Deal or no deal

There's more to choosing a mortgage than just getting a good interest rate. We tell you what extra costs you should look out for and how to get the best-value deal

Unless you are Richard Branson or Madonna, before you can get your hands on your dream home you'll need to get your hands on the money to buy it. For most of us, that means shopping around for a mortgage. However, just looking at the headline interest rate won't get you the best deal, as you'll also need to look at all the other costs built into buying a property – and these costs are going up.

Research from financial research company Moneyfacts shows that the average mortgage arrangement fee has almost doubled during the past two years, from £441 in November 2005 to £827 in November 2007. David Knight from Moneyfacts says: 'Too many borrowers still focus their attention on getting the best interest rate. To some extent, providers exploit this by offering a wide range of low-rate, high-fee deals. However, with around 24 per cent of mortgages not charging a fee, the market certainly offers choice – no matter what type of deal you are after.'

It certainly pays to shop around. Last year, Abbey announced the shocking fee of £9,999 for a £500,000 mortgage, which clearly only people who don't need a mortgage can afford to pay.

What you need to pay

There is a wide range of costs you need to consider. You'll pay your mortgage lender booking fees and/or arrangement fees and valuation fees. The government gets its cut if you're buying, rather than remortgaging, by charging stamp duty on most properties (1 per cent on those worth between £125,000 and £250,000; 3 per cent on those between £250,001 and £500,000; 4 per cent on those over £500,000). You'll also have to arrange insurance for the property and possibly for yourself.

Once you've got the mortgage, you may have to pay to get out of it. For example, if you go for a fixed rate over five years and want to switch to another mortgage after three, you'll pay an early redemption charge. Even if you keep the mortgage for the full term, some lenders charge an exit fee of some sort.

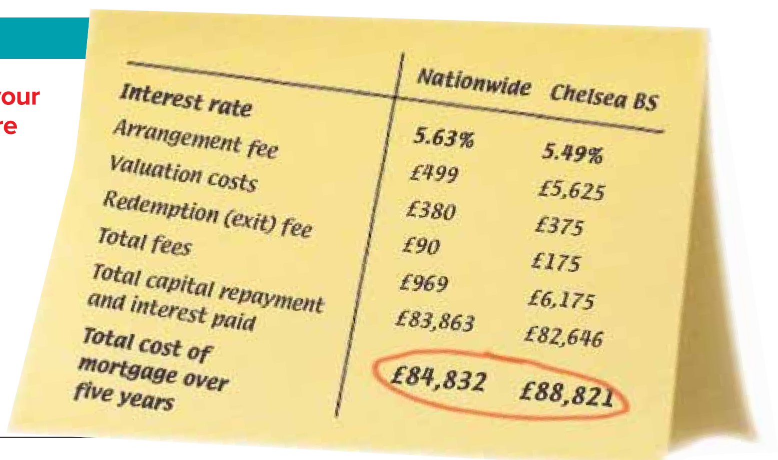
It's easy to overlook these charges, but leaving them out of the equation means you can seriously miscalculate when trying to

HOW TO COMPARE

If you rely on just the interest rate when choosing your mortgage, you could end up paying thousands more over the term

We show the total cost over five years of two £225,000 repayment mortgage deals with similar interest rates. If you look just at the headline interest rates, the Nationwide mortgage looks more expensive. But once you take all of the costs into account, the Nationwide mortgage is the cheaper option by almost £4,000.

Five-year fixed-rate mortgages available on 18 December 2007. Amount borrowed: £225,000



	Nationwide	Chelsea BS
Interest rate	5.63%	5.49%
Arrangement fee	£499	£5,625
Valuation costs	£380	£375
Redemption (exit) fee	£90	£175
Total fees	£969	£6,175
Total capital repayment and interest paid	£83,863	£82,646
Total cost of mortgage over five years	£84,832	£88,821

PHOTOGRAPHY ALAMY, CORBIS

ON THE ROCKS

David Hall *32, LSC case worker*
David Hall bought his £87,000 maisonette last year through Northern Rock. He paid £350 for a mortgage valuation – almost three times more than some surveyors charge for a private valuation.

David (pictured left with girlfriend Claire) told us: 'I think it's outrageous that lenders seem to be making a profit from valuations and surveys. How do they justify charging over £200 more for practically the same service?'

In December 2007, we compared Northern Rock's charge for a mortgage valuation on a property worth £87,000 with private valuations from four of the UK's largest surveyors. Colleys, Countrywide, e.surv and Legal & General Surveyors charged £220, £130, £175 and £125 respectively. Northern Rock's charge was £475.

We asked Northern Rock to explain why its fee was higher. A spokesman said: 'Our valuation fee comprises two elements – the valuation fee plus commission. The figure includes commission of [in December 2007] £345 payable to Northern Rock for assessing the valuation report for mortgage purposes.'

However, customers like David are paying more to Northern Rock for valuations than most other lenders or if they went direct.

work out what you can and can't afford to borrow. Our 'Key costs', right, lists these different charges and gives you a guide as to what the major lenders in our survey were charging when we took a snapshot view of the market last year (see 'Our research', p14, for more).

We've also looked at what lenders charge for valuation fees and compared this with what you might have to pay if you arranged a valuation yourself. The results are surprising – see 'Bad-value valuations', p14.

