INVEST SOUTHWEST
INDEPENDENT FINANCIAL ADVISERS

First Time Buyers

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What is it?

A mortgage is a loan taken out to buy property or land. Most run for 25 years but the term can be shorter or longer.

The loan is ‘secured’ against the value of your home until it’s paid off. If you can’t keep up your repayments the lender can repossess (take back) your home and sell it so they get their money back.

The money you borrow is called the capital and the lender then charges you interest on it till it is repaid. The type of mortgage you are able to apply for will depend on whether you want to repay interest only or interest and capital.

Repayment method

With repayment mortgages you pay the interest and part of the capital off every month. At the end of the term, typically 25 years, you should manage to have paid it all off and own your home.

Interest only

With interest-only mortgages, you pay only the interest on the loan and nothing off the capital.

These mortgages are becoming much harder to come by as lenders and regulators are worried about homeowners being left with a huge debt and no way of repaying it.

You are responsible for ensuring that a credible repayment strategy is in place so that you have sufficient funds available to fully repay the loan at the end of the mortgage term.

Failing to maintain an adequate repayment strategy could result in you having difficulty in fully repaying the mortgage capital when due. You should review the progress of your repayment strategy on a regular basis to ensure enough capital is available when repayment becomes due. The mortgage lender will also check during the term of the mortgage that your repayment strategy remains in place and still has the potential to fully repay the capital borrowed.

Current account mortgage

A current account mortgage reduces the overall amount 'owed' when your savings or current account balance are taken into account. The mortgage and current / savings account are normally combined into a single account, effectively acting like one big overdraft.

The lender normally stipulates a minimum amount that needs to be left in the account each month to repay your mortgage over the agreed period. If there is a surplus, then you will pay less interest and pay off your mortgage early. Similarly, if you leave less than the required amount in the account, you will end up paying more for your mortgage.

A current account mortgage also normally has the typical features of a current account such as a cheque book, access via cash machines, direct debits etc.

Offset mortgage

An offset mortgage sees your earnings paid in, permits overpayment, underpayment, lump sum deposits, payment holidays and all the other features of a flexible mortgage, as well as giving you a cheque book, debit card and the facility to set up direct debits. However, instead of combining all the accounts (current account, mortgage and savings) into one and having a single balance, the different components are kept separate, but work towards reducing the mortgage debt.

The three different accounts are not usually charged at the same rate of interest, the lender charges a set rate of interest on the current account and the savings account OR will 'sweep' the marketplace and apply the best rate of interest that can be found for each particular component. The balance in the two accounts is then added together and the total is then offset against the mortgage.

Importantly, because you're not receiving interest on your current account or savings there is no tax payable.

Often, monthly payments will remain at an equal amount and 'overpayments' are used to reduce the overall mortgage debt. This is how you can pay off your mortgage early and save money with an offset mortgage. Some lenders will amend the monthly mortgage payment instead so that you benefit from lower payments but, of course, you won't be able to pay off your mortgage early.

Help to Buy – Equity loan

As the name implies, Help to Buy is equity loan assistance available to home buyers meeting certain requirements and will be paid directly to registered house builders. The equity loan will be provided by the Homes and Communities Agency.

This scheme is available in England only.

You will need to contribute at least 5% of the property price as a deposit.

Up to a maximum of 20% of the purchase price is available through an equity loan funded by the Government through the scheme. To reflect the current property prices in London, from February 2016, the Government increased the upper limit for the equity loan for buyers within Greater London to 40%.

You will need a mortgage of up to 75% will be needed to cover the rest.

An equity loan from the scheme of £480,000 (80% of the Purchase Price) based on a maximum purchase price of £600,000 is available and is interest free for the first 5 years.

In the sixth year, you will be charged a fee of 1.75% of the outstanding amount of the loan, rising annually by the increase (if any) in the Retail Price Index plus 1%. These fees don't count towards paying back the equity loan

The Help to Buy scheme will not allow you to transfer / port your loan to another property. The equity loan **must** be repaid after 25 years or earlier if you sell your home. You must repay the same percentage of the proceeds of the sale, as the initial equity loan (i.e. as you will receive an equity loan for example, for 20% of the purchase price of your home, you must repay 20% of the proceeds of the sale.) The entitlement by the Help to Buy Agency to a share of the future sale proceeds, is secured through a second charge on your home.

