the surrey mortgage broker

BUYERS GUIDE
TO MORTGAGES

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Introduction

Buying for the first time, moving house or remortgaging can be a daunting and scary , not to mention stressful experience. We know we've been through it ourselves!

Not only is there the heavy responsibility of imminent home ownership, but there is also a minefield of information to navigate your way through. Sometimes it seems that everyone involved is speaking a whole different language to you!

That is why we thought we'd help you out a bit and put together this mortgage guide for you, the buyer! In it we hope we explain some of the things you can do to prepare for getting a new mortgage and unravel the confusing tangle of searching for the right mortgage for you. We even translate some of those foreign house moving words that you'll hear for you.

Take your time, read it through, and if you need any more information or any questions answered, then please give us a call on 01252 759 233 or drop us a line info@thesurreymortgagebroker.co.uk. We'd be really happy to help you!

Good luck!

Look at the pennies

Can I afford a mortgage?

Historically, how much you could borrow for a mortgage was based purely on what you earned. However, nowadays lenders look at your outgoings as well as your income. They want to be sure that you can really afford to pay the mortgage each month, and will still be able to pay it if things were to change (eg interest rates go up).

If you are thinking about buying a house and are wondering whether you can afford it, the following monthly spends are worth considering:

Outgoings:

- Utility Bills (Gas / Water / Electric / Phones etc)
- Childcare
- Credit Cards
- Other loans
- Insurance (Car / Medical / Travel etc)
- Living costs (Food / Car expenses / Petrol etc)
- Leisure activities (Gym / Meals out / Cinema etc)
- Household (TV licence / Broadband / Sky)

Think about how you are going to pay your mortgage if you get sick, lose your job or if interest rates go up. Make sure that you have enough spare cash to still cover your repayments.

Also keep in mind your credit rating. Lenders will look at your credit history, and will want to know if you have ever defaulted on other payments, your existing credit agreements, if you have any County Court Judgments against you or have ever been declared bankrupt.

Budget Planner

Complete this budget planner to help you work out what your monthly outgoings are.

Coming In

Salary Applicant 1	£
Salary Applicant 2	£
Child Benefit	£
Working or Child Tax Credit	£
Total (A)	£

Continue to next page

Going Out (B)	Applicant 1	Applicant 2	Joint
Mortgage / Rent / Board	£	£	£
Council Tax	£	£	£
Water	£	£	£
Electricity	£	£	£
Gas	£	£	£
Home Phone / Broadband	£	£	£
TV License	£	£	£
Loans	£	£	£
Credit Cards / Store Cards	£	£	£
Hire Purchase / Lease / Car Finance	£	£	£
Bank Charges / Monthly Fees	£	£	£
Exsisting Protection Policies (Life, CIC, Income Protection, ASU, Endowments)	£	£	£
Other Insurance Contracts e.g. Buildings & Contents, Car Insurance etc.	£	£	£
Food	£	£	£
Alcohol & Cigarettes	£	£	£
Clothing	£	£	£
Saving Plans	£	£	£
School Fees / Education Fees	£	£	£
Travel (i.e. Car)	£	£	£
Commuting	£	£	£
Entertainment Social	£	£	£
Holidays	£	£	£
Pet Insurance	£	£	£
General Household Maintenance	£	£	£
Childcare / Maintenance Payments	£	£	£
Other Items	£	£	£
Total Monthly Expenditure (B)	£	£	£

Total Coming in (A) – Going Out (B) = £

Remember whatever is left over will have to cover:

- **Your monthly mortgage payment**
- **Your life insurance**
- **Your Buildings and contents insurance**
- **Your Council Tax**

What is it going to cost me?

It's good to have a full idea of what costs are involved when buying a house, so that you can budget for them, and there are no nasty surprises! Below are the main costs you will face.

Deposit

Hopefully you will have managed to save a deposit towards your house. Remember that the bigger deposit that you manage to find, the lower the amount you will have to borrow. A larger deposit will more often than not let you find a more competitive mortgage rate.

Solicitors Fees

You will need to find a solicitor or conveyancer to handle the legal side of your move. They will also conduct the local searches, amongst other things for you. This can vary depending on where you live, so make sure you speak to the solicitor to confirm costs.

