A guide to first-time buying

LIFT- Mortgages

Introduction

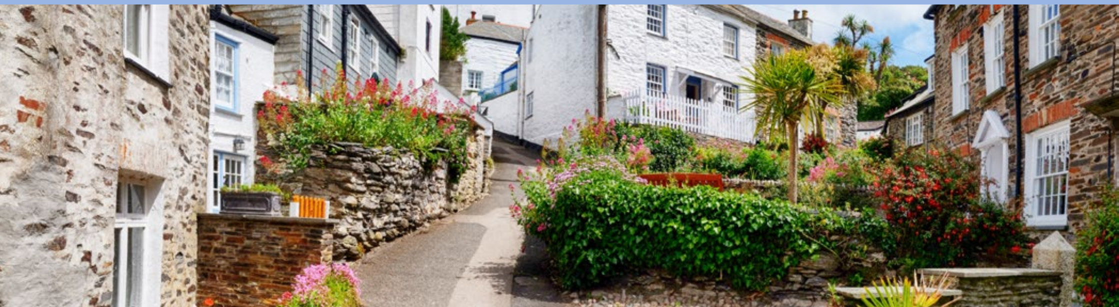
Buying your first property can seem like a daunting task. In reality it can be a simple transaction. This guide will walk you through the process.

There are many factors that can influence which mortgage is right for you. The key points are:

- The amount you want to borrow
- The deposit you have saved
- The term over which you wanted to borrow the money
- Your employment status and the way in which you are remunerated
- Your time in employment
- Your credit score
- Your nationality and time spent living in the UK
- If you plan to use a government backed scheme or not
- The type of property you plan to buy

All of the above will influence which lender is right for you.

We recommend you use a broker who is whole of market and independent, this will give you access to a wide variety of lenders..



The mortgage process

1

Make contact with a broker prior to viewing any property. They will establish if you can get a mortgage, how much you can borrow, advise on the term and type of product and send you early stage illustrations.

2

Review those illustrations and make sure you're comfortable with the terms and conditions.

3

If you're ready to start viewings, your broker can arrange an agreement in principle (AIP). An AIP involves giving the lender some personal details and asking them if they would provisionally lend to you. These agreements are typically valid for 60/90 days.

4

Once you make an offer on a property and it is accepted, contact your broker. You will also need a solicitor at this stage.

5

You'll provide your broker with ID, proof of address and proof of income and your application will be submitted to the lender. An underwriter will review your case and when signed off, a survey will be arranged on the property.

6

The lender sends an independent surveyor to your potential property to establish the value and make sure it's acceptable for lending purposes.

7

Once the survey is back and OK, you receive a 'formal offer' from the lender. The main work of the broker is now complete but a good one will be on hand to support you through the rest of the process.

8

Once legal work is completed, the solicitors organise exchange of contracts. This is when the deposit is sent and the seller's solicitors send a signed contract to confirm sale. **This is the point of no return in the process.**

9

Typically a day or week later, the sale 'completes' which is when you receive the keys.

Frequently asked questions

How much can I borrow?

This depends on both your income and your expenditure. Lenders look at the costs of your commitments, such as credit cards, loans, school fees and childcare costs. Once a lender has deducted your annualised outgoings from your income, you are left with a "true income" figure. The amount that can be borrowed varies greatly from lender to lender, but typically it's about 4.5 times your true annual income figure.

How much deposit do I need?

Different lenders require different amounts. The minimum in the market currently for a first-time buyer mortgage is 5% of the purchase price.

Each additional 5% you can put down against the property will help to reduce the interest rate at which you can borrow the money.

What does loan to value (LTV) mean?

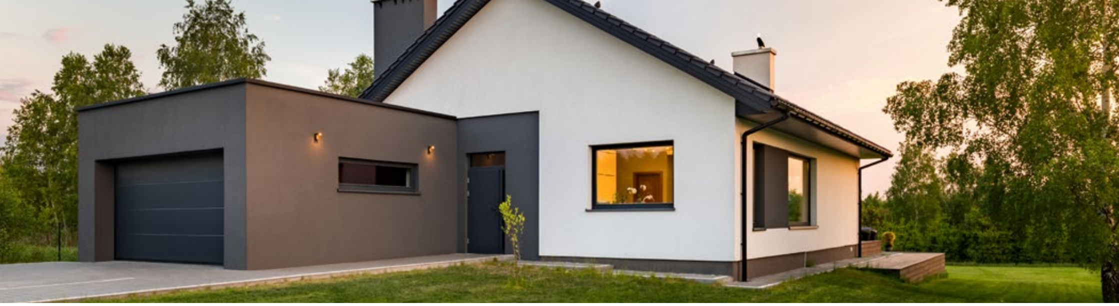
Loan to value is key to the rate you will pay. Simply put, it's a way of working out how much of the property you own and how much the bank owns. For example, if you buy for £500k and put down a £50k deposit then the LTV is 90%. In order to get a better rate you would need to put down a £75k deposit as this is then 15% of the value meaning an 85% LTV. Each additional 5% makes a difference to the rate you borrow as the risk to the lender is lower.

