

FIRST-TIME BUYER

Mortgage Guide



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Being a first-time buyer can be a rollercoaster of an experience. There are so many things to consider and when you add to this the excitement of buying your own home, it's easy to feel overwhelmed. But don't worry, this guide is here to help.

From deposits to Stamp Duty, valuations to standard variable rates and budgeting to bad credit, over the following pages we aim to decode the jargon, debunk the mortgage myths and shed light on the grey areas.

The First-Time Buyer Mortgage Guide from The Mortgage Centres is designed to provide you with the knowledge you need to take your first steps on the property ladder with confidence and peace of mind, leaving you to relish the excitement of this life-changing experience.

NEVER BE

afraid to ask

If something doesn't feel quite right, the chances are it isn't. So always speak up, no matter how trivial you think the question is.

Need some reassurance? **Give us a call.**

IT ALL STARTS *with a budget*

As amazing as owning your own home can be, if you don't walk into it with your eyes open financially, it can quickly turn into a nightmare. That's why doing your sums is extremely important.

One of the first things we recommend you do is sit down and work out your budget. You may need some assistance here but try to account for all the necessary costs for home ownership. Remember to include the amount of money you need to pay for comfortable day-to-day living such as the weekly shop and don't forget any socialising.

Once you have done this, take a look at what you have left from your income.

With this figure in mind, use our handy [online search tool](#) to find out what's on the market and see what monthly repayments you feel you can realistically afford. Remember that additional costs come with owning your own home, so make sure you factor these in. These could include household insurance, boiler servicing, or any unexpected repair costs, so it's best to be conservative!

THERE ARE *no guarantees*

At the end of the day, a lender will make the final decision on whether or not you can afford to borrow from them, but ensuring your application is realistic will reduce the chances of rejection.

WHAT YOU *can borrow*

This is where the process of buying your first home should probably start and in principle sounds very easy to establish however, in reality there are many factors that go into deciding how much you can borrow that it is virtually impossible to give a straightforward answer.

When a lender assesses you for a mortgage they will consider a multitude of things. These include your income, your outgoings, the size of your deposit, how much debt you have... the list can feel as if it goes on and on.

With no two persons' situation the same, plus every lender having its own set of criteria, it becomes impossible to predict exactly how much you can obtain.

That being said, most lenders have an online affordability calculator that is a great place to get a ballpark figure and help you make some loose plans. But please don't take this figure as final because it could change when a more detailed assessment is made.

One way you can get an accurate idea is to speak to a mortgage broker and that's where our team can help. At The Mortgage Centres, we'll take all your individual factors into consideration and tell you exactly how much you can borrow, while providing expert guidance along the way.

ADDED *benefits*

It is possible to include additional income in your calculations such as benefits or maintenance for example, but this all depends on the lender's own specific rules. Want to find out more? Speak to a member of our team today.

WHAT *you need*

There are a number of things you'll need in order to purchase your first home with the use of a mortgage, with one of the most significant of these being a deposit.

In many cases, first-time buyers make provisions for the deposit themselves through their savings, but assistance can also be provided by a family member or even in some circumstances a friend. Virtually all lenders will only accept financial assistance for a deposit by means of a non-repayable gift where it cannot be in exchange for any financial interest in the property, however in isolated cases an interest may be permitted with certain lenders.

Aside from knowing you have your deposit, the lender will need proof of your income and outgoings to start to build a picture of your affordability. Depending on your circumstances this proof will likely be by means of your last 3 payslips if you are employed (possibly more

if you wish to include regular non-guaranteed sources of income such as overtime and commission etc) together with your last 3 months' bank statements. If you're self-employed or own 25% or more of the business (sometimes this is less depending on the lender) you'll probably need to provide items such as your last two years' tax return summaries (commonly referred to as SA302s) and also on occasion your last two full years' business accounts. Self-employed requirements can vary considerably from one lender to the next, including those that consider only one year's trading, so it is always worthwhile making sure you are covered for any eventuality.

Outgoings will need to include many regular payments you make, and don't forget to include debts like credit cards and loans. You'll also need to provide proof of ID and address.

BIGGER *is better*

The bigger the deposit you can put down, invariably the better the mortgage deal you stand to obtain. This can have a big effect on interest rates, monthly repayments and overall loan costs, so it's always worthwhile saving as much as you can.

