Eastons

Property Made Simple

Mortgage Deposit Explained

www.eastons.co.uk

What's in our Guide.

1. How much deposit do I need?
2. Reason to save a bigger deposit?
3. How to save a deposit?
4. 95% mortgages Explained
5. 100% mortgages Explained

Guide taken from Which Property guides January 2016

"This guide is to offer insight into mortgage deposits. We hope you find it helpful"

David Bell, **Director**
Eastons Group

How much deposit do I need for a mortgage?

The size of your mortgage deposit will dictate the kind of mortgage deal you can have. The size of your mortgage deposit will make a real difference to the best mortgage deal you can find, and even whether you can get a mortgage at all. We explain how much deposit you need to save, and how to get the best mortgage for you.

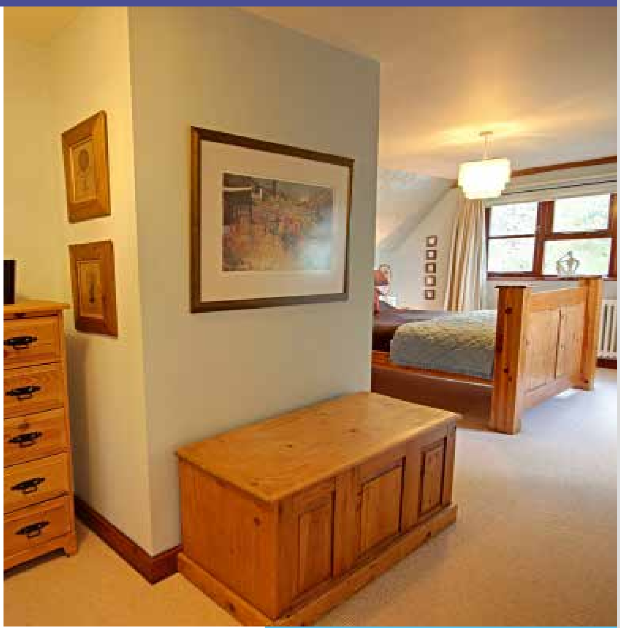
Minimum mortgage deposit

In the current mortgage market you'll need a deposit of at least 5% of a property's value to get a mortgage. A lender would then lend you 95% of the property's value.

So, if you wanted to buy a £150,000 property you would need to save up at least £7,500 and borrow £142,500.

But 5% is just the minimum; there are a few different reasons why you would usually be better off with a bigger mortgage deposit.

If you'd like to speak to an expert who will look at your personal circumstances and then assess the entire mortgage market and recommend the best deal for you, call Richard Mullan on 07967 622 808



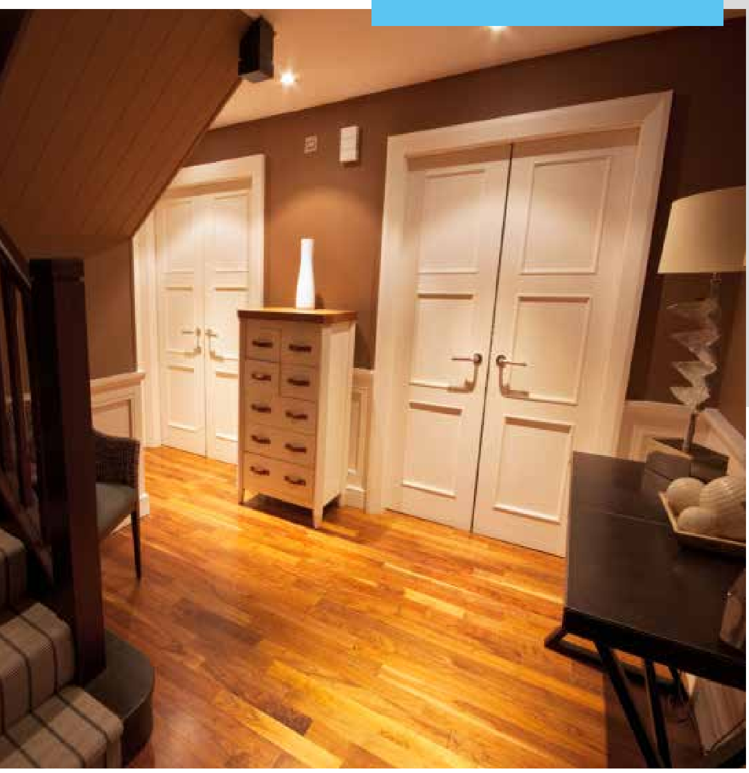
Reasons to save a bigger mortgage deposit

1. Cheaper mortgage repayments – it might sound obvious, but the bigger your mortgage deposit, the smaller your loan will be. And the smaller your loan is, the cheaper your monthly repayments are.

