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Wilbury Wealth

mortgage medics

The home movers guide to **mortgages**

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Whether you're just exploring your options or already have a property earmarked for your next move, there are some important things to consider when it comes to buying your next home.

The housing market and mortgage landscape may have changed in the years since you bought your last home and though it may be an exciting time, moving house can also come with a unique set of financial considerations.

Interest rates fluctuate, property values rise and fall, and your income and savings have likely changed. These factors all play a crucial role in working out your borrowing power, affordability, and the types of mortgages that may be available to you. Similarly, if you already have a mortgage on your current property, you may be wondering what your options are.

Understanding these dynamics is essential for a smooth and successful move. The more you know, the better you can navigate the homebuying process, make informed decisions, and find an option that works for your individual needs.

Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured against it.

The Financial Conduct Authority does not regulate some buy-to-let and commercial mortgages.

What happens to your mortgage when you move?

When you're ready to move, you may have a few options for handling your existing mortgage. The right choice for you will depend on the value of your current property, the value of the property you're moving to, and your financial situation. You'll need to decide whether to transfer or "port" your current mortgage to a new property, or whether to pay it off and take out a new one.

Your decision will ultimately hinge on the specifics of your move, such as where you are in the homebuying chain and how urgently you need to buy or sell. Here's what you need to know about the different options.

Porting a mortgage

If your current mortgage agreement allows it, you can port your existing mortgage to a new property. This means you're effectively taking your current rate and terms with you. You'll still need to apply for a new mortgage, so your lender will run new affordability checks for you. However, your current rate will still apply if you are eligible.

Porting your mortgage with additional borrowing

If the property you're moving to is more expensive than what your current mortgage would cover, you may need to borrow more from your lender. They may allow it, but keep in mind that these additional funds will likely have a different interest rate and term.

This can create complexities as you could end up with two fixed rates ending at different times. This may then require a partial remortgage or incur an early repayment charge (ERC) if you need to end one of them early.

GLOSSARY TERM: THE HOMEBUYING CHAIN

A homebuying chain is a series of linked property transactions where each sale depends on the others. Imagine a line of dominoes; if one falls, it affects the rest. This can make buying a house more complicated and increase the risk of delays.

Getting a new mortgage

Alternatively, you may be able to repay your existing mortgage and apply for a new one if you have the funds. This might suit you if you're moving to a more expensive property or want to explore more competitive deals.

Typically, you would use the money from the sale of your current home to do this, but if there is an overlap in the sale of your current home and purchase of your new one, you may run into some complications.

You may have two mortgages for a period, and lenders will need to assess your ability to repay these simultaneously. Understandably, because of the financial implications, this may not be possible. In this case, you would typically need a bridging loan.

Keep in mind as well that if you are paying off your mortgage before the end of a fixed-rate deal, then you may have to pay an ERC. Depending on how far into your deal you are, this could be a substantial amount.

GLOSSARY TERM: EARLY REPAYMENT CHARGE (ERC)

An ERC will only be applicable if you're on a fixed-rate mortgage and choose to end your deal early. An ERC will typically be a portion of the outstanding balance of your loan, depending on the clauses in your mortgage contract. For this reason, ERCs can be substantial.

How bridging loans work

A bridging loan is a short-term loan that allows you to borrow a significant sum of money for a short amount of time. They can allow you to access funds while you're waiting on cash elsewhere, but they're designed to be paid off as soon as that money becomes available. In essence, they can "bridge the gap" between selling your current home and buying a new one.

Be aware that bridging loans can come with higher interest rates and fees than traditional loans.

The lender offering the bridging loan will want to know how you'll pay back the loan, as most offer these types of loans as interest-only. In this case, it will likely be the sale of your old home.

Bridging loans are most often used if you are buying:

- A home before you can sell your previous property
- A property that can't be bought with a traditional mortgage
- At auction and can't immediately raise the funds you need.

Your lender will need to ensure that you can afford your new mortgage payments alongside the bridging loan and it's important to understand that there may be risks involved.

Discuss with your lender how you would manage the full repayment of the bridging loan should it take longer than expected to sell the property. If you receive offers that are lower than what you'd expected, consider how you would make up any shortfall.

GLOSSARY TERMS: MORTGAGE TYPES

REPAYMENT MORTGAGES

With a repayment mortgage, your monthly payments cover both the interest on the loan and a portion of the principal loan amount. This means you gradually reduce the total amount you owe over the mortgage term. By the end of your mortgage, you will have repaid the entire loan plus interest and will likely own the property outright.

INTEREST-ONLY MORTGAGES

With an interest-only mortgage, you only pay the interest on the loan and don't contribute anything to the principal amount. This can make it more affordable month to month, but the principal amount remains outstanding, and you will need a plan to repay it at the end of your mortgage term.

How does home equity work?

Your equity is essentially the portion of your home's value that you own outright. So, if you were to sell your property and pay the outstanding mortgage balance, the amount you'd have left would be your equity.

