SOLUS
Financial Planning

Remortgaging: The **essential steps** you should take when your mortgage deal ends

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While we are not regulated to provide mortgage advice, we recognise remortgaging is an important topic for many homeowners. We hope this guide is useful and helps you understand some of the areas you may need to consider when remortgaging.

If you have any questions about the topics covered in this guide or would like support applying for a mortgage, we can refer you to an independent, regulated mortgage broker who could help you.

If you've used a mortgage to purchase property, switching your mortgage to a new lender – called a "remortgage" – is likely to be a task you'll do several times.

Often mortgage deals will last for a fixed period. So, over a full mortgage term that may span decades, you may want to remortgage and secure a new deal many times. This could help you access a more competitive interest rate and find a deal that's right for your circumstances.

Read on to find out why remortgaging is important and what you need to consider.

You can often lock in a new mortgage deal up to six months before your current one expires. Planning ahead can alleviate some of the stress of remortgaging and give you plenty of time to search the market.

Accessing a better interest rate is a key reason homeowners remortgage

Remortgaging isn't something you have to do. However, it could save you money.

When your mortgage deal ends, you'll usually be moved on to your lender's standard variable rate (SVR). This often isn't competitive and you may be able to access a better rate of interest by remortgaging. So, while looking at your options may seem like a daunting task, it is often a worthwhile one.

According to Moneyfacts, at the start of May 2023, the average SVR was 7.37%. The same organisation found that the average rate of a two-year fixed-rate deal was 6.01% as of June 2023.

The table on the right shows how the interest rate would affect you if you borrowed £250,000 through a repayment mortgage with a 25-year term, assuming the interest rate remained the same.

When your mortgage deal is nearing the end, your current lender may offer you a new one. This is known as a "product transfer". While remaining with your current lender may seem like the less stressful option, it might not be the right choice for you. Other lenders may offer a lower interest rate or a deal that better suits your circumstances. So, you should still search the market before you accept the offer. A mortgage broker can help you compare your options.

Interest rate	Monthly repayment	Total interest paid over the full term
6.01%	£1,613	£233,757
7.37%	£1,826	£297,728

Source: MoneySavingExpert

As the table shows, switching to a new mortgage deal when your current one ends could save you thousands of pounds every year compared to the SVR.

However, remortgaging doesn't automatically mean your repayments will fall. In fact, they could rise. This is especially true in the current environment if you took out a fixed-rate mortgage while interest rates were at record lows.

Bank of England (BoE) interest rate rises over the last 18 months means that even a competitive deal today could be much higher than the interest rate you've previously paid.

Keep in mind that interest rates cannot be guaranteed. While the BoE's base rate influences the rate a lender will offer you, so will many other factors, including other debt you may have and how much equity you hold in your home.

4 million households could face higher costs when their fixed-rate deal ends in 2023

You should be aware that rising interest rates could mean your outgoings increase, even if you remortgage.

In November 2021, the BoE base interest rate was just 0.1%. A series of increases to tackle inflation means it was 5% in June 2023. This has had a direct effect on mortgage repayments for thousands of homeowners.

If your existing mortgage deal has a fixed rate of interest, your repayments could rise more than you expect when your current deal ends.

In fact, the Office for National Statistics estimates that 1.4 million fixed-rate mortgage deals will end in 2023. More than half (57%) of the deals expiring were fixed at interest rates below 2%.

So, if you've previously fixed the rate of interest you pay, it may be at a very low rate and it's unlikely there are comparable deals available on the market now. As a result, you may find your mortgage repayments rise sharply when you take out a new deal. It's important you're aware of how changes to interest rates could affect your outgoings and budget.