Details relating to early repayment of the equity loan and the implications of the property value falling, are provided on the Help to Buy website

Types of interest rate

Fixed interest rate / Stepped fixed

The mortgage has a 'fixed' mortgage interest rate, so you pay a set amount each month for the duration of the fixed period. This allows you the security of knowing your exact monthly commitments in the early years of the mortgage, unaffected by changes in the underlying interest rates. If interest rates fall below the fixed rate you will, however, continue to pay the higher, fixed amount.

Variable interest rate

The mortgage has a variable interest rate which can rise and fall in line with market conditions. This does involve a degree of uncertainty as your monthly repayments can vary and increase but will allow you to benefit from a fall in interest rates.

Discounted variable interest rate

The mortgage has a discounted variable interest rate. This does involve a degree of uncertainty as your monthly repayments can vary and increase but it allows you to have a discount on your mortgage payments for a specific period and to minimise your monthly payments, it also allows you to benefit from a fall in interest rates.

Tracker mortgage

The mortgage has a tracker interest rate. This means that the interest rate is linked to the [Bank of England Base Rate / LIBOR] and is equivalent to that rate plus a certain percentage. This does mean that your monthly premium may vary and can increase and therefore involves a degree of uncertainty, but this does allow you to benefit from a fall in interest rates.

Capped rate

The mortgage has a capped interest rate which means that the lender has put a 'cap' on the maximum interest rate that can be charged. It provides the security of knowing that your monthly repayments will not rise above a certain amount, whilst allowing you to benefit from any drop in the rate below the cap.

Eligibility

Most lenders regard affordability as the most important factor in determining whether an applicant is eligible for a mortgage, and consequently how much can be borrowed.

You will need to prove your income, and provide the lender evidence of any outgoings, including debts, household bills and other living costs such as clothing, childcare and travel costs.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- The payments shown within the relevant product disclosure document(s) provided could be considerably different, and higher, if interest rates change
- In the event that your income falls, you will still have to make your mortgage payments

- You will still have to pay your mortgage if you lose your job or illness prevents you from working. Think about whether you could do this
- Your home may be repossessed if you do not keep up payments on your mortgage
- Your mortgage may have early repayment charges which may result in a penalty if you do not want the mortgage any more
- The affordability assessment we have undertaken at this time is based on current interest rates, which may rise in the future, and on your current circumstances, which might change in future
- If all relevant information has not been disclosed accurately and honestly, this may result in any mortgage contract offered, becoming invalid
- The value of the property may go down, leaving you with potential 'negative equity'
- Failure to disclose any requested or relevant information may adversely affect any mortgage offer
- Once a mortgage has completed, it cannot be cancelled
- The payments shown on the relevant KFI / ESIS could be considerably different and higher, if interest rates change
- If the value of the property drops below the amount borrowed, the amount borrowed will still need to be paid

Take a look at our guide First Time Buyers guide below…

First Time Buyers

A guide to buying your first home in England and Wales

There's a lot to think about when you're buying your first home. So whether you've just started saving for your deposit or you're ready to start your property search, here's a step-by-step guide to help you through the process.

1. Affordability check

Each lender has a different way of assessing what you can borrow. Invest Southwest will help you establish your borrowing range based on your current financial position

When: before you start your property search.

2. Decision in Principle (DIP)

Invest Southwest will provide you with a decision in principle. This is a provisional promise to lend a certain amount based on the information you have provided. It is also the point where a lender will credit reference or credit score you.

When: you've found a property and you're ready to make an offer.

3. Make an offer on a property

You make an offer directly to the estate agent selling the property. They might want to see your DIP as assurance you can get a mortgage.

When: once you've got a DIP and found a house you want to buy.

4. Choose a conveyancer (solicitor)

A conveyancer is a solicitor or licensed conveyancer who takes care of the legal aspects of buying your property. The process starts when your offer has been accepted and usually takes several weeks. But it can depend on your own individual transaction and if there is a chain of sellers and buyers. The conveyancer you choose will normally need to be approved by the lender.

