

let's work together

Overpaying mortgages

With base rate at an all time low, and many mortgage lenders apparently passing on at least some of the savings to borrowers, now may seem a strange time to be writing about ways of saving on clients' mortgages. Yet now is a good opportunity for borrowers to consider making overpayments in order to reduce overall outlay over the longer term. While interest rates are low, a major saving can be made without moving mortgages (although for some a move could also be a good idea).

Many people are finding that mortgage repayments are currently significantly lower than a year ago. In some cases, especially for those on 'interest-only' mortgages, the reduction can be very large indeed. This creates the opportunity to make overpayments - by retaining the same monthly payment, rather than reducing it to the new minimum - that can swiftly reduce the outstanding mortgage balance. Or at least it will for those who have modern mortgages that deduct early repayments from the outstanding balance immediately, rather than waiting for the end of the year, as was once predominantly the case.



Overpayments can make sense

By making even modest overpayments, it is possible to cut the term of the mortgage quite considerably, and this means that less interest will be paid over the longer term.

Offset have an edge

The modern 'offset' mortgage may offer a special advantage, because not only do they usually allow regular and random overpayments (as well as flexibility over repayment holidays if the borrower gets into difficulty) but they also charge interest on a daily basis, so repayments are immediately beneficial.

However, because they work by offsetting the balances held in savings and current accounts before the interest



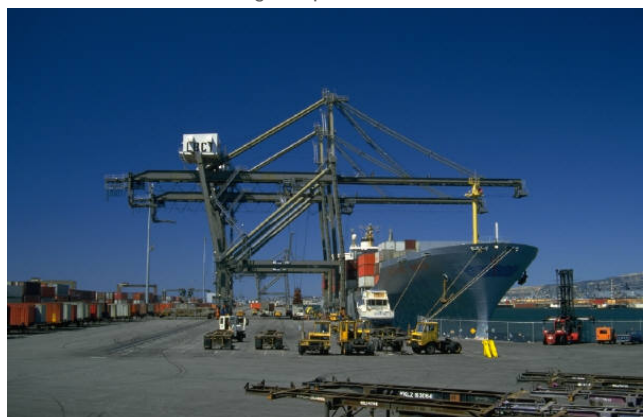
Offsetting is a matter of balance

due is calculated, keeping extra money in these accounts also helps with eventual repayments. While this gives the added benefit that borrowers can keep easy access to their money, it has the same downside; it is all too easy to spend!

Many offset mortgages also give you access to some or all of any overpayments in any event, so the choice of how best to handle the overpayment issue is up to the individual.

Shouldn't we be spending to help the economy grow?

With the economy, measured by gross domestic product, in decline for the last two quarters (the commonly accepted 'technical' definition of a recession) it is arguable that everyone should really be spending, where they can afford to do so, in order to help the economy. To some extent this is true and some retainers (particularly in the leisure sector) have apparently reported that people with lower mortgage payments have been more willing to spend.



The economy needs all the help it can get

However, if at least some of the money saved goes back into the economy, this is better than nothing and each individual has to make their own judgement call. Many may decide that uncertainty over future employment prospects makes it 'safer' to reduce borrowings now, while they can.

Conversely, if everyone who can afford to spends money on consumer durables and other capital spending, they will benefit and so will the economy.

Can overpayments help the banks?

There is another economic argument in favour of individual borrowers making overpayments however. One of the major problems resulting from the Credit Crunch is that banks do not have sufficient money to spend. Agreed, it is entirely their fault that they (and as a result, we) have got into this mess. Had they been less greedy/negligent/reckless (please delete as appropriate) in taking on unquantifiable 'securitised' (i.e. bundled) mortgages from the US, where bankers had discovered a new breed of Ninjas (No Income, No Job or Assets) to lend to, we might not be here today.

However, that said, the banks need money to get lending moving again. Unfortunately, they are still reluctant to lend to each other (even if they could) and the billions of pounds, dollars and euros put into the system is doing



Banks need help too



Professional advice is always worth having

no more than to ensure that the banks do not actually go bust (some commentators feel that, in terms of asset values, they are technically so already).

This means that banks need to look at the retail market for capital to lend. But, of course, with interest rates so low, few people are interested in increasing the amount of money they have on deposit.

This means that any capital repayments by existing borrowers, however modest, should help to create the capacity for further lending. Should that happen, the decline in house prices should slow (or even reverse, as Halifax says it already has for January) and this could easily lead to the sort of confidence that we need to get back on the right foot.

A helping hand

If you would like us to review any of your clients' mortgages or other borrowings, please contact us. There may be a fee for mortgage advice. The amount will depend on your clients' individual circumstances but for a typical mortgage of £100,000 we estimate it will be £500. THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP THE REPAYMENTS ON YOUR MORTGAGE.

DNG Financial Solutions Limited, 14 Cottesbrooke Park,
Heartlands, Daventry, Northants, NN11 8YL
T: 01604 657200
F: 01327 300673
E: enquiries@dngfs.com

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