CHOICE

mortgage solutions

FIRST TIME BUYERS GUIDE

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A Choice Mortgage Solutions Guide

If you are buying your first home, it’s completely normal to be both terrified and excited at the same time. It can be a long journey too, taking on average between six weeks and eight months (Source: Money Saving Expert), from viewing a property to moving in.

Add on the time it takes to get ready to dive into the process, as well as all the things left to do once you are given the keys and you could be looking at over a year’s worth of work and patience.

For most people though it’s worth the effort.

We are here to help. This guide will walk you through each stage of the home buying process, with pointers, tips and advice along the way. We will ensure that you are fully prepared and able to get the most rewarding experience as a first-time buyer.

The process:

To make sure that you are fully prepared to buy your first home, it is important to get an overview of the process facing you. It can take up to a year to be fully settled into your own home, during which you will need to:

1. Organise your finances
2. Find a property
3. Make an offer
4. Apply for a mortgage
5. Hire a solicitor or conveyancer
6. Arrange for a survey of the property
7. Confirm that your mortgage application has been accepted
8. Exchange contracts
9. Complete the purchase
10. Move in

Only then can you set to work making your house into a home.

Depending on your DIY abilities, this part is either where the fun begins, or the real stress starts!

Getting ready to buy

It can be tempting to rush straight into buying a house. Unfortunately, though, looking in all the estate agent's windows and arranging viewings isn't the first step.

Before that, it's wise to do some forward planning:

- How much deposit will you need?
- What's the best place to save the deposit?
- What other sources of deposit are available?
- How much can you borrow?
- What other costs will come with buying your home?

Let's now answer each of these questions in turn:

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How much deposit will you need?

Your deposit is the amount you contribute, in cash, towards the purchase of your home. Usually the minimum is 5%. However, the bigger your deposit is, the lower your monthly mortgage repayments and interest rate will be.

What's the best place to save the deposit?

When saving for a deposit, it is important to explore all available options. There is one main government scheme in place to help first-time buyers save enough money for a deposit.

- Lifetime ISA: Lifetime ISAs are available to UK first-time buyers over 18 and under 40 years of age. Monthly deposits are not limited, but an annual limit of £4,000 applies. With a Lifetime ISA, a 25% bonus is automatically added each month to deposits made into the account until you reach the age of 40.

Withdrawing money saved in a Lifetime ISA for any reason other than buying a house or retirement will incur a 25% early access penalty and 5% interest.

Full details of the Lifetime ISA can be found here.

What other sources of deposit are available?

Saving your deposit is without doubt rewarding, but it can seem as though it's taking a lifetime, during which house prices are rising and your friends are jumping on the housing ladder.

That's probably why more and more first-time buyers are making a withdrawal from the 'bank of mum and dad' (or grandma and grandad). In 2016, parents and families contributed to deposits on almost 300,000 homes (source: Legal & General)

How much can you borrow?

Before looking at properties, you need to know your budget. A lender will be able to tell you how much you are eligible to borrow based on several factors, including;

- Your income
- Your credit history
- Your existing loan commitments
- Your monthly outgoings
- Your available deposit

Lenders will have their own criteria which may vary from this.

What other costs will come with buying your home?

When you are working out how much you will need to buy a house, it is important to keep in mind that costs don't stop at the deposit and mortgage repayments. You are also likely to need to pay:

- Arrangement fee: This can be up to £1,000. It is possible to add it onto your mortgage, but that will mean that you incur higher monthly repayments. A mortgage broker can help you understand whether to go for a lower rate and upfront arrangement fee or a higher rate which spreads the fee over the term of the mortgage.

- Valuation fee: Your mortgage lender will carry out a valuation of the property to ensure that it is worth the amount you are borrowing from them and that it is in a good enough state of repair. Some lenders offer a basic valuation for free, but those who don't usually charge £200 - £400 for this.