When: it's best to be prepared, so the sooner the better, but you won't need to instruct them until you've submitted your mortgage application.

5. Apply for a mortgage

Not all mortgages are the same, so you'll need one that's right for you. Invest Southwest will recommend a mortgage, guide you through the process and keep you up to date with the progress of your mortgage application.

When: after you've made an offer on a property.

6. Conveyancing, valuation, survey and searches

At this point your conveyancer could start work. Invest Southwest will also carry out a mortgage valuation on the property to make sure it provides sufficient security for the loan. Once satisfied it does, the lender will issue your mortgage offer. The mortgage valuation is an assessment of the saleability and mortgageability of the property and is for the benefit of the lender. Read our *'Top Survey Tips'* section for more information reference the types of survey available.

When: once your offer on a property has been accepted.

7. Exchange contracts

Once you've received your mortgage offer, the conveyancer will arrange the exchange of contracts and give your initial deposit to the seller's conveyancer. The lender may require you to get buildings insurance at this point.

When: once you've received your mortgage offer.

Move in

Once the seller's conveyancer receives the full purchase amount they'll instruct the agent to give you the keys. **Congratulations! You're officially a homeowner. Now it's time to make it your own.**

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Top Survey Tips

There are lots of different types of survey. Here are some of the more common ones.

Mortgage valuation
This is a valuation rather than a survey and is carried out on behalf of the mortgage lender to make sure the property is worth the agreed price. It's geared towards satisfying the lender that the property provides sufficient security for the loan. It doesn't guarantee the property is free from defects and you might not receive a copy of the report.

Homebuyer report
This gives you general information about the condition of the property. It usually involves a surface examination of the parts of the property that are visible and readily accessible. Services are not tested as part of this report. If you'd like the services tested then you'd need a building survey - see below.

Building survey (full structural survey)
This will give you a view of the property's structure and pinpoint any defects. You'd need to instruct either the homebuyer report or building survey yourself.

If you would like a homebuyer report or building survey carrying out then please let your adviser know.

You can ask Invest Southwest or search for UK surveyors on the **Royal Institution of Chartered Surveyors website. www.rics.org**

The more in-depth the survey, the more it will cost.

If a survey reveals problems, you might want to get a builder or other expert to assess what repairs could cost. It could potentially be used to negotiate a lower price for the property or you could even ask for the problems to be put right before you buy the property.

Government schemes

The government runs a number of schemes designed to help first time buyers get on the property ladder.

Shared Ownership
Shared Ownership allows you to buy a share of the home from a housing authority and pay rent on the rest. This means you take a smaller mortgage, so the deposit you need to save is lower, but you'll need to account for the rent you'll be paying on the rest of the property.

Help to Buy
Help to Buy is designed to help you purchase a new build property. The government lends you up to 20% in England and Wales (40% in London) towards the cost of your home, so you'll only need a 5% cash deposit.

The Lifetime ISA
The Lifetime ISA is a savings account designed to help people aged 18 to 39 save towards their first home or retirement. You can save up to £4,000 in a Lifetime ISA each tax year until the age of 50 and you don't pay tax on the interest you earn. Tax rules may change in future.

The government will also pay a 25% bonus on your contributions, up to a maximum of £1,000 a year. The Lifetime ISA can be a great way to boost your deposit when you're saving for a house. To use your Lifetime ISA to buy your first home, you must have made your first payment into it at least 12 months ago. After that you can withdraw money to buy your first home, but for any other reason before the age of 60, you'll incur a 25% government withdrawal charge on the amount you withdraw, which would mean you'd get back less than you paid in.

Visit gov.uk to find out more about government schemes.

Getting organised

Here's a list of the things you'll usually need when you apply for a mortgage:

- **Identification**
- **Proof of income e.g. payslip(s) and/or P60, or self-employed evidence**
- **Bank statement(s) showing salary credit**
- **Other items required by the lender - will be based on your circumstances, but will be confirmed as part of your application.**

Contact us if you'd like to find out more or visit our website for further information about how we can help.

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