Cubic Financial Services

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Types of Mortgage Interest Rate

When recommending a mortgage, we will always ask you about your circumstances- what they are right now as well as what if any what financial & lifestyle changes you might expect in your circumstances going forward. This is one of the key elements that will help us to advise you on a mortgage rate that suits your needs. Below, we have detailed the different types of rates and their associated features.

Bank of England Base Rate

- This is set by the Bank of England's Monetary Policy Committee
- It is important (in the context of mortgages) as the rate will often influence the rate that banks will charge their customers for borrowing money. Depending on whether the rate increases or decreases your mortgage payment might also increase or decrease

Standard Variable Rate

- This rate is set by each mortgage lender therefore it will vary depending on the lender that your mortgage is with
- Once your Fixed, Tracker or discount rate ends the lender will move you onto their Standard Variable Rate
- Often, this is more expensive than the Fixed, Tracker & Discount rates that a lender has in their product range at any given time
- It is therefore useful for you to have a conversation with us if you think that your rate might be coming to an end so that we can advise you on a rate that that is both financially beneficial and meets your current requirements.
- If you have already moved over to the lenders standard variable rate it is likely that you are no longer tied into your mortgage and will therefore not incur any early repayment charges for switching.

Tracker Rate

- A tracker rate mortgage is a type of variable rate mortgage
- It moves in line with (or tracks) a rate that is external to the lender. Often it will be the Bank of England Base rate (BBR). This means that that fluctuations in the external rate e.g. BBR, will result in fluctuations in the interest rate that you pay thus an increase or decrease in your mortgage payment
- One reason why such a rate might be preferred is because you will know that your mortgage payment is directly linked to the economic situation (BBR is set by the Monetary Policy Committee) rather than a mortgage lenders commercial decision.
- Tracker rates may last for a period e.g. a Tracker Rate for two years
- The amount by which your interest will increase or decrease will be agreed from the outset for example a two year Base Rate +1% tracker will mean that during the two year period, you will pay 1% more than whatever the external rate is at any given time. Some lenders also offer lifetime tracker rates.

Discount Rate

- Another type of Variable rate mortgage
- "Discount" on the lenders Standard Variable Rate (SVR) so your rate will always be below the lenders SVR.
- The amount by which your interest will increase or decrease will be agreed from the outset, for example a two year 1% Discounted rate will mean that during the two year period, you will pay 1% lower than the SVR that your lender has set at any given time (depending on the lenders SVR).

Capped Rate

- Whilst this type of interest rate can fluctuate, there is an upper limit which it cannot exceed, known as the Cap
- Often compared to the Standard Variable Rate as it too can vary, however, the fundamental difference is that that it cannot exceed a certain limit i.e. the Cap
- Capped rates may last for a period e.g. a Capped rate for two years
- It can give you the peace of mind of knowing that your interest rate will not exceed a certain point which might in turn help you with your ability to budget for mortgage costs

Fixed Rate

- As the name suggests the rate will remain static (or fixed) for a period and during that period you will know exactly what your monthly mortgage payment is regardless of the Bank of England base rate or the interest rates available on the market.
- Whilst this can help you with having more control over your ability to budget for mortgage costs, it is also worth noting that if interest rates in the market reduce during the fixed rate period, you could end up paying more for your mortgage than a market competitive rate at that time.
- This type of rate comes with a "tie in" period". Although different lenders have a different range of fixed rate products- which can be fixed for between 2 and 10 years, most lenders usually offer either a 2 Year or 5 Year fixed rate.
- You would usually fix the mortgage for a period during which you do not envisage any major changes to your mortgage
- Some changes to the mortgage will still be allowed, for example if the mortgage is portable, you can transfer or Port the mortgage to another property without incurring penalties.
- There may however be implications if you do not meet certain requirements, for example, repaying the mortgage in full during the fixed rate period could result in you having you to pay an Early Repayment Charge (ERC)