- Survey fee: Depending on the age and state of repair of the property you may decide to hire an independent company to check the property for issues which could be costly to repair in the future. Whilst surveys can cost more than £1,000, it is worth knowing the condition of the property before making a commitment.

- Legal advice (solicitor or conveyancer): You will need the services of a solicitor or conveyancer to handle the legal side of buying your property. This can cost upwards of £500.

- Stamp Duty: As Government rates are constantly changing please refer to our Stamp Duty calculator on our website which you can find here.

- Land Registry fee: When you buy property, is it necessary to inform the local authorities that the land has changed ownership. The charges for this range from £30 to £910 depending on the property value and the application method used.

Understanding mortgages

Perhaps the most detailed and complex part of buying a home, is borrowing the money to buy it.

Borrowing

Do you need a mortgage broker?

You can either access a mortgage through a broker, or you can go directly to a bank or building society yourself. There's nothing wrong with the DIY approach, but, as a first-time buyer, we strongly advocate the use of a mortgage broker to ensure that everything goes smoothly and that the process is as stress-free as possible for you.

Reasons for using a mortgage broker as a first-time buyer include:

- Experience: Your mortgage broker will have dealt with many first-time buyers from a range of backgrounds and all of whom will have presented their own challenges. This means that they will be able to apply the right solutions whilst working with you, to make buying your first home as comfortable as possible.

- Qualifications: Mortgage brokers have undergone a lot of training and have the necessary qualifications to give advice. The same may be true of a provider's mortgage advisers, but they will be heavily focussed on selling their employer's products, rather than finding the best product for you.

- Advocation: Once again, your mortgage broker is working for you. That means that they are duty-bound to act in your best interests. They are not bound to one product or provider and have access to a whole marketplace of solutions for you.

When deciding whether to consult a mortgage broker, there are two important things to keep in mind:

1. You are not bound to the one recommended by your estate agent. You can choose a firm or individual based on your own criteria and instincts.
2. The value of a mortgage broker lies in their skills and ability to tailor advice to your needs. You may find yourself losing any money you save by forgoing a broker in paying to fix mistakes which would have been avoided otherwise.

It is advisable to use a broker as a first-time buyer, as they will be able to walk you through the process and apply their own expertise and advice.

Types of mortgage

Mortgages come in all shapes and sizes. Perhaps the most noticeable differences are interest rates and repayment types.

There are two main repayment types:

1. Interest only

You pay the interest each month, with a view to repay the whole loan at the end of the term. To apply for this type of mortgage you will need to supply evidence that you will be able to pay the loan off when the time comes. This type of mortgage usually has the lowest monthly repayments, however, you will pay a larger amount overall, as you are paying interest on the whole sum, followed by a lump sum repayment at the end.

2. Repayment

One of the simplest mortgage types; repayments are made each month which combine the loan and interest payable. The full amount, plus interest, is repaid by the end of the mortgage period.

Where interest rates are concerned, the marketplace gets a little more crowded:

- Fixed rate: These mortgages have a fixed interest rate for a set period, usually up to five years. These offer the advantage of a set repayment amount but can leave you paying more than the market average if interest rates fall. You will also be automatically placed on the lender's standard rate once the fixed rate period ends.

- Variable rate: Usually the lender's standard mortgage. The interest rate varies according to market circumstances. The base rate has an influence, but the lender ultimately controls the rates they charge.

- Capped rate: These are similar to a variable rate mortgage, but with an upper limit in place, which guarantees that your mortgage rate will not rise past a certain point.

- Tracker: The interest rates on this type of mortgage are pinned to a base level – usually the Bank of England base rate. The rate you pay will be a fixed amount above the base rate and will change in line with the bank of England's base rate changes. There may be a minimum rate, but rarely is a maximum rate in place

- Offset: This is a combination of mortgage and savings account. Interest is only due on the difference between your savings and the outstanding mortgage balance. A guaranteed ability to repay an amount means that the lender is taking less of a risk and can pass those benefits on.

