A Home Movers guide to Mortgages

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Introduction

With all the reports in the press telling everyone that mortgages are increasingly difficult to obtain unless you have a very large deposit, it's no wonder that many of our customers are surprised by how straight forward and easy it can be to secure the finance to buy their new home with the help of a good broker to guide them through the process. Here at www.teacher-mortgages.com we conduct the whole process, in person, over the phone, online video chat, email or post, whatever your preference. This flexibility accommodates your shift patterns ensuring that the process fits around your busy life.

How to choose an Estate Agent

The sheer number of agents out there can make choosing who is best to sell your home a tricky prospect. Fixed fee, percentage fee, high fee, low fee, shiny high street office, online, local company, national group, backed by TV advertising, recommendation from a friend or online reviews, there is a bewildering choice of Estate Agents out there. What's more, new ones seem to appear almost daily.

So, how do you wade through these choices to ensure that you sell your home in good time, achieve a good sale price, receive a good service and all at cost which reflects value?

Put yourself in the shoes of the people who would be looking to buy your home, how does your prospective agent treat them and by extension how would they treat your property?

Here at Teacher Mortgages we have over 50-years experience of helping clients buy houses and one thing is evident time after time – many of our clients end up buying a different property than the one they enquired about!

Let's think about that for a moment, you see a house listed on one of the online portals, either send a message to the estate agent or give them a call and yet you end up buying another one of their properties. Imagine how happy the vendor of the property you end up buying will be!

So, how do you get to be that happy vendor?

Call all of the agents and enquire about one of their properties, don't let on that you have one to sell just yet. A good agent will seek to question you about why you are interested in that particular property so they can gain an understanding why that property was on your radar. This understanding of your requirements will allow them to introduce other properties to you they currently have on the market and importantly, will allow them to introduce you to properties they are currently bringing or even hope to bring to the market.

Look at the properties a prospective agent is selling. Ideally, you will want an agent who has lots of similar types of property to the one you're selling. This gives them more opportunity to introduce your property to anyone who enquires about a similar one.

Most buyers will look to see more property details on the Estate Agents website, visit your prospective agent's website, is it easily navigable, does it present their properties in a clear manner.

Now that you know these tricks to narrow the choice of agent down to a handful, it's time to request a Market Appraisal where they will come out to your home and present their sales pitch and provide you with a marketing price for your home.

Pay attention to the values suggested, do they end in £xxx,950 etc? If so, challenge it. Think back to where most people first look for a new home, Rightmove, Zoopla, OnTheMarket etc. All of the property portals allow you to search price bands which tend to be whole round numbers. For example, if your home is being marketed at £199,950 and a prospective buyer is looking at property in the price band £200,000 - £220,000, your property isn't going to be seen. Don't be reluctant to challenge an agent requesting that they market your property at a price which aligns with the price bands used by the property portals.

The Deposit

Post credit-crunch, you will need a deposit to get a mortgage, whether you have saved it, had it gifted from family or received an inheritance, a minimum deposit of 5% or the property purchase price is required.

The greater deposit you have as a percentage of the property purchase price, the lower the interest rates will be that are offered to you. This is because your mortgage loan is secured against the property. Basically, the greater deposit (or equity) you have in the property, the lower the risk to the lender that they will not get all of their money back if you could no longer afford to keep up the repayments on your mortgage.

E.g.	Deposit	Property Value	Loan required
a)	5%	£200,000	£190,000
b)	25%	£200,000	£150,000

In example a) if the property value fell to £180,000 and you were unable to keep up the repayments on your mortgage and the lender had to take the property into possession, it is unlikely that they would be able to sell the property and recoup all of the outstanding loan. In example b) even in the value fell to £180,000 and they would be able to sell the property and even they didn't receive the full asking price, there would still be enough money to recover the outstanding loan.

Mortgage lenders now like to see that you have the full deposit available before offering you a mortgage and will ask for bank statements to evidence this. If some or all of your deposit is the equity currently in your home, your lender may ask for a copy of the memorandum of sale that you will receive from the estate agent once the sale of your current home is agreed.

Affordability

When it comes to what is or isn't affordable, there are two parties in a mortgage who need to look at affordability very carefully. The first of those is you! Many of our clients are surprised at just how much a bank would be willing to lend them. If they borrowed as much as could be offered, they would no longer be able to live the lifestyle they enjoy. Obviously as the old saying

goes, what is good for the goose is not necessarily good for the gander. Every person's circumstances are different so it is important that you look at all of your expenditure, not just on those regular monthly payments but also irregular and annual payments as once made, you have to save the money to make the same payment again next year. We strongly recommend that you take your most recent bank statements and use those to help you complete our Budget Planner which will assist you in working out what an affordable monthly payment would be for yourself.

