THE 7 THINGS EVERY FIRST TIME BUYER WISHED THEY KNEW BEFORE TAKING OUT A MORTGAGE!

By Andy Stevens

There are few things in life more ‘adult’ and exciting than buying your first home. It’s probably something you’ve been planning for and dreaming about for a long time - it feels like a real ‘rite of passage’ type moment, doesn’t it?! Of course, alongside all that excitement and promise comes a large dose of reality; afterall, buying your own home is a huge step, and most likely the biggest financial responsibility you’ll ever take on!

Before we take a look at the first step of the process, let’s start with the basics...

What Is A Mortgage?

Put simply, a mortgage is a loan you take out to buy a house, and, apart from the fact it's for more money than you'll ever need to borrow for anything else, it's the same as any other loan.

Typically a mortgage is taken out over a 25 year period, however, these days it's not uncommon for first time buyers to choose to repay their mortgage over a term of 30 or 35 years to make the monthly repayments comfortably affordable. This is due to the ever increasing gap between wages and property prices.

The mortgage loan is 'secured' against the value of your home until it's paid off. If you can't keep up your repayments the lender can repossess (take back) your home and sell it so they get their money back.

Ok, so far I probably haven't told you anything you don't already know - you know what a mortgage is, and you know you want one. So now what do you do?

Let me explain right from the beginning…

STEP 1

Get Some Professional Advice! - I'm not just saying this because I'm a professional, but mortgage brokers are there for a reason, and more often than not their advice is free - so take advantage of their services! You wouldn't purchase a car without consulting a garage or expert would you - and a house is much more of a commitment! A mortgage broker is basically the middleman between you and the mortgage lenders, and they will do all the leg work for you by searching every UK lender in order to find the right mortgage product to suit your needs - kind of like the human version of an online comparison service.

They will meet with you in person so they can get to know exactly what it is you are looking for before they give you advice, and can help you gather necessary documentation and with completing applications. Not only that, but brokers are a fully regulated and insured body, and are responsible for the advice they give you, which is reassuring isn't it? Plus they'll advise you of things you might not have even thought about - such as checking your credit!

Getting a mortgage requires a good credit score, so check your credit reports for errors and to make sure that there is nothing detrimental that could reduce your chances of getting your mortgage accepted. Good credit-check agencies are www.experian.co.uk and www.equifax.co.uk

If your score could do with improving by a few points a good way to bump it up a bit is to repay credit card balances, or significantly reduce the balance and stop using them for a couple of months before you apply for a mortgage.

Also, don't apply for any other type of credit (for example, a new credit card or car loan) until after you've purchased your new home, as this will also affect your credit score. And what about if you are looking to buy a house with a partner? Well in that case a mortgage lender will need to consider both buyers' credit scores. Now I'm not saying you're necessarily doomed if one person's credit isn't as good, but it will certainly be a factor when it comes to the lender's decision on whether to continue with your application or not.

STEP 2

The Money Bit - On paper a mortgage can seem very affordable - your wages, outgoings, and the mortgage rates all tie in nicely, and you can't see any of that changing in the future. However, you need to ask yourself if you can afford your mortgage payments if interest rates do rise and whether you can repay the capital if house prices fall.

Let's look at an example - say you manage to find a mortgage with an interest rate of 3% fixed for three years. That's a great rate. After three years you find interest rates have gone up and the best deal you can now get is 6%. That's an increase of three percentage points but, more frighteningly, your interest rate has increased by 100%. Will your net take home pay have increased at the same rate?

All residential mortgage lenders these days are regulated by the Financial Conduct Authority (FCA) and must work on the principle of affordability when calculating how much they will be prepared to lend you. Your mortgage broker will spend time finding out as much as they can about your financial standing and commitments and will go through a detailed affordability assessment prior to considering which lender and product would be most suitable for you.

You should budget on the assumption that interest rates will rise during the term of your loan. So be sure you can afford your mortgage repayments when that happens, not just now.

And then of course there is the all-important deposit. Long gone are the days of 100% mortgages - lenders just aren't willing to take that risk any more. The minimum deposit you can put down as a first-time buyer would be 5% of the property value, and a lender will then lend you the remaining 95% of the money.

Of course if you are able to put down more than 5% it would be an advantage to you. And here's why:

- **Cheaper Monthly Repayments -** This sounds like an obvious thing to say, but the more money you have to put down, the less you need to borrow. And the less you borrow, the less you need to pay back each month.

- **Better Mortgage Deals -** If a lender can see that you have a large deposit to put down they know they'll have to lend you less money. The less money they lend you, the less money they are risking, and therefore you'll probably be offered a lower interest rate.

- **Improved Chance Of Being Accepted -** All lenders will look into your income and outgoings in order to determine whether you can afford your mortgage repayments. If you only put down a small deposit it is more likely that you will fail these checks because you'll need to pay more off your mortgage each month. Lenders only offer a loan of 3 times your annual salary for a mortgage, so if your salary is low and you can't borrow enough, you would need a larger deposit to make up the value of the property.

- **Less Risky For You -** The more of the house you own, the less likely you are to fall into negative equity. This is where you owe more on your mortgage than your property is worth. If you are in negative equity it makes moving house or switching mortgage very difficult.

STEP 3

The Mortgage - My advice is to start organising your mortgage before you start seriously looking at properties. If you find your dream home without beginning the application for a mortgage, the amount of time it usually takes can easily mean that the property disappears before you're ready to move.

Getting ahead with your mortgage can also give you an edge over other potential buyers. If you have rivals for a property you're interested in, your case will usually be helped if you're further down the line with having your finances in order. Another reason to get stuck into the mortgage process nice and early is to avoid any potential hiccups once you're more involved in the buying process. A crucial part of buying a new home is to keep surprises to a minimum and deal with any issues as soon as possible, helping your experience go as smoothly as it can.

