Independent Financial Advice and Planning

HFP FIRST TIME BUYER GUIDE

UNSPLASH – M. ZIEGLER

Understanding your first mortgage

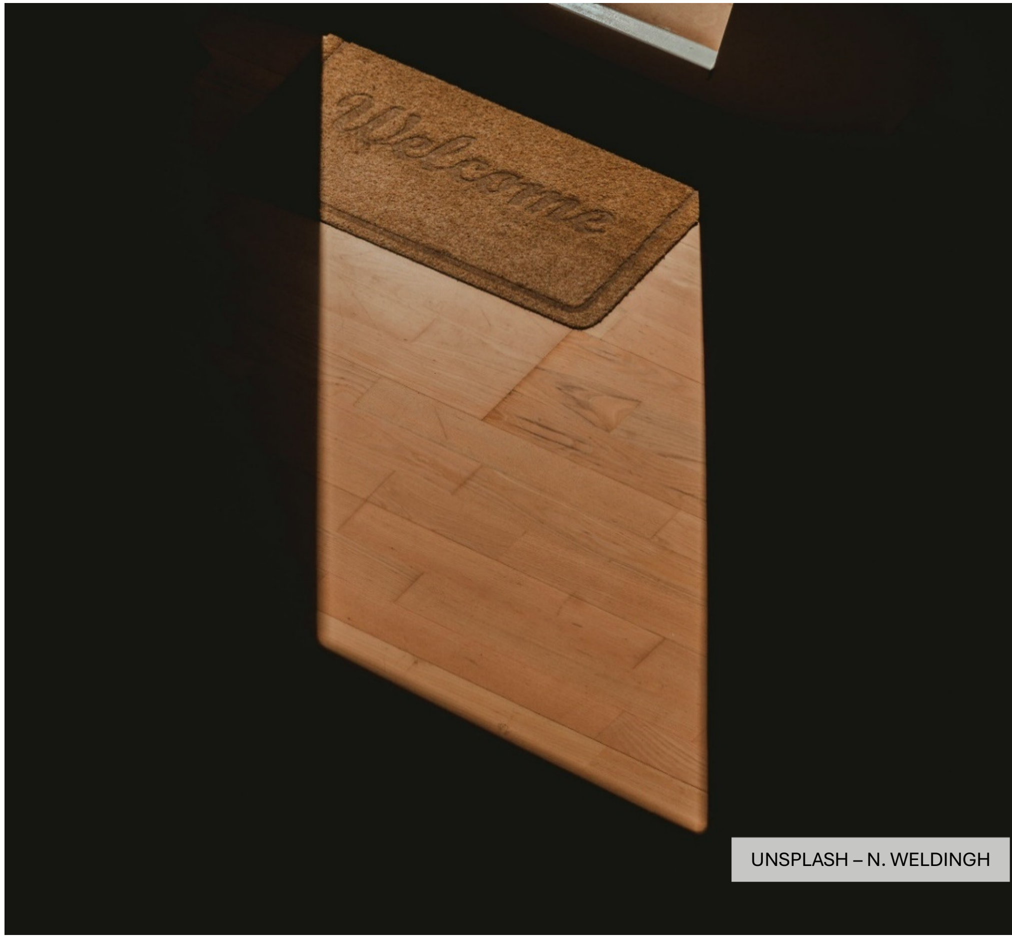
This guide is to help provide you with some basic knowledge of the house buying and mortgage application process. The process can seem complicated and confusing, and we will do our best to help you through. The guide does not cover everything, so it is important to ask your mortgage adviser and solicitor about anything you do not understand, no matter how small it may seem.

Are you ready to buy a house?

Here are some things to think about before you start the house buying process:

- Have you got some savings or a source of deposit?
- Do you have enough to cover solicitors' fees, stamp duty (if payable) and moving costs?
- Which area do you want to live in? Is this convenient for work and schools if needed?
- Are there any planning applications in that may impact the area?
- What is your budget?