The second party who considers affordability carefully is the lender itself.

How do the banks work out how much you can borrow?

Unlike the old method of multiplying your salary by 4 or even 5 times, these days lenders work out how much they would be prepared to lend based upon a full affordability assessment. Basically they look at your take home income minus your monthly outgoings. Not only are your committed outgoings taken into account, things like any loan or credit card repayments, council tax and other utility costs, they will also factor your lifestyle costs (food shopping, socialising etc.) into the assessment. Lenders don't just assess how much you could borrow against current interest rates and repayments, they *'stress test'* your application to ensure you would still be able to afford the repayment if interest rates were to rise. They typically assess at an interest rate of 6-7%

Increase your chances of getting accepted.

Your credit score is only one aspect a lender will consider when you apply to them for a mortgage, obviously with a poor score you will find it much harder to get accepted (especially if you only have a small deposit.) Other factors are; the way you use existing credit, bank account conduct, a history of short-term (Payday type) borrowing and electoral roll information, amongst others.

Let's break these factors down and take a look at each of them individually.

Credit File

- Get copies of your credit file from the 3 main credit reference agencies, Equifax, Experian and Call Credit. You can get a free 30 day trials from Checkmyfile who include data from both Equifax and Call Credit here and from Credit Expert *who include the data from Experian here *. Don't worry about the 'score' they give you, that's mostly subjective and lenders will apply their own scorecard anyway. Once you have your full report open (you should be able to see details of all your existing credit accounts and the payment history) look for the following;

- Check for errors, if you notice anything that is wrong, ask the lender to correct it. You can also add a *'notice of correction'* which is a short statement explaining an issue.

*A monthly fee of £14.99 applies after your free trial. You may cancel during your 30-day free trial without charge. New customers only. Free trial period starts on registration - further ID verification may be required to access full service which may take up to 5 days.

- Financial Associations, do you still have a link to an ex-partner or flatmate with whom you no longer have any joint account? If so, write to the credit reference agencies requesting *a 'financial disassociation'* so their credit history can no longer have any effect on yours.
- Check addresses, are all you credit accounts (including that store card you opened years ago for the 10% off your first order) registered to your current address? If not, update that lender.
- Make all payments on time. Are there any late payment markers on your credit history? Maybe when you've been a day or two late logging on to make that store card payment. Even being a day late can make it much more difficult to get accepted for a mortgage. Set up a direct debit to at least make the minimum payment. It's also a good idea to manually pay more if you can.
- Defaults & CCJ's, if these are showing on your report, it's a good idea to contact us to discuss your circumstances in more detail.

Old or unused credit accounts

- Close unused credit accounts. You no longer use that credit card that you paid for that holiday on as it upgraded you for the premier lounge at the airport. If you don't use it and no longer need it, close it. Lenders will not just look at how much you are wanting to borrow but also how much credit you have access to.

Electoral Roll

- If you have a marginal credit score, being on the electoral roll can really make the difference between being accepted or declined. You can register at www.gov.uk/register-to-vote.

Payday Loans

- These are best avoided entirely, some lender's automatically reject any applicant with a history of payday borrowing, others limit the number of payday loans they will accept in the last year or two.

Bank Account Conduct

- Best advice here is to avoid your overdraft. Maintaining a positive balance at the end of the month prior to your salary being credited shows that you are managing your money and living within your means. Some lenders don't like regular debits to bookmakers or multiple cash withdrawals in the same day.

What fees are involved?

Before applying for a mortgage you don't just need to save your deposit, you'll need additional monies to cover the costs involved in the home buying process. We'll explain each of them below;

Arrangement Fee

- Put simply this is a charge the lender levies for to arrange the mortgage, these can be anywhere from £500-£2000. Obviously this is a rather large cost and needs to be given careful consideration. Often, lenders will offer two similar rates, a lower one with a high arrangement fee and a higher one with a lower or even no arrangement fee. Therefore, it is important to factor this fee into the total cost of the mortgage.

Here a www.teacher-mortgages.com we will generally look at the total cost of the mortgage over the initial term of the interest rate to work out whether you are better off paying an arrangement fee or not. In many instances, you will have the option if you wish, to add the arrangement fee to the loan, think carefully before you do this as interest is charged on the added fee for the lifetime of the loan.

Booking Fee

- This is a charge the lender makes for assessing an application you make to them. If a mortgage with a booking fee is the best option for you, you need to ensure that you meet all of the lenders criteria as this type of fee is usually non-refundable.

