



FINANCIAL REGULATOR
Rialtóir Airgeadais

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^

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made easy

About us

We are an independent watchdog set up by the Government to:

- regulate firms that provide financial services; and
- help you make informed decisions about your personal finances.

We do not sell anything. We give you free, independent information in plain English and help answer your questions.



How to contact us...

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Information to get you started

What is a mortgage?

A mortgage is a long-term loan that is secured against your property. It is a big financial decision and a long-term commitment – so it is important to take your time, get the right information, weigh up all the options and choose your mortgage wisely.

Before deciding which type of mortgage to get, take some time to work out:

- how much you can afford to borrow;
- what size mortgage you can get; and
- how long your mortgage will last.



How much can I afford to borrow?

It's tempting to borrow as much as possible, but make sure you will be able to cope with possible future events such as higher interest rates, childcare costs, illness or redundancy. These can put a big strain on your finances.

To work out how much you can afford to repay, use our budget planner at the back of this guide or use our on-line planner at **www.itsyourmoney.ie**. Add up your regular bills such as household running costs, loans and any childcare costs. You should also take account of any money you save or pay towards your pension. Then subtract this total from what you earn (after tax) each month. What you have left is a good indication of the maximum amount you can realistically afford to spend on mortgage repayments.

When you know what you can afford each month, you are ready to find out how much you can borrow without going over your budget.



Don't borrow more than you can afford. Save some money for extra costs you may face in the future.

What size mortgage can I get?

Lenders use different ways to work out the amount of mortgage they will give you. They take into account:

- your income, the type and security of your job;
- whether you are borrowing on your own or with someone else;
- your savings and outstanding loans;
- your credit history and rating;
- whether anyone will act as a guarantor (a person who agrees to repay your mortgage if you are not able to); and
- the value of the property you want to buy.

As a general rule, most lenders will try to make sure that your mortgage repayments plus any other loan repayments you have don't go above 40% of your monthly take-home pay. If you already have other loan repayments, your lender may:

- offer you a smaller mortgage;
- offer you a mortgage over a longer term; or
- ask that you pay off your loans before giving you a mortgage.

How long can a mortgage last?

The average mortgage term is 20 years, but you can get a mortgage for any term from five to 40 years.

With a **shorter term**, you will have **higher monthly repayments** but, because you are repaying the mortgage over a shorter time, **you pay less interest in total**.

With a **longer term**, you will have **lower monthly repayments** but you will **pay more interest in total**.

Be careful about taking out a very long-term mortgage. Our tables on the next page show that the **extra interest** cost of borrowing €250,000 at 5.21% over 35 years instead of 15 years is €177,975.



Repaying a €250,000 mortgage at 5.21% over different terms

Mortgage term (years)	Monthly payment	Total you will repay (including the amount you borrowed)
15	€1,989	€357,961
20	€1,662	€398,949
25	€1,475	€442,366
30	€1,356	€488,079
35	€1,276	€535,936

Total extra cost (paying over 35 years compared with 15 years) = **€177,975**
(€535,936 less €357,961)

Of course, to afford your mortgage you may have to choose a longer term. But remember, you can shorten the term of your mortgage at any time and save interest by making extra payments when you can afford them (see page 14).

What is the 'cost per thousand'?

The 'cost per thousand' is the cost of your monthly repayments for every thousand euro you borrow. Once you know the cost per thousand, it's easy to work out your monthly payment.

For example, if the cost per thousand is €6.65 to repay a mortgage of €250,000 at an interest rate of 5.21% over 20 years, then your monthly repayment will be:

$$\begin{array}{r} \text{Cost per thousand} \\ \text{€6.65} \end{array} \times \begin{array}{r} \text{Number of thousands} \\ 250 \end{array} = \text{€1,662}$$

Mortgage term (years)	Cost per thousand (rounded)	Monthly payment
15	€7.96	€1,989
20	€6.65	€1,662
25	€5.90	€1,475
30	€5.42	€1,356
35	€5.10	€1,276

The information in the table is based on a €250,000 mortgage at an APR of 5.21% over different terms.

You can see that the cost per thousand falls the longer your mortgage term. But remember, the longer you take to repay, the more interest you pay over the life of your mortgage.

100% mortgages

Most lenders will offer you a percentage of the value of the home you want to buy, for example, 92%. However, some lenders may offer you a 100% mortgage. This means you can borrow the full value of your home.

While this may make it easier for you to buy your home, you should be aware of the possible risks.

- House prices can fall, and you could find that you owe more on your mortgage than your home is worth – this is called **negative equity**.
- A 100% mortgage could put you under more financial pressure because you are borrowing more. So, you may find it more difficult to make your repayments if interest rates rise.