CHOOSING *the right mortgage*

A quick way to extinguish any spark of excitement about buying your first home is to start down the rabbit hole that is the world of mortgage products. But don't worry, it's invariably not as bad as it first appears.

On this page we've outlined some of the most common types as simply as we can, but by far the best way to get your head around it all is by talking it through with someone who knows the market. So give us a call and let us help.

In basic terms, there are two decisions you need to make when deciding on how you intend to arrange a mortgage and both are specific to your personal situation so one size does not fit all.

CHOICE 1

Repayment or interest only?

Repayment

- Each month your payment pays off both the loan and the interest.
- **One reason why to do it?** Monthly payments reduce your overall loan amount.
- **One reason why not?** Payments are higher.

Interest only

- Each month your payment pays off the interest only and no capital.
- **One reason why to do it?** Payments are lower.
- **One reason why not?** Monthly payments only service the debt/interest.

CHOICE 2

Fixed or variable?

Fixed

- Your interest rate is fixed for the duration of the fixed rate scheme.
- **One reason why to do it?** You are protected against future interest rate rises.
- **One reason why not?** Having this security can be more expensive.

Variable

- Your interest rate fluctuates ie can go up or down.
- **One reason why to do it?** You can make the most of interest rate falls.
- **One reason why not?** You are not protected against interest rate rises.

THE COSTS *involved*

So you've worked out that you can afford to pay the mortgage back, which is great news! The next step is to consider the costs of setting it all up and securing the property. Everyone's situation is different, but here are some things to think about.

THE DEPOSIT

Usually a minimum of 5% of the value of the property, but can be more.

STAMP DUTY

You only need to pay this if your property is worth over £300,000, then it is a percentage of your home's value. This begins at 5% and increases on a sliding scale for more expensive properties. In certain economic times the rates can be changed by the Government so it's always worthwhile checking this at the time you are thinking of buying.

LEGAL FEES

Buying a property involves lots of legalities that need to be taken care of by a professional, typically referred to as a conveyancer.

LAND REGISTRY FEES

There are certain fees involved with registering a property in your name which are paid to various parties, including the local authority.

OTHER FEES

Depending on your situation, you may need to pay for a number of other services, including a mortgage valuation/ surveyor and mortgage adviser.

HELP

is out there!

We understand, buying a home can be an expensive business and when you're dealing with, what is for many, big numbers for the first time it's easy to feel intimidated. But don't worry, you're not the only one and that's why there's plenty of help available! Here are a few schemes that can ease the financial pressure.

LIFETIME *ISA*

A Lifetime ISA is essentially free money towards your first home, but before you get too excited, there are some caveats!

You must be between the ages of 18 and 40 to open an account. You can pay up to £4,000 a year into a Lifetime ISA account and the Government will top it up by 25% if the funds are used before you turn 50 to purchase your first home. The money you have saved, plus top up, can be withdrawn any time after one year if it's being used towards a deposit on your first home. If it isn't, the only way you can access it is if you are 60 years old or diagnosed with a terminal illness with less than 12 months to live.

It is possible to withdraw your cash at any other time, however, this will not include the Government top up.

HELP

is out there! (continued)

GUARANTOR

Mortgages

Are you at the start of your professional career and on a lower income that is due to significantly increase in the near future? If so, a guarantor mortgage could be an option for you. An alternative arrangement is something called a joint mortgage sole proprietor.

This involves a third party or individual agreeing to cover your mortgage payments if you are not able to make them or be added as a joint borrower on the mortgage. With this guarantee in place, it could be possible to access a level of mortgage above what your current income will allow.

Before moving forward, it is important to understand that the guarantor will not have any financial interest in the property and their name will not be on the deeds, but they will still be financially responsible for your payments if you can't make them.

Guarantor mortgages are few and far between and the guarantor's financial situation and also their age will be a relevant factor. Remember it's income and affordability and not assets that a lender looks for in a guarantor.

THE FIRST HOMES

Scheme

At the time of writing there is a brand-new Government scheme being developed that will offer a 30% discount on new-build houses or flats to first-time buyers who are looking to purchase a home in the area that they live and work.