As you make mortgage payments, the principal amount (the original loan you took out) decreases, which increases the percentage of the home you own.

If your home's value increases, whether due to market changes or home improvements, your equity could grow as well.

You can use home equity in several ways, including as a deposit on a new home. You could also remortgage your property to release some equity and then use those funds to renovate your home.

This could help you improve the value of your home if you wish to sell in the future, but it's important to be aware that not all home improvements increase your property's value. Do your research before committing to anything.

How could the interest rate on your mortgage change when you move?

Interest rates can fluctuate over time, which will affect how much you pay overall, and they can change as a result of several external factors. The Bank of England (BoE) base rate is a notable influence, as it determines the interest that the BoE charges other financial institutions to borrow money.

Your interest rate, plus the type of mortgage you have, will determine how much you pay in total for your mortgage. You'll likely have three interest rate options to choose from when you get a mortgage:

- A fixed-rate mortgage means your interest remains the same for a set period, after which you will move onto your lender's standard variable rate (SVR).
- A variable-rate mortgage is usually calculated as the base rate plus a specific percentage, so it can be variable and potentially useful as a short-term solution.
- Tracker-rate mortgages are directly linked to the base rate, moving up or down in line with it.

Other factors can play a part in the interest rate lenders offer you, including your financial situation and how much of a risk you present to lenders.

You may find that the higher your deposit, the lower your interest rate could be. This is because you're putting down enough money to act as security for your lender, making you less of a risk. Lenders call this your loan-to-value (LTV).

The lower your LTV, the less risky you are as a borrower. This is because lenders may face less risk if they need to repossess a property, potentially resulting in you being able to access more competitive interest rates.

GLOSSARY TERM: LOAN-TO-VALUE (LTV)

Your LTV is the percentage of a property's value that you borrow as a mortgage. So, if your property is worth £300,000 and you get a mortgage of £250,000, putting down £50,000 as a deposit, your LTV would be about 83%.

GLOSSARY TERMS: AFFORDABILITY AND BORROWING POWER

Affordability is your ability to comfortably repay your mortgage alongside other debts, bills, and living expenses.

Borrowing power is the amount of money a lender is willing to offer you for a mortgage.

Interest rates can affect how much you pay for your loan

Interest rates can affect your affordability and borrowing power, as your interest rate will determine both your monthly payments and your total mortgage cost.

Let's say you have a £250,000 mortgage and have decided to pay it off over 25 years. A small difference in your interest rate could have a significant effect on your total cost. For example:

Interest rate	Monthly payments	Total paid over the full mortgage term (including £250,000)
4.5%	£1,390	£416,874
4%	£1,320	£395,878
3.5%	£1,252	£375,468
3%	£1,186	£355,658

Source: Experian

How long can you take out a mortgage?

Your mortgage term is the length of time over which you will repay your loan. While a 25-year mortgage term is typical, longer terms are becoming more common due to affordability challenges.

City AM reports that in the first quarter of 2024, close to half of all new mortgages had terms of 30 years or more. While this can improve your immediate affordability, you may pay more in the long term by opting for a longer mortgage.

If you've been in your current home for a while, you may not want to go back to a 25- or 30-year mortgage. Though more lenders allow standard mortgages into retirement, this may be something you want to keep in mind.

If you'd like to explore a shorter mortgage term, speak with a mortgage adviser about your options. You could opt for a shorter term while managing your affordability by putting down a larger deposit on your next home, increasing your monthly payments, or overpaying as and when you can. If you want to overpay on your mortgage, be aware of your lender's ERC terms and conditions.

How your mortgage term could affect your payments

If you compare different terms against a £250,000 mortgage, you'll see the differences in cost you may incur. For these figures, assume the interest rate is 4.5%.

Mortgage term	Monthly cost	Total interest paid
25 years	£1,390	£166,874
30 years	£1,267	£206,017
35 years	£1,183	£246,920
40 years	£1,124	£289,475

Source: Experian

As you can see, though your monthly payments wouldn't change by much, the total interest you'd accrue increases significantly the longer you have your mortgage.

It is often possible to adjust your mortgage term at a later point, usually when it comes time to remortgage. This means you could extend or shorten your term, depending on your financial situation.

Has your mortgage affordability changed?

Your financial circumstances are an important part of getting a mortgage, and there are some key factors to consider. Think of it like a puzzle, with the pieces made up of your income, credit score, debt, and savings. These come together to form your mortgage affordability.

Lenders will use these factors to determine how much you can borrow and what interest rates they will offer you.

Your mortgage affordability may have changed over the years, so it's important to take a close look at what lenders may require.

What your income means for a mortgage

Your income is one of the most important parts of your mortgage affordability. Lenders will carefully assess your income to ensure you can comfortably afford your monthly mortgage payments while maintaining a healthy financial situation.

Lenders will also use your income to establish a baseline for your total borrowing power, usually by multiplying your annual income by four to five times. So, if your salary has increased since you bought your current home, you may be able to borrow more.

