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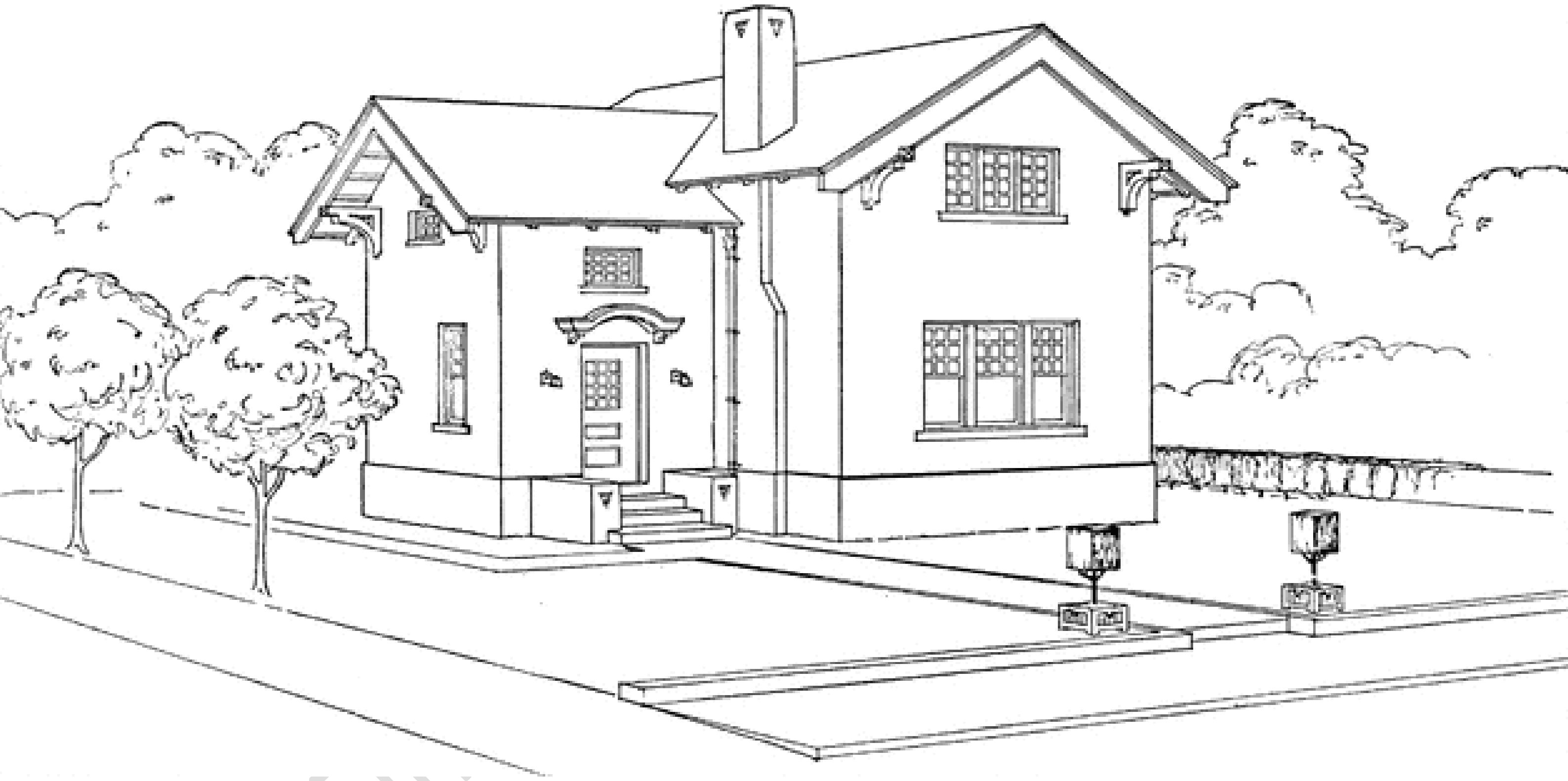

Mortgage and Home Buying Guide

Thinking of buying a home? The following information is a comprehensive generic guide designed to provide some information on mortgages and the home buying process. It includes useful information you need to consider when buying your property and could be particularly useful for you if you are purchasing for the first time.

Questions such as Where do I want to live? What can I afford? And what type of property do I want to live in? Need answering. This guide aims to provide clarity, will hopefully help you to make decisions and approach the process with more knowledge and confidence.

