Eastons
Property Made Simple

First Time Home Buyers

www.eastons.co.uk

What’s in our Guide.

Guide taken from Which Property guides January 2016

“This guide is to offer insight into how to get a mortgage. We hope you find it helpful“

David Bell, **Director**
Eastons Group

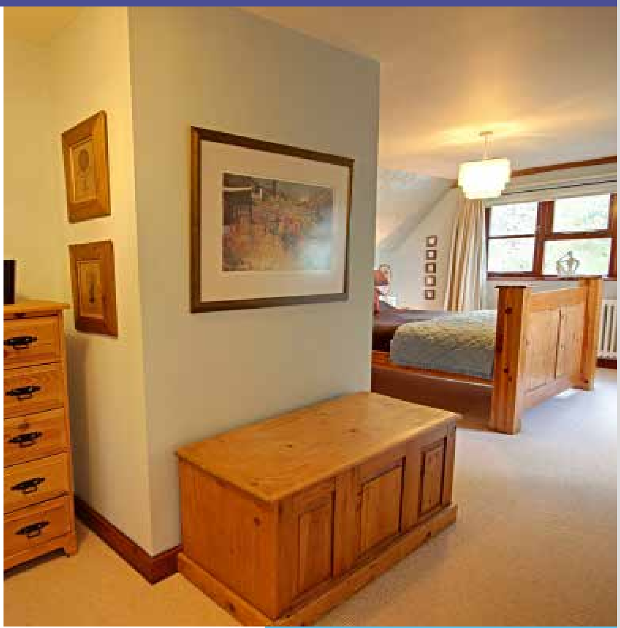
How to apply for a mortgage: step-by-step guide

1 Know your budget

First, you need to understand what you can afford. Look at your overall savings and calculate how much you will need to finance your move. Factor in everything from the deposit to stamp duty.

You can have a free initial consultation with Richard Mullan - our recommended Mortgage Advisor on 02089394545 or by e-mail on richard.mullan@keystonewm.co.uk. He will ask you questions about your circumstances to help give you an idea of how much you might be able to borrow.

Find out more: the cost of buying a house - a run-down of the potential expenses.

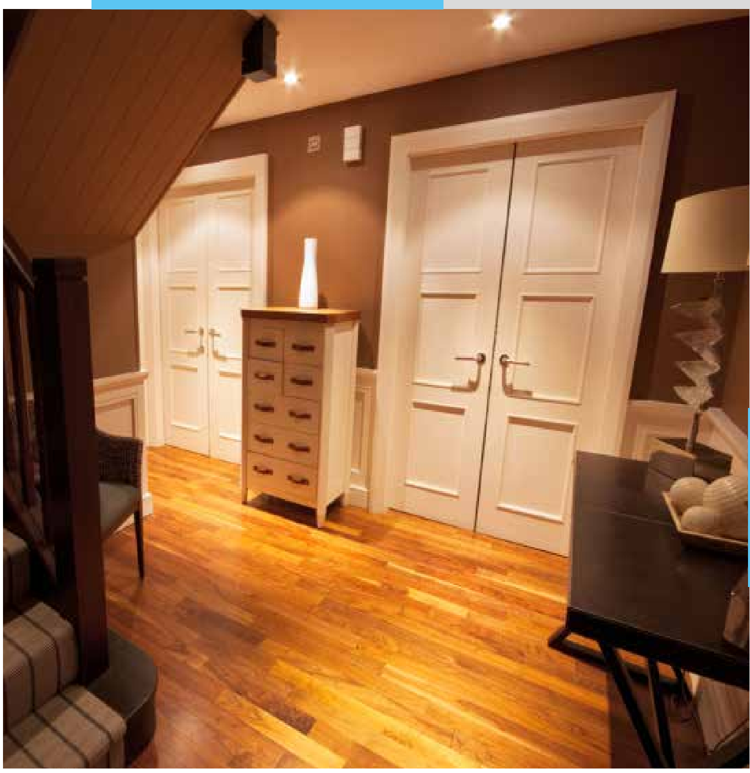


2 Evaluate your income

A mortgage lender will usually only lend you between three and five times your annual income. If you're buying a property with a partner or friend, work out the total income of everyone who will be named on the mortgage. It's rarely worth applying to borrow any more than five times this amount. Find out more: tenants in common and joint tenancy - find out about the ownership options available if you're buying a home with someone else.

