



L&C Guide to First Time Buyer Mortgages



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Foreword By

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It's not easy being a First Time Buyer – all you want is advice on the right mortgage, but you find yourself trawling through masses of mortgage information and end up feeling overwhelmed. You also don't have enough spare time to spend on mortgage hunting and you don't know where to start with all the paperwork and administration.

The credit crunch hasn't exactly made things easier either. Yes, both house prices and interest rates have fallen, but lenders have become a lot more cautious in terms of how much they will lend and to whom.

When house prices were rising, some buyers were able to get on the ladder with little or even no deposit, but lenders have tightened up on this too. Overall, it means that, while houses have become more affordable, it is still a struggle for many people trying to buy their first home.

Fortunately, by speaking to L&C, we can make it as easy as possible for you. We will be your personal shopper, searching the mortgage market to find you the best deal. Here's how we can help you:

- Our expert advisers are available 7 days a week to help you find the right mortgage
- We'll save you time and stress by searching the mortgage market for you
- You'll save money compared to going to a fee charging broker as our advice is FREE
- We'll help you with the application and with the rest of the process until you're safely in your new home

Good luck!

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Do the sums



How much can I borrow?

Before setting out to find your first home, it is worth sitting down and doing some sums – this section will help you.

The two most important things to work out are what you can afford to buy and what your monthly budget will be once you've bought your home.

Mortgage lenders will assess how much you can borrow based on how much you earn. As well as your income, they will also look at your outgoings such as any other debts you may have. There isn't one simple formula for how much you can borrow as each lender is different, but it is worth having an idea before you start.

Our online mortgage calculators are simple to use and are a good starting point when considering how much you can borrow and how much it might cost. If this all seems a bit too much though, don't worry – our mortgage advisers can also run through the sums with you.

Once you've got a rough idea about your budget, think about the following:

Can you reduce your outgoings?

Look at your mobile phone deal, insurance policies, utility bills etc. Reducing your spending in order to save for a deposit and afford the initial costs is not only a smart move, but demonstrates to mortgage lenders that you are going about things in a sensible manner. Even if you already have a deposit, reviewing your spending could help you to better afford future mortgage repayments.

How do you look on paper?

Whilst criteria vary amongst mortgage lenders, it helps if you have a good credit record and are on the electoral register. Being able to produce bank statements and salary details (or accounts if you are self-employed) will also help. (Check out L&C's **free credit check service** online.)

Working out what you can borrow and afford is an important exercise as it will give you confidence when it comes to looking for a property and making an offer

Useful links

Try our mortgage calculators at www.lcplc.co.uk or you can speak to one of our advisers on: **0800 373300**.

What will it cost me?

This section is more important than any other – it's crucial that you do your sums and work out exactly what you are committing yourself to. Setting a budget at the outset is so important and yet many first time buyers fail to realise the costs involved.

Here's a rough idea of what your costs could be based on a £150,000 purchase:

Stamp Duty	£0
Legal fees	£600
Mortgage lender's valuation fee	£500
Mortgage arrangement fee	£1,000
Removal costs	£500
New furniture/fittings	£1,000

Please note: these are approximate costs, not actual

Hopefully, if you are thinking about buying, it is because you are in a position to fork out for the above costs. Planning for these in advance can help avoid any nasty shocks later on.

Stamp Duty

Stamp Duty Land Tax is a Government tax tiered according to property value. Once a tax reserved for the rich, thousands of buyers now find themselves eligible for Stamp Duty.

Luckily for some, the Stamp Duty rules have improved somewhat – In 2008, the Government raised the first tier of stamp duty to £175,000, but this doesn't help everyone. If you purchase a property for £175,000 or less then you pay no Stamp Duty, but if you buy one for over £175,000 and up to £250,000, then you have to pay 1% of the purchase price. For example, if buying for £200,000, you pay £2,000.

Depending on your budget, you may be able to avoid Stamp Duty, but make sure you're aware of it.



Where am I going to get the deposit from?

Ideally you will have saved for it. However, the fallout from the credit crunch means that mortgage lenders now require bigger deposits than in recent years, so saving enough money is not easy. So what are your options?

1. Ask your family for help to lend you the deposit, buy with you or be your guarantor (which means they are responsible for repayments if you fail to make them).
2. Buy with a friend.
3. If you're a 'Key Worker', look at one of the Government's schemes that assist with home-buying.
4. If eligible, consider a Shared Ownership scheme (*depends upon the property and upon your circumstances*).

Before the credit crunch hit, some lenders offered 100% mortgages which allowed you to buy without needing a deposit. These deals are all but gone, so you will need a deposit of some sort.