Note: A 100% mortgage doesn't automatically mean that you don't need savings. Remember that when you agree to buy a property you have to pay a deposit (up front) before you get your mortgage. You will also have extra costs when buying a home, such as legal fees, valuation fees and possibly stamp duty (see pages 17 and 18 for more information).



Because your mortgage is secured against your property, your lender could take legal action to repossess your home if you do not keep up your repayments.



How to choose your mortgage

There are many different types of mortgages and rates available. Here are some simple steps to help you choose wisely.

- Step 1: Decide the **type of mortgage** you want.
- Step 2: Get information on the **interest rate** options.
- Step 3: Check out **flexible payment** options.
- Step 4: **Shop around** and ask the right questions.

Step 1: Decide the type of mortgage you want

There are two main types of mortgages.

- Annuity (or repayment) mortgage
- Interest-only mortgage

Annuity (or repayment) mortgage

This is the most common type of mortgage. Your monthly repayment is made up of:

- the interest payment; plus
- the capital (original loan amount) repayment.

Your lender works out the amount you need to pay each month to make sure you fully repay your mortgage including capital and interest by the end of the mortgage term.

Monthly repayments are made up of two parts.

Interest

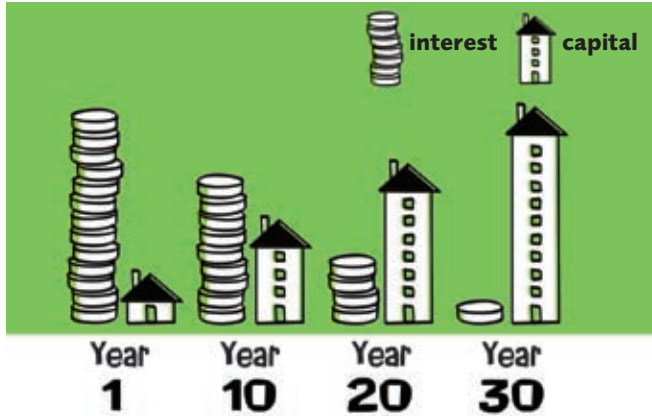
In the early years, most of your repayments will go towards paying off interest on your loan.

+

Capital repayments

As your loan reduces each year, the interest goes down. So, as time goes on, more of your repayments go towards paying off the capital.

Your repayments



You can see that:

- the amount of interest you pay is highest at the start of your mortgage; and
- you pay off more capital as you get closer to the end of your mortgage.

Combined current or savings account mortgage

This is an annuity mortgage that combines a current or savings account(s) and mortgage account in one. You make the usual monthly repayments (as with a standard annuity mortgage), but with this type of mortgage, any money you have in your current or savings account(s) will reduce the interest you owe on your mortgage.

How does this work?

With most mortgages, your lender charges interest on the amount of your mortgage you still have to pay at the end of each month.

With a combined mortgage and current or savings account, your lender charges interest on the **difference between your mortgage balance and the balance in your other account(s)**. If you have extra money in your account(s), this will reduce the amount of mortgage that you have to pay interest on.

Of course, your money is still available to spend and pay for things just as you would with any other current account. You can use ATM and laser cards, direct debits, standing orders and so on.



Do remember to check the interest rate as it may be higher on this type of mortgage. If you are combining your mortgage with your current account, check out the services available and any charges that may apply on your current account.

Interest-only mortgage

With this type of mortgage, your monthly repayment covers **only the interest on your loan, and not the capital**. The original amount you borrowed stays the same for the term of the mortgage. At the end of the term, you must repay the original loan in a lump sum. You can do this by:

- taking out a pension policy or an endowment policy that is expected to grow in value by enough to repay the original loan; or
- selling the property, assuming that the proceeds will pay off the loan.

Remember, there is **no guarantee** that either selling your property or using the proceeds from your policy will create enough money to pay off your original mortgage.

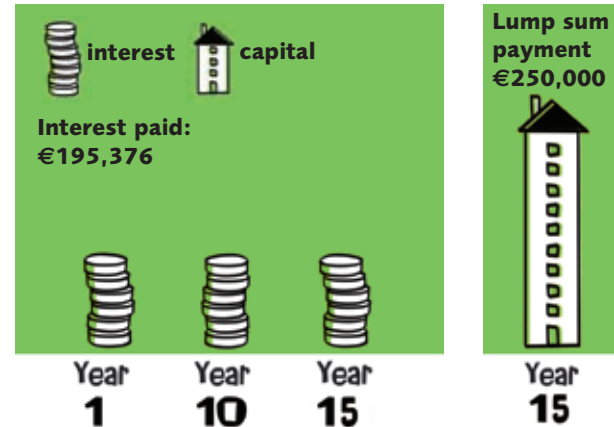
Lenders will usually only offer this type of mortgage if you are in a very good financial position, for example, if you own a number of properties. This is because there is a higher risk that you may not be able to pay off an interest-only mortgage from the profits of an endowment or pension policy, or by selling your property.