2. Less risky – if you own more of your home outright you are less likely to fall into 'negative equity', where you owe more on your mortgage than your property is worth. Being in negative equity can make moving house or switching mortgage very difficult.

3. Better mortgage deals – a larger deposit will make you less risky for mortgage lenders. As a result, they'll generally offer you more competitive mortgage deals with lower interest rates.

4. Better mortgage chances – all lenders conduct affordability checks to work out whether you can afford mortgage repayments based on your income and your outgoings. If you only put down a small deposit it's more likely you will fail these checks because you'll need to spend more on your mortgage each month.



Mortgage deposits for the best mortgage deals

The cheapest mortgage deals on the market will typically require you to have a 40% deposit or more, so on a £150,000 property this would mean a deposit of £60,000.

However, saving up a 40% deposit is unrealistic for many people. According to Which? research conducted in 2015, the average (mean) mortgage deposit for first-time buyers is 17%, and that in itself is too difficult for some.

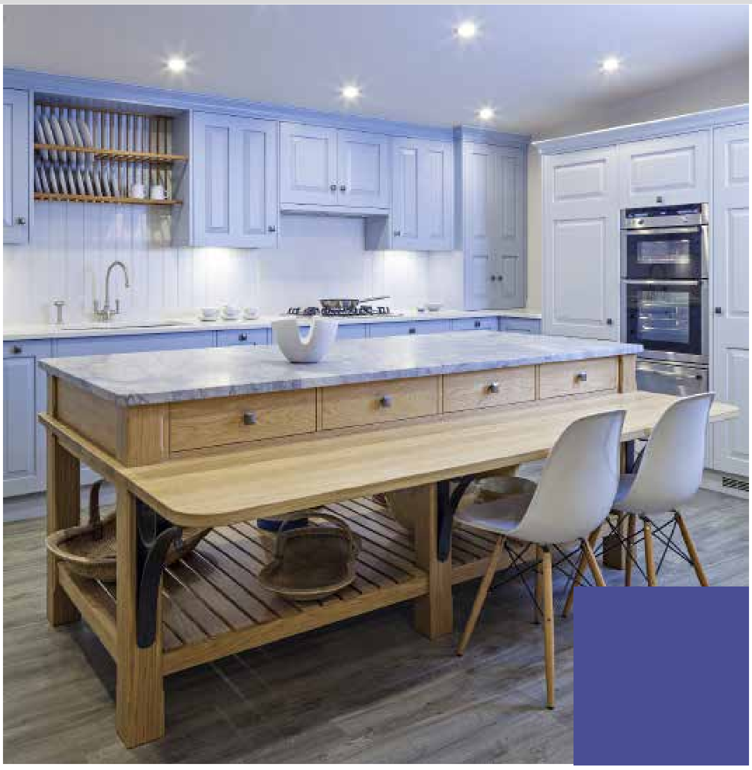
How much deposit do I need?

To calculate how much you'll need to save for your mortgage deposit, there are two things you should consider:

• Typical property prices in your area – you can get a rough idea of this from websites such as Rightmove or Zoopla, but speak to local estate agents to get the most accurate information.