Property Types

You will be considering purchasing either a freehold or a leasehold property. In most cases, the purchase of a house will usually involve you buying the freehold of the land it sits on and the purchase of a flat will usually involve you buying the remaining term of a lease. As a leaseholder it is vital to find out how many years are left on the lease as lenders will have rules, and conveyancers' opinions, relating to short leases which could affect their lending/advice. Any lease with less than 70 years left can be a potential problem for mortgage purposes. Leases usually include terms that result in the payment of a regular service charge and ground rent to the freeholder. This will obviously need to be considered when budgeting but will often also be taken into account by your lender and may affect the amount they are prepared to lend.

Your Financial Contribution to a Purchase

In order to obtain a mortgage on your home you need to contribute a percentage of the purchase price yourself. This percentage is commonly called Equity and, for purchases, is obtained by providing a purchase deposit. The minimum deposit you will need is 5% although 95% mortgages can be more difficult to obtain due to tougher lending criteria and will carry higher interest rates. We can usually obtain a lower rate of interest from lenders for each 5% increase in equity/deposit although, generally, rates do not improve once you are providing 40% yourself.

Mortgage Repayment Methods

Capital and Interest

Mortgages arranged on this basis have interest and capital incorporated in every monthly payment. The mortgage amount reduces over the years so at the end of the specified mortgage term the debt is fully repaid, and you will own the property outright.

During the early years of a capital and interest mortgage the majority of your monthly payment is allocated to payment of interest therefore during this time only a small amount of the capital is repaid. As time goes on and the debt amount reduces your payment is made up of an increasing amount of capital and less interest resulting in a quicker reduction of your mortgage debt. This type of mortgage is also often referred to as a repayment mortgage.

Interest Only

An Interest Only mortgage is, as its name suggests, when only interest is paid to the lender during the mortgage term. As no capital is repaid the original mortgage balance does not reduce at all, which means that you must have an alternative method of repaying the debt at the end of the mortgage term. Your monthly payments for this type of loan are obviously lower than with a repayment mortgage because but contributions to plans designated for mortgage repayment may be required. As the amount owed doesn't reduce, interest accrues on the full debt amount for the entire mortgage term figure resulting in an interest only mortgage being a higher-interest option than a capital and interest mortgage. Lenders restrict which borrowers they allow to use interest only and strict criteria usually applies relating to the repayment vehicle being used.

If Interest Only is the chosen mortgage option, it is your responsibility to ensure there is enough capital in place to repay the loan at the end of the mortgage period, otherwise YOUR HOME WILL BE AT RISK. Lenders rarely allow Interest Only mortgages nowadays unless the property is being bought for investment purposes.

Interest Rates

The Bank of England (BOE) committee meet monthly to decide if the Bank Base Rate (BBR) should be changed. This decision is based on information relating to the UK economy and announced at the beginning of each month. Following this announcement each lender will decide whether they change their Standard Variable Rate (SVR) in line with the BOE. The lenders make their own decisions on the setting of their SVR and these can differ from lender to lender.

The Types of Mortgage Product (Deals) Available

There are many different mortgages products available, but they are generally split into the following categories:

Standard Variable Rate (SVR)

The interest rate charged varies and is determined by the lender, so your monthly repayments can go up and down during the term of the mortgage. There are normally no penalties for repaying the mortgage early.

This is also the rate that a lender will automatically transfer you to when your initial deal elapses, should you choose not to take a new deal either from (this is called a product transfer) or an alternative lender (a remortgage).

Discounted Rate

A discount is agreed at the outset for a set period of time. This discount is applied to the SVR during the term specified; therefore, your monthly repayments will change every time the SVR changes.

This type of mortgage generally carries redemption penalties should you wish to repay it during and in some cases after, the term of the discount. After the discounted rate period, the interest rate normally reverts to the SVR.

Tracker Rate

This is very similar to a Discounted Rate however instead of the lender determining the payment rate; your payment is linked directly to the BBR. As with discounted rates, penalties can apply during, and sometimes beyond, any deal period at which point the interest rate normally reverts to the SVR.

Fixed Rate

The interest rate charged is determined at outset and fixed for a set period of time. Your monthly repayment will not be affected by any changes in either the BBR or SVR interest during this period. This type of mortgage generally carries redemption penalties should you wish to repay your mortgage during and in some cases after the term of the fixed rate period. At the end of the fixed rate period, your interest rate normally reverts to the SVR.