Take a look at this budget planner to help you work out what you may be able to afford a month. Enter the figures to the best of your ability to understand how much money you will have left after all outgoings to pay for your mortgage.



UNSPLASH – N. WELDINGH

BUDGET PLANNER

Income	Net Monthly Amount	Notes
Salary		
Child Benefits		
Other		
Total Income		

Anticipated Household bills	Monthly amount	Notes
Council Tax		
Electric/Oil/Gas		
Water		
TV Licence		
Internet		
Mobile Phones		
Media Packs (Sky/Netflix etc)		
Home Insurance		
Home Repairs		
Total		

This is a guide only. If you have any queries, then you should contact your mortgage adviser or solicitor for further information.
Your property may be repossessed if you do not keep up the payments on any mortgage secured against it.

Living costs	**Monthly amount**	**Notes**
Food & Groceries		
Clothes		
Recreation		
Holidays		
Gym/clubs/Charities		
Total		

Car & Transport	**Monthly/Annual amount**	**Notes**
Car Tax		
Insurance		
MOT/Service		
Petrol		
Public Transport		
Total		

Other Outgoings	Monthly amount	Notes
Life Insurance		
Private Health care		
Dentist		
Childcare costs		
School fees		
Child Maintenance		
Other		
Total		

Total Income	Total Outgoings	Amount left

This is a guide only. If you have any queries, then you should contact your mortgage adviser or solicitor for further information.
Your property may be repossessed if you do not keep up the payments on any mortgage secured against it.

What is a mortgage?

A mortgage is a loan to help you buy a property. A mortgage is 'secured' on your property. This means that if you do not keep up your contractual monthly payments or repay any outstanding amount at the end of the mortgage term, the lender may be able to repossess your property and sell it to recover their losses. This is a worst-case scenario, and lenders are there to help you should you encounter any financial difficulties.

A mortgage is a loan that is usually spread over several years (up to 40). This period is known as the **mortgage term.**

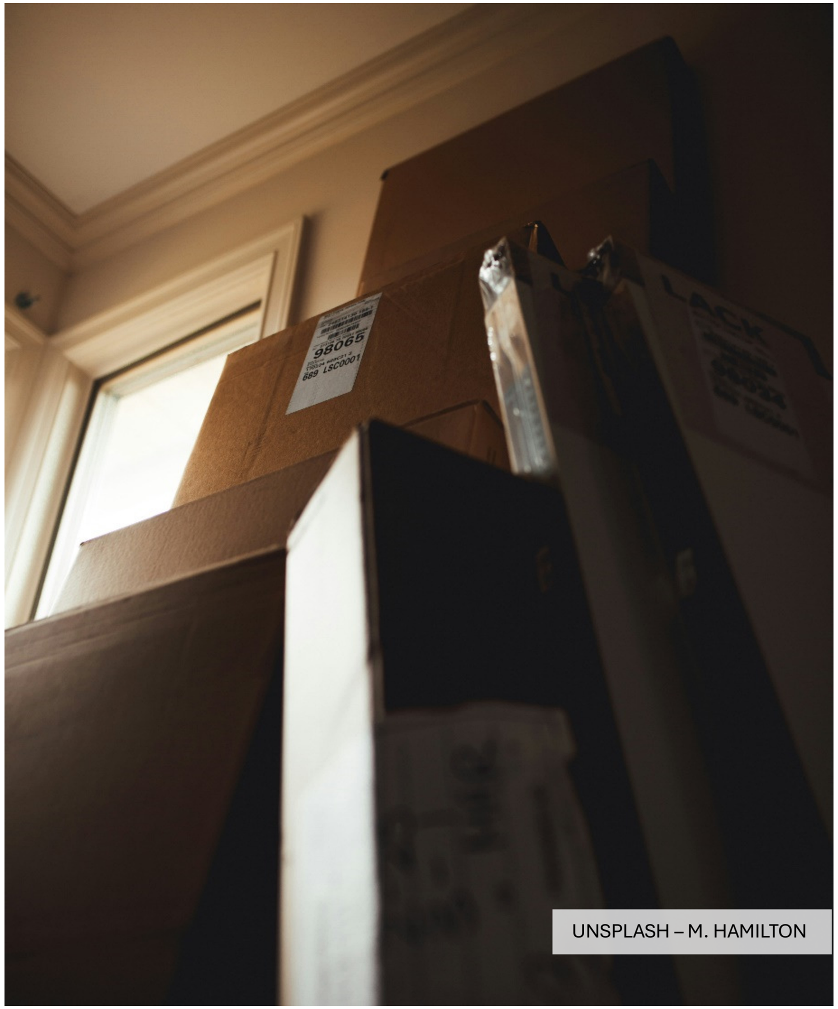
There are 3 ways to repay a mortgage:

- **Repayment** - A mortgage is normally taken on a 'repayment' basis. This means that each month you pay interest and some capital off the loan, so that at the end of the mortgage term, your mortgage loan is repaid in full. If you continue to make full payments, the loan is guaranteed to be paid off at the end of the term.

- **Interest only** - Some lenders offer interest only mortgages. This means that you are only paying the interest each month and that at the end of the mortgage term you still owe the original loan borrowed and a suitable repayment vehicle must be in place. **This is not a recommended option for most first-time buyers.**

- **Part repayment and part interest only** - A combination of repayment and interest only may also be possible, depending on criteria.

Mortgages can be taken in sole names or jointly with another person/people.



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What is a joint mortgage and how do they work?

A joint mortgage is a mortgage with more than one borrower. If one person cannot keep up with their part of the contractual monthly payments, the other borrowers must cover that person's part. All borrowers on a joint mortgage are legally responsible for paying the full amount, even if the relationship between them ends or any of the borrowers are not named on the **title deeds** of the mortgaged property.

UNSPLASH – S. MILLAR

Deposit & Loan to Value

To buy any property you will require some of your own money. Some lenders will offer mortgages with a 5% deposit, but many will require a larger deposit. Normally the bigger the deposit, the lower the interest rate you will be offered. This is because the more money the lender puts in, the higher the risk to them, should they have to repossess and sell the property.

The amount you borrow compared to the purchase price is called the **Loan to Value (LTV).** For example, if the purchase price is £100,000 and you have £10,000 deposit then you are borrowing £90,000, which is a 90% LTV.

The deposit must come from your own sources in the form of savings, inheritance or sometimes gifts. We are required to obtain proof of the deposit from you, and this will be in the form of bank statements or a gifted deposit letter from your family member. Your solicitor and estate agent may request these too.

If you are taking a joint mortgage you may wish to protect your deposit if the unforeseen happens and you must sell due to a relationship breakdown. This is recommended if the deposit is in unequal shares, or the gift is from one party's family. This should be discussed with your solicitor.

Remember you need enough savings to cover Stamp Duty (if payable) and solicitor's fees. Visit the gov.uk calculator to see how much you will to cover Stamp Duty or speak to us or your solicitor about this and their fees. https://www.tax.service.gov.uk/calculate-stamp-duty-land-tax/#!/intro

Types of interest rates

These will be explained to you in full but the following interest rates are most common for buyers.

Fixed rate - A fixed interest rate will stay the same for a set length of time. This is called a **'fixed-rate period.'** Your Offer Letter confirms when your fixed rate ends – this will be a set end date that is not always determined by when you take your mortgage out. When the fixed-rate period ends, you will normally move to the lender's variable rate. Most people secure a new fixed rate at this stage depending on their needs.

Tracker - Tracker rates are a set interest rate (called a 'margin') plus the current Bank of England base rate. If the base rate changes, your interest rate will change too, because your interest rate is linked to it. Some tracker rates have a 'floor,' which means the interest rate you are charged will not fall below a minimum rate. Your Offer Letter will tell you how your rate relates to the Bank of England base rate, confirm your margin, and if a floor applies.