• How much can you afford in repayments each month? You can also find typical mortgage rates using the Which? Money Compare mortgage tables or you can all our Mortgage Advisor, Richard Mullan on 07967 622 808

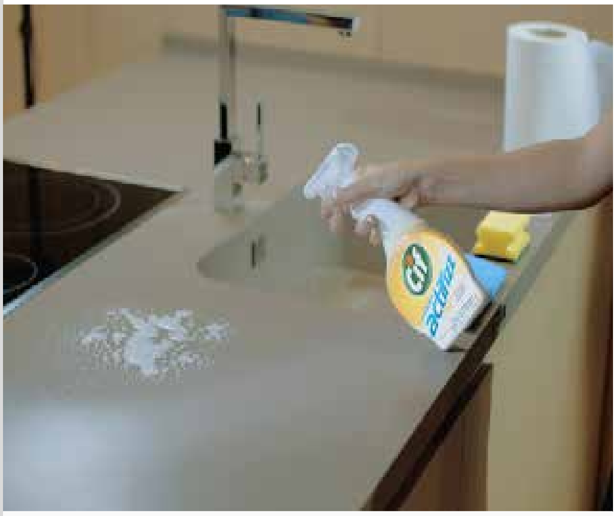
Start by assuming you would borrow 95% of the property's value. If you can't afford the repayments for a loan of that size, you will need to save a bigger deposit.



Buying a house: extra costs

- Although the mortgage deposit is the biggest part of the overall costs that you'll need to pay to buy a home, there are other things you will need to budget for as well when saving up, including:
- Stamp duty: this is a tiered tax that you'll need to pay on any property costing over £125,000 - you can work out how much you'll pay using the Which? stamp duty calculator
- Mortgage arrangement fees: while these are sometimes waived to entice you in, lenders will often charge anything up to £2,000 to arrange your mortgage
- Legal fees: you'll need to appoint a solicitor to arrange the purchase of your property. Costs vary between firms, and can range from a few hundred pounds to more than £1,000
- Property survey: these can range from £100 to more than £1,000
- Land registry fees: these can range from £50 to £920, depending on the value of the property

How to save for a deposit



- Make sure you use the right savings products to build up your mortgage deposit.
- Saving up for a mortgage deposit is a big commitment, and may take a number of years to do. Therefore, it's important that you choose the right products in which to save your money.
- Here, we assess some of the most popular methods of saving enough money for a deposit on a home and suggest what might be the right option for you.
- Before you start saving, working out how much you need to set aside for a deposit, and to cover fees and moving costs, can be daunting.

Help to Buy Isa

In the March 2015 budget the Chancellor announced that Help to Buy Isas, aimed at helping people save for their first home, would be available to first-time buyers from Autumn 2015.
With a Help to Buy Isa the government will add a £50 bonus for every £200 saved in the account, up to savings of £12,000. This means savers could benefit from a maximum bonus of £3,000.

The bonus is available on properties worth up to £250,000, or £450,000 in London, and will be paid when you buy your first property. Accounts are per person, not per property, so people buying together can both receive a bonus. Savers can make an initial deposit of up to £1,000 to open the account and then pay in up to £200 each month afterwards.

Another benefit of the Help to Buy Isa is that, like other Isas, any interest you earn will be tax free. You can save up to £15,240 into an Isa in the 2015/16 tax year.

Warning: If you will want to open a Help to Buy Isa when they're launched in the autumn make sure you don't add any money to a cash Isa within the 2015/2016 tax year, which starts on April 6th. You can't contribute to a cash Isa in the same tax year as a Help to Buy Isa. In the meantime, before Help to Buy Isas are launched, you may want to consider saving in an ordinary cash Isa to take advantage of the tax-free interest you can earn.

How to save for a mortgage deposit with a savings account

Regular savings accounts often pay attractive headline rates of interest and can be a good way to make sure you're putting money aside every month.

But they often have restrictions on them which you need to watch out for, for example there may be limits on the number of withdrawals you can make each year, you may receive less interest if you miss a month of savings and you may need to have a current account with the bank.