Remember, the bigger your deposit, the lower your loan-to-value (LTV) and the better your chance will be of getting a competitive mortgage deal.

Summary

Do your sums before doing anything else. Look at what you can afford to buy, what the initial costs may be and your monthly budget after buying.

Check out how you look on paper - salary, credit history etc.

Keep an open mind when considering how to buy - with a friend, help from parents etc. It may not be your dream scenario, but if done sensibly, it could give you that step up onto the property ladder.

Useful links:

www.direct.gov.uk for information on the Government's low-cost homeownership schemes.



Finding the best mortgage



The dreaded moment has arrived. All those mortgages... where to begin? Don't panic however; an expert mortgage adviser can help you pick the best mortgage, so you don't need to do masses of mind-boggling research yourself. That said it is best to arm yourself with some basic knowledge before consulting a broker.

Sit down and think about what you would like from your mortgage. Think about whether you would like a guaranteed monthly payment or whether you could cope with fluctuations. Would you like the ability to make overpayments? Be realistic about your habits and lifestyle

Here's a rundown of the basic types of mortgage available:

Fixed rate mortgage

What? The interest rate (and the monthly payments) of your mortgage remains the same for a specified period of time – often two years, but can be longer.

Who? Suits people who prefer to know exactly what they are paying each month. Often favoured by first time buyers.

Pros? Peace of mind. Makes financial planning easier.

Cons? If interest rates fall while you're on a fixed rate, you won't benefit.

Tracker mortgage

What? This tracks the Bank of England Rate for a set period of time, e.g. 2% above Bank Rate for 2 years. When the Bank Rate changes, your rate will change.

Who? Tends to suit those who want a competitive deal, but have enough scope in their monthly budget to cope with any increases in their monthly payments.

Pros? If the Bank Rate falls, so does your rate and your monthly payments.

Cons? If the Bank Rate rises, your monthly payments will increase.

Discount mortgage

What? A discount is given off the mortgage lender's Standard Variable Rate (SVR) for a set period of time.

Who? Like the tracker, this tends to suit those who are looking for a low initial rate, but can cope with increases in their monthly repayments.

Pros? If your lender drops its SVR, your rate will also fall.

Cons? If your lender increases its SVR, your payments will rise. Furthermore, lenders have discretion over their own SVR and they don't have to follow the Bank of England Rate.

Offset mortgage

What? An offset mortgage allows you to use your savings to reduce the mortgage balance that you pay interest on. For example, if your mortgage is £100,000 and you offset savings of £25,000, you only pay mortgage interest on the balance, i.e. £75,000.

By saving on the interest, you can often choose to reduce the monthly repayment or cut the term of the mortgage.

Who? For borrowers with a lot of savings.

Pros? They can help you save on interest and repay your loan sooner. They can also be tax efficient for higher-rate taxpayers.

Cons? Offset rates tend to be higher than standard deals so you need a decent level of savings to make them worthwhile.

Flexible mortgage

What? A mortgage which enables you to do things that basic mortgage deals don't, e.g. take payment holidays, make and borrow back overpayments etc. These deals take many shapes and forms and not all of them have all the flexible features.

Who? Suits anyone requiring flexibility from their mortgage lender. Can be useful if you have an irregular income.

Pros? You get a mortgage that can adapt to your financial habits

Cons? There is often a price to pay for the flexibility, reflected in higher interest rates. Unless you definitely need a particular feature unavailable elsewhere, it may be cheaper to take a regular deal that has the flexible features you're after. Many mortgages now, for example, allow overpayments.

Summary

Read the basic facts and decide which mortgage you think might suit your requirements. Only take a mortgage with special features if you intend to use them, otherwise you could end up paying more than you need to.



Your mortgage wish list



By now you should have an idea of the type of mortgage you might like to go for. What else should go on your list?

Interest-only or repayment?

This is a choice of how to repay the loan.

Repayment (also known as capital and interest)

You make monthly repayments made up of both interest and part of the amount you borrowed (the capital). Initially you pay mostly interest, but you pay off more of the capital as time goes on. Provided you make all your repayments on time, you will owe nothing at the end of the mortgage term.

Interest only

This means paying off only the interest charged on the loan – the amount you borrowed is not repaid. The monthly repayments are lower than on a repayment basis, but the idea is that you build up a separate pot of savings to repay the outstanding debt at the end of the mortgage term.

Lenders may allow you to start on an interest only basis and then switch to repayment in the future, but they may well ask for proof of a savings vehicle to repay the loan, e.g. pension or ISA. General advice is to opt for the repayment method if affordable, or to make sure you have a sensible plan for repaying the loan if you go down the interest only route.