Over how many years can I borrow money?

This is largely determined by your age and the age you tell the lender you plan to retire. As a rule, you can borrow to the age you plan to retire at or to age 70, whichever comes first. The maximum term with the majority of lenders is 35 years.

What is the best way to pay back the money I owe?

For the vast majority of people, a repayment method mortgage (also known as capital and interest) is best and any loan above 75% LTV will need to be on this basis. Simply put, this means that over the agreed number of years, you will pay back all the base loan amount (the capital) and all the interest owed. For a small number of high-net-worth clients, interest only or part repayment and part interest only mortgages may be an option. With these types



of products you only ever pay back the interest and not the capital. This makes them cheaper than a repayment mortgage as the balance is never reduced and it is your responsibility to pay back the capital at the end of the term.

What products are there in the market and what is right for me?

The two main types are fixed-rate and tracker rate mortgages. A fixed rate gives you a fixed payment for a set period of time, whereas a tracker follows a rate (usually but not always the Bank of England rate) up and down so payments can vary. The main fixed-rate lenders are for two, three, five and ten years and the tracker lenders tend to be over two and five years.

Each case is different and your broker can advise on the right mortgage for you.

What other costs are involved?

You will need money set aside to cover legal work, the survey and stamp duty. You should also keep back an amount of cash readily available to cover everyday emergencies when you move in.

Can I pick the surveyor that surveys the property?

No. The lender wants a completely independent survey, so they will not allow you to choose the surveyor. The lender will always organise the survey. You can, of course, have another survey done, but this often creates double the expense.

How long do I need to have been in my employed role for?

Some lenders offer day one lending, so there is no minimum time in employment. Probation periods can be an issue for some lenders but not for others, so a new job will not usually prohibit you from getting a mortgage.

Will a lender take all my income into account?

Basic salary is always taken into account at 100% of its paid level. Some lenders include bonus, overtime, commission, car allowance, large town weighting and shift allowances but typically at about 50%. Most lenders want to see annual bonus over a two-year period before they will lend against it.

Frequently asked questions (continued)

What if I am a contractor?

Assuming you have a track record as a contractor in the same line of work as your current contract then this should not create any issues.

How long do I need to have been self-employed for?

The vast majority of lenders want between two and three years accounts. There is currently one lender that will lend on the basis of one year's of accounts. Most use a two or three-year average when working out what they will lend but there are several lenders that work off the latest year's figures. Some will also lend against profits retained in the business, which can work well for clients that choose to pay themselves a small dividend for tax reasons.

I am not a UK National / I have not lived in the UK for the last three years. How does this affect me?

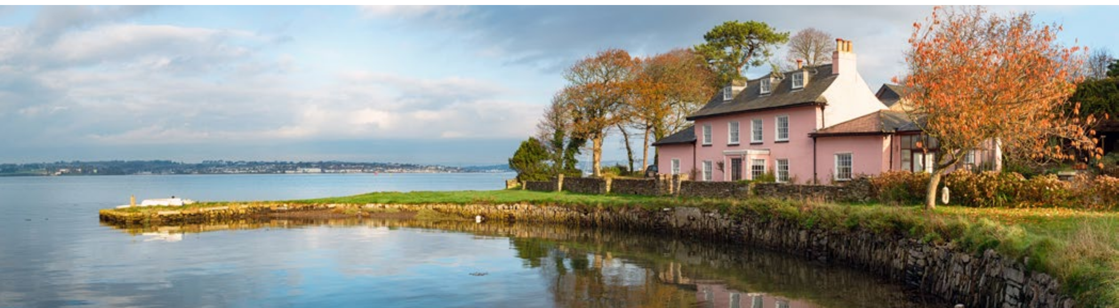
If you are an EU National, then limited time in the UK shouldn't be a problem as long as you can pass a credit score. Many of our clients are European citizens and it rarely creates an issue. If you are here in the UK on a visa there are fewer options available to you but there are some that will lend on a case by case basis.

I am on maternity leave – is this an issue?

Rarely. Lenders generally want to know when you plan to return to work and most lenders will lend against your pre-maternity income. A lender will want to know your future childcare costs. If you don't plan to go back to work, then a lender will not allow you to borrow against your income.

I have had credit problems in the past. Can I still apply for a mortgage?