Example

John borrows €250,000 over 15 years at 5.21%. He pays €1,085 a month to cover the interest. At the end of the 15 years, John has paid his lender €195,376. However, as this only covered the interest on his mortgage, he must also pay €250,000 to the lender to clear his mortgage.

John's repayments



There are **two main types** of interest-only mortgages.

- Pension mortgage
- Endowment mortgage

Pension mortgage

You can take out a pension mortgage if you have a Personal Pension Plan or a Personal Retirement Savings Account (PRSA) or if you are a proprietary director with an occupational pension scheme. Go to our website www.itsyourmoney.ie for more information or download or order our guide '**Pensions made easy**'. In general, lenders will allow you to borrow less on a pension mortgage than with a standard annuity mortgage.

With a pension mortgage, **you could pay off the mortgage from the tax-free lump sum you get from the pension plan**. Up to then you pay:

- interest only, charged every month on the original amount you borrowed; plus
- monthly payments into a personal pension policy. You may get tax relief on these payments within certain limits set by the Revenue.

Your pension policy is expected to grow in value by enough to pay off your mortgage when you retire, and also give you a pension income. However, your policy growth is **not guaranteed**.

So, it is possible that:

- your policy might not be worth enough to pay off your original mortgage; and
- your pension, when you retire, may be smaller than you expected.

Endowment mortgage

This is similar to a pension mortgage except that **you could pay off the mortgage from the proceeds of a separate investment policy (called an endowment policy)** at the end of the mortgage term. Up to then you pay:

- interest only, charged every month on the original amount you borrowed; plus
- monthly payments into an endowment policy.

Your **endowment policy growth is not guaranteed**.

It may not rise in value by enough to pay off your original mortgage. If your policy grows slower than expected, you may have to extend the policy term, or make higher payments each month to pay off the shortfall.

Buy-to-let

You may be offered an interest-only mortgage if you are investing in a buy-to-let or investment property. In this case, your lender expects you to pay off the original loan by selling the investment property at a later date.

Remember: The property sale value at a future date may not be enough to pay off the original loan.

Step 2: Get information on the interest rate options

Lenders quote their interest rates by APR (annual percentage rate). This is the yearly rate of interest, taking account of all the costs involved, such as any set-up charges, the term of the loan and the interest rate. You can use the APR to compare the interest costs of different mortgages, as long as you compare:

- the same mortgage amount; and
- the same term.

For a mortgage of the same amount and term, the higher the APR, the higher your monthly repayments will be.

There are three main interest rate options available.

These are:

- variable rate options;
- fixed rate; or
- split rate.

Variable rate options

Tracker variable rate

A tracker rate is set at a fixed percentage ('margin') above the European Central Bank (ECB) rate at the start of your mortgage. For example, your rate could be set at the ECB rate plus 1% for the life of your mortgage. This extra percentage above the ECB rate will stay the same until you have paid off your mortgage. If the ECB rate rises by 1%, your tracker rate will automatically rise by exactly 1%. The opposite happens if the ECB rate falls.

Standard variable rate

A standard rate can rise and fall in line with general changes in interest rates. When the ECB rate rises, your mortgage lender can increase your variable rate, so your repayments go up. The increase may be more or less than the change in the ECB rate. When rates fall, your lender can pass on some or all of the reduction to you, so your repayments fall.

Other types of variable rates

Lenders offer two other types of variable rates.

Discounted rate

- This is a temporary, lower rate than the standard variable rate – for example, 1% lower for the first year of your mortgage.
- At the end of the introductory period your rate changes to the standard variable rate. In some cases, you have the option at this stage of choosing the type of rate you would like for the rest of your mortgage.

Capped rate

- This is a variable rate that will not go above a set level (the 'cap') even if interest rates rise. For example, a maximum rate of 6% in the first two years.
- If interest rates fall, your rate and repayment can also fall.



Discounted rates can seem attractive, but make sure you know how much extra it will cost you over the life of the mortgage and what rate you will pay after the discounted rate ends.

Rates linked to 'Loan to value' (LTV)

Loan to value is the size of your loan compared with the value of your home. Some lenders may offer lower variable rates if you borrow less than a certain percentage of your property value. For example, if you borrow €100,000 and your property value is €200,000, you are borrowing 50% of your property value, so your LTV is 50%. You may get lower rates if your LTV is below a certain amount, for example, 60%. This is because there is a lower risk to the lender as there is more equity in your home.