UNSPLASH – C. HUME

The role of HFP as your Mortgage Adviser

We help find the right mortgage for you based on your current and future circumstances and needs. We are independent and have access to the majority of lenders, some of which are high street and many non-high street. We are not tied to any lender or network and will always work in your best interests, which usually means securing the lowest monthly payments, that are within your personal budget and meet your individual borrowing criteria.

We are authorised and regulated by the Financial Conduct Authority (FCA). FCA Registration number 477293

We will be with you through the entire process to explain and answer any queries you may have.

How does the mortgage process work?

After an initial discussion, we will send you a document request email which contains links to our privacy policy, fee structure and terms of business along with a checklist of any documents we will need.

Once you have read and agreed to the above, we will carry out a **full** meeting with you. During the meeting we will complete our **factfind** with you. The **factfind** is like a detailed mortgage application that allows us to collect all the relevant information to assess your borrowing ability. At this point we will discuss the different types of rates available, details of how much deposit you have, your expectations and affordability. We will also discuss the length of the mortgage term which will best suit your personal budget.

We will use our mortgage sourcing systems, industry contacts and experience to source the best mortgage for you. You will be provided with an **illustration, normally called a Key Facts Illustration (KFI) or European Standardised Information Sheet (ESIS**) that will give you full details of the interest rate, repayment method, term, monthly payments, and other essential information. You will also be provided with a **Suitability Report** just after applying that will outline why the rate and lender have been recommended.

We will then collate your documentation. This includes things such as **Proof of Identity & Address**, payslips or proof of self-employed income, bank statements and proof of deposit. It is important that the information and documents provided are as accurate as possible to avoid delays. Have a look at what we will need:

CHECKLIST OF THE DOCUMENTS YOU MAY NEED TO SUPPLY

- ***Passport – valid and signed***
- ***Photo Driving Licence – valid, signed and at the correct address***
- ***Utility bill dated within the last 3 months***
- ***Latest 3 months' bank statements on all current accounts***
- ***Latest 3 months' payslips***
- ***Most recent P60***
- ***Proof of deposit***
- ***2 years Tax Calculations (SA302s) and matching Tax Year Overviews (self-employed or directors of a Ltd Company)***

Proof of Identity & Address and Proof of Income, bank statements and deposit will always be required, so try to ensure your documents are up to date and registered at the address where you currently live.

UNSPLASH – E. PARIS

Putting in an offer to buy

If you have not already started to look then you will now need to find a property to buy. Most people buy using an **Estate Agent.**

The role of the Estate agent

They will be your access to view the property and act as a go between for you and the vendor (seller). You will then liaise with the agent about putting in an offer to buy the house should you decide to proceed. Before you put in an offer, the agent will normally need to see proof of deposit and an **Agreement in Principle** from a mortgage lender.

The Agreement in Principle

This is a basic agreement that is carried out with a mortgage lender. We provide limited information such as name, date of birth, address, income, and outgoings. As this point, the lender will run a credit check on you (this will normally be soft footprint on your credit file) and some lenders will employ a credit scoring system that you will have to pass. If you want to check your credit score and file before you apply, then there are several Credit Search systems you can access such as Experian, Equifax, Totally Money, many of which offer a free trial.

If you information passes the Lender's initial checks, they will produce an Agreement in Principle which means that they are happy to lend to you, subject to receipt of a full **Mortgage Application**, them seeing all your documents (which should match the information provided), carrying out underwriting checks and ensuring the property being purchased is acceptable to them.

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The Mortgage Application

Once your offer has been accepted to buy the property and you have agreed to the mortgage rate, we will submit a full mortgage application. At this stage you will also need to instruct a conveyancer who will carry out the legal work for the purchase. We recommend you contact a few conveyancers to obtain details of costs and timescales.

Once the application has been submitted, we will send you a copy of the application form. It is really important that you check this information and let us know if there are any errors. You may also be provided with a declaration from the lender. Sometimes there will be documents for you to sign but normally these are automated.