3 Check your credit history

A good credit history is crucial to being accepted for a mortgage. If you have a poor credit history, or no history of using credit at all, it's worth spending a few months showing that you're a responsible borrower before applying for a mortgage.



4 Get an idea of the type of property you want

The type of property you want to buy will affect the type of mortgage you can get, so form a rough idea of the kind of property you want to buy. Lenders are less willing to agree to mortgages on leasehold flats with short leases, for example. A mortgage adviser will be able to steer you towards the best type of mortgage for your specific circumstances. Eastons can help with any queries you might have in regards to different properties contact them on 01372 722 002

5 Get your documents together

Where relevant, make sure you have paperwork to prove everything you say in your mortgage application. A mortgage lender will want to see proof of identity, details of your employment and up to six months' worth of bank statements.

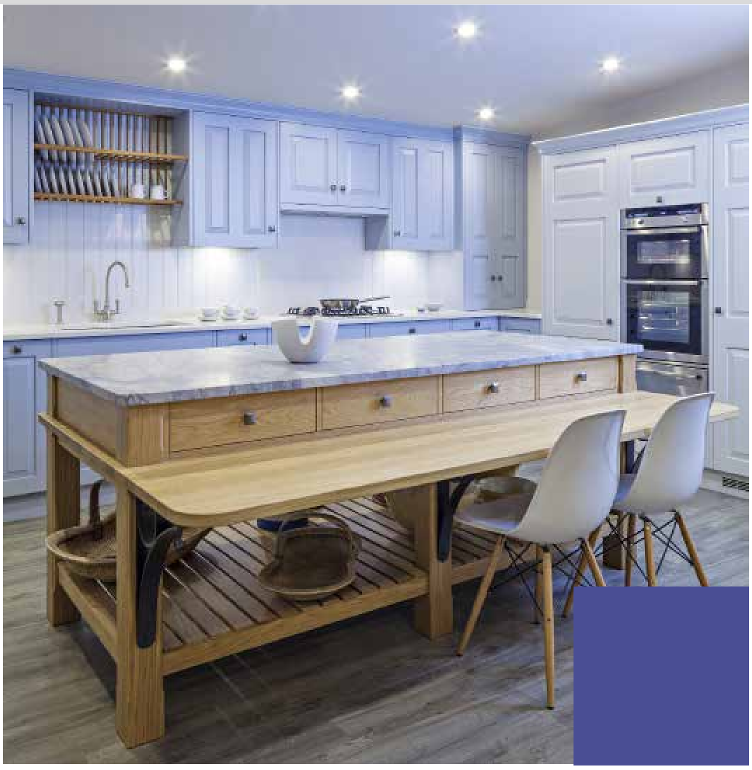
First Time Buyer Mortgages

Typically, first-time buyers will have a small mortgage deposit to put towards their first mortgage. Here, we explain what this means for the type of mortgage you'll be able to get.

Generally speaking, the smaller the deposit, the higher rate of interest will be charged by the mortgage lender. This is because they will view the deal as a higher risk. Typically the smallest deposit you can use to get a mortgage in the current market is 5%. However, the 2015 Which? Property Survey found that the average first-time buyer deposit is 17%.

To get a good mortgage deal you will need to be able to put forward at least a 20% deposit.

A higher deposit of 30% to 40% or above will allow you to qualify for the cheapest deals on the market as you are borrowing less of the value of the property and the lender can recoup the majority of the amount borrowed if you have difficulty repaying your mortgage and your home is repossessed.



