Should I take a fixed rate mortgage, variable rate, discounted, tracker, or even offset?

Choosing whether to fix your repayments or going for some other option is an important consideration and we at Mortgage Bureau will explain the benefits and features of all options. We will break them down into monthly figures and explain exactly what each option means to you. We'll provide full written personal illustrations for you so you can assess what suits you best.

You will pay interest on the money you borrow from any lender; this is the cost of borrowing and it will vary depending on the lender, your personal profile (see our Credit Scoring Fact Sheet), your deposit, and whether you choose a fixed interest rate, variable rate, or any other type from the lender. As stated, our advisers at Mortgage Bureau will discuss the options with you but they are summarised for you below:

Standard Variable Rate (SVR)

Lenders have what is known as their 'standard variable rate' of interest (SVR). It is the interest rate that will apply if you're not on any other type of rate (fixed, tracker, etc) and is rarely available to new borrowers. They vary from lender to lender and are usually two to five percent higher than the UK base rate that is set by the Bank of England. This rate can be varied at will at any time by the lender and does not necessarily only change when the Bank of England changes the UK base rate of interest.

The advantages of the SVR are that if interest rates are cut, your rate is likely to fall too; there would usually be no penalty if you repay the mortgage early and they can also be relatively cheap.

Disadvantages are the uncertainty they bring: no guarantee that you'll see the full benefit of any Bank of England rate drop and the lender can increase its rate with no change from the Bank of England base rate.

There are other types of variable rates:

Tracker

Here the rate tracks an economic indicator, usually the Bank of England base rate. The rate rises and falls in direct relation to the UK base rate. If the Bank of England increases or decreases the UK base rate by X%, your mortgage rate also increases or decreases by X%.

Trackers will either run for a short term before reverting to the lender's SVR, typically two or three years; or they can track for the life of the mortgage, known as a lifetime tracker.

The advantages of a tracker mortgage are that they offer transparency and you know that the lender can't change the rate unless the Bank of England changes the UK base rate, thus removing the exposure to a lender's whim. You have the guarantee of a reducing rate if the Bank of England reduces the UK base rate.

Disadvantages are that your rate will definitely rise if the UK base rate rises and so this brings uncertainty. If you want to get out of the product from the lender you can expect to pay early exit charges.

Discounted rate

These deals offer a discount off the lender's SVR and usually run for two of three years. The discounted rates can often look attractive but you should always check the lender's SVR since you will revert to the prevailing SVR at the end of the discounted period. We'll deal this for you at Mortgage Bureau as part of our discussions with you. Some lenders SVR's are higher than others and you may be tempted by a large discount only to find yourself stuck with a relatively high SVR and possibly facing the need to remortgage (move away) to another lender?

The advantage of a discounted are that they offer potentially lower initial pay rates and if interest rates are cut, your rate is likely to fall.

Disadvantages are the uncertainty that comes with variable rates and that you may not get the full benefit passed on if UK base rates fall. You should also note that early repayment charges may apply if you want to get out of the deal with the lender?

Fixed Interest

A fixed rate is exactly that: a set interest rate that does not rise and fall with lenders' whims or with Bank of England base rate changes. The rate is set usually for a period of between two to five years and offers protection against the potential of increasing rates. If rates fall, however, you will not see the benefit.

The fixed rates on offer must be compared against other deals on offer. It may be that the fixed rate is slightly higher than other variable rate deals but the peace of mind of knowing that your rate won't change makes it good value to you?

Most deals revert to the lender's SVR at end of the fixed rate period and you can expect to pay penalties if you want to exit the deal early. If you feel you may need to move house during the fixed rate term most deals are portable and we'll cover this with you during our discussions.

Advantages are that this type of arrangement offers certainty of payments regardless of what happens to UK interest rates.

Disadvantages are that rates can be higher than those on offer from some variable rate deals and you will not benefit from interest rate falls. If you do need to get out of the deal the lender will charge you penalties.

Offset

This type of mortgage is a variation on a fixed or variable rate mortgage in so far as it uses your savings to 'offset' the amount of debt you pay interest on. In other words, if you have a mortgage of £150,000 and £25,000 in savings with the lender, you only pay interest on £125,000, not £150,000 and the rate is calculated at your fixed or variable rate of interest. Your savings act as an overpayment and can significantly reduce the amount of interest you pay, thereby reducing the term of the mortgage. You can still withdraw your savings at any time but this will remove the 'offsetting' advantage.

The effective savings rate can be significant. The interest received on your savings is usually taxed yet if the savings are offset against the mortgage, there's no tax to pay on the gain you make from the lower interest payments. Plus, the interest rate on your mortgage would be higher than your savings so you're better off paying less interest on your mortgage. We'll discuss the pros and cons with you when we discuss your options.

The advantage of the 'offset' can be that the mortgage term is reduced due to the offsetting benefits but the disadvantage may be that the rates are higher thereby removing the benefit?

At Mortgage Bureau we'll discuss all options and the features of each with you. This will be backed-up by personal illustrations to enable an informed choice to be made.

Your home may be repossessed if you do not keep up repayments on your mortgage.

If you arrange a mortgage on a property from one of our associated new homes developers, we will waive our fee, otherwise there will be a fee for mortgage advice. The actual amount you pay will depend upon your circumstances. The fee is up to 1% but a typical fee is 0.3% of the amount borrowed.