- Flexible: With this mortgage type, you can in theory make larger repayments when it is suitable. Once you have overpaid, you can then choose to make lower payments temporarily if you need to. This flexibility offers an ability to manage your repayments to suit your financial needs.

Getting accepted

As seen above, mortgage lenders take many factors into consideration when processing a mortgage application. Arguably the most important factor will be your credit score. Therefore, when you are deciding whether you are ready to buy a house, you must make sure that your credit history is healthy and in your favour.

Your credit score

Naturally, the first step in improving and maintaining your credit score is to know how it currently stands.

There are a range of credit checking websites but do be aware that the services will vary between each provider and that free credit checkers will bombard you with advertisements for credit. Some reputable credit checking services are:

- Experian
- Equifax
- Check my File
- Noddle

So, what should you be looking for, exactly? Your credit score is a great place to start; it is a three-digit number and higher is better. There may even be a scale describing it as 'very poor', 'poor', 'fair', 'good' and 'excellent', for example.

Second, check your personal details. It is vital that you keep your address current, as it is an important factor in credit checking and the address you give to the mortgage provider must match.

Next, look at the accounts section, this will show you which accounts are current and how well you are managing them. Most include details of the age of the account, the status of the latest payment (paid, delayed, defaulted, etc).

There is often an expanded section which shows the history of those accounts and displays an overview of your repayment habits.

The final things to do is to check the details of the accounts on your report, alongside your personal information and any notes. Make sure you report any incorrect information to the credit agency as soon as possible.

Improving your credit

If your credit score is lower than you would like it to be, it is possible to improve it. Although it is worth keeping in mind that there are no quick fixes and it can take a while to repair the damage of past mistakes. The basics of improving your credit are:

- Have credit: Whether your credit is low due to past indiscretions, or simply never having had any previous credit, you will need to use credit to prove your reliability.

- Be sensible: Of course, just because you have credit, that doesn't mean that it's shopping time. The key is to spend wisely and repay in full and on time, every month. It's also beneficial to make sure you are on the electoral register.

- Be reliable: Pay bills in full and on time, repay outstanding debts and be reserved in your spending until you develop good habits and managing your credit becomes the norm.

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Maintaining your credit

It is not enough to simply achieve a good credit score, you must then maintain it, to show that you are financially responsible and able to repay a mortgage, if your application is accepted. Maintaining your credit is all about developing financial routines and habits which keep your money balanced. You can help to maintain your credit by:

- Not missing or making late repayments
- Keeping your details up to date
- Checking your credit report regularly
- Reporting any errors as soon as you spot them
- Keeping credit applications to a minimum, as each will leave a 'footprint' behind, which can give other potential lenders a negative impression of your financial habits

An improved and maintained credit score will greatly impact your ability to access lower interest rates and better mortgage terms.

Bank statements

Your mortgage provider will request several bank statements to assess your income and expenses. The dates required varies between providers, but it is usually three-to-six months.

The provider will look at your spending habits to determine how well you manage your finances. Negative behaviours include:

- Repeatedly using an unarranged overdraft
- Using payday lenders
- Payments made for financially risky activities, such as gambling
- Excessive spending which could put you in financial distress

What mortgage providers do want to see is:

- Positive spending habits
- Regular outgoings for bills and rent
- A balance between income and outgoing costs every month
- The ability to make mortgage payments without falling into financial difficulty

If your bank statements are looking messy and unreliable, it is best to work on developing and displaying positive habits before making your application.

Employment

Long periods of stable employment are ideal for first-time buyers, as it shows the mortgage provider that you have a steady income which is less likely to change in the near future. Of course, moving jobs can be unavoidable, but it is always best to wait until you have passed any probationary period before applying for a mortgage. Also, during the application process the provider will request several payslips, so keep your paperwork organised in the year leading up to buying your first home.

If you are self-employed, mortgage providers will want to see proof of income and financial stability. Often, they will request accounting statements for two to five years. The longer the period of stable income you can show, the better your chances of being accepted are.