A lot will depend on how bad the credit issue is and how long ago as it was. As a rule, most lenders tend to base decisions on a computer-based credit score, but there are others that will look at a case on its merits. Honesty is the key and if you have doubts about your credit score, you should obtain a credit report before you consider applying to a lender.



Once I have my agreement in principle how long is it valid?

An agreement in principle tends to last between 60 and 90 days depending upon the lender.

If you go past this validity period, it does not generally create issues, but it does mean asking a lender to credit score your application again.

What type of properties do I need to be wary of?

Unless you plan to use the Government's home equity loan scheme, then new build flats require a deposit of at least 15%. Lenders can be reluctant to lend on flats above shops, flats with a shared communal balcony, ex-local authority flats, high-rise blocks and properties of non-bricks and mortar construction. With the exception of new build flats above 85% LTV, a mortgage can be found for most properties. Let your broker know if you are looking at any of these types of properties, as it may mean you need a specialist lender. You may also want to think about the long-term saleability of these types of properties.

What is the minimum lease acceptable to a lender on a leasehold or share of freehold property?

This varies from lender to lender. Some want a minimum of 25 years on top of whatever period you choose to borrow the money over. In real terms, you need to be careful of leases with a relatively short period left to run.

There is no set answer for how long is too short a period but anything less than 70-75 years could be a concern.

You would need to discuss this with your solicitor. Share of Freehold can be confusing, but it is in effect a leasehold property as there is a lease in the background.

Is it OK my deposit is coming in full or in part from a gift?

If the gift is a true gift and not a loan, then this is fine. If the giver expects the payment to be re-paid or they expect to own part of the property, then this is generally not accepted.

Can I borrow the money for Stamp Duty from the lender

No, you cannot. You may be able to put down less deposit subject to the LTV. The deposit you don't put down can then be used to cover stamp duty.

Frequently asked questions (continued)

Can I use a guarantor to secure a mortgage?

There are very few lenders that accept guarantors. As a rule, they are only used where the client cannot borrow the amount they need to. Guarantors can work well when the guarantor is a younger parent and with a high income and little or no debt. Most lenders restrict the term you can borrow over based on your guarantor's age, so in practical terms, this can make the repayment unaffordable. Guarantors need to be parents or step-parents.

I am buying with a friend. Can one party own more of the property than the other?

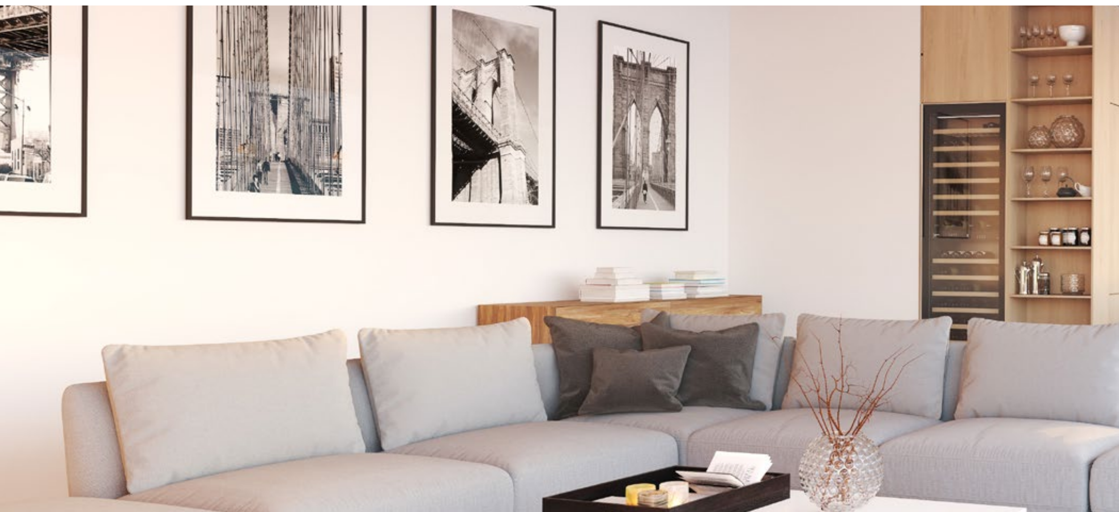
In the lenders' eyes, the debt is joint and you are both responsible equally for the debt. However, legally you can have the property allocated as you see fit, e.g. 70% – 30%. This is arranged with your solicitor, who will give you advice about this course of action.

I owned property a few years ago / I own property overseas. Am I a first-time buyer?

This varies lender to lender. Being a first-time buyer in real terms has very few practical benefits with the vast majority of lenders. Overseas property does not tend to create an issue as long as the mortgage payment is not costing more than the rental income a client is receiving.