Capped Rate

A maximum interest rate (the Cap) is charged for a specified period. The monthly payment will be adjusted only if the mortgage rate falls below this cap. If this happens the payment will go down. Should the rate go up again during the term of the Capped Rate, the maximum you will pay is the rate set at outset.

This type of mortgage generally carries redemption penalties should you wish to repay your mortgage during and in some cases after the Capped Rate term. After the capped rate period, the interest rate normally reverts to the SVR. Capped rate mortgages are rarely available from lenders nowadays.

Cashback

A large cash incentive is given to you by the lender once the loan has successfully completed. This may be a percentage of the loan or a specific cash amount in return for you paying the SVR. Redemption penalties and/or repayment of the cashback amount usually apply for early repayment of this type of loan.

Cashback only deals are again rarely available from lenders nowadays, but they do commonly offer smaller cashback amount in conjunction with any of the other products detailed above.

Interest Rate Calculations

Most lenders calculate interest daily however, some may calculate it on a monthly or annual basis which may be detrimental to your mortgage.

Mortgage Quotation

Prior to, or when an application is made, you will receive a specific Key Facts Illustration for your proposed mortgage. This contains detailed information about the mortgage and the fees involved so it should be read carefully. If there are any changes during the application process that affect the final mortgage offer, a new illustration will be provided.

Early Redemption/Repayment Charges (ERCs)

Lenders impose penalties on the vast majority of the deals should borrowers fully pay off their debt within the products period. Partial repayments may be allowed on an annual basis without incurring an ERC which vary from product to product. Some products may have extended penalties beyond the initial product term which may result in you paying a higher rate of interest without being able to redeem unless that penalty is paid. Products are available generally, though not exclusively, variable-rate deals with no early repayment charges at all. These tend to command higher rates of interest due to the greater flexibility they provide. ERC's can be high, so it is vital to consider the term of the product you require to minimise the risk of paying one.

Agreement or Decision In Principal (AIP/DIP)

At the point of negotiating a purchase price for a property, estate agents very often require purchasers to produce proof that a lender will lend the money required to complete that purchase. An AIP or DIP certificate is usually the proof they require which is obtained by making a partial application to a lender, providing them with income and expenditure information. The lender will perform a credit check and, based only on the information provided and indicate a maximum level of potential lending in the form of a certificate. No supporting evidence will be provided at this stage, so the lending amount is not binding. However, it does provide the estate agent with information proving you know your purchasing limits which will give them confidence that, from a financial point of view, you are a creditable purchaser.

They may use this information to provide their vendor with reassurance that you are in a good position to see the purchase through to completion.

With many lenders, embarking on an AIP/DIP will result in a ‘footprint’ being left on your personal credit file. Multiple credit checks within a short time-frame can have detrimental effect on your credit rating so it is best to avoid seeking AIPs with multiple lenders if possible.

The Mortgage Application Process

A full application will only take place when a purchase price has been agreed on a property. This is because mortgages are property and figure specific. Usually either an online or paper form is completed detailing your personal data, the required mortgage product and valuation or level of survey you require, information relating to the property, the selling agent and your chosen legal representative. To support your application your lender will require documents to prove your identity, your income, expenditure and access to your purchase deposit. Requirements vary from lender to lender and further documentation requests are often made by lenders during the underwriting process particularly for higher percentage loan to value mortgages (LTV). Generally, lenders like to see your three most recent payslips and corresponding bank statements, personal ID such as passport or driving licence and for first-time buyers, the proof of your deposit. If the deposit being provided is a gift from family, lenders will often need a signed letter or form confirming this.

Mortgage Offer

When the lender has completed their underwriting to their satisfaction and are happy with both you and the property, they will send you a mortgage offer letter detailing all amounts, terms and conditions. You should read this document carefully and ensure that it meets your requirements exactly.

Additional Information

The Legal Process

Your conveyancer is usually a solicitor however a licensed conveyancer is also often acceptable to lenders. A conveyancer’s job is to ensure the transfer of ownership of a property is carried out legally. Because of this, your chosen conveyancer must be a member of either the Law Society or the Council for Licensed Conveyancers. When purchasing a property, the firm/person who handles the legal process is chosen and paid by you. However, the conveyancer also acts on behalf of your chosen lender, so they also need to be acceptable by them.

Lenders do have rules relating to the conveyancers they allow, and most solicitors are on the major lenders' approved panels. Sometimes though, you may find that a smaller lender does not have your chosen solicitor on their panel and this can cause an issue, for this reason it is sensible to check before applying for a mortgage whether your chosen solicitor is acceptable to your chosen lender.