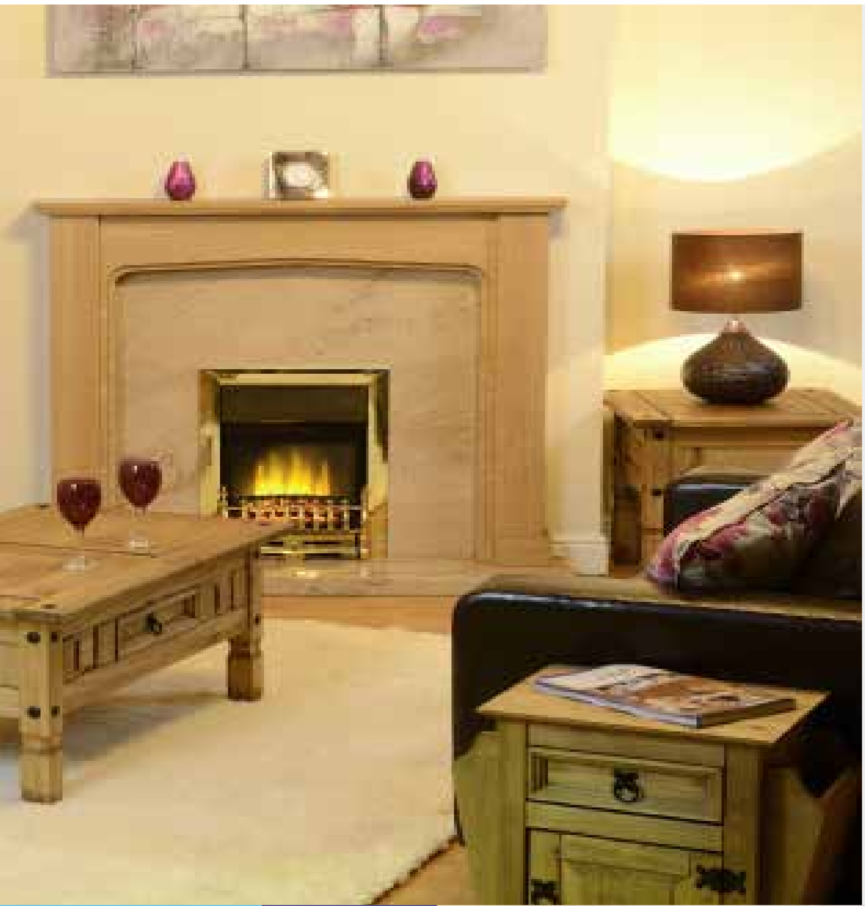
Instan access vs. fixed rate savings accounts to save for a mortgage deposit

If you already have a small lump sum built up, and know that it's going to take you a few years to save up for the rest of your deposit, you could get a better rate of interest by locking your money away for a year or more. Consider a one or two-year fixed-term fixed-rate savings account for your lump sum, and then use your cash Isa allowance or a regular savings account for the remaining amount of the deposit that you need to accumulate

Avoid investments when saving for a mortgage deposit

The key to saving for your deposit is to make the most of every penny you save. With savings rates still at record lows, you may be tempted to put some of your money onto the stock market to try and achieve a better rate of return. However, when you invest your money, you put it at risk of falling in value.

You'll have the potential to make better returns than the bank, but you could do much worse. It's unwise to put your deposit savings at risk as it may take a number of years to recover from any falls in the stock market, setting back your plan to get on the property ladder.



95% mortgages

You can borrow up to 95% of the value of the house you want to buy but there are risks
Many first time buyers may be tempted to look to get a mortgage with a 95% loan to value, as they will only need a 5% deposit.

Yet, 95% mortgages can come with significant risks, as well as much stricter conditions on who can take them out.

Here, we explore the basics of 95% mortgages, including the risks involved and the criteria you need to meet in order to be approved for one.

What is a 95% mortgage?

Any mortgage deal will have a percentage attached to it, which indicates how much of the value of the property you're able to borrow. This is called the 'loan to value'. A 95% mortgage allows you to borrow up to 95% of the value of the property you want to purchase. So, for example, on a house valued at £200,000, you could borrow £190,000 using a 95% mortgage, and would need a deposit of £10,000. Like all home buyers, you'll also have to pay additional fees, like stamp duty, arrangement fees and other mortgage-related costs.

If you decide to take out a 95% mortgage, you will face a higher rate of interest on your loan. The bigger deposit you have to put down, the better the rate on your mortgage you can achieve.

Help to Buy mortgages

Help to buy mortgages are part of the government-backed Help to Buy scheme and are available for loans of between 80% and 95% of a property's value. Mortgage lenders who are participating in the scheme are able to get government-backed guarantees on every high LTV mortgage they offer.

The way it works is that you as the borrower put down a deposit of at least 5% and the government then guarantees any mortgage lending above 80% of the property's value. For example, if you took out an 85% mortgage the government would guarantee to repay your lender up to 10% of its value if you defaulted.

95% mortgages - lending criteria

In the current environment, lenders have quite strict criteria.

