Teachers Financial Planning

Home buying for first time buyers

This guide gives an overview of the key considerations buyers need to make when purchasing their first home

Buying a house is one of the largest purchases you will ever make. It can be a daunting and confusing experience, so it is important that you fully understand what is involved before you take the leap.

There are several considerations that need to be taken into account and some good habits to get into before you start looking for the perfect property. This is even more important today because lenders have to follow stricter rules. This means that your finances need to be in order for you to stand the best chance of getting a mortgage, let alone a good deal.

How much can you borrow?

How much you can borrow will depend on a number of factors. Historically, lenders would offer you a multiple of your salary. These days it is worked out based on affordability but many lenders will still apply a maximum income multiple irrespective of other factors.

Lenders will look at your income, compare it to your outgoings and work out how much spare cash you have each month. They will want to see that you have a good credit history and that you do not have large outstanding debts. Any debts that you have may affect the amount lenders are willing to lend you.

Because interest rates are currently at record lows, lenders will also 'stress test' you to make sure that you could still afford the repayments if the interest rate went up to 6 or 7% for example.

Loan to value

Loan to value (LTV) refers to the amount you put down as a deposit. The difference between the 2 is the amount you are putting down as a deposit. For example, a 95% LTV means that you are borrowing 95% of the property's value and putting down a deposit of 5%.

To get a mortgage you normally need to have at least a 5% deposit. If you can put down more, you may be able to get a better mortgage deal. It is important to note that the lender will value the property themselves as part of the process and the LTV will be based on the figure they think it is worth. Therefore, if they value it as less than you have offered or are paying for it, you will either need to renegotiate with the seller or increase your deposit.

Credit rating

As well as your deposit and income, lenders will use your credit rating to ascertain how much they will lend you. Your credit rating can also affect the mortgage rate you are offered.

It is a good idea to check your credit rating before applying for a mortgage. Under the Consumer Credit Act you have a right to receive a full statutory credit report for £2. There are 3 main credit reference agencies that this can be obtained from: Callcredit Check, Equifax and Experian.

750 Mandarin Court Warrington
Cheshire WA1 1GG
08452 696990 info@teachersfp.co.uk

www.teachersfp.co.uk

If your credit rating is low, there are steps you can take to improve it, but this takes time. You will generally get a better credit score if:

- you own your own home
- you have lived at the same address for at least a year
- you are on the electoral register
- you have a good track record of paying other credit agreements such as credit cards and loans on time
- you aren't connected to people with a bad credit score
- you are employed.

If you think there's a mistake on your credit report it is important to get this rectified with the credit agency.

How do mortgages work?

A mortgage is essentially a loan that is secured on your home. This means that if you are unable to pay, your lender has the right to repossess your home to repay your debt. Unlike short term loans, a mortgage takes a long time to pay back, often 25 years.

In exchange for the loan, you pay the mortgage lender an interest-rate which will vary depending on a number of factors. Your monthly mortgage repayment will reflect:

- the interest-rate
- the amount of money you have borrowed
- repayment period length.

Most mortgages these days are repayment mortgages which means that your monthly mortgage payment reduces amount of debt as well as the interest.

Interest only mortgages have reduced the monthly repayments because you only pay the interest on your loan, not the debt. However, it is very difficult to get an interest only mortgage today.

What type of mortgage should I choose?

There are 2 main types of mortgage. The option you choose will depend on your circumstances.

Fixed rate mortgages

A fixed rate mortgage has an interest rate that stays the same for a set period of time. This normally varies between 1 to 5 years. They can offer stability because your mortgage repayments will stay the same for the period you agree. The longer you fix for, the higher the interest rate tends to be.

Variable rate mortgages

There are a few different types of variable rate mortgage but as the name suggests, the interest rate will vary. Tracker mortgages generally track the Bank of England base rate, so if that rises so will your mortgage rate and repayment. Standard variable rates, which is the rate that most mortgages defer to after a set period, also tend to track the Bank of England base rate. Discount rates are also available and offer a reduction on the standard variable rate, but these can be complex.

Mortgage schemes

The government's Help to Buy scheme is designed to help more first time buyers get onto the market. There are 2 main options:

Equity loans

These are available to both first time buyers and home movers, but only on new-build properties in England with a purchase price up to £600,000. You will need a deposit of at least 5% and the government will lend you up to 20% of the price. You will then need a mortgage of at least 75% to cover the balance.

Mortgage guarantees

These help you to buy a home as long as you have 5% of the purchase price. It can be on a new build or an older property. The property will need to have a purchase price of less than £600,000 and a guarantee it can't be used with shared ownership or equity share purchases. The government effectively insures the next 15% of the purchase price. This means the risk to the lender is less and they are more likely to offer you a 95% LTV.

What if I'm self-employed?

It's not impossible to get a mortgage if you are self-employed but you will need to have at least 1 and in most cases 2 years' of financial statements. The lender may also require more information to verify your income and affordability than if you were employed.

We can help

We can help you find the right mortgage to suit your circumstances. Please contact us to discuss your needs.