Valuation and Survey

- Lenders don't just look at your circumstances when deciding whether or not to offer you a mortgage, the property you are buying will also need to be assessed. Some types of property are not acceptable to all lenders. Generally, the more expensive the property the higher the cost of the valuation.

  There are different 3 types of valuation and/or survey.

- **Basic valuation report** This is a basic report paid for by you, but completed by the valuer for your lender. Your lender will use this report to help them decide whether they'll lend you the amount of money you need to buy your property.
- **Homebuyer's report** This is a more detailed report that a surveyor completes for you. There's an important difference between a basic valuation report and a homebuyer's report. The valuation report belongs to the lender and the valuer completes the report for them. With a homebuyer's report, the surveyor works for you and they're responsible to you if they fail to spot things. Whilst this costs more than a basic valuation, you should consider asking for a homebuyer's report as it will give you more information about your property. It's particularly useful if you're buying an older property. Your lender will normally use the homebuyer's report to help them decide whether to lend on your property, so you won't normally need more than one report. Your lender can arrange this.
- **Building survey (previously known as a full structural survey)** This is the most detailed type of survey that's completed by a surveyor working for you. The surveyor is

responsible to you if they fail to spot something. Building surveys are recommended if you're buying: – an older property – a property that needs substantial refurbishment; or – there has been structural problems in the past. Additional surveys or reports may be needed by your lender before they'll make you a mortgage offer.

Legal Fees

You will need to engage the services of a solicitor to assist with the transfer of ownership to yourselves. As with the valuation costs, the greater the value of the property being purchased, the higher the legal costs will be. You can expect to pay between £800-£1500 including all of the searches that need to be carried out.

Stamp Duty

Stamp Duty Land Tax is payable to HM Treasury when you purchase a home above a certain value. You will generally pay this via your solicitor who then ensures they pay the Treasury within the allowed timeframe.

Current rates (as at 16/03/2016) for England and Wales are as follows;

Property or lease premium or transfer value	**SDLT rate**
Up to £125,000	Zero
The next £125,000 (the portion from £125,001 to £250,000)	2%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

Different rates may apply if you own more than one property, use our stamp duty calculator to find out how much you will pay.

What evidence do you need to provide?

Like the days of no deposit required, lenders no longer just accept that you earn what you have told them and offer a mortgage with no checks. You can expect to be asked to provide the following;

Proof of identity – a current valid passport or photocard driving licence.

Proof of address – a recent (dated within 3 months) postal bank statement, utility bill or other official document. The list of acceptable documents is quite prescriptive.

Proof of Income – you'll be expected to show at least 3 months worth of bank statements showing your salary credits and day to day living expenses. It's best to have statements for all the current accounts you hold.

Proof of income – you'll need at least your last 3 monthly (13 weekly) pay slips, if you earn other income such as bonus or overtime/commissions then expect to be asked for your last P60 in addition. If you are self-employed, different lenders will ask for different evidence, some want your accounts and/or an accountants reference others will want your SA302's and the accompanying Tax Year Overviews. You can order these from HMRC on 0300 200 3310.

Proof of deposit – expect to be asked to show that you have all of your deposit available before you apply for your mortgage. These need to be funds in your own name. If you are receiving a deposit by way of a family gift, then evidence of the monies in the donor's account and the transfer to your account will also be required. Deposits are normally expected to come from monies in the UK. Some lenders will not accept a deposit coming from overseas.

Repayment mortgage or Interest only?

Repayment is always the way forward unless you have a very compelling reason to want an interest only loan, as it is the only option that guarantees (as long as you make all payments in full and on time) that you will actually own the property at the end of the mortgage term.

With interest only you do exactly what it says, you only service the interest that has accrued each month on the amount that you borrowed. So if you are borrowing a £100,000 over a 25-year term you will pay the interest each month and you are left with the actual debt of a £100,000 still owing at the end.

Whilst a repayment mortgage costs more each month than interest only it has the big advantage that it pays off the original debt as well, leaving you mortgage free at the end of the term. And in the meantime when you come to remortgage from time to time you will have paid off more of the debt and you will be able to get a mortgage with a lower loan to value and therefore a lower interest rate as well.

Truthfully it is extremely difficult now, to actually get an interest only mortgage so most customers do not have a choice. The majority of lenders have pulled out of or are significantly restricting the offering of interest only mortgages, due to the Financial Conduct Authority clamping down hard. You can no longer rely on family inheritance or the continued rise of house prices to repay the amount borrowed. Interest only is now offered where there is a plausible plan to repay the capital.