Fixed rate

With a fixed-rate mortgage, your interest rate and repayments are fixed for a set time, for example, 5.5% for three years. After that time, your rate changes to a variable or tracker rate or you may be offered another fixed-rate option.

Although a fixed rate means your repayments **cannot increase** for a set period of time, on the other hand your repayments **will not fall if rates fall**. This means that you could lose out on the benefits of lower interest rates.

Fixed rates will give you certainty but are not always better value.

If you want to change to a variable rate or pay off your mortgage before your fixed-rate period ends, your lender can charge a fee to cover the cost of breaking your fixed rate. Also, most lenders will not allow you to pay a lump sum into your mortgage during the fixed-rate period, so you could lose out on saving interest in this way. See page 14 for more details.

Split rate

This means that part of your mortgage is at a fixed rate and part is at a variable rate.

- If rates move up or down, your repayments won't change on the fixed part.
- You can benefit from any fall in rates on the variable part, but your repayments will also be likely to rise if rates rise.

The following is a summary of the main advantages and disadvantages of fixed and variable interest rates.

Type of rate	Advantages	Disadvantages
Variable rate	<ul style="list-style-type: none"> • If interest rates fall, your repayments may also fall. • You can usually increase your repayments and pay occasional lump sums, saving you interest. 	<ul style="list-style-type: none"> • If interest rates rise, your repayments are also likely to rise.
Fixed rate	<ul style="list-style-type: none"> • If interest rates rise, your repayments won't increase because they are fixed until the end of your fixed term. 	<ul style="list-style-type: none"> • You will usually have to pay a fee if you switch to a variable rate, remortgage or pay your mortgage off early. • You can't usually pay lump sums or extra amounts during the fixed-rate period. • Your repayments won't fall if rates fall.

Step 3: Check out flexible payment options

Flexible mortgage payment options include:

- increased and lump-sum payments;
- the late (deferred start) option; and
- payment breaks.

Increased and lump-sum payments

If you have a variable-rate mortgage, most lenders will allow you to:

- pay more each month than the agreed repayment; and
- pay occasional lump sums.

Paying extra into your mortgage lets you:

- pay off your mortgage sooner; and
- save money as your interest is lower.

Some lenders allow you to make extra repayments to reduce your interest bill but you can 'claw back' the extra if you need it later on.

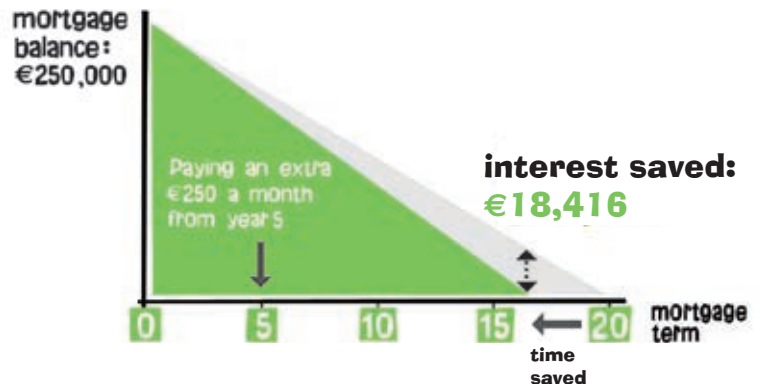
No matter what size mortgage you have or for what term, paying extra can save money in interest and allow you to pay off your mortgage earlier than planned. It's best to agree any extra payments with your lender beforehand.



Example: €250,000 annuity mortgage over 20 years at 5.21%

Increased or lump-sum	Time saved	Interest saved
Lump-sum payment of €10,000 in year five	12 months	€11,173
Increased payment of €250 a month from the start of year five to the end of the term.	2 years and 8 months	€18,416

Effect of increased monthly payment



Late (deferred) start option

This option allows you to make no repayments for a number of months at the start of your mortgage. Your lender charges interest on the whole mortgage for these months, and adds this extra interest to the original loan.

So, your mortgage balance actually rises even before you begin to make your repayments.



This can be a useful option if you are a first-time buyer and want extra money for furnishings or home improvements. But remember, **if you postpone repayments, you will pay extra in interest and increase the overall cost of your mortgage.**

Payment breaks

Some lenders offer 'payment break' options for times when you need extra cash, such as Christmas or holidays.

You could:

- spread your monthly repayments over a shorter number of months, for example, 10 months instead of 12; or
- postpone repayments for a time, for example, three months.