I am buying a new build or an off plan property – how does this work?

Mortgage offers are only ever valid for a maximum of six months. If the property is not ready for occupation within the following six months then an agreement in principle (AIP) would be obtained to make sure there are no potential issues. Another AIP would be needed when you are within six months of completion. Builders may want a deposit from



you to secure the property up to a year in advance. This is paid at your own risk.

Can I pay back more than the lender is asking for each month or year?

With the vast majority of mortgages you can pay back an additional 10% of whatever you owe each calendar year without charge. This will typically reduce your mortgage payment for the following month.

You can usually overpay using either regular and/or lump sum overpayments as long as you don't exceed 10% a year.

If you want to pay back more than 10% of what you owe in any given calendar year, please mention this to your broker as there are other product options.

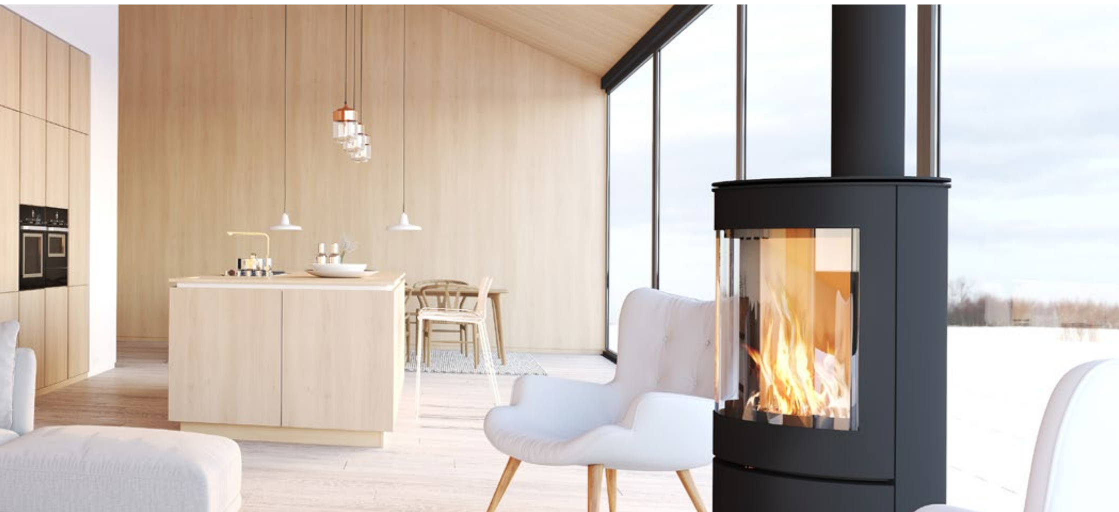
What if we want to move during our fixed or tracker period?

Most lenders allow you to move a mortgage to a new property during your fixed or tracker rate periods. However, take advice before proceeding.

Once the mortgage completes what happens next?

The lender will write to you once you move in to confirm your first payment. The first payment is usually a little more or less than agreed as you are unlikely to move in on the same date as the direct debit is taken.

Three months before your deal ends your broker should make contact with you to look at your mortgage options again.



Top tips for buying a home

Get your Agreement in Principle (AIP) done before you start looking at houses. This way, you know how much you can borrow and the house price you can afford before you start viewing properties.

Ideally, get an AIP **before you speak to estate agents**; otherwise, you may need to see the agents' in-house broker. If they know your top level of borrowing, it can be harder to negotiate on price when you find a house.

Consider paying off debts before you apply. This can increase your ability to borrow and should give you more disposable cash before you move in.

If you have doubts about your credit score then get a credit report before speaking to a broker. It will save time when sourcing a lender.

Make sure you are on the **electoral roll** at your current address as this is one of the key factors for your credit score.

Make sure your bank statements go to your current address and not a previous address.

If you are employed, get your last three months' pay slips, three months' bank statements and three years' proof of bonus if applicable in a ready to send format as a lender may ask for this.

If you are self-employed, order your last three years SA302s from HMRC. These can take a few weeks to arrive and they are essential as are accounts from the past three years.

To talk to us about your situation, contact LIFT-Mortgages on **0161 929 2613** or at **info@lift-financial.com** You'll find us helpful, professional and never pushy.

Experts you can trust

Arranging a mortgage isn't just about ticking boxes. Many of the clients we help have second homes, buy-to-let properties, above average loan values and bonus income which can all make an application more complex. We deal with situations like these daily, so we can find and arrange a deal that suits you. We help you through the process from pre-application right through to having the keys in your hand.

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LIFT go above and beyond in assisting us and are always quick in their response to any queries that we have.

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