The conveyancers will perform all the legal aspects of your home purchase including conducting local searches, doing a land charges search, confirming Land Registry and handling Stamp Duty Land Tax to name just a few. Your conveyancer should always represent your interests while the property purchase is ongoing.

Exchange Deposit

Before you complete the purchase of a property, the legal process requires contracts to be exchanged. At this point, it is usual for a deposit to be paid and this amount can be as much as 10% of the purchase price. This can be an issue for borrowers requiring a 95% mortgage so, if this is the case, it needs to be stated to your conveyancer at an early stage. You will need to access funds prior to the completion to enable the exchange of contracts to take place. Your conveyancer will advise you on how much is required and when it is due.

Stamp Duty Land Tax - SDLT (Residential Purchases Only)

Currently, stamp duty has now been abolished for first-time buyers within England, Wales and Northern Ireland for homes under £300,000. This relief is increased to £500,000 for first time buyers buying in expensive areas such as London.

First time buyers purchasing a property between £300,000 to £500,000 in non-expensive areas will only pay stamp duty of the proportion between these sums. For example, a £400,000 purchase will incur no stamp duty on the first £300,000 but a 5% charge will be incurred for the remaining £100,000 (£5,000).

Individuals wishing to purchase a property over £500,000 will lose the stamp duty relief and will incur normal stamp duty on the whole process.

For 'next time buyers' there is no SDLT to pay on properties up to £125,000 in value. For properties of between £125,000 and £250,000 there will be a 2% charge. For properties of between £250,001 and £925,000 the charge will be 5%. For properties of between £925,001 and £1.5 million the charge will be 10% and for any price in excess of this, the charge will be 12%.

For purchasers who are buying second or additional homes, you will also be required to pay a further 3% on top of the normal SDLT rates.

If you're replacing your main residence but there is a delay between the sale and purchase, you will still be required to pay the additional 3%. However, you may be able to get a refund if you sell your previous main home with 36 months.

Broker Fees

Using the experience and expertise an independent broker, like PF Financial will provide you with the best possible outcome when mortgage sourcing as it is likely to save you time and effort, and in some cases money. For example, as stated earlier, performing multiple DIPs/AIP's can harm your credit score so our knowledge of lenders criteria and IT systems can ensure we obtain a DIP/AIP for you quickly with the correct lender. This is likely to save you time over the trial and error method you may undertake yourself and it may also help you secure your desired property.

Furthermore, as the well-known High Street lenders we also have access to smaller, local Building Societies and intermediary specific lenders you may not be aware of. These often have niche lending criteria that may suit your requirements particularly if you have unusual or complicated needs.

We will not charge any upfront fees for arranging and advising on your mortgage. Instead, we will receive a transparent 'procuration fee' direct from which ever lender you choose, helping to keep your upfront purchase/remortgage costs to a minimum.

We use clear and concise language to ensure you understand the process fully and our we will provide you with a dedicated and fully qualified point of contact to deal with. We are available for face to face meetings should you require or prefer this.

Insurance Associated with Mortgages

Life Cover

Although not compulsory, it is often sensible for all individuals responsible for ensuring the monthly mortgage payments are made to purchase sufficient life cover to repay the whole mortgage should one die. If maintained, a policy will ensure that the remaining borrowers are mortgage free if a premature death occurred. This is obviously particularly important for joint borrowers when the surviving borrower could not afford the mortgage alone.

Critical Illness Cover

Statistically, diagnosis of a critical illness is more likely to happen within a mortgage term than premature death. Therefore, it may also be important to you to ensure that the mortgage can be repaid on a critical illness diagnosis. 'Critical Illness' is a broad term for many dread diseases and accidents such as heart attack, certain cancers or third degree burns for example but the list of list of conditions that could result in a claim is extremely long and varies from insurer to insurer. Therefore careful checking and advice is crucial to purchasing the right policy. Although not insisted upon by the lender, this protection can easily be linked with a life cover plan.

Permanent Health Insurance

This alternative illness insurance provides income (rather than a lump sum) if you cannot work due to illness or disability. For this reason, it is sometimes also called Income Replacement. A deferred period is chosen at outset which is usually 4, 13, 26 or 52 weeks and is often determined by the sickness benefits you receive from your employer, but it could also relate to the savings you have. The longer the deferred period, the cheaper the insurance premium. If you were still unable to work after the deferred period elapsed the insurance would pay the chosen benefit amount until you return to work, retire or die.

