Mortgages, buy to let and equity release

As a retired officer you may be considering downsizing, buying a second property, buying a house to let, releasing capital in your own home or perhaps you'd like to help your son or daughter buy their first home.

Whichever type of purchase you are considering, it can be an anxious time, with thousands of different mortgages available it can be difficult to understand.

This factsheet may provide you with some initial insight.

If your children or grandchildren are thinking of buying their first home, click here to read our guide.

Which Mortgage to choose?

The money you borrow is called the capital and the lender then charges you interest on it until it is repaid. The type of mortgage you are able to apply for will depend on whether you want to repay just the interest or both the interest and the capital during the mortgage term.

Repayment mortgage With repayment mortgages you pay the interest and part of the capital off every month. At the end of the term, you should have paid it all off and own your home (subject to you keeping up the mortgage repayments).

Interest-only mortgage With interest-only mortgages, you pay only the interest on the loan and nothing off the capital (the amount you borrowed). At the end of the term, you will need to pay back the original amount borrowed in one lump sum. These mortgages are available in limited circumstances.

Different types of mortgages

Fixed rate: The interest you're charged stays the same for a number of years, typically between two to five years. This helps with budgeting and provides you with peace of mind and stability of mortgage payments.

Variable rate: The interest rate you are charged, and the amount you repay, can go up, or down. There are many variations of this type of mortgage including discounted and tracker. A discounted variable mortgage tracks at a set percentage below a lender's standard variable rate. A tracker mortgage follows an external interest rate, usually the Bank of England's Base rate.

Offset mortgages let you link your mortgage to your savings. The savings balance is used to reduce the amount of interest charged on the mortgage.

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Moving House and Re-mortgaging

You may want to move or stay where you are and just move your mortgage to another lender or deal.

There are various reasons why you may want to remortgage:

- to get a better interest rate and save money or reduce the term
- for more flexibility
- to consolidate debt
- for home improvements
- to release funds

There are several costs involved whether you are moving house or remortgaging, including arrangement, legal and survey fees. See other sections of this guide for more details of these.

What is a Buy to Let mortgage?

Buy-to-let mortgages are for landlords who want to buy property to rent it out. The lending criteria around buy-to-let mortgages are similar to those around regular mortgages, but there are some key differences, which are:

- The minimum deposit for a buy-to-let mortgage is usually 25% of the property's value.
- Most buy-to-let mortgages are interest-only. This means you pay interest on the amount you borrow and repay the capital element of the original loan in full at the end of the mortgage term, normally by selling the property.

Fees and interest rates on buy-to let mortgages are usually higher.

Equity Release

Equity release refers to a range of products letting you access the equity (cash) tied up in your home if you are over the age of 55. You can take the money you release as a lump sum or, in several smaller amounts or as a combination of both.

There are two equity release options, the Lifetime mortgage and home reversion. The fundamental difference between the two is when you take out a lifetime mortgage you still own your own home. But with home reversion plans, you actually sell a share of your home in exchange for a lump sum of money or a lifetime of regular income.

The cost of buying a home and moving

There are a number of fees to consider when buying a new home, including the cost of moving home, your deposit and solicitor fees.

Deposit - when buying a property, you will need to pay a deposit. If you have a larger deposit - in relation to the value of the property, you may benefit from being eligible for a lower interest rate.

Stamp duty -If you're buying a home in England or Northern Ireland costing more than a specific amount, you would normally have to pay Stamp Duty Land Tax (SDLT) on your purchase, unless you're a first-time buyer where there is no Stamp Duty to pay on properties worth up to a higher amount. For more details on the amounts click **here**.

There are several rate bands for Stamp Duty. Use the Stamp Duty calculator to find out how much you'll pay. Buyers of additional residential properties, such as second homes and buy-to-let properties, will have to pay an additional amount in Stamp Duty on top of current rates for each band.

If you're buying a property in Scotland you will pay Land and Buildings Transaction Tax (LBTT) and in Wales Land Transaction Tax (LTT) instead of Stamp Duty.

Other costs:

SURVEY FEE - the mortgage lender will assess the value of the property to establish how much they are prepared to lend you. There are three different types of survey, Basic Valuation, Homebuyers Report or Full Building Survey. All will include the basic valuation element. If you are buying with a mortgage, the lender will insist on a Basic Valuation as a minimum.

LEGAL FEES - You'll need a solicitor or licensed conveyancer to carry out all the legal work when buying and selling your home.

ELECTRONIC TRANSFER FEE - this is usually a small cost and covers the cost of transferring the mortgage money from the lender to the solicitor.

ESTATE AGENT'S FEE - this is only paid by the seller, not the buyer, for the estate agent's services.

REMOVAL COSTS - this may be the cost of a professional removal company or of hiring a van to do it yourself.

MORTGAGE FEES - these might include, a booking fee, an arrangement fee and a mortgage valuation fee.

INSURANCE - the lender will require you to take out buildings insurance to protect your new home against damage from fire, floods, subsidence and anything else. It's also a good idea to also cover the contents of your home.

OTHER - you may also need to pay for cleaning or storage costs.

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