- **90% mortgages**

A 90% ‘loan to value’ mortgage requires a 10% deposit of the property. This means for a property worth £150,000 you would need a deposit of £15,000. Many first-time buyers will look at taking out this type of mortgage, however interest rates offered will be higher than with a lower loan-to-value mortgage.

- **95% mortgages**

A 95% mortgage will normally come with a much higher rate of interest offered on the loan, which will increase the amount which you will have to repay each month. To qualify for this type of deal you will need to demonstrate a good credit record and have sufficient income.
These types of mortgage come with some risk attached, for more information read our guide on 95% mortgages.

- **Help to Buy - 95% first-time buyer scheme**

The Help to Buy scheme aims to help people with small deposits buy a property. It is available for both first-time buyers and home owners to buy homes with at least a 5% deposit.

Are you ready to be a first time buyer?

- Before you embark on the process of buying your first home, it's important you think carefully about your finances to make sure you're definitely ready for what will probably be the biggest financial commitment you've ever made.

What's happening to house prices?

It's difficult to forecast changes in the property market. Nationally, prices have started to climb, after stagnating since the 2008 crash. But the local picture can be very different, with the market sometimes behaving differently street by street. If prices in your area are at an all-time high, it may not be the best time to buy.

Are you in a steady job?

Mortgage lenders will need proof of your income before offering you credit. Most lenders will need to see that you are employed in a permanent job. If you're self-employed or on a fixed-term contract, getting a mortgage may be more difficult.

Do you have a good credit history?

A good credit history is key to a successful mortgage application. This can be a problem if you've never taken out any credit. You can build your credit record by taking out a credit card and paying the balance in full each month.

Have you saved a big enough deposit?

Mortgages requiring a deposit of as little as 5% are available, but you'll get a better deal - and be more secure - if you can save more. Make sure you've also got enough cash to pay the other costs, such as stamp duty and survey fees.

