is the set period of time when your rate has reverted to the lender's standard variable rate (SVR) but you can't re-mortgage to a more favourable one without incurring ERCs.

The tie-in period can last for several years and cause quite a jump in your monthly repayments. Low initial rates often have longer tie-in periods so check this carefully.

## Interest rate type

### Capped rates

Capped-rate mortgages are a compromise between fixed and variable-rate mortgages.

These mortgages have a variable interest rate but there is a fixed upper limit to the amount of interest that will be charged. If the base rate remains stable or falls, the interest remains in line with it and falls too. In this way, capped mortgages combine the most attractive aspects of fixed and variable-rate mortgages.

The cap will not last the entire life of your mortgage but can last as long as five years or even more, should you want to commit for that long. They are generally worth considering when interest rates are either

rising rapidly or when there is uncertainty over which way they will go.

## Interest rate type

### Discounted rates

Discount mortgages attract borrowers with their ‘buy now, pay later’ appeal

Lenders offer an initial discount off their standard variable rate (SVR), which then reverts to the SVR once the set period of the discount is up. In a period of low interest rates, this can have the effect of making a large mortgage look affordable.

### Discount length

Discount mortgages vary in length from under a year to 10 years to the whole term.

Deciding how long a period to go for will depend on how confident you feel about interest rates, but if you’re unsure don’t go for more than two or three years.

### Stepped discount

One problem with discount mortgages is at some point the discount will end and your payments will increase to the standard rate. If you were enjoying a substantial discount, this can mean a hefty rise in repayments. A stepped discount can help soften the blow by reducing the amount of the discount over a number of years.

Discounted mortgages are most suitable for people who are looking for the cheapest initial payments at any given time but can afford any increased payments if interest rates rise. Likewise, if you believe that interest rates are likely to fall, or at least stay stable, a discounted mortgage makes continuing reductions to monthly repayments possible.

# Interest rate type

## Tracker rates

The interest rate of a tracker directly follows the Bank of England base rate

Lenders can change their standard variable rate (SVR) regardless of changes to the Bank of England base rate, although most broadly follow it. Base rate tracker mortgages bypass this by mirroring exactly any changes to the base rate, whereas normal variable-rate mortgages follow the SVR.

## Types of tracker

Trackers offer some security as the rate is guaranteed never to exceed the base rate by more than a fixed margin. But payments will probably fluctuate so they may not be suited to those on a strict budget.

### For example:

**Fixed tracker:** The rate will be fixed for a period of time; usually between one and five years. When the initial period is over, the mortgage reverts to a tracker.

**Discount tracker:** Discounts or stepped discounts that follow the base rate can be built into the start of the mortgage term, again for a set period.

**Capped tracker:** Your mortgage rate follows the base rate as with a normal tracker, but, with the security of a cap to prevent it rising above a set level.

# Sharia Compliant Mortgages

## How do Sharia mortgages work?

The two most important elements of Sharia compliant mortgages are that no interest may be earned on loans and investment must be socially responsible (i.e. mustn't involve industries which are forbidden under Islam such as gambling, and alcohol).

There are two kinds of Sharia mortgages:

- Ijara, or lease-to-own
- Musharaka, or deferred sale finance.

### Ijara

Ijara is the more popular way of purchasing a property. It works by charging the buyer rent instead of interest. The lender buys the property on behalf of the client then leases it back, charging them a monthly fee for rent and the purchase price.

Rent payments are reviewed once or twice a year and may go up or down depending on market trends. This method is very similar to shared-ownership, particularly the option to overpay and clear the debt earlier in the same way that stair-casing allows, and the debt can be paid off at any time, usually without penalty.

### Musharaka

Musharaka works on a sale rather than a loan system. The bank buys the home you want then resells it to you at a higher price, calculated according to the value of the property, the length of time you need to pay the money back and the deposit you can pay. The property is registered in your name, and you sign a contract agreeing to pay the bank the sale price and then make monthly payments to the bank. This type of mortgage is suitable for people with considerable capital as it requires a sizeable deposit (usually 20%) to be paid at the outset of the mortgage.

## Current Situation

The UK Muslim population stands at 1.6 million and many have found it difficult to purchase a property without compromising their beliefs. Their situation has been alleviated in recent years by the introduction of Sharia compliant mortgages and the abolition of double stamp duty in April 2003 (previously stamp duty had to be paid twice as the property was effectively bought twice; by the bank, and then eventually, the client).

In addition to this the government has been urging banks to work with Muslims. At present, taking out a Sharia mortgage does work out slightly more expensive than taking out a conventional repayment or interest only mortgage. However, they are becoming cheaper due to increased competition with lenders now offering 10% deposits (after previously requiring as much as 30% equity) and discounts on rent over several years are also being considered.

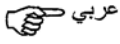
# Getting in touch

# Lãnguagê Liñè

Head office: 01942 608715  
Turner House, 56 King Street,  
Leigh WN7 4LJ

West office: 01942 263630  
82 Railway Road,  
Leigh WN7 4AN

Other:



عربي

ARABIC

حدد اللغة التي تتحدثها .  
سوف نستدعي مترجماً على الهاتف لمعاونتنا .



کوردی

KURDISH

پهتجه رابکیتنه بق نهو زمانه ی قسمی بیده کهیت.  
ئیمه موته رجیمیک پهیدا ده کهین تا به ته له فۆن  
هاوکاریمان بکات.



বাংলা

BENGALI

আপনার ভাষাটি অঙ্গুলি নির্দেশ করে দেখান।  
আমাদেরকে সহায়তা করার জন্য টেলিফোনে  
আমরা একজন দো-ভাষী বা ইন্টারপ্রেটার এর  
ব্যবস্থা করব।



普通话 / 国语

MANDARIN

请指出您讲的语言。  
我们将请一位口译员在电话上翻译。



廣東話

CANTONESE

請指出您講的語言。  
我們將請一位電話翻譯員  
來幫助您。



ਪੰਜਾਬੀ

PUNJABI

ਆਪਣੀ ਭਾਸ਼ਾ ਵਲ ਇਸ਼ਾਰਾ ਕਰੋ।  
ਅਸੀਂ ਦੁਬਾਸੀਏ ਨੂੰ ਕਹਾਂਗੇ ਕਿ ਉਹ ਟੈਲੀਫੋਨ  
'ਤੇ ਸਾਡੀ ਮਦਦ ਕਰੇ।



فارسی

FARSI

زبانی را که صحبت میکنید نشان دهید  
برای کمک، مترجم تلفنی تهیه خواهیم کرد.



Soomaali

SOMALI

Farta ku tilmaam luqaddaada.  
Waxaan telefoonka ku heli doonaa  
turjibaan na caawiya



ગુજરાતી

GUJRATI

તમારી ભાષા તરફ આંગળીથી ઇશારો કરો.  
આપણને મદદ કરવા માટે એક દુભાષિયાને અમે ટેલિફોન  
પર ખોલાવીશું.



اردو

URDU

اپنی زبان کی طرف اشارہ کیجئے۔  
ہماری مدد کرنے کیلئے ہم ٹیلی فون پر کسی ترجمان (اگر پڑھیں) کو بلائیں گے۔



हिन्दी

HINDI

आपकी भाषा की ओर इशारा करें।  
हमें सहायता करने के लिए एक दुभाषिये को हम टेलीफोन  
पर बुलाएंगे।



Tiếng Việt

VIETNAMESE

Hãy chỉ vào ngôn ngữ của quý vị.  
Chúng tôi sẽ mời một thông dịch  
viên qua điện thoại giúp chúng ta.