If you arrange to **pay your mortgage over 10 months**, your monthly repayments will be higher to cover the cost of the two 'skipped' months but **you don't pay any extra interest.**

Example: €250,000 mortgage at 5.21% over 20 years

12 monthly repayments, no payment break	€1,662 a month x 12
10 monthly repayments, two 'skipped' months	€1,995 a month x 10

If you **postpone payments**, your lender will usually add the total postponed payments onto your mortgage balance. So, you will have a slightly higher repayment afterwards in order to keep your mortgage term unchanged.

Before selecting one of these options, make sure that your lender sets up the arrangement as any missed payment not agreed with your lender will show up on your credit history.

Step 4: Shop around and ask the right questions

Where do I go for information?

You can get information about mortgage types, rates and flexible payment options from:

- a lender, such as a bank or building society; or
- a mortgage broker.

Tips for shopping around

- It's worth checking out the detailed information available on many brokers' and lenders' websites.
- Get quotes and information in a number of different ways – over the internet, by phone and in person.
- Make appointments with a number of lenders. Let them know you are shopping around and not yet ready to make a decision.
- If using a broker, ask how many lenders they will get quotes from. The more lenders the broker represents, the wider your options.
- If using a broker, make sure you ask what fees you will have to pay, if any.
- Get three or four quotes for different amounts over different terms. Most lenders and brokers have mortgage calculators and can give you this information quickly and easily, or you can get it yourself on-line on our website www.itsyourmoney.ie



Even a small difference in interest rates can have a big effect on a mortgage. For example, a €250,000 mortgage at **5%** over 20 years would cost you around **€142,302** in interest. The same mortgage at **6%** would cost you over **€174,375** in interest (**€32,073 extra!**). So, it is worthwhile making sure you get the best value from the start.



Comparing mortgages and interest rates

- Compare APRs using the same loan amount and term.
- Use our mortgage calculators on our website at **www.itsyourmoney.ie**
- Compare APRs from different lenders on their standard variable rate or tracker rate (not their one-year discounted rate).
- Ask about the 'cost per thousand' over different terms, so that you can work out the monthly repayment yourself based on different terms.
- Ask how often they charge interest - daily, monthly or yearly. If you pay every month, look for a mortgage that charges interest monthly.
- Compare flexible options, such as extra payments, payment breaks and late (deferred) starts.
- Compare the fees you have to pay your lender or broker.

Comparing fees and charges

No matter who arranges your mortgage, **you have to pay:**

- a valuation fee; and
- legal fees and other charges.

Valuation fee

The valuation fee is the most common fee that lenders charge. It is used to pay a professional valuer to estimate a property's market value. The fee is usually €100 to €150. Lenders will refund the valuation fee if, for some reason, your mortgage is refused. Most lenders do not charge any other fees, but always check this when shopping around. Some lenders will allow you to get your own valuation carried out. You would then send the valuation report to your lender. In this case, the valuation report belongs to you and not your lender. However, if your mortgage is refused, you will not get a refund of the valuation fee.

Note: a valuation report sets out the market value of your property. It is not the same as a structural survey and does not assess the condition of your property.

Legal fees and other charges

You need a solicitor to look after the legal aspects of your mortgage. Your solicitor will carry out legal searches to make sure the person selling the property can pass full ownership to you. Fees vary, and may be either a percentage of your mortgage, or a flat fee. So, before you choose a solicitor, ask about their fees and any other costs you have to pay, such as land registry and search fees.

If you are remortgaging your home or switching your mortgage, some lenders now offer to pay some or all of your legal fees. In return, you usually have to keep your mortgage with that lender for a minimum period, such as five years. Otherwise, you may have to pay back some of the fees.

If you are selling your existing home, you may also have to pay the estate agent's selling fees. The charge is usually between 1% and 2% of the sale price, but you can negotiate.

Other fees and charges you may have to pay

Type of charge	Who is it paid to?	Reason for charge
Structural survey fee	Usually an engineer or architect. The costs depend on which firm you use.	This is a survey to find out the structural condition of the property you want to buy. If issues were raised during the valuation of the property, or if it is very old, your lender may insist you get a structural survey. You may also want to get this survey done to satisfy yourself that you want to buy the property.
Stamp duty	Government (paid through your solicitor). See www.revenue.ie for up-to-date rates.	This is a government tax for buying land or property, and varies from 3% to 9% depending on: <ul style="list-style-type: none"> • the price of the property; • whether the property is new or second-hand; and • whether or not you are a first-time buyer.
Brokers' fees	Mortgage broker. Many brokers do not charge a fee.	A fee for giving you mortgage advice or arranging your mortgage (or both). Note: brokers receive commission from your lender for your business.

