



## Types of Mortgage

There are several different types of mortgage deals available on the market. It is important that you find one that best fits your specific needs both now and in the future, so shop around. The basic introduction below will help you decide what type is best for you.

### Repayment methods

There are two main ways to pay off a mortgage which are known as 'repayment' or 'interest only' mortgages.

- With a **repayment mortgage** you make monthly repayments covering both the interest and a portion of the loan over an agreed period (the term) until you've paid back both the loan and the interest
- With an **interest only mortgage** you make monthly repayments over an agreed period that only covers the interest on your loan. However, you will still have to pay off the full loan at the end of the term.

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A **flexible mortgage** gives you scope to change your monthly payments to suit your ability to pay and can mean you pay off your loan more quickly. Flexible mortgages will let you:

- Make monthly **overpayments** on your mortgage, pay off a lump sum or both
- Make **underpayments** or take **payment holidays** so you can pay less than normal monthly payment for a limited period. You may even be able to stop making payments altogether, for a limited period
- **Borrow extra (loan drawdown)** without further approval from your lender, provided the total loan does not go above an overall limit. Alternatively you may be able to 'borrow back' against earlier overpayments.

An **offset mortgage** is similar to an offset mortgage but rather than your mortgage and current account being separate pots of money, they are usually combined into one account acting like one big overdraft.



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## Types of Mortgage continued

### Interest rate deals

As well as choosing your repayment method, you'll need to consider the interest rate deals on offer:

**Standard Variable Rate** is linked to the base rate set by the Bank of England and tends to be 1% or 2% higher. This rate will fluctuate throughout your repayment term in line with the base rate. This means your mortgage repayment will be lower if interest rates drop but can also rise if they go up. This option is not suited for those who want the security of a specific amount each month. If your budget is tight, think carefully how you will cope if interest rates rise.

**Discounted Rates** are when the lender offers a discount on their standard variable rate for a certain period (usually two years). As with the standard variable rate, the discounted rate still tracks the Bank of England's base rate so monthly repayments can still fluctuate. However, the discounted rate should give you a breather in the earlier years of your mortgage repayment period.

If you are choosing this option, check the duration of how long the discounted rate applies for and if there are any penalties should you decide to switch mortgage lenders at any point.

The **Tracker** mortgage 'tracks' the Bank of England's base rate plus a certain percentage more than this rate (usually 1% but rates vary).

This option has the advantages and disadvantages of other variable rate options.

A **Fixed Rate** is agreed for a certain period which generally varies between two, three or five years. This can give you peace of mind during this period as you will know exactly what your repayments will be. After this initial term, you will usually switch to the lender's standard variable rate. If you are choosing this option, check the duration of the fixed rate, what the rate will be after this period and if there are any penalties should you decide to switch mortgage lenders at any point.

A **Capped Rate** is similar to the standard variable rate but the upper limit that the rate can be is 'capped'. So if interest rates fall, you pay less and if they rise, you only pay up to the capped rate. This option offers more security but peace of mind comes at a price as these tend to have a higher APR than other types of mortgages.

Speak to your **bank, financial advisor** or your **local Sureselluk agent** for further information on which mortgages are most suitable for you. You can also take a look at the Financial Services Authority (FSA) website.

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