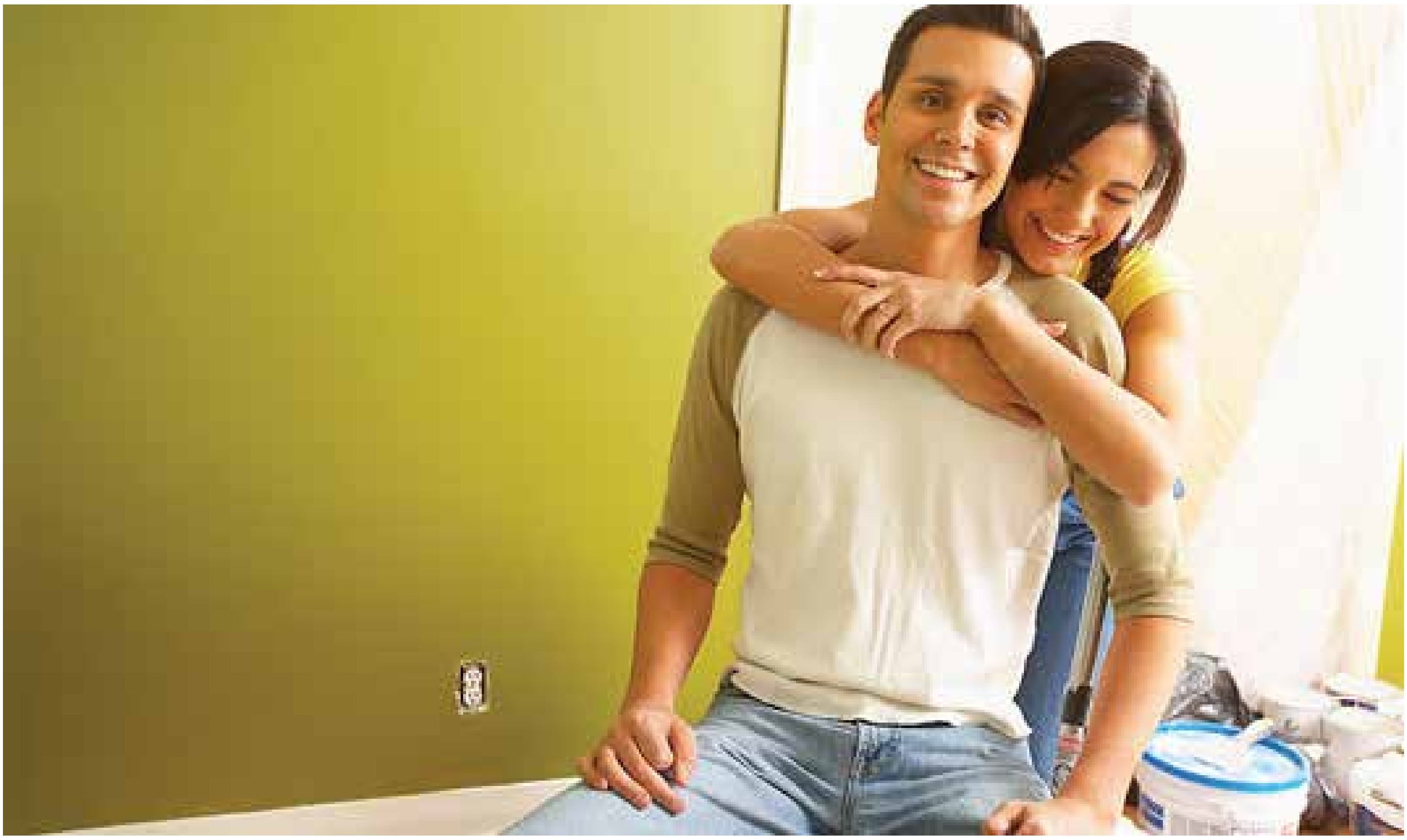
Can you afford the mortgage repayments?
You shouldn't rely solely on your mortgage provider to determine whether you will be able to afford repayments. Bear in mind that interest rates are expected to rise in the future. If a rate rise would leave you struggling, this may be a sign that you should save a little longer.
Go further: Mortgage repayment calculator

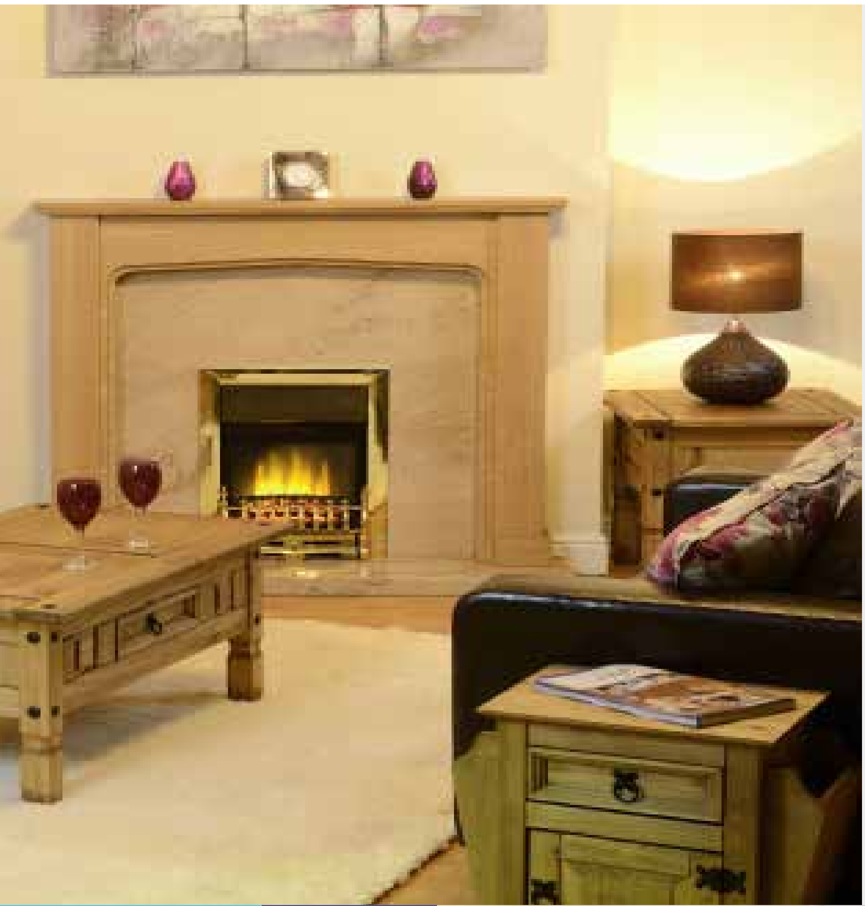
Have you made a cost of living budget?
Planning a budget carefully will allow you to work out how much you can afford to spend on mortgage repayments each month and be confident you can afford them - both now and in the future.