Accident and Sickness

This insurance is designed to specifically protect your monthly mortgage payments in the event of you not working due to illness or accident. A policy may have a short-deferred period, usually up to 1 month, before a payment is made but, unlike Permanent Health Insurance it will only pay out for a short-defined period, typically 12-months.

Unemployment Cover

This insurance policy will pay you a specified monthly sum in the event of involuntary redundancy. This type of insurance may be linked to an Accident and Sickness policy and it carries similar deferred periods and terms.

Property/Building Insurance

It will be a condition of a mortgage you purchase and maintain an acceptable Property Insurance policy. It will protect both you and your lender if unfortunate events happen that may affect the property structure e.g. fire or flood. Leasehold properties often have this cover included within their service charges.

Although not compulsory, insuring your house contents can easily be linked to a buildings insurance policy.

Help to Buy Equity Loan/Shared Ownership Schemes

This is a government backed scheme available to first time buyers or homeowners who are seeking to buy a new build property. As long as the purchase price is below £600,000, under this scheme, you can borrow 20% (40% within London) of the purchase price as an interest-free loan for the first 5 years, provided you have a minimum 5% deposit.

This would enable you to obtain a 75% or 65% LTV mortgage deal. The key thing to take into account is that the eventual payment for interest free loan will need to be added as a commitment for the mortgage application and the loan will increase with the property price.

If you can't obtain a mortgage on 100% of a home, Help to Buy: Shared Ownership offers you the chance to buy a share (between 25% and 75%) of either a newly built home or a non-new build home available through a resale programme from a housing association. You will have to pay rent on the percentage of the property you do not own and again this is treated by lenders as a commitment so will affect affordability and therefore mortgage borrowing.

Joint Mortgage Sole Proprietor

This option is available from a small number of lenders and allows buyers to include a person onto the mortgage but keep them off the property title deeds. It is particularly useful for someone who wishes to add a third party, a parent for example, on the mortgage to increase the borrowing amount by using their salary to meet lending criteria. As the third party is not treated as legally owning the property additional stamp duty can be avoided if they already own a property.

Joint Tenancy/Tenants in Common

Future Considerations

Interest Rates

Interest Rates fluctuate according to market and economic conditions. Any increase in interest rates will affect your monthly mortgage payment although borrowers on fixed and capped rate deals are protected from these increases.

Unemployment

Periods of unemployment may affect your ability to meet your mortgage repayments, which will put your home at risk. You should consider unemployment protection insurance if the possibility of this worries you.

Change in Personal Circumstances

If your personal circumstances change, you are still responsible for maintaining your mortgage commitments. Changes can come about through relationship breakdown, redundancy, retirement, death, illness, loss of job or reduction in salary. Starting a family can have a huge impact on a household's income. Any reduction in your monthly income, even if you are in receipt of your employer's or Statutory, maternity pay, may affect your ability to meet your monthly mortgage payment.

Property Values

Property prices fluctuate according to market conditions and although over the long term the UK has experienced growth in property values, there are times when property values fall. If this happens it could result in a mortgage loan exceeding the value of your property particularly for high LTV mortgages. This is known as negative equity.

Fee Checklist

Arrangement/Application Fee

Lender will usually have fees related to their mortgages. Lenders will often offer cheaper mortgage rates that have some sort of arrangement/application fee which can be either paid upfront or added to the loan.

Valuation Fee

All lenders require a valuation of the property to ensure the property meets their criteria and the property is of the correct value. Some lenders offer a valuation fee whilst others will charge. Lenders require a simple mortgage valuation, but you do have the option to opt for a Homebuyers or Building Survey which will provide more details around the structure and condition of the property.

Legal Costs

You'll normally require a solicitor to carry out all legal work when buying or selling your home.

Legal fees will vary depending on the solicitor you go to but can range anywhere from £800 - £2,000. Inclusive of this cost will be all legal work carried out including local searches.

<u>Removal Costs</u>

These will vary based on who you use and how many belongings you have that will need transferring to the new property.

<u>Electronic Transfer Fee</u>

This covers the cost of the lender transferring the mortgage money to the solicitor.

<u>Loan Repayment</u>

You are expected to meet the monthly mortgage payments and to ensure that, where necessary, you have and keep the investment vehicles and/or protection policies in place to repay and/or protect the loan**. IF YOU DO NOT KEEP UP YOUR MORTGAGE REPAYMENTS, YOUR HOME MAY BE AT RISK**