Finding the best deal

Finally, and most importantly, before you agree on a mortgage deal, check out the Which? mortgage calculator at www.which.co.uk/mortgagecalculator. The calculator compares more than 9,000 mortgage deals based on your particular circumstances and requirements. You can get it to sort deals to show you the cheapest monthly repayment, the lowest interest rate or (more worthwhile, we think) to find the cheapest deal, including costs, over a given number of years.

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Key costs

Don't just pick the mortgage with the lowest interest rate. Here we show you all of the other charges you need to consider

These are the main fees you'll have to pay your mortgage lender. You can add most of these costs to your mortgage, but, if you do, bear in mind you'll pay interest on them and it can dramatically increase the overall cost of your borrowing. If you take short-term deals and switch regularly, you'll have barely paid anything towards these fees before you switch again.

VALUATION FEES Your lender will require you to have a basic mortgage valuation on the property – however, this is for its benefit, not yours. As a result, you may want to have a more extensive survey like a homebuyer report or even a full buildings survey.

ARRANGEMENT OR BOOKING FEE Different lenders call it different names, but this is a fee you pay upfront to secure the mortgage. Some lenders even charge their customers both a booking fee and an arrangement fee.

In our survey (see 'Our research', p14), these fees ranged from £99 to £1,999 for a five-year fixed-rate mortgage. Some lenders don't charge a flat fee, but instead charge a percentage of the amount you are borrowing – we found that some lenders charged up to 2.5 per cent in our survey. A fee of 2.5 per cent charged on an average loan of £130,000 doesn't sound like much, but it means that you'll pay a massive £3,250 just as an arrangement fee.

HIGHER LENDING CHARGE This depends on how much you are borrowing compared with the property's value, known as the 'loan to value' (LTV). Not all lenders charge this. If you're borrowing more than, say, 90 per cent of the property's value, a typical charge might be 8 per cent on the amount between 75 per cent of the value and the amount borrowed. So if you were borrowing 95 per cent on a property worth £150,000, the higher lending charge would be £2,400: 8 per cent of the difference between the amount borrowed (£142,500) and 75 per cent of the property value (£112,500).

REMORTGAGE FEE If you are moving from one mortgage to another with the same lender, you may be charged the full arrangement fee or a lower admin fee (for example, Abbey charges £75). Some lenders make no charge at all.

EARLY REDEMPTION CHARGES If you have a mortgage with a fixed term and want to get out of it before the term ends, you'll have to pay a penalty. This might be a percentage of the amount still outstanding or a flat fee, such as six months' interest.

EXIT FEES Not all lenders charge this fee for paying off your mortgage, but costs quoted in our survey for a five-year fixed-rate mortgage ranged from £90 to £275.

BAD-VALUE VALUATIONS

Some lenders are boosting their profits by overcharging you on your valuation fee and refusing to let you shop around

Out of the 19 mortgage lenders included in our survey (see 'Our research', below right), most won't let you organise your own valuation, and charge more than the average fee you would pay if you went direct to a surveyor for a private valuation.

Private valuations cover roughly the same information as mortgage valuations, but most lenders won't accept them. Instead they insist the surveyor is instructed by them and the report is completed on their own forms.

Some, like NatWest, Northern Rock and Skipton, let Scottish buyers arrange their own valuation, but with most lenders this courtesy doesn't extend to buyers who are in England, Wales and Northern Ireland.

VALUATION COSTS

The highest-charging lender in our survey was Northern Rock. It will charge you £555 for a basic mortgage valuation on a property worth £250,000, compared with an average of £270 taken across five of the largest UK firms of surveyors. Northern Rock charges £780 for a homebuyer survey, compared with an average of £554 if you went direct.

Some lenders will let you shop around for a homebuyer survey but will still insist you go through them for the mortgage valuation. This means you end up paying for two surveys.

WHICH? SAYS

As all lenders need roughly the same information about a property they are asked to lend money on, we think there should be standard mortgage valuation forms that all surveyors use. Prospective purchasers could arrange a private survey or valuation direct with a surveyor (appointed by the lender, if necessary) and arrange for a copy of this valuation to be passed on to the lender.

This solution would result in less administration for the lender, and lower costs to you – the prospective buyer.

Checklist

Use our advice to help you choose a mortgage

- **Shop around** There are big differences between mortgage deals, so it always pays to compare costs. Use the Which? mortgage calculator at www.which.co.uk/mortgagecalculator to help you.

- **True costs** Don't just look at the headline interest rate – take into account all the fees you have to pay. Ask the Which? mortgage calculator to give you the total cost of the deal over a given number of years.
- **Low deposit** If you need to borrow a high percentage of the value of your property, choose a deal that doesn't have a higher lending charge, as these can be expensive.
- **Avoid extra interest** Be wary about adding extras like mortgage fees to your mortgage, as you will end up paying interest on them. If you can, pay these out of savings.
- **Good advice** If you decide you need advice, make sure you consult an independent mortgage adviser who can search the whole market for you. You can find one by using the www.impartial.co.uk website.

OUR RESEARCH

We contacted 30 of the largest mortgage lenders in November 2007 and asked for details of the fees charged on various mainstream mortgage deals. Data from 19 lenders was included in the survey.