Good credit record

You need a clean credit file, with a good record for paying bills, rent and other borrowing, like loans and credit cards, on time. You should make sure you're registered on the electoral roll.

Sufficient income

Even if you have the minimum 5% deposit required for a 95% mortgage, you still need to have sufficient earnings to qualify for the loan. As a broad rule of thumb, banks and building societies will lend you between three and four times your salary if you're buying a property on your own, and 2.5 times your combined salary if you're buying with a partner. So, if you want to buy a home valued at £200,000 and have the required £10,000, 5% deposit, you'd probably need a salary of around £48,000, or a combined salary of £76,000 for a couple.

Affordability testing

In reality, few lenders use crude salary multiples to approve loans. Instead, most banks and building societies look at how affordable the loan will be for you, taking into consideration all of your income and outgoings and other debts.

95% mortgage risks

Interest rates

Interest rates on 95% mortgages tend to be higher than mortgages with a lower loan to value, meaning that you'll have to repay more every month.

With this in mind, if you have a low income but a 5% deposit, you may find that mortgage providers are still unwilling to lend to you, as you may not be able to afford repayments.

Remortgaging

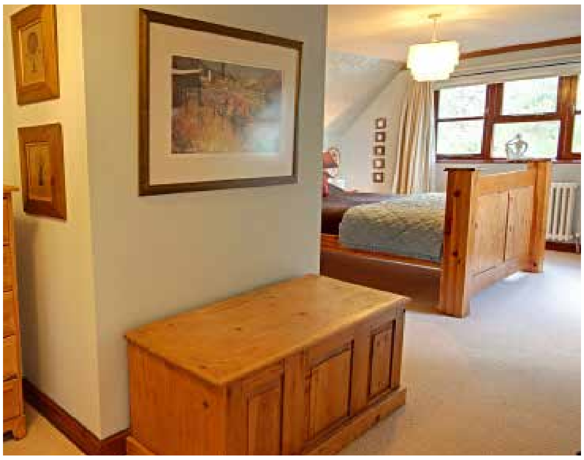
Taking out a 95% mortgage as a first time buyer might make it difficult for you to remortgage onto a better rate when your first deal ends. There are a number of factors that could affect you:

1) Borrowing a high proportion of a home means that by the time your 95% mortgage deal ends, you may not have built up enough equity, or paid off enough of your mortgage, to move to a better deal with a lower rate of interest.

2) Most 95% mortgage deals are available for two or three years. Even in the current low-interest rate environment, 95% mortgage deals charge around 6%. When your deal ends in two or three years, the Bank of England base rate may have risen, which means that you could be facing a much higher repayments on any new deals.

House price falls

If the value of your property falls, you could end up owning less than 5% of your property, or even end up in negative equity.



100% mortgages

100% mortgages are extremely rare for most first time buyers today

As the name suggests, a 100% mortgage will allow you to borrow the full value of the property you want to purchase without the need to place a deposit with your lender.

Current 100% mortgage deals

Only one provider currently offers a 100% mortgage deal. In September 2011, Aldermore Bank launched the Family Guarantee Mortgage, the features of which include:

- Allowing you to borrow 100% of the value of a property
- A family member must be willing to guarantee any amount above 75% of the value of the property
- This means that parents or grandparents must guarantee 25% or lower of the value of the property.

So if you were to borrow £200,000, the guarantor would have to be willing to place a £50,000 charge on their home.

- No money from the guarantor is required upfront, but if your house was repossessed, your parents would be liable for any shortfall.
- Two year and three year fixed rate deals are available at 5.98%
- The mortgages are available on a repayment basis only

Knowing how much you can borrow can be confusing, especially when it comes to 100% mortgages.