Stamp Duty

Stamp duty is the tax that has to be paid when you buy a property or some land. The rate varies according to how much you are paying and ranges over 5 bands from £125,000 to £1,500,000 and above. You pay the tax only on the portion of the purchase price that falls into that band.

PURCHASE PRICE	STAMP DUTY RATE ON THE PORTION ONLY
Up to £125,000	0%
£125,000.01 – £250,000	2%
£250,000.01 – £925,000	5%
£925,000.01 – £1.5 million	10%
Over £1.5 million	12%

For example stamp duty on a property priced at £300000, would be calculated as follows:

First £125,000 - no liability

£125,001 to £250,000 - £2,500 (2%)

£250,001 to £300,000 - £2,500 (5%)

Total Liability £5,000

Fees for the mortgage

Here is a list of commonly charged fees that you will come across when taking a mortgage:

Arrangement Fee

Normally added to the mortgage this will be charged by the mortgage lender for arranging the mortgage.

Booking Fee

Not always charged but usually an up-front fee to reserve the mortgage at a particular rate.

Valuation Fee

Mortgage Valuation fee is paid to the lender so they may appoint a surveyor to carry out a valuation of the property to ensure it is suitable security for them. This is the most basic type of valuation but you could go for:

Homebuyers Report

More detailed report carried out by a surveyor giving indications as to potential works that may need to be done to the property. Will be more expensive than a valuation report.

Structural Survey

Sometimes called a building survey, this is the most comprehensive of reports that can be carried out. More expensive than the Homebuyers Report.

Broker Fee

Some mortgage brokers will charge a fee to arrange your mortgage.

Mortgage Redemption Fee

Charged when you pay off your mortgage either at the end of the mortgage term or if you move your mortgage to another provider.

Electronic Transfer Fee

This is the cost charged by the lender to transfer the funds needed for your purchase from them to your solicitor (and in turn the seller).

Removals

You will need to make arrangements to move all your belongings into your new abode (unless it will all fit in a mates van...)

Getting prepared

What shall I look for in a property?

Before you go and view any properties, it is worth having a tick list in your head (or on paper!) of things you want to find out about each property. This will help you rule out those that aren't right, and compare those that make the shortlist! Get your ducks in a row!

Viewing Checklist - Think about asking yourself:

- Is there enough Car Parking?
- What are the Council Tax Rates?
- What is the Neighbourhood & Surrounding area like?
- What condition is the property in?
- Does it have Double Glazing?
- Does it have central heating?
- Is it big enough?
- Is there enough storage?
- Are there any development plans for the area?
- Is it near any flight paths or railway lines?

You've found the house for you so it's a good idea to get everything in order before you apply for a mortgage. This will make the process as smooth and quick as possible!

Things that are handy are:

- Proof of Deposit – Collect your statements showing your savings and how they have built up
- Electoral Roll – Make sure you are on it!
- Credit Rating – Try a free trial to find out your credit rating through companies like Experian, Equifax or Call Credit. Or get in touch with us, and we can help.
- Payslips – You will need a minimum of 3 months worth.
- P60's – For the last tax year if you have them available. If you get regular commission or annual bonuses then you might need to provide more payslips and P60's to show this.

It's a jungle!

What types of mortgage are out there?

Take a look at the different mortgages available. Have a read through and see which one appeals to or you think suits you best!

Standard Variable Rate

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
Normally if you take a mortgage deal (e.g. a two year fixed rate) then once the deal is up you will revert to a lenders' standard variable rate. Each lender's SVR is different. Generally if you are on the standard variable rate then there is every chance you could save money by switching your mortgage to another lender.	This usually applies to those whose mortgage deal has finished and don't want to get another one just yet.	The lenders SVR could be based on the Bank of England base rate. If this falls or stays the same, then so will your repayments There is normally no charge to leave this mortgage More often than not this rate will be higher than the deal you will have been on. Although some lenders base their SVR on the Bank of England. Many do not. Consequently a fall in the Bank of England Rate will not translate into lower repayments, but a rise most certainly will!