Interest Rate Types

This is the difficult one and there is no one single answer. There are several different options to choose from. They broadly split into two camps – either fixed or variable.

Fixed Rate Mortgages.

As the name implies, regardless of whatever happens to interest rates the mortgage rate is fixed and so too are your monthly repayment for the period of time that you have chosen.

So if you choose a fixed rate for 2 years then your rate and repayments stay exactly the same for 24months. They don't move at all.

Fixing interest rates is an excellent way to budget your family's income and expenses.

Usually the two year fixed is the cheapest deal but you must weigh up whether you feel that a 3 year or a 5-year deal would work out to be more beneficial for you. The 3 and 5 year will have a higher rate but it is worth looking into and evaluating the costs involved as you will only need to remortgage every 3 or 5 years as opposed to every 2 years. It is also worth considering how much peace of mind is worth to you.
If you are worried that you may have to move home within the term of the fix, check that you can move your mortgage with you. This is known as porting. If it is a portable mortgage you will only be able to move the outstanding balance at the rate that you have fixed it at. If you need any more monies as you are probably moving into a larger house this will be offered at a new rate.

When a fixed rate mortgage ends, you either start the process again and re fix again for a period of time or you move on the lenders standard variable interest rate.

Pros and Cons for a Fixed Rate Mortgage

Pros: Stability, your mortgages repayment will not go up over the fixed rate period whatever happens to interest rates.

Cons: Starting rates are usually higher than on the discounted products. If interest rates drop you will not see your repayments reduce. If you want to exit the mortgage during the fixed rate term you will be subject to penalties.

Variable Mortgages

Exactly as the name suggests, rates vary either moving up or down usually due to economic factors in either the wider economy or directly relating to the individual lenders business.

Variable rate deals fall into three categories:

1 Trackers

This interest rate usually tracks the Bank of England base rate. Be wary though as some lenders have introduced Trackers that track against their own standard rate, others may track the London Interbank Offer Rate or LIBOR for short.

If the base rate increases by 0.5% then your mortgage increases accordingly likewise if the Bank of England base rate decreases, so do your mortgage repayments. Some Trackers only run for a couple of years and then go to the Standard Variable Rate.

Pros and Cons of Trackers

Pros: This is a very transparent product, you know that bar the odd exception, only wider economic factors can change your interest rate and not the whim of any lender.

Cons: Uncertainty if base rates rise then your repayments will rise significantly especially if you have a large mortgage.

Standard Variable Rate

Every lender has a standard variable rate (or a rate with a similar name) which tends to follow the Bank of England base rate but not exactly. SVR always include a margin which can be anything from 2 to 5% points above the Base rate so it can be quite expensive and can vary quite a lot from lender to lender. They are virtually never offered to new customers, instead, you would usually move onto an SVR rate when your introductory fixed or tracker special deal has ended.

As the base rate moves up and down so lenders usually move their SVR's as well although not always by the same amount. For example, the base rate may reduce by 0.5% and the SVR may only reduce by 0.3% or not at all. However, when rates increase they tend to increase an SVR rate by the same amount as the actual base rate increase e.g. If base rate increases by 0.25% then the SVR will increase by 0.25%

Pros and Cons of the Standard Variable Rate

Pros: There are usually no early settlement charges when you are on an SVR rate and you can either partially or early repay when you are on this rate. If interest rates are cut the SVR rate is cut as well.

Cons: Uncertainty there is no guarantee that you will get the benefit of the full rate changes if interest rates decrease you are totally in the hands of the lenders as to what they decide to do.

3 Discounted Rates

This is usually when the Standard Variable Rate is discounted to offer a special deal and it usually only lasts for a maximum of 2 to 3 year. Be very careful of these rates as they are confusing and you can easily get a rate that you didn't really understand how it came to be.

Some lenders quote the rate with the discount applied and then the rate that you will move to after the introductory period which would be the SVR

Others quote the initial rate then the amount of discount and then the rate you will move to when the discount is over. A few quote the discount and the SVR it is imperative that you check **what you have actually got and always ask for the SVR rate as well.**

Pros and Cons of discounted mortgages

Pros: If interest rates are reduced it is more than likely that your rate will reduce as well.

Cons: It is the discount from the SVR that makes the actual discounted rate but there is no guarantee that you will get the full discount as and when the rate drops you are at the mercy of the lenders hiking SVR based on a whim or need to maintain profits.