Daily or annual interest?

This is the method that lenders use in order to calculate the interest you owe them. Annual calculation costs more for repayment mortgages since you don't benefit from the amount you have already repaid during a particular year. Most lenders use daily calculation now, but there are still a few who do not. However, interest calculation is only one part of the bigger picture, so it's best to consult a broker.

Which brings us nicely on to the next page...

Your mortgage wish list cont.

Which broker?

We could wax lyrical all day about the benefits of using our service. A reputable broker can not only give you expert advice, but should also be able to use its relationship with lenders to offer exclusive deals and an improved service.

Finding the right mortgage broker is as important as finding the right mortgage as one thing will lead to the other.

So how do you find the right one? By asking the right questions. Before taking advice from a mortgage broker, ask them the following two questions:

“Do you use a panel of lenders?”

You want the answer to be “no”. You stand a better chance of getting the best value deal if the broker looks across the market.

“Do you charge a broker fee?”

Again, you want the answer to be “no”. There is no need to ever pay a mortgage broker fee, which can be up to 1% of the amount you want to borrow. Yes, that's £1,000 on a mortgage of £100,000.

Our answer to both these questions is a definite “no”!

Avoid extended Early Repayment Charges (ERCs)

Such deals are pretty much extinct now, but it's worth being aware of them. Most mortgage deals have ERCs (which you have to pay if you redeem your mortgage early), but they should end when your incentive period ends, i.e. the fixed-rate period. Make sure this is the case as you don't want to be tied into an unnecessarily high interest rate.

What about a Higher Lending Charge (HLC)?

This is a fee sometimes charged by mortgage lenders to protect them when a customer is borrowing in excess of 90% of the value of their home (90% LTV). Since the credit crunch, this charge is less prevalent, but it is still around and again worth being aware of. The borrower doesn't gain anything from the charge, it only benefits the lender and not all lenders charge it.

If the charge does apply, don't automatically rule out that mortgage deal, but check with a broker to see if there's an alternative.

Summary

Whichever repayment method you choose, your goal should be to clear the mortgage as soon as possible. There is no need to ever pay a fee for mortgage advice

Be aware of any hidden charges. Before you apply for a mortgage, you will get a Key Facts Illustration (KFI) that summarises all the rates, fees and charges involved. Read through it and make sure you're happy with what it says. KFIs can also help you compare two or more deals before applying.

A first time buyer's experience

Alice Heaton-Ward, 32, an Assistant Director of New Business Sales from London, contacted L&C mortgages because she wanted the best advice available, with no broker fee. Alice was still in her probation period having only recently started a new job and had some concerns that this would limit the options available to her.



Alice was keen to take a 2 or 3 year fixed rate deal to ensure stability of payments for the first couple of years of the mortgage, and was able to put down a 25% deposit. Alice's adviser at L&C recommended a competitive 2 year fixed mortgage with Alliance & Leicester.

Delays to the buying process however meant that Alice could take advantage of L&C's Rate check service. As interest rates began to fall, her adviser reviewed the market again for her and was able to switch her onto a lower fixed rate. The final rate secured by L&C prior to completion was over 1% lower than the original deal.

The mortgage benefits from daily interest calculations, has early repayment charges within the fixed period only, and Alice has the ability to make overpayments of up to 10% of the balance at the beginning of each year without penalty.

The mortgage offers Alice affordable and secure monthly payments, while retaining a degree of flexibility – ideal for a first time buyer.

“L&C Mortgages not only sorted out my mortgage and found me the best possible rate, but they also kept me sane during the entire buying process. The advisers I dealt with were extremely professional and friendly and were able to explain mortgages in simple terms so I could understand what I was getting into. I had only just started a new job which I knew was going to make finding a mortgage difficult, but L&C managed to find me a great deal. As the buying process dragged on, they kept me informed of changing interest rates, so by the time I actually exchanged, my monthly payments had almost halved. Throughout the entire process, I found I could completely trust them to deliver as promised, which took a massive weight off my mind. When my purchase risked falling through at the eleventh hour and I could not get through to either the estate agent or my solicitor, I was able to ask them to help me track down the paperwork I needed. They did so in a matter of minutes. Frankly, I put it down to them that I finally managed to get my keys!”

Final word

If this guide has done its job, then by now you should not only have an idea about the world of mortgages, but you should also be all fired up about organising your finances in order to set about buying your first home.

For free advice today, call

0800 373300

Or visit www.lcplc.co.uk to request a call back



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