Are you ready for the responsibility of buying a house?
If you've been renting from a diligent landlord you won't have had to worry about major repairs and the cost of maintaining appliances. But when you own your own home, all of this will be your responsibility. Looking after your home will take time and money.

Do you have savings in reserve?
For most homeowners, their property is their biggest investment, but you should also have other savings to see you through any unexpected difficulties.

Are you ready to settle down?
Moving house is costly and time consuming. You should plan to stay put for at least five years to make a house purchase worth your while.





Whether you’re a first-time buyer or moving to a bigger house, you should be prepared for your monthly outgoings to go up when you move in to your new home. If you’re downsizing then, with luck, they’ll fall.

We’ve also listed the costs you’re most likely to incur when living in a property you own rather than rent, how they might change and where to look for better deals to reduce your costs.

What household bills should I expect to pay?

Mortgage

Your mortgage payments may vary from one month to the next depending on whether you have fixed mortgage payments. To ensure you can afford your mortgage long term, you should check affordability at rates up to 7%.

Utility bills

These include your electricity, gas and water bills. Typically they'll increase in line with inflation every year, which is approximately 3%. Electricity and gas, though, have recently increased by up to 10% in one year alone. The energy performance certificate for the property you're buying will help you cost likely bills.

Council tax

Properties are classified in bands ranging from A to H. Your band is determined by the value of your property. The seller or estate agent should be able to tell you which band your new property is in. You can apply for a 25% discount if you live alone or if the property is empty, and there are some exemptions. You can also appeal against your council tax band, for which you could save up to £1,865 a year.

Telecoms bills

Most people now have internet, telephone and TV charges to pay for. These can vary from one package to the next. Often new customers will get better deals than existing ones, so it's worth shopping around and considering switching to find the best deal each year.

Insurance

This includes buildings insurance - unless you own a leasehold property - and contents insurance. These are likely to increase with inflation every year, although you can limit the financial pain by shopping around rather than automatically renewing with your existing provider - you can often find a better deal elsewhere as a new customer.

TV licence

The TV licence is £145.50 per year and is frozen until 2016. After this time, the BBC is aiming for an annual licence increase in line with inflation.

Repairs and maintenance

This varies from one property to another. On average smaller properties, maintenance will typically cost £500 per year and larger properties £1,000.

- If you have a gas appliance, including a boiler, you should get a gas safety certificate every year from a Gas Safe-registered engineer.
- Electrics should be checked every 5-10 years. Make sure you get a certificate of safety.
- Painting and decorating generally needs to take place every 5-10 years.
- Kitchens and bathrooms are likely to be replaced every 10-20 years, depending on the quality of the installations.
- Windows and roofs are likely to need replacing every 20 years.

Other costs to bear in mind include local parking permits if charges apply and you don't have a garage. And if you buy a flat, you'll also need to take into account monthly or quarterly service charges, ground rent and any cyclical and major works charges.

