

## Get a Discount Rate Mortgage and save money

A discount rate mortgage is a mortgage deal where the lender offers a discount on their standard variable rate of interest for a set number of years at the start of the loan term. The standard variable rate (SVR) is unique to each lender, and is their default interest rate. The SVR of each lender is usually related to the Bank of England base rate, in that it is often set a few percentage points above it. However, lenders are under no obligation to follow the base rate, and some decided not to drop their SVR to reflect the recent drop in the base rate.

Usually, a discount rate mortgage is offered as an incentive to attract new customers, and the discount rate is usually set for two or five years at the start of the mortgage term. The advantages of a discount rate mortgage mirror the benefits of a fixed rate mortgage; stability and protection from fluctuating interest rates. However, with a discount rate mortgage, you have the added benefit of saving money on the monthly repayments for a set period of time at the start of your mortgage deal. The downside is that the SVR is rarely competitive, and at the end of the two or five years, your discount rate mortgage would end and you would revert to said SVR. It is recommended that once you come to the end of the initial discounted term, you shop around to see what other deals are available in the market, because there is no benefit to you on staying on the lender's SVR and paying more than you have to

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### The Pros and Cons of a Discount Rate Mortgage

- For a fixed period of time at the start of your discount rate mortgage deal, you would enjoy a reduction on the lender's standard variable interest rate (SVR). This is ideal for first-time home buyers and those who are still saving for home improvements. During this fixed period, you would be charged a large penalty for moving to a different lender, so it is important to be able to commit to the deal at least for the first stage of a discount rate mortgage.
- The downside of a discount rate mortgage is that at the end of the initial period, you would revert to paying interest at the standard variable rate. This is invariably a higher rate of interest than you will be used to paying, meaning that your monthly repayment costs would increase. At this point, you should not be charged for moving to a different mortgage lender, so should look around to see if there are any providers that can beat your deal.
- Although the standard variable rate does not technically have to follow the Bank of England base rate, it usually does. Therefore, before taking out a discount rate mortgage, you need to bear in mind that the lender's SVR will not necessarily remain constant. If the base rate rises, so may the SVR and therefore the repayments on your discount rate mortgage.