This month, Geoff Steel gives advice on mortgages and how to choose the best lender for you...

CHOOSING A MORTGAGE **LENDER**

Most people when looking to purchase a house are guided by the estate agent to a suitable mortgage lender. Many agents, however, are tied or belong to a building society or bank. For example, I have recently seen lenders offering fixed rates for up to 10 years, when there is every likelihood that interest rates may be reduced over the next few years.

Everyone should shop around to find out what else is available. For example, the building societies which have converted to banks, in the main are now charging 8.2% as a standard range, whereas traditional building societies and some of the new direct telephone banks, are charging as low as 7.7%.

On a £50,000 mortgage, the difference in repayments can be up to £21 per month.

There are also many attractive incentives available, including reduced interest rates for the first few years, fixed rates and capped rates. While one of the offers will be suitable to you, ensure that you check the conditions first. A good initial offer for two or three years is not in anyone's interests if the borrower has to pay additional amounts for the remaining term of the mortgage.

The usual conditions that can apply are:-

1. Large penalties if the loan is repaid in the first few years.

2. Buildings, contents and other insurance must be taken with the lender. The cost can be up to double that available from a more competitive source.

3. High initial fee required by the lender. This may be obscured by the fact that it is added to the loan.

There are mortgages available which provide a reduced initial cost and do not have any of the above restrictions. Shop around until you find the right one, or ask an Independent Financial Advisor for the best mortgage for you.

Traditionally, interest on mortgages is charged at the year end, which means that any additional payments made by the borrower do not have any effect until the next date of interest calculation. Some lenders have now introduced mortgages where interest is charged on the balance of the loan each day. Additional payments to this kind of mortgage can significantly reduce the total amount of interest paid over the term of the mortgage. The direct telephone banks usually offer mortgages charged on a daily balance and can have lower interest rates than High Street banks.

Geoff Steel is an Independent Financial Advisor with Walsh Lucas and Co. and he welcomes comments from readers. His freephone telephone number is 0800 7835132.