Remember that interest rates can play a role in your borrowing power. This is because it's cheaper to borrow money when interest rates are low. Your monthly expenses and debt repayments can also affect your borrowing power. These, along with your income and credit history, are what lenders use to work out your mortgage affordability.

You could apply for an application in principle (AiP) at this point to get a sense of your affordability as this is a preliminary estimate of how much you could borrow for a mortgage. Your mortgage adviser will be able to do this for you.

GLOSSARY TERM: AGREEMENT IN PRINCIPLE

An agreement in principle (AiP) is an initial estimate of how much you could borrow for a mortgage. It is not a guarantee that the lender will offer you a mortgage, simply an illustration of your borrowing power.

How debt affects your mortgage affordability

Lenders are not necessarily as concerned about how much debt you have, but rather how much you pay each month towards it. They want to know what your debt-to-income (DTI) ratio is, and they will work this out by dividing your total monthly debt payments by your income.

For example, if you earn £2,600 a month and your total debt obligations amount to £800, your DTI would be about 30%.

According to MoneySuperMarket, anything below 39% is good, and most lenders will consider you a low-risk borrower. The higher your DTI, the more likely you are to experience increased interest rates and even potential rejections of mortgage applications.

If you currently have a mortgage on a property you will sell to purchase your new home, lenders won't take this into account as part of your DTI, as once you move, it will no longer be relevant.

Deposits and home equity

Since you're an existing homeowner, you may be using the equity in your home to form part or all of your deposit.

The deposit will be a specific percentage of the property's value, so the actual figure may vary. Though most lenders want a minimum of 5 – 10%, there are some exceptions:

- If you have a high DTI ratio or a poor credit score, you may need a larger deposit.
- If you're not a UK citizen, your deposit requirements may increase.
- If you're buying a second property, including buy-to-let, you likely also need a higher deposit, usually 25% or more.

What credit score do you need for a mortgage?

Your credit report is your personal record of borrowing and shows your credit history. Usually, when it comes to applying for a mortgage, the higher your score, the better.

Lenders will conduct their own credit checks to assess how reliable you are with money. A good credit check can show that you're responsible with your money and could increase your chances of getting a mortgage at a competitive interest rate.

While a bad credit check can lower your chances, you can still get a mortgage with poor credit. You may, however, have to pay more in interest so that the lender isn't taking on as much risk.

Important considerations and extra costs

Beyond the mortgage payments themselves, you may encounter several additional costs and it's important to factor these into your budget.

Here are a few of these costs to keep in mind.

Stamp Duty

Stamp Duty is a tax payable on property purchases in England and Northern Ireland. The amount you pay will depend on the purchase price of the property and your circumstances. Keep in mind that each portion of your property's value is taxed at a new rate. So, if your property is worth £250,000, you will pay 2% Stamp Duty on the value above £125,000, not the whole amount. From 1 April 2025, this is what you can expect for Stamp Duty rates.

Property value	Stamp Duty rate
Up to £125,000	0%
The next £125,000 (from £125,001 to £250,000)	2%
The next £675,000 (from £250,001 to £925,000)	5%
The next £575,000 (from £925,001 to £1.5 million)	10%
The remaining amount (anything more than £1.5 million)	12%

Note: If you are buying a new residential property that will not be your primary home, you may need to pay an additional 5% surcharge on top of the standard Stamp Duty rates. This includes properties that you plan to let out.

Please note: Scotland and Wales have their own iterations of Stamp Duty, with different thresholds and criteria.

Insurance

It's important to make sure you're protecting both your property and your family should the worst happen. So, if you're moving to a home with a larger mortgage, you may wish to revisit your life insurance policy to ensure it could cover the full mortgage amount should you or your partner pass away.

Lenders typically require buildings insurance for new mortgages, so this may be something you need to factor in as well.

Surveys

A survey is a professional inspection of a property and, once completed, you'll receive a detailed report on its condition from your surveyor. They will make you aware of any potential issues you need to know about and this could affect your decision to buy. There are multiple levels of surveys, with varying levels of details and costs.

While not mandatory, getting a survey done of the property you intend to buy can affect your decision and may help you negotiate a lower price.

Legal fees

You should keep in mind the cost of legal advice when buying a house. Solicitor's fees can vary, depending on the price of the property, the complexity of the case, and other factors. Leasehold properties and government schemes may affect the fees you pay.

While it's not mandatory that you work with a solicitor, they can help identify potential legal issues, handle complex paperwork and protect your interests throughout the property transaction.

The value of mortgage advice

Navigating the mortgage market can be complicated, even if you have experience. With a wide range of options, interest rates, and terms to consider, the support of a professional could be highly useful.

Not only can a mortgage adviser offer you personalised recommendations based on your specific needs, but they can also streamline the process and compare different mortgage deals for you. More than that, mortgage advisers often have access to deals not found on the high street, providing you with more tailored options and potential access to preferential interest rates.

Get in touch with us to find out how we can help you secure a mortgage to purchase your next property:

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