We will then send any supporting payslips and other information the lender requires. Your case will be assigned to an underwriter. It is the underwriter's job to verify all information. They will decide whether they are happy with the documentation and may request further documents.

A survey will also be carried out.

The Valuation/Survey

The lender must be happy with the property being purchased. A basic valuation will confirm the market value, address, and type of property and whether it is **freehold or leasehold**. There are several factors that can cause a lender to decline a property. These can include construction type, lease issues (on flats), location and vicinity to commercial properties, structural issues, whether there has been any flooding, or other defects.

The lender's valuation is normally free or for a small cost and is carried out to check the property is suitable for mortgage purposes. This will either be an AVM (Automated Valuation Model based on info on various systems), a drive by, or a physical survey where the surveyor visits the property. The lender's survey is not intended for the customer, and it is strongly recommended that you research instructing a more in-depth survey.

There are local companies that can provide more information and quotes on the types of survey available, and some lenders will offer a more in-depth survey at the point of application for an additional cost. Sometimes a surveyor may find issues with the property. They may insist that you obtain more information regarding the areas of concern (i.e. if damp is found then a Specialist Damp & Timber report will need to be obtained).

In rare cases, the surveyor may insist the lender holds back money until works have been completed. This is called a **retention.**

Freehold or leasehold

Most houses are freehold, which means that the property and land is yours to own until you sell.

Most flats are leasehold, which means that the flat is yours to own for a fixed term, but the land on which it stands is not owned by you. A leasehold property can be more complicated to deal with and you may be charged more by the solicitors for conveyancing on a flat.
If you are purchasing a leasehold property, it is important to try to find out accurate information such as the term of the lease plus the monthly **ground rent and service charges**. These payments can impact affordability and even whether a lender will be happy with the property.

We can explain this in more detail if required.

UNSPLASH – E. ESTREMERA

UNSPLASH – S. KARIMI

The Mortgage Offer

Once the lender has assessed the application, valuation report and supporting documentation and have decided they are happy with everything, they will issue the mortgage offer.

The mortgage offer contains full details of the loan and terms attached to it. This is a particularly important document that you should read and discuss with us. A copy will be sent to you, us, and your solicitor. The solicitor's offer will be more in-depth as they then must take on the next steps to ensure that all legal steps are taken.

The Legal Process

The **conveyancer/solicitor** is responsible for the legal side of the purchase. You instruct them and pay them directly and they act for you. They will carry out searches on your property such as local authority and flood searches and raise any queries with the vendor's solicitor for you.

They will help advise you whether to own the property as **joint tenants or tenants in common**. This will depend on your circumstances. They will draw up the legally binding contracts and sort out exchanging of contracts and completion and will also register the **title deeds** with Land Registry on completion.

You must have Buildings Insurance arranged to start on the day of exchange.

Once you have exchanged contracts you are legally bound to purchase the property. If you pull out after exchanging contracts, you may lose your deposit and be responsible for other costs.

Completion day

On completion day, the solicitor will pay your deposit money plus the mortgage money to the vendor's solicitor. They will also pay your Stamp Duty if applicable. Once receipt of funds has been confirmed, completion has taken place, and you will be able to pick up the keys from the estate agent or vendor. Here are some of the things to prepare for moving day and beyond…

Moving House Checklist

- Get a Removal Company/Van Booked
- Sort Buildings & Contents Insurance (should start on exchange of contracts)
- Pack a box of essentials for the first night
- Redirect your post to your new address
- Change your address with all providers such as your bank, driving licence, doctor, dentist, supermarket deliveries etc.
- Register for council tax and to vote
- Contact all energy providers to arrange your tariff and make sure you take meter readings
- Sort out an internet provider
- Arrange a TV licence

Paying the mortgage

The mortgage lender will write to you soon after completion with full details of the first and subsequent payments. The payment will be taken by Direct Debit from the account you have provided during the application process. Please note the first payment may be higher than subsequent payments depending on which day in the month you complete and due to interest accrued.