Fixed Rate Mortgage

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
The rate of interest that the lender will charge will remain fixed for a pre-defined length of time. This could be anything from one year to 25 years	Those who want to know exactly what they'll be paying each month	Easy to budget, as you know exactly what will come out of your bank each month. The longer the fixed period offered, the higher the interest rate offered is likely to be. It is common for mortgage lenders to charge exit penalties (early redemption charges) during the time of the fixed rate but once the rate has finished those exit penalties normally stop

Tracker Rate Mortgage

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
Often called a "base rate tracker" these mortgages follow the Bank of England Base Rate. The base rate is controlled by the Bank of England and they meet every month to discuss what to do with it (increase, stay the same or decrease it) There is usually a difference in interest rates between what you are charged by the lender and the Bank of England. This is often called the differential. For example if you take a base plus 2% tracker then you will pay 2% above the Bank of England rate. So for example if the Bank of England rate is 0.5%, using this example you will pay 2.5% interest on your mortgage. Another common tracker deal is a lifetime tracker where you would pay the same differential over the base rate for the life of your mortgage.	For those who want to pay less when the interest rates are low, and willing to take a risk that the rates might rise.	If the Bank of England base rate falls, then your rate is likely to fall, and in turn you will pay lower monthly repayments. There are some tracker deals available where you are offered a really good rate for the early part of your mortgage. Beware though, as it is common for the lender to charge exit penalties (early redemption charges). There will probably be a "floor" rate that the lender will not go below, regardless of what the Bank of England Rate is doing.

Discounted Rate Mortgage

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
Similar to a tracker mortgage this type of mortgage deal may fluctuate in rate and is normally offered as a discount from the lenders' standard variable rate for a period of time. For example if a lender has a standard variable rate of 4.84% and offers a two year 1.85% discount then you will pay 2.99%.	For those who want to pay less when the interest rates are low, and willing to take a risk that the rates might rise.	Lower repayments at the beginning of the mortgage, during the discounted period. If the lender decides to reduce their SVR, then your repayments will fall too. There may be early redemption charges if you choose to leave before the discounted period is over. It could fluctuate

Capped Rate Mortgage

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
A working example is a tracker with a differential of 2% over base means you pay 2.5% (if Bank of England base rate is 0.5%) with a cap of 4% for 2 years, this means that should the Bank of England base rate rise then so will the rate you pay until you reach 4% at which point your mortgage rate will stay not rise any more until the two years are up. You may also come across the term "collar" which means the rate you pay will not fall below a certain level.	For those who want to pay less when the interest rates are low, and don't want to pay above a certain level when they rise.	The interest rate won't rise above a certain level, so in theory they should always be within your budget! More often than not you will be charged exit penalties (early redemption charges) during the period of time your mortgage is "capped". The "Cap" rate will usually be higher than the lender's fixed rates.

Offset Mortgage

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
These types of mortgage are useful if you are not sure how much money you need to borrow, if for example you are undertaking a building project a flexible mortgage may allow you to borrow up to a certain level of your property value to fund the project.	Those who have decent amounts of savings, that are unlikely to decrease in amount during the term of the mortgage.	Paying less in monthly repayments by offsetting against your savings may allow you to repay your loan earlier than expected You still have access to your savings They can be quite flexible, some lenders will let you offset against your current account too. The interest rates on these types of deal tend to be higher than on more typical mortgage products. Early repayment charges may apply You need to save money for this to work.

Flexible Mortgage

HOW IT WORKS	WHO'S IT FOR	THINGS TO CONSIDER
As a rule the more flexibility you want the more you will pay in interest. These types of mortgage are useful if you are not sure how much money you need to borrow, if for example you are undertaking a building project a flexible mortgage may allow you to borrow up to a certain level of your property value to fund the project. Generally speaking a flexible mortgage will allow you to overpay the mortgage without penalising you. You may also be able to "borrow back" money you have paid previously	Those who like to overpay when they are in a position to do so, but might find themselves with a need to adjust their payments at times.	The flexibility it allows you, paying extra when you can & cutting back when you can't. As the name suggests they are flexible but you will pay a bit more in interest. You can "borrow" back the money if you need to. You are often given a pre agreed mortgage limit that you can borrow up to (depending on what you can afford).

Hmmm Interest only or repayment?

Repayment Mortgage

The majority of mortgages are set up on this basis and you might also hear it be called a capital and interest mortgage.

It works in a simple way - you borrow money from a lender and you agree to repay that money over a number of years.

