Guide to Mortgage Interest Rates

A mortgage is essentially a long term loan and like any other type of loan, you can expect to pay interest on the money you have borrowed. However, unlike other loans, the range of repayment options offered on mortgages is vast.

The main types of mortgage rates offered are fixed and variable, but within these two groups there are also many different types including capped rates, tracker rates and many more. This often leaves consumers overwhelmed when considering a new mortgage.

We have put together this guide to help you understand the most common types of mortgage rates on the market.

You can contact us at any time for a FREE consultation and for any specific advice.

Introduction To Mortgage Rates

When it comes to selecting a mortgage many people develop tunnel vision and look only at the rate being offered. However, there are other important things to take into consideration. It important to understand that the type of rate being offered has more importance than the interest rate itself as it will have more bearing on your future repayments. You should also consider your future financial position not just your current financial position to ensure you can afford to maintain your repayments for the duration of your mortgage term.

**Ten Key Questions**

Ten key questions all mortgage customers should ask themselves:

1. How much can I afford to borrow?
2. How can I tell which mortgage rate is best?
3. What is the best type of mortgage for me?
4. How should I repay it?
5. Can I make lump sum payments?
6. Are there any redemption penalties?
7. Does this mortgage come with insurance?
8. What other charges will I have to pay?
9. What happens if I can’t pay?
10. What about the small print?

Types Of Mortgage Rates

In theory, understanding mortgages should be fairly straightforward: you borrow money to buy a property, you then pay back the loan plus interest. However, it’s a little bit more complicated because there are so many different types of mortgage available for you to choose from.

To help make sense of this mortgage minefield, let’s take a closer look at some of the types of mortgage rates that are available to you and the advantages (or disadvantages) of choosing them.

Fixed Rate Mortgages

As you might expect, a fixed rate mortgage is one where a fixed rate of interest is paid over an agreed period of time. This is ideal if you want to know exactly how much your monthly repayments are going to be as they will not change from month to month. Even if your lender changes the rate they offer your payments will not change.

This is great if interest rate increases, but if rates fall you could be paying more than you need to as you will not benefit from the rate reduction.

Fixed rate mortgages are available for varying lengths of time, but typically from two to five years. If your fixed rate is only for a few years you should contact your mortgage advisor and start to look at current rates a few months before the fixed rate ends so you can switch lenders to one offering a more favourable interest rate.

Variable Rate Mortgages

If a fixed rate mortgage is not for you then you may want to look at the variable rate mortgages that are available to you. With these mortgages, the interest rate can change from time to time. Under the umbrella of ‘variable rate mortgages’ there are several variations which may or may not be suitable for your individual needs.

**SVR Mortgages**  
The basic form of variable rate mortgage is the SVR or Standard Variable Rate. With this type of mortgage, the interest rate can move up and down at the discretion of the lender. In some cases the fluctuations may be based on the Bank of England’s interest rates. These mortgages can work out a little more expensive, but they do offer the opportunity to reduce payments when interest rates are more favourable.

**Discount Rate**  
Discount rate mortgages are designed to entice you towards a particular lender much like a special offer like you might see in a supermarket. The interest rates offered are cheaper than the lenders usual variable rate, but will be linked to it. For example, if the discount offered is 2% and the variable rate changes between 5% and 7% you can expect to pay 3% to 5%. This discounted rate is only offered for an introductory period of between 2 and 5 years, after which you will pay the standard variable rate (SRV).

The advantage of discount rate mortgages are that you could get a cheaper repayment initially which could help if you have a tight budget as you will take advantage of any reduced interest rates; however, on the flip side the variable rate can go up as well as down so you may find that even you discounted rate can rise without much warning making your repayments more expensive.

**Tracker Rate Mortgages**  
A tracker mortgage tracks the base rate plus a percentage defined by your mortgage lender. As an example, if your tracker mortgage is the base rate +2%, and the current base rate is 1%, you will pay 3%. If the base rate rises to 2%, you will pay 4%. Tracker mortgages can be feel a little risky as if the base rate rises, your payments will increase. However, if they fall, so will your mortgage repayments.

Mortgage Advice?

As you can see choosing the right mortgage and rate type that best suits your needs can be daunting. That is why it is always best to seek professional advice before tying yourself to a long term commitment like a mortgage.

Although mortgage providers are legally obliged to provide the key facts to their customers, it can still be a little overwhelming if you do not understand the various terms used.

Engaging the services of a trustworthy, experienced professional can cut out a lot of the confusion. By choosing a mortgage adviser you know you are getting honest and unbiased advice. You may even find that advisor has access to additional rates not offered to the general public ensuring you secure the absolute best mortgage for your individual needs.