What is remortgaging?

Over 30% of people aren't sure what the term 'remortgaging' means but it is a great way to save money on your monthly mortgage payments! If you're one of the many people in the dark about remortgaging then don't worry, you're not alone and we're here to help. Here's our complete guide to remortgaging.

Research shows that almost 20% of people think remortgaging is done due to financial difficulty or involves taking on more debt, but that is not the case. In fact, remortgaging could save you money and help you pay off your mortgage faster! Remortgaging simply means switching to a different mortgage and is often done after the initial mortgage term ends.

Still confused? Think of your mortgage like a subscription service, for example Amazon Prime or HelloFresh. You're tempted by an initial £5 a month for six months trial and then after that period is up, the deal ends and they increase the monthly bill to £20. At this point, most of us cancel the subscription and see if we can get that trial price again or move to another company offering something similar for less. That's remortgaging. If it helps, think of it as a mortgage renewal.

When you take out a mortgage, you will have an initial term of usually 2, 5 or 10 years, which is like the introductory trial period. During this time, you will often pay less interest than after this time period ends.

Interest is the amount of money you have to pay the bank on top of repaying the mortgage loan itself. The lower the interest rate, the less money you have to pay the bank.

However, after the initial term is over, you will move onto the bank's SVR a.k.a. standard variable rate a.k.a. the full price after your trial period is over. When you move to the SVR, your monthly payments increase considerably but you won't be paying off your mortgage any faster because what you are actually paying off is the higher amount of interest.

That is why remortgaging can save you money! In fact, it's been estimated that homeowners could save up to £4,080 a year by remortgaging away from the SVR to a lower interest rate.

Unlike a subscription, you can't just cancel your mortgage. However, there are ways to enjoy a cheaper option. You could switch to another mortgage with a lower interest rate offered by your current bank or move to a new bank. Both options can incur costs, such as exit fees. Speak to your adviser to find the best option for you.

If you'd like to discuss the options available to you, contact your adviser today.