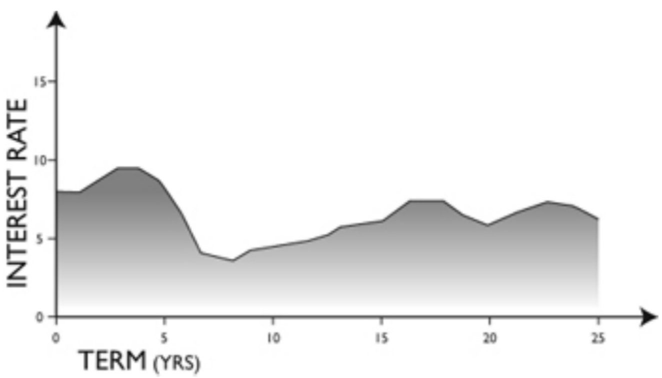
Mortgage Products

Standard Variable Rate(SVR)

- This is the rate of interest set by each individual lender as their standard product
- It will vary from lender to lender – some will be lower than others
- It is a variable rate of interest so that when rates go up the SVR will tend to go up and vice versa according to the wishes of the lender
- You are less likely to have an arrangement fee or early repayment charge for this type of mortgage.



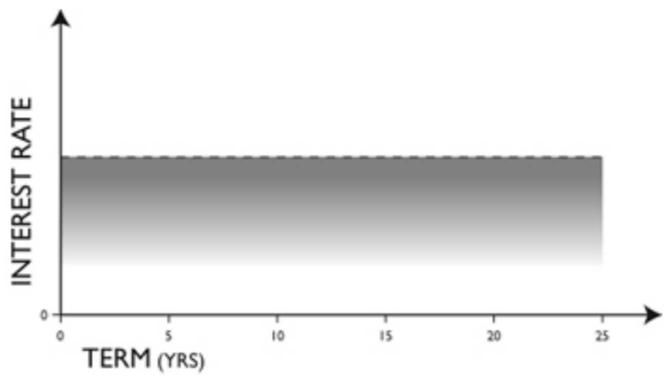
Discounted Rate

- This is a discount on the SVR for a specific period – eg 1% off SVR for 2 years
- It is still a variable rate so if interest rates rise or fall, the rate that the borrower will pay will change but it will always be a saving on the SVR for that period
- May be an arrangement fee to pay usually non refundable
- Early redemption penalties are likely to apply during the discounted period
- Lenders may attach other products to the offer such as buildings insurance.
- After the discounted rate ends the rate will revert to SVR which will always be an increase in rate.

Fixed Rate

- Does 'what it says on the tin' – rate is fixed for a period of time
- If interest rates rise or fall, your rate will always stay the same for that period

- A booking or reservation fee is usually payable and is usually non refundable
- After the fixed rate the rate will revert to the SVR
- Early redemption fees are payable during the fixed rate usually
- Lenders may attach other products to the offer such as buildings insurance

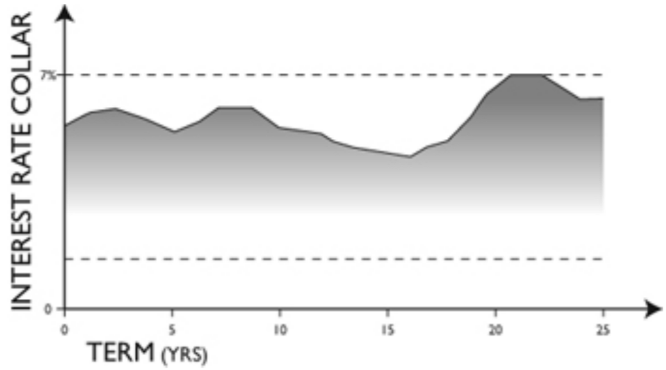


Capped Rate & Collared Rate

- For the period stated a ceiling is set above which the interest rate cannot go above
- A good idea for people who believe that interest rates are likely to rise in the short term
- You can still take advantage of falls in interest rates but you are protected against rises in interest rates above a certain level
- Arrangement fees, early redemption penalties likely to apply
- Some lenders whilst agreeing to a capped rate also insist on a collared rate which is a rate set which the actual rate charged cannot go lower than.

Example

ABC Bank have offered Jim a 2 year Capped Rate mortgage of 6.5% with a collar of 4.5%. So although this is a variable rate mortgage, the actual rate charged during the 2 years will always be somewhere between 6.5% and 4.5% regardless of what happens to interest rates.



Base Rate Tracker

- A much more popular and common product than capped
- The interest rate is variable and it varies in line with the Bank of England Base Rate who announce any changes in interest rates monthly - BoEBR
- A common example would be BoEBR + 0.50%. So the rate paid would be the current BoEBR plus 0.50% for the period stated
- Whenever the BoEBR goes up or down so would your rate.
- Arrangement fees, early redemption penalties, conditional products all may apply

Example

If a person has a lifetime tracker of BoEBR +0.75%, this means that for the lifetime of that mortgage they will be paying 0.75% more than whatever the BoEBR is.

LIBOR Products

- London Inter Bank Offered Rate is the rate at which banks lend money to each other
- A lot of sub prime lenders lend money at this rate
- The key difference from BoEBR is that the actual rate is reviewed quarterly rather than monthly.

- Like the BoEBR, this rate is not dictated by the lender.

Product Incentives

These could be available on any mortgage and include

- Free valuation

- Free legal fees

- No arrangement fees

- No early repayment charges

- Cash Back – the higher the LTV generally the lower the cashback. Note that when the mortgage is redeemed early the cashback may be required to be paid back. This is known as ‘clawback’.

- Portability – moving the product and its terms to a new property

Note

Some products have repayment charges even after the special rate period has ended. This is called an ‘overhang’.

CeMAP Sample Questions & Answers

1 **Borrowers, who want to be able to budget precisely for their mortgage payments, would be best served by a:**

a	low start mortgage	b	discounted mortgage
c	cap and collar mortgage	d	fixed rate mortgage

2 **Jeff and Linda's mortgage interest rate goes up by just 0.25% when their lender announces a general 1% increase. This could be because they have what type of mortgage?**

a	Fixed rate	b	Discounted rate
c	Capped rate	d	Collared rate

3 **A discounted rate mortgage offers a reduction in:**

a	interest rate	b	legal fees
c	endowment premiums	d	survey fees

4 **Tracey's mortgage lender has charged her an arrangement fee. For which type of mortgage is she LEAST likely to have applied?**

a	Fixed rate	b	Variable rate	c	Capped	d	Discounted

5 **A MAXIMUM rate of interest set for a mortgage loan, is known as the:**

a Discounted rate
b Low rate
c Cap
d Collar

6 **What penalty is likely to be applied if a cash back mortgage is redeemed within a year of being taken out?**

a None
b Charging of an administration fee
c Redemption penalty of several months' interest
d Claw back of some or all of the cash back

7 **A fixed rate mortgage is an appropriate choice for a borrower who believes that:**

a interest rates will fall
b interest rates will rise
c house prices will fall
d house prices will rise