With so many Help to Buy schemes available, we recommend speaking to an expert who can take all the stress out of finding the right deal for you. Eastons recommended mortgage advisor, Richard Mullan is an independent advisor who can help you find the right mortgage. Contact Richard on 02089394545 or by e-mail on richard.mullan@keystonewm.co.uk for a free initial consultation.

What is Help to Buy?

With property prices still high, saving up a 20% deposit may seem like an impossible task. The government has recognised this, and has created a scheme to help those of you without a large deposit either purchase their first property or move to a new home.

In this guide, we give an overview of how the Help to Buy scheme works, showing you if you're eligible for the scheme and what homes qualify under it.

Help to Buy scheme - do I qualify for it?

Help to Buy scheme - mortgage guarantees

Most of the UK's biggest mortgage lenders have signed up to offer Help to Buy mortgages, as well as smaller lenders.

Help to Buy mortgages work like this:

• You'll put down a deposit of at least 5%

• You can borrow up to 95% of the property's price from a mortgage lender.

• The government will then guarantee any mortgage borrowing above 80% of the property's value.

• For example, if you took out a 85% mortgage the government would guarantee to repay your lender up to 10% of its value if you defaulted.

But all of this goes on behind the scenes, for you as the borrower it is no different to any other mortgage. You are responsible for repaying the whole loan and could face repossession if you fell into arrears.

For the lender, this will mean that lending to people with small deposits will carry much less risk, so it should create much more choice for borrowers. However the government is giving lenders the freedom to set their own interest rates as part of the scheme, so there are no guarantees you'll get an attractive rate.

Help to Buy aims to help people with a small deposit buy a house

To be eligible for help from Help to Buy, you must:

• Have a deposit of at least 5%;

• Be looking to buy a home worth £600,000 or less;

• Be purchasing a property you intend to live in most of the time;

• This means you can't buy a property you intend to let out or use as a second home.

There are two parts to the scheme - equity loans and mortgage guarantees.

Equity Loans

A Help to Buy equity loans are only available to people who want to buy a new build property.

They work like this:

- The government lends you up to 20% of the property's value as an equity loan;
- You'll need a deposit of at least 5%;
- You'll need to get a mortgage of 75% of the property's value.
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So if you wanted to buy a house worth £200,000, it would break down as:

- A £40,000 loan from the government;
- A £10,000 deposit put down by you;
- A £150,000 from a mortgage lender.

The benefit to getting an equity loan from the government is that with a larger amount to put down, you'll hopefully get a better mortgage rate from your lender.

Equity loans - what you'll have to pay back

- The equity loan is interest free for the first five years;
- From the sixth year onwards you will pay an admin fee;
- The admin fee will start at 1.75% of the loan;
- The admin fee will increase every year by any increase in the Retail Prices Index plus 1%.

Remember, you will be paying these fees in addition to your mortgage repayments and the equity loan from the government will not be decreasing in size (unless you opt to repay part of it early). So, over time the cost of the admin fee could become pretty expensive.

You will need to repay the equity loan in full after 25 years, when your mortgage term finishes or when you sell your home - whichever happens first. You will repay the market value of the loan at the time, rather than a fixed cash amount. In practice, this means:

- You take a 20% equity loan to buy a property worth £200,000, or £40,000;
- When you sell the property, it's worth £250,000;
- You repay £50,000 - this is 20% of the new value of your home, not the amount you borrowed;
- If the property had dropped in value, you'd pay less than you borrowed.

You can also choose to repay part of the loan early in chunks of either 10% or 20% of the total value.

Help to Buy Isas

Help to Buy Isas are a new type of tax-free savings account aimed specifically at would be first-time buyers. For every £200 contributed, the government will add an extra £50 towards a deposit on your first home, up to a maximum of £3,000.

These accounts are set to be introduced in autumn 2015.

Shared Ownership

With shared ownership you buy a share of a property from a housing association and pay rent on the remaining share. You put down a deposit of at least 5% and then use a mortgage to pay for between 25% and 75% of the value of the property.