There are other reasons you may want to remortgage too, including if:

- You are already paying your lender's SVR and could benefit from a lower interest rate by taking out a new deal
- You have a discounted variable- or tracker-rate mortgage that is coming to an end and you will soon be paying your lender's SVR
- You could secure a better rate of interest by switching to a new deal
- Your existing mortgage has a variable interest rate and you'd like a fixed-rate deal that allows you to budget more effectively
- You want to have greater flexibility to make mortgage overpayments
- You'd like to borrow more against your home to cover other expenses.

It's important to set out your reasons for remortgaging and what's important to you when you're searching for a new deal. It can help you and your mortgage broker identify which options could be right for you.

Taking out a new mortgage deal before your current one ends could result in an "early repayment charge" (ERC). Make sure you understand the potential costs of exiting a mortgage early and weigh up the pros and cons before you proceed.

6 practical steps you should take if you're ready to remortgage

Before you submit a mortgage application, completing these six tasks could help give you a clearer idea about the mortgage you want and narrow down your search.

1. Review your current mortgage and debt

Start by reviewing your current mortgage:

- What interest rate do you pay now?
- What will the interest rate be if you move on to your lender's SVR?
- What is the outstanding debt?
- What is the current value of your home?
- How many years do you have left on your mortgage?

With this basic information, you're in a better position to compare potential deals and understand how your outgoings could change.

2. Set out how much you want to borrow

Usually, homeowners will simply take out a new mortgage that covers the outstanding debt. This isn't your only option though.

Depending on your circumstances, you could choose to increase your borrowing. This can be a useful option if you want to access a lump sum and spread out the repayments over a longer time frame. There are many ways you can use the money, from updating your home to consolidating debt.

However, keep in mind that borrowing more through a mortgage will mean your repayments are likely to rise. As you'll often be repaying the debt over the long term, the total interest you pay may also be much higher than alternative forms of borrowing. So, make sure you go through all your options first to understand what is right for you.

Alternatively, you may choose to use your savings or other assets to pay off a lump sum. This means you could borrow less and potentially benefit from lower repayments. You may be able to access a lower rate of interest if it means you fall into a lower loan-to-value (LTV) bracket.

What does loan-to-value (LTV) ratio mean?

The LTV compares how much you owe on your mortgage relative to the value of your home. Usually, as you make repayments or the value of your property rises, your LTV will fall. As homeowners with a lower LTV present less of a risk to lenders, moving into a lower LTV bracket often means you benefit from a better interest rate.

According to Moneyfacts, as of May 2023, the average interest rate on a two-year fixed-rate mortgage with a 95% LTV was 5.94%. This falls to 4.83% if the LTV is 60%.

3. Decide if you want to change the term of your mortgage

When you take out a mortgage, you need to decide how long you'll want to pay it over. Remortgaging is the perfect time to review your mortgage term and see if it still suits you.

You may choose to stick to your initial mortgage term. So, as a first-time buyer that opted for a 25-year term with a five-year mortgage deal, you'd remortgage with a 20-year term.

If you find you're in a better financial position, you may choose to shorten your mortgage term. While this would mean repayments are higher, the total interest you pay would fall and you'd be mortgage-free sooner.

On the other hand, you could extend your mortgage term to reduce your outgoings now. However, this would mean the overall cost of borrowing is higher.

When reviewing the mortgage term, you need to consider your retirement date. You will usually need to pay off your mortgage before you retire or prove that you'll have sufficient income in retirement to continue meeting your mortgage repayments.

4. Look at the different mortgage options

As interest rates have increased over the last year, it's crucial you understand the different mortgage options and what they could mean for you.

There are three main types of mortgage:

- **Fixed-rate mortgage:** With this option, the rate of interest you pay will remain the same throughout the mortgage deal. So, you know how much your repayments will be. For some, this can be valuable when budgeting. However, if interest rates fell, you wouldn't benefit.
- **Variable-rate mortgage:** If you're paying a variable rate, the interest rate you pay can rise and fall, and so can your repayments. You'd benefit if interest rates fell but would face higher bills if they increased further.
- **Tracker-rate mortgage:** This is similar to a variable-rate mortgage as the interest rate can change during the mortgage deal. Usually, it will follow the BoE's base rate.

