

Case Study

Danny and Betty Glover are looking to downsize. They have found a flat but fear they'll lose it if they have to sell their house first. They are thinking of using let-to-buy or equity release to buy the flat then and selling their house later. They have a £130k mortgage with First Direct. The house has been valued at approximately £310k. They also own a flat nearby without a mortgage which is worth £110k. What are their options?

"For the purpose of this case study I am going to assume that the Glovers are downsizing because they do not need such a large property and not because of affordability.

Because they currently have such a low LTV on their current residential property (41 per cent), the best option would be for Danny and Betty to consider remortgaging their existing property in the short-term to raise enough capital to purchase the new flat outright. Any additional borrowing will be dependant on the Glovers' earnings and what level of affordability they can comfortably reach.

If they choose to remortgage up to 90 per cent LTV then they could release a total of £279k which, once they have paid off their existing First Direct mortgage, will leave them with £149k to put down on their new property. If this amount is not enough to cover what they need on the new purchase then the Glovers also have the option of perhaps capital raising on the unencumbered flat they own. I am assuming that their second property is a



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buy-to-let flat, in which case any extra funds raised on this will be subject to enough rental income covering the amount borrowed.

AToM would recommend the Glovers choose to remortgage with a lender that operates a no-tie policy so that when they sell their house they can redeem the loan they take out for the second flat purchase. Kent Reliance and the Halifax offer deals where there are no tie-in periods and they also offer fee-free remortgages.

Currently Kent Reliance is offering a remortgage product that tracks Bank Base Rate plus 1 per cent for one year giving an initial pay rate of 5.50 per cent. This product has no arrangement fee, free legal fees, a valuation refund on completion and free MPPI cover for six months with no redemption penalties up to a maximum of 90 per cent LTV.

The Halifax has a Base Rate tracker plus 0.49 per cent until 31 August 2007 with no legal fees or basic valuation costs; however there is an arrangement fee of £499 but there are no redemption penalties with this product."