

Important Information about repayment of your mortgage

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Important Information about repayment of your mortgage

The following is a straightforward explanation of some of the risks involved in taking out a mortgage and will complement information already provided to you by your mortgage adviser in your Key Facts Illustration which sets out the cost of this loan. The information is only a general guide and you should not take any decisions based solely on this.

Please take a few moments to read this information and put it with your other paperwork in case you need to refer to it in the future.

Ways to repay your loan

You will have chosen to repay your mortgage in one of two ways, either repayment or interest only. Here are the benefits and drawbacks of each:

1. **A repayment mortgage** – This is where some of the amount that you pay to us each month goes towards reducing the amount you have borrowed (the capital), as well as to paying the interest that we charge you. Each month you are paying off a small part of your loan and, as long as you keep up with your payments, then you can be certain that your mortgage will be repaid at the end of your mortgage term. In the early years however you will be paying mostly interest so you will find that the amount that you have borrowed won't go down by very much.
2. **An interest-only mortgage** – This is where the amount that you pay to us each month pays only the interest we charge you on the loan. You are **not reducing** the amount you have borrowed from us. It is very important that you think carefully about how you will repay the amount you have borrowed at the end of your mortgage term.

Perhaps you will take out an investment plan, save regularly into a savings account or decide to sell your property in order to pay back the money you have borrowed. Whatever you choose to do please think about the risks involved and if you are going to save or invest then make those arrangements now. If your investment or savings don't grow as expected then you may have a shortfall when it comes to the end of your mortgage term. It is very important therefore that you check on the performance of your investments on a regular basis as otherwise you may not be able to repay your mortgage.

Please remember your mortgage debt is not going to go away. The amount you pay to us each month over the term of your loan will be less than a repayment mortgage because you are only paying back interest on the amount you have borrowed. When the mortgage ends you will still owe us what you originally borrowed. If you can't repay what you owe to us when you reach the end of your mortgage term then you could lose your home. The Financial Services Authority (who regulate all mortgage firms) provide some useful information on buying a home, the risks involved and what to do if your circumstances change. Their web site address is <http://www.moneymadeclear.fsa.gov.uk/tools/publications.html>.

Will you still be repaying this loan when you retire?

Look carefully at the term of your mortgage. Will you still be repaying your loan when you retire? If it is your intention to retire before the end of your mortgage term, you will need to think how you can afford this and plan ahead. Do you have a pension or other income that will help to cover the cost of this loan once you have retired? If not, then how will you manage? It may be helpful to talk to your mortgage adviser about this if you have not already done so. The sooner you start to plan, the better.

The amount you are borrowing

Your mortgage adviser will have helped you to agree on how much you are able to borrow. This will have been based on the value of your property and the amount of income that you have.

The amount that you borrow will be a percentage of the value of the property. The higher the percentage we lend to you then the greater the risks involved. Remember, if you sell the house you will have to repay your loan in full. If there is a shortfall between the selling price and what you owe to us then you will have to make up that difference from your own savings.

For this reason it is important that you **do not borrow more than you can afford**. Do not borrow the maximum on offer unless you are sure that you can afford it and plan your budget for now and for the future.

Remember, if your mortgage interest rate is variable, then the amount you have to pay each month will increase when interest rates rise. Even if it is fixed now, you still need to ensure that you can afford the mortgage payments at the end of the fixed rate period.

Be careful not to overstretch yourself – just because you can afford your mortgage and other commitments now it doesn't mean you can afford them in the future, particularly if interest rates rise. You should bear this in mind when considering any new financial commitments.

Should your circumstances change and you find it difficult to pay your mortgage, you should contact our Lending Payments Helpline as soon as possible on 0800 9150412. We may be able to help you.

Protecting yourself and your possessions

No one knows what might happen in the future so it is important that you protect yourself and your property from unforeseen events. Think carefully about the risks you could face while paying back a mortgage and whether protecting yourself against these would be useful. There are a number of insurance products available to help you do this and your mortgage adviser has probably discussed these with you. The following information will provide a helpful reminder of some of the insurance policies available and some of the restrictions they may include.

- **Life insurance** – will protect your loved ones in the event of your early death and seek to ensure that any mortgage debt can be repaid at that time. If you don't have a partner or other dependants you might decide that you do not need life cover. If you do have dependants then you will need to consider how they will repay the loan or continue to meet the monthly mortgage payments in the event of your death. Term assurance is the simplest and cheapest type of life insurance cover as it only pays out if you die within a period (the term) you agree at the outset of the policy. If you live longer than the term agreed you get nothing back.
- **Mortgage Payment Protection insurance** – will protect your monthly mortgage repayment if you are unable to work because you have had an accident, are sick or have lost your job through no fault of your own. The amount that is paid will depend upon the level of cover you have selected – it may be the full amount of your monthly mortgage payment or a percentage of it – and it will be paid for a fixed period of time, usually either 12 or 24 months. There will be a number of conditions that have to be met before a claim can be paid. For example to be eligible to claim if you were made redundant from your job, you may have to have been employed by the same firm for 12 months or more. Sometimes a claim may not be paid where you are unable to work because you are ill but the illness is something which you have suffered from in the past. These are just a couple of examples – there are others so it is **very important** that you read the terms and conditions of any policy that you buy and ask your mortgage adviser about these, if you are unsure. Remember this type of policy will only pay your claim for a given period of time and you will need to think about what you would do when the claim payments stop if you are still unable to work.
- **Buildings insurance** – it is important that you insure your property against damage from fire, floods or subsidence. This is a condition of your mortgage offer as, if something unforeseen was to happen, you would still have to repay the money you have borrowed. Generally, this type of cover will be based on what your home would cost to rebuild and it is important that you check what you are and are not covered for – your mortgage adviser will be able to help you with this.

We hope you have found this information helpful. If you have any questions about the mortgage you have applied for or anything else we have covered here, please contact either your mortgage adviser or our Customer Contact Centre on 0845 1200 872.