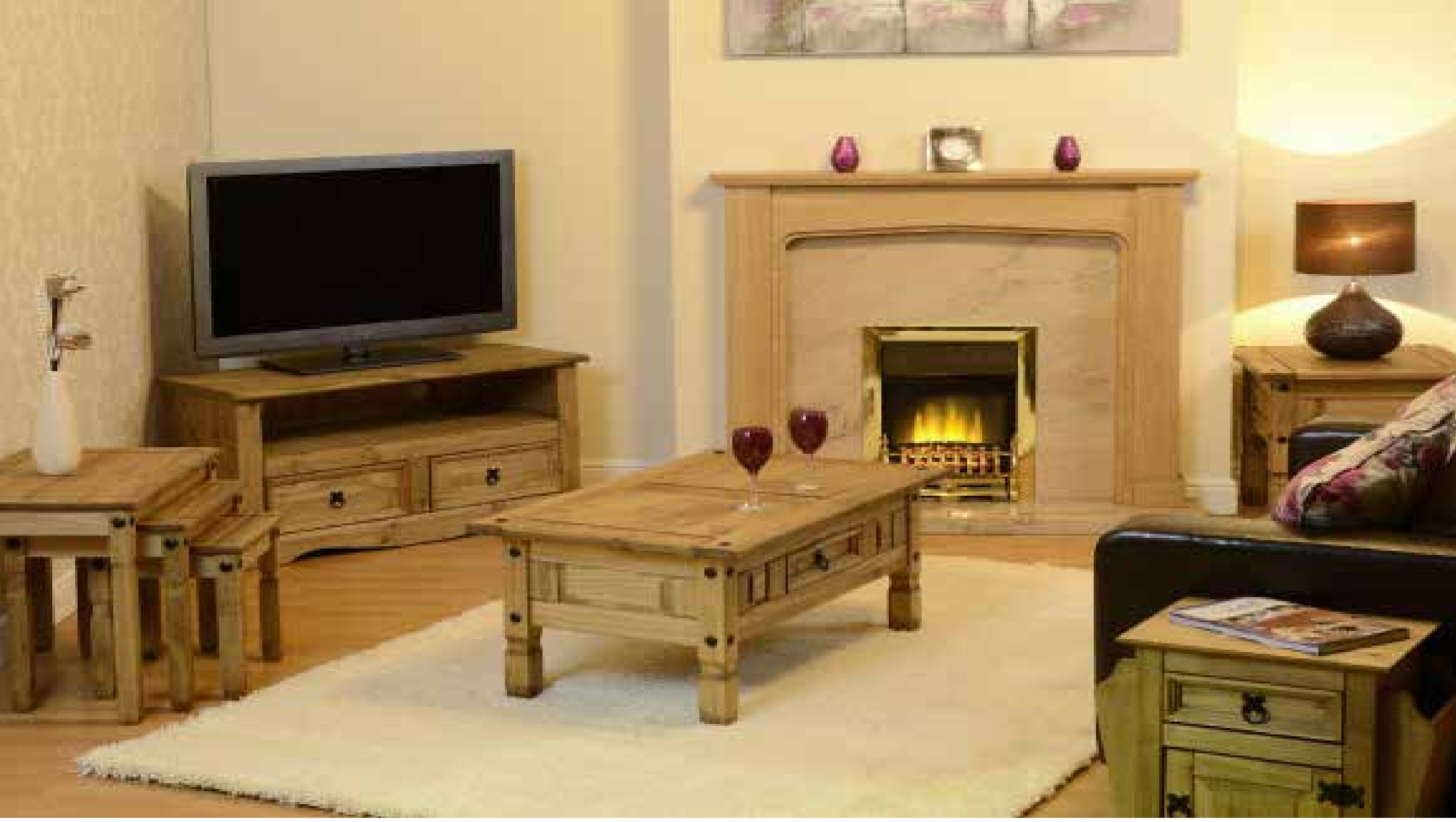
The risks of 100% mortgages

The biggest risk of 100% mortgages is that you will instantly be in negative equity - owing the bank more than your property is worth - if house prices fall.

When 100% mortgages were more common many people took out the loans banking on increasing property prices to quickly reduce the loan to value. When the property bubble burst in 2007/08, thousands of borrowers were faced with the prospect of negative equity, high repayments and the risk of job loss as the wider economy faltered.

100% mortgage alternatives

For most first time buyers, you will need to build up a deposit of at least 5% of the value of the property you want to buy. There are a number of 95% mortgage deals available for first time buyers, but tend to come with higher interest rates than those with lower loans to value (the amount you can borrow against the value of the property).



Eastons
Property Made Simple

Eastons, 7 Tattenham Crescent,
Epsom, KT18 5QG

01372 722002

enquiries@eastons.co.uk