Once the mortgage has started, you will have to liaise directly with your lender if you have any queries as they will only deal with you once the mortgage has started.

UNSPLASH – P..M. MONTES

Changing interest rate?

You can apply to change your interest rate to another one that is available to you prior to completion, normally without fee or any other changes.

Once your mortgage has started and you want to change interest rates, you might have to pay an early repayment charge.

If you took a fixed rate mortgage, then we will contact you up to 6 months prior to the end of the fixed period to discuss new rates.

What is an early repayment charge (ERC)?

If you make a lump sum repayment, repay your mortgage in full, or change your interest rate before your current rate period ends, you might have to pay a charge. This is called an 'early repayment charge.' The charge is usually a fixed percentage of the amount you repay, and the percentage does not change during the period that it applies. Your Offer Letter will explain when an early repayment charge applies and will confirm any limits to the lump sum repayments you can make each year before you would have to pay one.

UNSPLASH – B. BLUM

Fees, costs, charges, and expenses

As well as paying interest, you might also have to pay certain fees, costs, charges, and expenses.

You might need to pay fees when you take out your mortgage. You will need to pay these fees upfront, other than the product fee (if there is one) which can be added to your mortgage. If you choose to add a product fee to your mortgage, the lender will charge interest on it. Your Offer Letter will explain the fees payable and confirm if a product fee has been added to your mortgage.

You may have to pay a mortgage exit fee if:
- Your mortgage is repaid in full;
- You transfer the loan to another lender;
- You transfer borrowing from one property to another; or
- You add or remove a borrower from the mortgage.

What if you cannot make your contractual monthly payments?

Prior to completion, if your circumstances have changed, or you believe they might, please contact your mortgage adviser immediately.
If the mortgage has already started and you are worried you cannot afford your contractual monthly payment, then call your lender and they will be able to help.

Buildings Insurance

It is important you have buildings insurance for your property. If anything happens to it, you will still need to repay the amount you the lender. The insurance policy must meet the Mortgage Conditions to make sure it covers a claim for the property to be fixed or rebuilt. Building's Insurance should be in place to start on the day you exchange contracts.

If your property is leasehold and your landlord is responsible for insuring it, you must make sure they do this.

Buildings & contents insurance can be arranged via comparison websites or an insurance broker.

Life & Other Insurances

We will always discuss this with you to help ensure that you are covered if the worst were to happen, and we can arrange this on your behalf.

Can I rent my property out?

Sometimes circumstances change and people need to let out their main residence. If you find yourself in this situation, before renting your property out, you will need to speak to the lender to see if they will grant you 'consent to let' or 'permission to let.' There may be fees or changes to your rate if you proceed on this basis.

What if I want to move?

If you want to move house but you are still within your initial rate and subject to early repayment charges, then you may be able to **'port'** your mortgage. This means you can take the rate with you to your next property and the Early Repayment Charges will either not apply or only be partially payable.

Porting is not always possible, and you must fit the lender's criteria at the time.

Your home or property may be repossessed if you do not keep up repayments on your mortgage.

UNSPLASH – T. HEFTIBA

USEFUL RESOURCES

https://www.hfp.co.uk/
https://www.equifax.co.uk/resources/mortgage/resources-for-first-time-buyers.html
https://www.experian.co.uk/
https://www.moneysavingexpert.com/first-time-mortgage/
https://www.gov.uk/stamp-duty-land-tax/residential-property-rates

Sources used to help create this document:

https://intermediaries.uk.barclays/content/dam/intermediaries-uk-barclays/pdf/useful-documents/residential/Understanding%20your%20Barclays%20residential%20mortgage.pdf
~pages 6, 7, 15 of the guide have wording from Barclays FAQs~
https://www.halifax.co.uk/mortgages/help-and-advice/first-time-buyer-guide.html
https://www.nationwide.co.uk/mortgages/first-time-buyers/guide/
https://www.santander.co.uk/personal/mortgages/new-customers/first-time-buyers/buying-your-first-home-guide/

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