Consider which options suit your needs and your budget – would you prefer to pay a potentially higher interest rate through a fixed-rate mortgage deal in return for certainty?

5. Check the value of your home

Has the value of your home increased since you took out your last mortgage? Getting it valued could be worthwhile and save you money.

While the property market is uncertain at the moment, the average house price has increased over the medium term. Even if you've not undertaken any projects on your home, the value could be higher than you expect.

According to Land Registry, in March 2018, the average house price was almost £224,000. Just five years later it had increased to more than £285,000.

Lenders use the value of your home to calculate your LTV. So, if the value has increased, your LTV could be lower and you may be able to access a more competitive interest rate as a result.

6. Go through your credit report

Finally, take some time to go through your credit report.

Lenders will use your report to assess how much of a risk you pose, and it could affect the outcome of your mortgage application.

Make sure there aren't any mistakes. A Royal London survey suggests that almost 1 in 3 people have found errors on their credit reports. The most common mistakes are name or address inaccuracies, listing debt or credit agreements the consumer didn't have, or incorrectly listing missed payments.

While a mistake may seem minor, it could lead to a lender rejecting your application.

As well as mistakes, look for potential red flags on your credit report. Do you have a high level of debt? Or have several hard credit checks been carried out recently? There may be simple steps you can take to improve the appearance of your report.

Red flags don't necessarily mean you won't be able to remortgage or even that you can't access a good deal. But it may mean you need to consider specialist lenders that suit your circumstances.

5 valuable reasons to use a mortgage broker when you remortgage

You can apply for a new mortgage deal yourself. However, there are valuable benefits to working with a mortgage broker, including these five.

1. They are there to answer questions you may have

Information about mortgages can be filled with jargon and technical terms. Working with a mortgage broker means you have someone you can turn to for reliable and accessible advice.

During the process, you may also have questions about the different options and how outside factors could affect your mortgage. For example, will a BoE rate rise affect your application? Or which mortgage makes sense if you want to make overpayments? Again, a mortgage broker can provide answers that are relevant to you.

2. They will search the mortgage market to find a lender that suits your needs

There are lots of lenders to choose from. Researching the different options can take time, and you may still not be sure which is the right one for you.

A mortgage broker will take the time to understand your circumstances and then identify which lenders meet your needs, and, importantly, are likely to approve your application. A mortgage broker can save you time and mean you feel more confident when submitting your application.

Support in finding the right lender can be particularly valuable if your situation isn't straightforward. For instance, if you're self-employed or have a poor credit rating.

Make sure you understand if a mortgage broker is restricted or will look at the whole of the market when searching for a deal. Some brokers will only recommend mortgages from select lenders, which could limit your choice.

3. They may be able to secure you a lower interest rate

The interest rate has a direct effect on the cost of borrowing and your repayments. A mortgage broker may be able to secure you a lower interest rate than you would receive if you applied for a mortgage alone. A broker will have a better understanding of the mortgage market, or may even be able to access special deals.

4. They can make the remortgaging process smoother

Remortgaging your home may involve paperwork and providing evidence of your income and outgoings. Mistakes could lead to delays or even your application being rejected.

A mortgage broker can look over the paperwork and highlight potential issues before you apply. It can make the process quicker and less stressful.

5. They may be able to offer support in other areas too

As well as advice about which mortgage suits your needs, a mortgage broker might be able to provide guidance in other areas. For instance, they may be able to arrange buildings insurance, which could be a requirement of your mortgage.

Remortgaging is also a good time to review your financial safety net to ensure you could continue to make repayments if something unexpected happens. A mortgage broker may be able to offer advice about life insurance or income protection that provide peace of mind.

Contact us

If you need to take out a mortgage, please contact us. We can refer you to a trusted mortgage broker that could help you find a mortgage that suits your needs.

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