Questions to ask

- **How much** can I borrow?
- What is the best **type of mortgage** for my needs?
- What is the **APR**?
- What are the **monthly repayments** over different terms, for example, 15, 20, 25, 30 or 35 years?
- Are there **flexible payment options**? Paying lump sums or extra amounts each month saves you money and shortens your mortgage.
- If a discounted rate is offered, **what rate applies at the end of the discounted period** and what will my repayments be then?
- What effect will a 1%, 2% or 3% **rise in interest rates** have on my repayments? Your lender or broker can work this out for you, or you can use our mortgage calculators on **www.itsyourmoney.ie**
- If I opt for a fixed rate, **is there a charge** for changing to a variable rate or paying my mortgage off early during this period?
- If I am arranging my mortgage through a broker, how many lending institutions does he or she represent? And, what fees may apply?

Approval in principle

Many lenders offer 'approval in principle'. This means that your lender approves you for a mortgage of a set amount, based on your income and other details from your application form. So, you know how much you can borrow subject to certain conditions, before you start looking at properties.

Your lender will check all your details, including your credit history. This is a record of your repayments on any loans you have had in the past five years. For more information about your credit history, go to **www.itsyourmoney.ie**. Or, you can order or download our fact sheet '**You and your credit rating**'.



Arranging your mortgage

When you have found a property and chosen the mortgage you want, here is a checklist of the main things you have to do.

Checklist - what you have to do

- Fill in your mortgage application form and enclose the necessary information.
- Get your letter of offer from your lender. This sets out the amount and term of your mortgage and lists any extra items your lender asks for.
- Make an offer (usually through your solicitor) and pay the necessary deposit.
- Arrange a valuation date with your lender (and carry out your own structural survey, if necessary).
- Arrange mortgage protection and home insurance. Shop around with your lender, broker or insurance company – the policies should start the same date as your loan cheque is sent.
- You and your solicitor sign the letter of offer and return it, along with any other items needed, to your lender.
- Your solicitor completes the legal work.
- Your solicitor receives your mortgage cheque and arranges for you to sign the mortgage document so that you can complete the sale.

Information you need to give your lender

When you send your lender your completed application form, you will have to provide:

- proof of your identity and address (usually a passport or driver's licence, and a phone, gas, water or electricity bill in your name);
- your latest P60 and three recent payslips;
- a statement of your earnings signed and stamped by your employer;
- if you are self-employed, an accountants' certificate confirming your income over recent years;
- copies of recent bank statements;
- statements of any savings and loans you have; and
- policy documents for mortgage protection insurance and home insurance (if you have arranged these directly through an insurance company or broker).

Your lender may need extra information depending on the type of mortgage you get.

When your mortgage is approved, your lender will expect you to fill in a direct debit form so your repayments can be collected from your bank account.

Arranging insurance

Essential insurance

Mortgage protection and buildings insurance are **essential** when taking out a mortgage.

Insurance policy	What is it?	Where you can buy it
Mortgage protection	<p>A life insurance policy that pays off your mortgage if you die. By law, most mortgage borrowers must have this cover. You can use an existing life insurance policy as long as it is not for any other specific loan or mortgage. Your policy must cover you for at least the amount of your mortgage and run for the same term and you must put your lender's name on the policy.</p> <p>The premium is fixed for the life of your mortgage, and is usually paid monthly.</p> <p>If the mortgage is for an investment property, or if you are over 50, you may not have to take out this type of insurance.</p>	<ul style="list-style-type: none">● Brokers● Life insurance companies● Lenders
Buildings insurance	<p>A policy that covers your buildings (but not contents) against fire, flood and other damage. The amount of cover is based on the cost of rebuilding your home, not the market value. Your lender's name must be noted on the policy.</p> <p>Your premium is not fixed, and may increase or decrease when the policy comes up for renewal each year.</p>	<ul style="list-style-type: none">● Brokers● General insurance companies● Lenders

Optional insurance

Lenders and brokers will often suggest you consider extra insurance when taking out your mortgage. These policies are **optional**.

Insurance policy	What is it?	Who offers it?
Life and serious-illness cover	A policy that pays out a lump sum if you die or suffer a serious illness (that is covered by the policy) before the end of the policy term.	<ul style="list-style-type: none">● Brokers● Life insurance companies● Lenders
Contents insurance	A policy that covers you for theft or damage to the contents of your home. Consider whether you can get better value by combining buildings and contents cover into one policy.	<ul style="list-style-type: none">● Brokers● General insurance companies● Lenders
Payment protection insurance	A policy that pays all or some of your monthly mortgage repayments for a set amount of time if you have an accident, become ill or are made redundant. If you have existing accident or illness cover or a secure job, you may not need to pay the extra costs of this cover. The premium stays the same throughout the life of the policy.	<ul style="list-style-type: none">● Lenders

Go to our website at **www.itsyourmoney.ie** for more information, on-line surveys and publications on the following.

