Why Remortgage?

To remortgage means to end your current mortgage and take out a new one – either with your existing provider or with a new one.

People remortgage for a variety of reasons. These can be to get a better interest rate, to get better mortgage conditions, to reduce the size of your loan, or to increase the size of your loan. It is also possible to use a remortgage to help consolidate debts that may have built up elsewhere: credit cards, overdrafts, personal loans.

However much mortgage interest rates hit the headlines when they're going up, there is little doubt that mortgage interest rates will be lower than any other type of loan interest rate. Thus, remortgages can be a tempting way of putting other debts into one place which is usually cheaper. However, you will need some equity in your property if you are to do this, and the loan provider has the security of your home for his loan if you do not keep up repayments on your new mortgage. Thus, although a remortgage may seem an easy route to more money or less debt, you need to be sure of your reasons for doing so. Make sure you really can afford the repayments (even though they may be cheaper than combined repayments on other loans). You may also have to pay an early redemption charge for your existing mortgage is it's a capped, fixed or discounted rate, or one with a cash back deal. You may have to pay your existing lender several months' interest to cash in your existing loan if you're getting such benefits. It may therefore make better sense to wait until any beneficial deal from your existing provider ends before you look to remortgage.

You would also be wise to look at any penalties attached to your new mortgage. How long will you be tied in for? What's the penalty? Steer clear of penalty periods that last longer than the deal period. These will only be applicable, of course, if you pay off your new mortgage early.

You also need to look out for the end of the deal you're getting. Presumably you will be remortgaging to a nice low-interest rate, affordable product, but what happens at the end of the deal period? What will the interest rate be then? What options will you have at the end of the period? You don't want to get stuck on the inevitably high standard variable rate of your new lender.

Although remortgaging may seem attractive compared to personal loan rates, remember that mortgages last for up to 25 years, whereas loans are usually paid off in five years. So, will a remortgage really end up cheaper? Over the long term it may actually cost you more. Similarly, with credit card debt, it is best to pay it off. If you transfer it to a remortgage deal then you're still left with the debt - albeit cheaper – but for a longer period.

A remortgages can be an easy way to get some cash. Many people remortgage to raise cash, the process being known as 'releasing equity' from your property. In this way you increase your mortgage to free up some cash, which you could use for any number of reasons: home improvements, university fees, a holiday, a new car, or to invest elsewhere.

To use a remortgage to raise some funds, you could approach your existing mortgage lender, but it probably makes sense to shop around for the best remortgage deal from a mortgage broker, and take the opportunity to get a lower interest rate.

Any lender – even your existing one – will need a valuation of your property. Remember also that remortgaging is a legal process, so there will also be legal fees to pay to a solicitor.

About the Author

An author on a variety of property related subjects, which include mortgage rate reviews and detailed analysis of the role mortgage brokers provide in the current climate.