Offset Mortgages

With an Offset mortgage, you effectively 'offset' your savings against your mortgage balance. So, if you have a mortgage of £200,000 and savings of £20,000, you will only pay interest on the difference – in this example £180,000. You retain access to your savings and can withdraw them at any time. Be aware though that you won't earn any interest on your savings. This is not necessarily a bad thing as you are likely to be paying a higher interest rate on your mortgage than you are earning on your savings.

Because you make a standard repayment each month, you're making a monthly overpayment as the interest element of the payment is calculated after deducting your savings. This help you to clear the mortgage earlier than with a normal mortgage.

So is an offset mortgage right for me?

That depends! Do you have a savings balance already that you don't need for your deposit? Do make regular contributions to your savings? As interest rates for offset mortgages tend to be higher than those for standard mortgages, you do need to be a dedicated saver to take advantage.

What other options are there?

Flexible Mortgages

Many mortgages offer you the option of making overpayments, underpayment or even taking payment holidays. Let's look at each of them individually.

Overpayments

Simply put, this is when you make a payment over and above your normal payment. The extra is deducted from the capital balance straight away. You do need to know how your lender calculates the interest on your mortgage, daily, monthly or annually as this can effect when you will benefit from your overpayment. Most lenders do place limits on the amount you can overpay, either a percentage of the outstanding balance per year or a minimum / maximum each month.

Underpayments

In the same vain as overpayments, an underpayment is when you pay less than your normal payment in a month. Just because your mortgage allows underpayments doesn't mean that you can chose what to pay each month. To take advantage of underpayments you will first have needed to arrange this with your lender. Some lenders will insist that you have overpaid your mortgage first and effectively claw back your overpayment for the month or two where you underpay.

Payment Holidays

With a payment holiday you take a break from making your mortgage payments. Like underpayments, your lender may require you to have built up a buffer by making overpayments first. Again these must be prearranged with your lender.

Be Aware!!

Unless you have built an overpayment buffer your lender will still be calculating the interest you owe and will add it to the capital balance. This means that at the end of the underpayment period or payment holiday you will owe more than you did at the start. Your lender will then recalculate your monthly payment so this new balance can be repaid over the remaining term.

Early Repayment Charges

The initial rate you pay on your mortgage whether the interest rate is fixed or variable is essential a rate that has been very carefully worked out to give the lender the profit margin they require over the term of the initial period.

To ensure they achieve this many lenders levy early repayment charges. In other words, if you try to repay all of part of your mortgage above a pre-set limit you'll have to pay a charge for doing so. It can be anywhere from 1%-5% of the amount you pay off early.

If you were to clear a £150,000 mortgage early.
1% charge = £1,500
5% charge = £7,500

Not every deal has redemption penalties and you can often overpay within limits, the most common is 10% of the outstanding balance without incurring and charges.

Moving Home

Most mortgages are what's known as portable, this means that if you need to move home, you can take your existing mortgage along with you to the new property. This can mean that you can escape paying an early repayment charge.

Top Tip:

Just because your mortgage is 'portable' doesn't mean that you will automatically be able to take it to a new property. You will still need to meet your lenders criteria at the time your wish to move your mortgage. Essentially it's the same as applying for a new loan.

What's the best term?

This is a question that has no right or wrong answer. Taking too short a term can put an adverse strain on your finances and conversely taking too long a term can cost you thousands.
At Teacher Mortgages we work with you to establish a comfortable budget for your mortgage payment, then recommend a term that fits your budget.

Is there anything else I need to know?

You've stuck with us so far and now feel comfortable with the requirements for you to be accepted for a mortgage and options available and all the different types of mortgage available.

That has to be it right?

Not quite!

The property you want to buy will also be a huge factor the lender considers before making a mortgage offer. Not all properties are built equally and not all lenders lend against all properties.
Some lenders won't lend on homes above, adjacent or even near commercial premises. The property not having a working bathroom or kitchen (even if you plan to refurbish) is another no no. Above a certain storey in a high rise, on a council estate, or if it doesn't like the construction method of the building or even the one next door.
Interrogate the estate agent, they should know what properties their buyers have struggled to finance in the past and they should also know all the details about the property they are selling. Is it classed as being of non-standard construction for example? If so, what type of non-standard construction is it?
Here at Teacher Mortgages we know which lenders are happy to lend against the different types of property and can save you time and money paying for a valuation only for your application to be declined.

That brings us to the end of this guide. Hopefully you gained some new knowledge and understanding of the different options available to you and will be more informed when you are ready to apply for a mortgage.

We'd be more than happy to talk with you to answer any questions you have, whatever stage you are in the process of finding your new home. You can call us on **0800 1389005** or send us a message via our website letting us know when would be a good time to call you.