- Life insurance
- Home insurance
- Serious-illness insurance
- Payment protection insurance

Shop around for all your insurance needs. Even though your lender or broker can arrange your cover, you do not have to take the policies they recommend.

Reviewing your insurance

At the policy renewal date each year, you can shop around for building and contents insurance quotes yourself, or use a broker. If you change insurers, you have to ask your new insurer to note your lender's interest on the new policy and send a copy to your lender.

Should I get mortgage protection cover through my lender?

Buying mortgage protection through your lender can be convenient. Most lenders collect your policy premiums with your normal mortgage repayment, so you only have to make one payment. If you buy the policy recommended by your lender, you are insured under the lender's group scheme. However, this may restrict you if you switch your mortgage later on as your lender automatically cancels the policy. That means you would have to buy a new mortgage protection policy after you switch. This could be expensive as premiums rise the older you are when starting a policy.

The **benefits of getting your own independent policy** are:

- you can shop around and may get cheaper cover; and
- you can usually keep your existing policy (and premium) and simply transfer it to a new lender if you switch your mortgage for another mortgage of the same amount and term.

Tip: Shop around to get the best deal. Get quotes through a broker or direct from insurance companies, in person, by phone or on-line. Some brokers and insurance companies offer discounts for buying on-line.

Reviewing your mortgage

Switching lenders

Keep an eye on interest rates and make sure your mortgage rate is competitive. You may be tempted to switch lenders for a better rate, but switching can be expensive so first ask your existing mortgage lender to review your rate and then see if it's still cheaper to switch.

Increasing your mortgage

If your property value and income allows, you may be able to increase your existing mortgage. You might increase your mortgage to:

- pay for home improvements, a new car or other expenses; or
- pay off your higher-rate loans with one main loan at a cheaper rate (known as consolidating debt).

Top-up mortgage

If you have built up equity in your home (if you owe less on your mortgage than your home is worth), you may be able to borrow extra on your mortgage. Your existing mortgage and your home is security for the loan. For more information, go to our website at www.itsyourmoney.ie, or you can download or order our guide '**Personal loans and credit**'.

Costs for switching and increasing your mortgage

If you do decide to switch or increase your mortgage, you will usually have to pay:

- a valuation fee;
- legal fees and other charges (although some lenders may pay these); and
- a fee to cover the cost of breaking your fixed rate.

Apart from fees and legal costs, you will also pay more interest if you increase your mortgage. If you are switching, you need to decide whether you can make enough savings from switching to a lower interest rate to cover these costs.

Equity release

If you are a home owner and are over 60 you may be able to release some of the value of your home without having to move out or sell it on the open market. There are two main types of equity release schemes – 'life-time' loans and home reversions. With both you do not have to make any repayments until your home is sold. But it is very important to be fully informed before you choose an equity release scheme, so for more information, go to www.itsyourmoney.ie, or you can download or order our booklet '**Equity release—using your home to get a cash sum**'.

Consolidating your debts

Consolidating your debts means you take out one single loan to pay off a number of other loans. Many lenders promote mortgages for consolidating debt because you can pay off higher-rate loans using a mortgage at a lower interest rate. They stress the lower interest rate and lower monthly repayments.

The rate of interest on your mortgage is usually cheaper than the rates of personal loans, but, as you can see from the tables on the next page, it can actually cost you more if you repay the new loan over a much longer term than the original loans.

Don't be tempted to extend your debts too far into the future. If you decide to add your personal loans to your mortgage, ask your lender if you can split the new (consolidated) loan so that you pay off your personal loans within their original term.



Original mortgage and personal loan plan

Loan details	Amount owing	Remaining term	Typical APR	Monthly payments	Cost of credit
Existing mortgage	€100,000	20 years	5.21%	€665	€59,579
Home improvement loan	€30,000	7 years	7.40%	€455	€8,231
Car loan	€18,000	5 years	8.80%	€369	€4,139
Personal loan	€10,000	3 years	10.50%	€323	€1,621
Total	€158,000			€1,812	€73,570

New consolidated loan plan

New mortgage	€158,000	20 years	5.21%	€1,051	€94,136
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Extra cost of a consolidated loan

Total (€94,136 less €73,570)	€20,566
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Despite the lower APR and lower monthly repayments, in the long run the new loan plan **would cost you €20,566 (over 20 years) more than the original plan**. This is because you are now paying for the old loans over 20 years, instead of the shorter original loan terms.