Before you apply for a mortgage

Before your mortgage application, you will need to secure an Agreement in Principle (AIP). An AIP is confirmation that a provider would be happy to lend to you. To process your application, the provider will need to carry out a credit check, so do not attempt to secure multiple AIPs. Take your time to select the mortgage provider you want to borrow from, and only apply for an AIP with them.

Waiting for a response

Mortgage providers may take up to two months to consider your application and return their verdict. Delays are usually caused by missing or incorrectly completed paperwork, so be sure to take your time during the application process and read all information carefully.

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Your new home

We can't advise you how to choose the perfect house. Your requirements will be different to everyone else's, so we'll leave that to the estate agents. However, we can prepare you for the important things you will need to do during the home buying process.

Solicitors and conveyancers

A solicitor or conveyancer will assist with the legalities of buying a home. The most important part of this is the transferring of legal ownership of the property, known as 'conveyancing'. So, should you hire a solicitor or a conveyancer?

Either is fine, and they will both play the same role in the process. It is worth considering that, as the name suggests, a conveyancer is a specialist property lawyer, whilst a solicitor is trained in many aspects of the law and can carry out a variety of legal processes.

It is common for solicitors to charge more than a conveyancer too, due to their extensive education and qualifications. However, a conveyancer will have up-to-date knowledge and skills from their specialism to make the homebuying process as smooth as possible.

Moving in

Unfortunately, the process doesn't stop once you've found a property and exchanged contracts. You still need to move in. And that brings a whole host of practical needs and costs.

a. Expenses

Even though you've paid your deposit and fee, you may still need room in your budget for:

- Removals and packing: If you need to hire removals company, a van, or just keep the tea and biscuits topped up for helpful friends.

- Service charges: If you are buying a flat, you may have to pay monthly or yearly fees toward the maintenance of communal areas and the upkeep of the building.

- Ground rent: If your property is leasehold you may have to pay ground rent to the freehold owner.

- Furniture: The chances are your property will be unfurnished, you will need to buy some basic furniture to make life more comfortable.

So, it's important to plan and make sure that you will be able to afford to make your new place into a home once the legalities are taken care of.

b. Next steps

Once you own the property, there are a few practicalities to take care of.

First, insurance. It is vital that you protect yourself, your home and belongings. You have just parted with a lot of money to secure the roof over your head, why risk getting into financial difficulties if anything goes wrong? There are four types of insurance to consider:

- Home Insurance: This should include both building insurance and contents protection. It is wise to have these set up prior to the date that you move your belongings and self into the property. That way, your home and possessions are protected from the start.

- Mortgage Life Insurance: This type of Life Insurance pays out a lump sum if you die within the terms of the policy. A lump sum will be used to help to pay off all or some of your remaining mortgage if anything happens to you. This means that you do not leave debts behind and anyone who lives with you will not be forced out of a home.

- Critical Illness Cover: Critical Illness Cover provides a safety net in case you are diagnosed with a serious illness. If you are unable to work and provide an income for yourself and your family, the insurance usually pays a lump sum which can be used to cover living costs; including mortgage repayments, bills and any medical cost you may incur. Critical Illness Cover is usually available as an add-on product to your Mortgage Life Insurance.

- Income Protection Insurance: Income Protection Insurance provides an income in the event of illness or injury which means that you cannot work temporarily. The policy will not cover your full income, but it will make paying for living, medical and rehabilitation costs much easier.

Don't forget to update your address with everyone who needs it; that includes healthcare providers and services you use regularly. From your bank, your work, to your friends and family, lots of people will need updated contact information. It may even be wise to print handy cards which you can give out, to make it easier (especially if you haven't quite got your new postcode memorised yet!)

Now, all that is left is to make your house into a home and invite everyone round for a housewarming get together!

Enjoy your new home, you've earned it.

To find out how we help first-time buyers, click here.

Alternatively, to talk about anything covered in this guide, and more besides, don't hesitate to contact us on 0800 612 8099.

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