Each month you will pay interest on the money you owe and you will also repay some of the capital (the money you borrowed in the first place). This means that, providing you meet the monthly repayments, the mortgage will be repaid at the end of the agreed term.

Interest Only Mortgage

This type of mortgage, as the name implies, means that as a borrower you only pay interest back to the lender on the money that you have borrowed. Therefore as you are only paying interest on the mortgage, at the end of the loan the lender will not get back any of the money they have lent you.

In this instance you will need to have a "repayment strategy" (ie a way of making sure you can pay the whole amount at the end of the loan) to ensure the lender gets their money back. There are varying options depending on your circumstances and this type of mortgage should only be undertaken after receiving the appropriate kind of advice.

Speak the lingo

There are so many confusing terms that you will hear when you are trying to find a mortgage. We have done our best below to make sense of them all for you!

Bank of England

The home of the Monetary Policy Committee (MPC) who set the base rate each month and initiate financial (fiscal) policy

Deposit

Your deposit is how much money you will be putting down over and above the mortgage amount towards the value of your home. The word deposit does imply you will get this money back however you must be aware that house prices can go down and therefore you may not get back all you put in.

Early Repayment Charges

These are applied to a mortgage should you repay the mortgage, normally, during the period in which you have a “deal”. For example if you take a 3 year fixed rate mortgage then the lender will have a clause in the mortgage agreement that if you repay the mortgage early (or a proportion of the mortgage) then a penalty will be charged, this is often charged as a percentage of the mortgage balance.

Usually once the “deal” is over then the penalties will no longer apply. It is important to understand this area of your mortgage agreement so that you do not end up paying penalties when you were not expecting them.

These charges can also be known as Redemption Penalties.

Energy Performance Certificate (E.P.C.)

A report carried out when you sell your home and will give you a current energy efficiency rating and a potential energy efficiency rating. The graph produced is similar in appearance to the energy efficiency graphs seen on new fridges and washing machines.

Execution Only

Where the customer specifically requests a product and therefore does not want advice. The Financial Conduct Authority (FCA) describe it as: “Consumers must know precise details of the product and the loan they require in order to proceed.”

Financial Conduct Authority (FCA)

The regulator of the financial services industry in the UK

Loan to Value (LTV)

This will be expressed as a percentage and it is how much you are borrowing in comparison to the property value. So, for example, if you need a mortgage of three quarters the property value you will be taking a 75% LTV Mortgage.

Conveyancing

The legal work involved in selling and buying property.

The Mortgage Process, Nice & Simple!

Documentation

It's best to get prepared early. Have ready: Proof of deposit, 3 months Payslips, P60 and enrol on the Electoral Roll

→

Credit Rating

Find out your credit rating through companies like Experian, Equifax or Call Credit. We can also help you do this.

→

Find A Mortgage

Research mortgages through high street banks or online. We can also provide Independent Mortgage Advice to you

↓

Agreement In Principle

This confirms from the lender that they will lend you the money subject to application and underwriting. Can take as little as 30 minutes.

←

Mortgage Application

This is the bit that takes time. The lender needs details of your income, bank, credit cards & loans. They also need info about the property.

←

Underwriting

This can also take some time. Your paperwork is checked, further info requested and a valuation on the property carried out.

↓

Formal Offer

Once everything is checked, the lender will send you your offer. It tells you the loan amount, monthly payments and T&Cs of the mortgage

→

Insurance

You will need to arrange home & buildings insurance. You'll also need to consider if you want Life Assurance & Critical Illness cover

→

Legal Bit

Once your solicitors receive your mortgage offer from the lenders, they'll complete a "Report on Title", which is then sent back to the lenders

↓

Exchange of Contracts

Once everyone is happy, dates for exchange of contracts are set. Once this happens, neither party can pull out without financial implications

←

Completion Date

This is when the property finally becomes yours! You receive the keys, and the hard work of unpacking begins!

←

Get in touch!

Hopefully this guide has straightened a few things out for you, and you now feel better equipped to navigate the house buying & mortgage process!

Don't forget if you'd like a free initial consultation, or you have any questions at all, then, don't hesitate to give us a shout. We'd be happy to talk things through with you and help you more.

Our contact details are below. We're ready when you are!

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