Cost of credit is the difference between the amount you borrow and the total you will repay on a mortgage or loan. It is the true cost of borrowing.

Dos and don'ts

✓ Dos

Do shop around for the best advice and the best deal on your mortgage.

Do compare interest rates using the APR and take account of other services and special offers separately.

Do bear in mind that even a small difference in rates can have a big effect on the overall cost of your mortgage.

Do consider borrowing less than the maximum loan you can get, particularly if you are worried about being able to afford the repayments.

Do keep all correspondence and documents from your lender in a safe place.

Do shop around for mortgage protection and any other insurance you may need.

Do review your mortgage from time to time.

Do deal with an authorised lender or broker.
Call us on **1890 200 469** to check if they are authorised.

✗ Don'ts

Don't take the first mortgage you are offered. You may get a better deal elsewhere.

Don't decide which mortgage to take based solely on freebies and discount offers only. Consider the interest rate you will pay over the longer term.

Don't borrow more than you can afford to repay. Your lender may repossess your home if you cannot meet your repayments.

Don't miss repayments, as it can be hard to catch up and debts can build up quickly. Missed payments affect your credit rating and you may have difficulty getting other loans.

Don't ignore your debt problems. If you are in difficulty, contact your lender, work out a new payment arrangement and stick to it. You could also contact the **Money Advice and Budgeting Service (MABS)** in your area. This is a free and confidential service funded by the Government. You can get details about your local MABS office in the phone directory or on-line at **www.mabs.ie**

Budget planner

Income

Your wages (after tax) € _____
Benefits € _____
Other income € _____
(1) Total income € _____

Monthly expenses

Household expenses
Home insurance € _____
Electricity and gas bills € _____
Phone (rental, costs, land and mobile) € _____
TV (rental, licence, cable) € _____
Other household expenses € _____
Subtotal € _____

Personal expenses

Food € _____
Clothing € _____
Life insurance € _____
Health insurance € _____
Other personal expenses € _____
Subtotal € _____

Existing loans

Car loan repayments € _____
Other personal loan € _____
Credit-card payments € _____
Subtotal € _____

Work-related expenses

Childcare € _____
Car (tax, insurance and servicing) € _____
Bus, train and taxi fares € _____
Meals and other expenses € _____
Subtotal € _____

Entertainment

Holidays € _____
Birthdays and Christmas € _____
Membership of clubs € _____
Going out/socialising € _____
Subtotal € _____

(2) Total monthly expenses

€ _____

Savings and pension

Monthly savings € _____
Pension contribution € _____

(3) Total monthly savings and pension

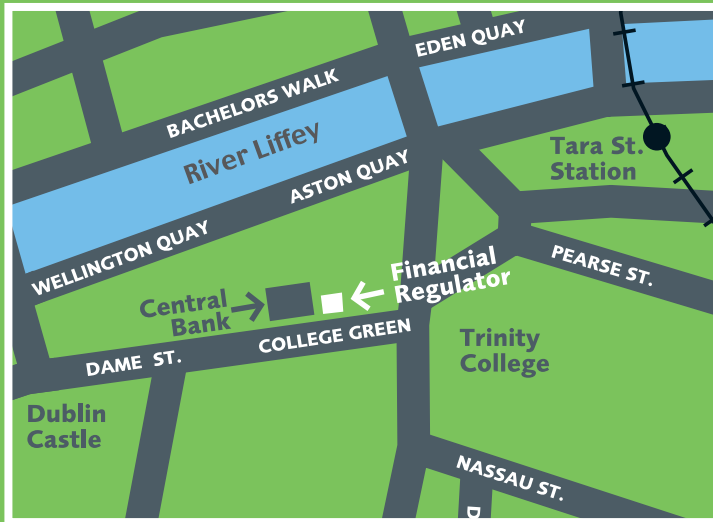
€ _____

To work out the maximum you can afford to pay, add your total monthly expenses and your savings and pension (2 + 3). Then take away this from your total income (1 - (2 + 3)).

You can use this sample budget planner as a guide to help you draw up your own. You can also use our on-line budget planner on our website at www.itsyourmoney.ie to help you work out your income and expenses.

This is a general guide to mortgages.
Nothing in this booklet is intended to be, or should be considered as:

- 1 an invitation, offer or incentive to you or any other person to enter into a financial arrangement;
or
- 2 advice on, or a recommendation of, any particular product or product provider.



How to contact us...

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Other independent guides in this series...