Pros

- It can help you to get a step onto the property ladder
- You can buy additional shares until you own your property outright
- May be cheaper than renting
- You can sell your property at any time and will benefit from any increase in value since you purchased your home

Cons

- There may not be properties in your preferred location
- You may be charged valuation fees if you buy additional shares
- You have to pay a service charge. This charge could also apply even if you own your property outright
- There is a risk of the property decreasing in value

There are lots of options available for first-time buyers and shared ownership is just one of them. Eastons recommended mortgage advisor, Richard Mullan, offers impartial advice tailored to your circumstances to help you decide what is best for you. You can call for a free initial consultation on 02089394545 or by e-mail on richard.mullan@keystonewm.co.uk

How do I apply for a shared ownership scheme?
Housing associations offer a range of different shared ownership schemes - you should check with housing associations in your local area to see which ones you are eligible for. You will normally apply to the housing association directly and you will also need to arrange mortgage finance with a lender to cover the share of the property you are buying.

Need a mortgage?
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Guarantor Mortgages
With help from your parents you may be able to borrow more from a lender

We explain ways in which your parents could help you buy your first home - including guarantor mortgages, family offset mortgages and family deposit mortgages.

Understandably, many parents want to give their children a leg-up onto the property ladder, and there's an increasing number of mortgages coming onto the market that enable them to do so.
The most common options are guarantor mortgages, family offset mortgages and family deposit mortgages.

The good news is that, with parents or close family willing to take on some of the risk of lending to a first-time buyer, lenders are prepared to put up more cash and at a better interest rate than they otherwise would.

However, these mortgages come with risks for both the parent and the first-time buyer, so it's important to consider very carefully whether they are the right option for you.

• We believe you should take independent advice before choosing a mortgage. Eastons offers an independent mortgage advice service, through our recommended mortgage advisor, Richard Mullans, who looks at thousands of mortgages and can help you work out what's best for your situation. Call for a free initial consultation on 02089394545 or by e-mail on richard.mullan@keystonewm.co.uk

Guarantor mortgages

With a guarantor mortgage, a parent or close family member guarantees the mortgage debt. This means that if the buyer misses their mortgage repayments the guarantor will have to cover them.

Traditionally with these types of mortgage, mum and dad were responsible for repaying the whole mortgage loan if their child defaulted on their mortgage payments. But there are an increasing number of mortgages on the market where there is a limit on the amount the guarantor is responsible for.

