

Guide

A Simple Guide to Mortgage Types.




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Introduction.

Choosing a mortgage is an important financial decision that requires thoughtful consideration. While it's possible to select a mortgage independently, many people opt to seek advice from either mortgage brokers or lenders during the home-buying process.

However, having a basic understanding of the different mortgage types can help you feel more confident and prepared for those discussions.

Here's a straightforward breakdown of the four main types of mortgages to get you started.

Fixed-Rate Mortgages.

With a fixed-rate mortgage, your interest rate stays the same for a set period, usually between 2 to 10 years. During this time, your monthly repayments won't change.

Benefits:

- Predictable payments make budgeting easier.
- You'll know exactly how much of the loan will be repaid by the end of the fixed term.

Considerations:

- Fixed-rate deals typically have higher rates compared to others.
- If interest rates drop, you won't benefit from lower payments.
- Early repayment charges (ERCs) apply if you pay off the loan early or make large overpayments.

When the fixed term ends, your mortgage will usually switch to the lender's Standard Variable Rate (SVR), which often has a higher interest rate. To avoid this, consider switching products before your fixed period ends.

Tracker Mortgages.

Tracker mortgages follow the Bank of England's Base Rate, with an extra percentage added by your lender. This means your interest rate and monthly payments will rise or fall along with changes to the Base Rate.

Benefits:

Transparent rate adjustments linked to the Base Rate.

Most tracker mortgages don't include ERCs, allowing flexibility for overpayments or early repayment.

Moving house during the tracker period is often free from penalties.

Considerations:

Payments can vary, making budgeting tricky.

If the Base Rate rises, your payments will increase.

Harder to predict your mortgage balance at the end of the period.

Tracker mortgages typically last 2 years but can sometimes run for the full mortgage term. Once the tracker ends, the mortgage usually moves to the lender's SVR.

Standard Variable Rate Mortgages (SVR).

An SVR mortgage has an interest rate set by your lender, which they can change at any time. It's not directly tied to the Base Rate, so rate adjustments are entirely at the lender's discretion.

Benefits:

- No ERCs, so you can make overpayments, switch deals or fully repay the loan without penalties.

Considerations:

- SVR rates are usually higher than fixed or tracker mortgages.
- Rate changes can be unpredictable.

Most borrowers are automatically moved to an SVR once their fixed or tracker deal ends. If this happens, it's a good idea to look for a new deal 3-6 months beforehand.

Discounted SVR Mortgages.

This is a variation of the SVR mortgage. It offers a temporary discount on the lender's SVR for a fixed period.

Benefits:

Initially lower payments during the discount period.

Considerations:

Payments can fluctuate along with the SVR changes.



Final message from the founder.

Choosing a mortgage is a vital financial decision, often made easier with advice from brokers or lenders.

Fixed-rate mortgages offer stable payments for 2-10 years, making budgeting easy, but often have higher rates and early repayment charges. Tracker mortgages follow the Bank of England's Base Rate, with flexible repayment options but unpredictable payments. Standard Variable Rate (SVR) mortgages, set by the lender, can be switched without penalties but come with higher and unpredictable rates. Lastly, discounted SVR mortgages provide temporary lower payments tied to changes in the SVR. Knowing these options helps you make informed decisions.

[Get Tailored Mortgage Advice](#)

Please note: SBK is not authorised to give financial advice; the information and opinions provided in these articles are not intended to be financial advice and should not be relied upon when making financial decisions. Please seek advice from a regulated mortgage adviser.

Got any ideas how we can improve this guide or process? Please share them - marketing@sheldonbosleyknight.co.uk

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