Full details are yet to be released, but keep an eye on the gov.uk website to stay up to date, or give our team a call to find out all the latest details.

INCREASING *your chances*

Getting your first mortgage can feel a stressful and bewildering experience. There are many ways you can try to make the process a little easier. Here are some suggestions.

PAY YOUR *bills*

Late or missed payments can affect your credit rating and in turn impact your mortgage options. Stay on top of them or they could cause you problems.

DO YOUR *personal admin*

With so many bills now paperless, it's easy to forget to change your address or other details, but this could affect your mortgage chances, so make sure everything's up to date.

DON'T SHOP AROUND *too much*

Every time you make a mortgage application, or even use a comparison website, you may be subject to a credit check and too many of these could reduce your eligibility.

MANAGE YOUR *credit*

The funny thing about credit is that it can be easier to get it if you already have it. For this reason, it's sometimes good practice to spend a little amount each month on a credit card. This is not mentioned so you then start to rack up unmanageable debt but more to show you can borrow money and repay it. Maybe simply use it to pay for your travel each month. Do however remember to pay at the very least the minimum payment each and every month on time.

INCREASING

your chances (continued)

DON'T TAKE OUT *cash on credit*

This isn't just possibly bad for your credit rating, it's likely a bad idea in general. It is invariably super expensive and lenders can perceive it as a big red flag.

TIE UP YOUR *loose ends*

If you have unused credit cards it can be detrimental to your chances, so it's usually best to close these down, along with any other inactive forms of credit you have available.

FORGET ABOUT *payday loans*

Although sold as a way to help, this form of credit can do the exact opposite when applying for mortgages. Lenders see them as an indication of cash flow problems even if they are maintained and paid on time.

BAD CREDIT'S

not a write-off

If you are a first-time buyer with bad credit it's likely not going to make things any easier for you, but it hopefully isn't the end of the road. Here's why.

Your previous and existing credit conduct plays a major role in a lender's assessment of your ability to borrow money from them. If you have a bad credit history this will form part of the underwriting and in turn could hinder your chances.

Lenders will take into consideration all of the hard facts, so whether it is something deemed relatively minor such as a missed credit card payment or something more serious like a County Court Judgment (CCJ), they will know if it shows on your credit file. However, they will also take into consideration how long ago these blemishes appeared and will look in great detail at your overall financial conduct to see whether your behaviour has changed. So, if you've had

some problems in the past, but you're doing your best to put them right, it will be noted and may make a difference.

The long and short of it is that having a bad credit history will not immediately disqualify you from getting a mortgage, but you may have to work harder than others to make your case. In these situations, we would highly recommend speaking to a mortgage adviser who will be able to give you all the advice you could need.

Give our friendly team a call and we'll be able to tell you exactly where you stand.

TIME IS

the greatest healer

Remember that things like CCJs disappear from your credit file after six years, so if this is just around the corner and it is possible for you to wait, we'd recommend that you do. That being said, if you can't wait, don't worry! **Call us today and we'll help you work out a plan.**

DO YOUR *research*

It's easy to get carried away with the excitement and anxiety that can come with owning your first home, but always remember to slow down and take the time to fully understand what home ownership is all about.

While diving into the mortgage market might seem like a daunting prospect, this is really just because it's the unknown. With a little research and advice from people who know their stuff, you can familiarise yourself with the landscape and all of a sudden it doesn't seem quite so scary.

FAMILY & FRIENDS

Advice from someone you trust who has had first-hand experience is extremely valuable. However, bear in mind that it's likely their situation was very different to yours and may not be up to date.

THE INTERNET

Yes, there is an abundance of information online and yes, some of it is very useful (like this guide), but there is much of it that isn't, so tread carefully and don't believe everything you read!

LENDERS

They are the ones lending the money, but remember that they can only discuss their own products and criteria, so always speak to more than one to get the broader view.

MORTGAGE BROKERS & FINANCIAL ADVISERS

Experience, expertise and wider access to the market should therefore mean that consulting the professionals is by far the best option. Give us a call today to find out how we can help.

STRATEGY

MORTGAGE SOLUTIONS



0808 296 0202

enquiries@strategymortgagesolutions.co.uk

strategymortgagesolutions.co.uk