How guarantor mortgages work

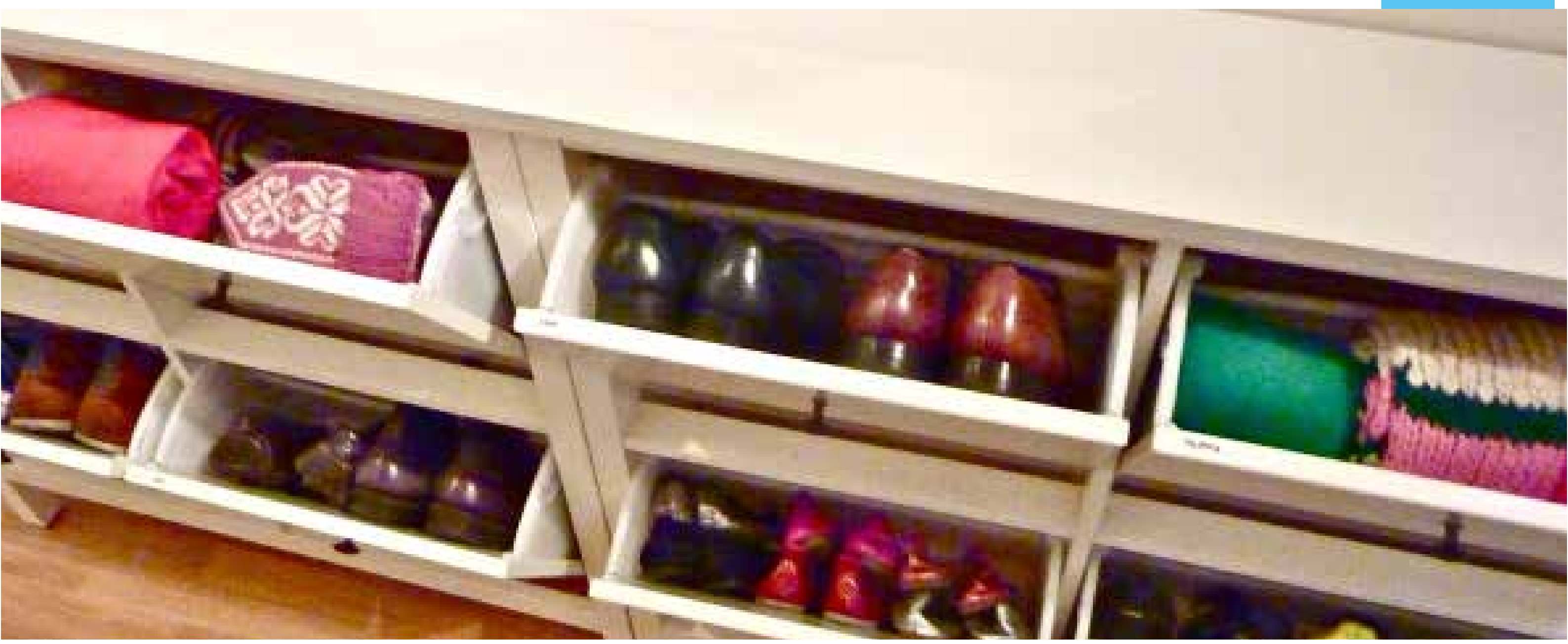
Aldermore is one example of a lender offering guarantor mortgages - and with this company, you can borrow up to 100% of a property's value. A parent or grandparent must then guarantee the amount of mortgage above 75% of the value of the home.

Normally, the family member guaranteeing the mortgage offers their own property as collateral against the property, which means in the worst case scenario a guarantor could lose their home to cover the debt. But if no repayments are missed it won't cost the guarantor a thing.

Family offset mortgages

With family offset mortgages, parents or grandparents put their savings into an account linked to their child's mortgage. The money in the savings account is then deducted from the mortgage, making the child's repayments cheaper.

There is a potential downside to this type of mortgage, though. Parents will be able to get their money back in full, but they may have to lock it away until the mortgage has been paid off to between 75% and 80% of the property's value - which could take quite a long time. Parents also won't receive any interest on their savings while they are offsetting their child's mortgage.



Family deposit mortgage

Some lenders, such as Barclay and Market Harborough Building Society, now offer mortgages where a family member deposits cash in a special savings account and the money is then held as security against the mortgage.

This cash is then held for a fixed period of time. If the mortgage borrower defaults during this period, the money will be taken from the savings account.

The benefit of family deposit mortgages is that the family member still gets interest paid on the money linked to the mortgage - although the rate might not be as good as with other savings accounts. And if the borrower meets all their repayments it won't cost their family anything.

Flexible Family Mortgages

In addition to these types of mortgage, the Family Mortgage from the Family Building Society offers a flexible approach for relatives looking to help.

Provided that the first-time buyer has a 5% deposit, parents or family members have three options.
The first option is to put 20% or more in a savings account that pays interest as security for the loan.

The building society still provides a 95% mortgage to the first-time buyer, but the security provided by the family member's savings means that the first-time buyer pays a lower interest rate on their mortgage than is generally available on mortgages of this size.

The second option is for the parent or family member to use some of the value in their own property as security, and the third option is for the family member to place savings in an offset account, which reduces the amount of the mortgage on which interest is charged. It's also possible to do a combination of all three.

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