FINANCIAL AWARENESS

A quick guide to getting a mortgage and buying your new home

Most of us will borrow money to buy a property at some point in our lives. Whether you're buying your first home, buying to let or remortgaging, it's a big commitment.

Here are some key facts to help you feel more confident about your financial decisions.

The different types of mortgages

The types of mortgages vary, depending on how long the term lasts, how much you pay every month and the interest rate.

Fixed rate

The most common length of fixed-rate mortgages are two- and five year deals, where you lock in a fixed rate of interest for that period.

When you've reached the end of the term, your lender's standard variable rate (SVR) comes into effect, and your monthly payment will probably go up.

As with all mortgages, fixed-rate deals come with fees, but you may find that even if a two-year deal has a lower rate of interest than a five-year one, their fees are similar.

The benefits to this type of mortgage is knowing exactly how much your payments will be over the term.

Standard variable rate

Lenders set their own SVR which does not need to be tied to the Bank of England's base rate of interest. This makes it important to find out what their SVR is before you commit to their product. Lenders can raise their SVR at any time (sometimes when the Bank of England hints that it might raise the base rate). This could leave you with a higher monthly mortgage payment.

The benefits of this type of mortgage is that you can have lower arrangement fees than a fixed-rate or tracker deal, you can overpay or clear your mortgage without having to pay a fee, and if interest rates go down, your mortgage repayments may go down too.


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SAVE & INVEST


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Tracker rate

A tracker mortgage tracks the base rate set by the Bank of England and will add a set percentage onto that base rate (for example, the base rate plus 3%). Similar to a fixed-rate product, a tracker could offer you an introductory period and then move your rate to the lender's SVR. Some tracker products last for the entire lifetime of the mortgage term. This could translate into higher monthly mortgage payments if the Bank of England raises the base rate often.

"For most of us, buying a home will be the biggest financial decision we'll ever make."

The benefits of this type of mortgage is that its rates can be lower than other mortgage deals, they are cheaper when the base rate is low, it might be easier to overpay on your mortgage and if the base rate falls, so will your interest payments. But if the base rate goes up, some providers will let you switch to a fixed-rate mortgage without any fees.

Discount mortgages

A discount mortgage gives you the lender's SVR at a discounted rate for a set period of time (for example two or three years). Some lenders offer these mortgages with longer discounted periods but others offer them with a staggered approach.

For example, the first six months could be at a lower rate that then moves to a slightly higher rate for the remainder of the term. The benefit of this type of mortgage is that you pay lower early repayment charges compared to fixed-rate mortgage deals.

This can help to keep charges to a minimum if you decide to pay more than your monthly repayments.

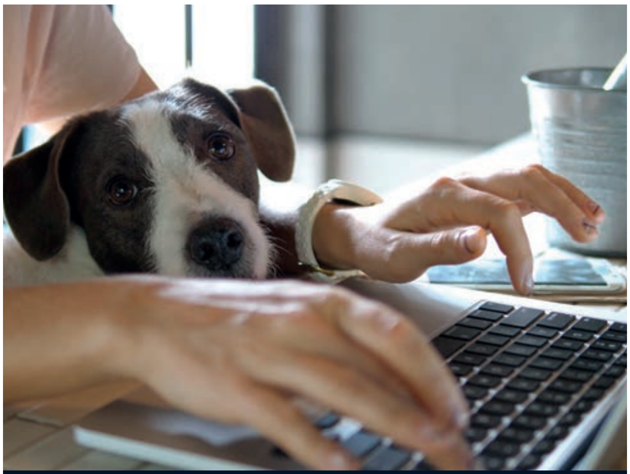
Also, you pay a lower interest rate than the mortgage provider's standard variable rate for the duration of your deal and you have the possibility of paying even lower interest rates if your provider's standard variable rate is lowered because of changes to the Bank of England's base rate.

For most of us, buying a home will be the biggest financial decision we'll ever make. Buying a property isn't just about the right mortgage; it also involves solicitors, surveys and insurance.

What are the main mortgage fees?

There are a range of fees when you're a first-time buyer or moving to a new mortgage lender, including:

- **Application fee** - To set up your new mortgage. Could also be called an 'arrangement', 'product' or 'booking' fee. This could be anything up to £2,000.
- **Valuation fees** - Lenders will carry out a valuation of the property to check whether it's worth the amount you're paying for it. Fees can be upwards of £150.
- **Surveyor's fees** - These cost around £250 and involve a surveyor inspecting the property to make sure there are no structural issues.
- **Solicitor's legal fee** - Covers the legal work to do with managing the transfer of your mortgage and conveyancing and local searches to check for planning issues. Legal fees can range from £850 to around £1,500 and searches could be around £250-300.



A brief A-Z of mortgage terms

Buildings insurance - Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.

Capital - The amount of money you borrow to buy a property.

Completion - Completion happens after contracts have been exchanged, remaining funds have been transferred from buyer to seller and the buyer receives the keys to their new home.

Equity - The amount of the property that you own outright - your deposit as well as the capital you've paid off on your mortgage.

Exchange of contracts - When buyer and seller become legally committed to the complete the sale of a property.

Land Registry - The official body responsible for maintaining details of property ownership.

Stamp duty - You'll need to pay stamp duty land tax when you buy a property over a certain price.

Five basics of buying a home

01 **Saving for your deposit**
How much cash can you afford to put down? At least 5% of the price of your new home should make up your deposit. The bigger your deposit, the better your chances of securing a mortgage with lower interest rates on your borrowed amount.

02 **Your credit rating**
Your mortgage lender will use monitoring agencies like Experian, Equifax and TransUnion to review your credit rating. If you've got a good record of keeping on top of credit card or loan payments – and using your credit limits effectively – it could help with your mortgage approval.

03 **Mortgage in principle**
Applying for a mortgage in principle – which is a letter from a mortgage lender confirming you would (in principle) be approved for a mortgage – puts you at an advantage. It shows the seller you are serious about buying and have the means and approval from a lender to buy a home.

04 **Applying for a mortgage**
If you've found a home and made an offer that has been accepted, the mortgage application can move forward. It's good to have an idea of the type of product you're after, something a mortgage adviser can help you decide.

05 **Conveyancing**
Conveyancing is to do with the legal paperwork around buying a home, from carrying out searches to putting together contracts. Speak to an adviser about finding a trusted solicitor that provides conveyancing services.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Get in touch

We are here to help you. When you get in touch with us, we will want to learn more about you, your circumstances, and your overall financial position. We'll also want to hear your thoughts on which type of mortgage you believe is right for you

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