Having your mortgage agreed in principle (AIP), from a lender will show any seller that you're serious and ready to buy. This will potentially give you the edge if there are competing offers, and could also give you some extra clout when it comes to negotiating the sale price.

It also means that you'll know what your budget is, and you'll be able to focus on houses within your price range. This will stop you from wasting time looking at unrealistic targets, and avoid disappointment if you go to a lender after finding a property you love, only to be restricted on your limit. An AIP is usually quick to get, and lenders will look at your credit score and credit history to determine how much they're willing to lend you. It's important to keep in mind what is affordable individually, and just because a lender will give you a particular amount doesn't mean the monthly payments won't stretch your budget too far.

STEP 4

Get House Hunting! - Finally! Now for the exciting bit! Finding your dream home! But remember, if you put too much pressure on your hunt for the perfect home, things can become very stressful and you'll be more likely to make the wrong decision. There are lots of houses out there, so don't pin everything on just one property, and enjoy the search!

STEP 5

Mortgage Application And Loan Processing - This sounds a lot less exciting than looking at houses, but this is the 'making it official' bit. When you're ready to turn your interest in a property into something more concrete, it's time to make an offer. If this is accepted, then you can proceed with turning your pre-approval into a solid mortgage offer!

If you've already got an agreement in principle in place, you'll have a head start as you've already covered much of the application. In the loan processing stage you'll need to provide evidence of things like your income, identity and current address. An underwriter will verify your information and consider your application, and this can take varying amounts of time from lender to lender. If you're using one, (which I strongly recommend), your mortgage broker will make sure you have provided all the documentation they will need in order to fully package your application to the lender so that the mortgage offer can be issued in a timely manner.

STEP 6

Solicitors And Surveys - This is the bit you knew was coming, and the bit that a lot of people worry about; so let me break it down for you a little. You basically have 2 choices when it comes to the legal side of buying a house.

Both **Solicitors** (who are regulated by the Solicitors Regulation Authority), and **Licensed Conveyancers** (who are regulated by the Council for Licensed Conveyancers) are fully regulated and insured. In terms of handling your property transaction they will operate to almost identical conveyancing practices and procedures. However it's worth noting the main differences, because you're likely to see a price difference when you compare quotes.

Licensed conveyancers are specialist property lawyers, focusing largely on residential property, dealing with transactions like yours every day. A solicitor is a qualified lawyer, with extensive training in many aspects of law, and can offer full legal services such as divorce proceedings or taking someone to court. Engaging a solicitor to undertake conveyancing rather than a conveyancer may therefore cost more.

The best way to find the right conveyancer or solicitor for your purchase is to make sure you shop around and compare conveyancing quotes. This will help you find the cheapest, best rated or nearest conveyancer. When narrowing down your shortlist, you should look at the reputation of the conveyancer or solicitor and not just their fees. It's worth noting that some solicitors and conveyancers will offer a, 'no completion, no legal fee' guarantee – which means you won't have to pay legal fees if you don't complete (but you will still have to cover third party costs such as disbursements).

And The Survey Bit?

Well, after your mortgage provider completes their checks on your financial suitability, they'll want to carry out a valuation on the property you're buying. Whether your lender uses their own surveyor or an independent one to complete this part of the process, they'll check that the property's correctly priced and suitable for them to provide a mortgage on. There are three levels of survey available when considering your purchase:

- **Mortgage Valuation Survey -** The sole aim of the mortgage valuation is to satisfy the lender that the house you want to buy is worth the price you're paying – or at least the amount it's lending, before they approve your mortgage. A valuation survey just looks at whether or not the house is worth the asking price - won't point out repairs or structural problems that you will have to pay to fix. Generally, you will pay for the lender's valuation survey; typically £150 to £1,500. Often, lenders offer mortgages with free valuation surveys. If the property is valued below your offer price, you could then go back to the seller or the estate agent, and offer a lower price based on the lender's valuation.

- **Home Buyers Report –** This survey will help you find out if there are any structural problems with the property, such as subsidence or damp, as well as any other unwelcome hidden issues inside and outside, and will cost you on average about £400. The Home Buyers Report doesn't look beyond the floorboards or behind the walls. Some reports include a property valuation, so you might be able to revise your offer if the survey reveals a lower price than the mortgage lender's valuation. If there's no valuation included, you could use the report's suggestions for repairs to renegotiate the price. For example, if it's going to cost you £5,000 to carry out work on the property's damp walls, it's reasonable to offer £5,000 less than the asking price.

- **Building or Structural Survey -** This is the most comprehensive survey and is suitable for all residential properties, particularly older homes or homes that might need repairs. This type of survey typically costs upwards of £600 and provides detailed advice on repairs. It's very extensive and in some circumstances worth the extra money but it does not usually include a valuation. Although this survey can't look under floorboards or behind walls it should include the surveyor's opinion on the potential for hidden defects in these areas.

The surveyor should also provide information on potential repair options. Again, you could try to save money by comparing the details of the repairs required against the lender's valuation. Whether you have a basic survey or a full structural one – which is recommended for older or listed buildings – will determine the price you'll pay. With surveys though, it's a good idea to keep the old adage 'buyers beware' in mind. Paying for the most suitable survey earlier on could save you a lot of money and hassle further down the line.

STEP 7

The Home Stretch - This is the moment you've been waiting for - was your mortgage application successful? If it is, you'll receive an offer from the lender. It's really important to fully check and understand the terms of the contract you receive. You're making a big commitment that's likely to last for many years to come, so again you want to minimise the risk of any nasty surprises. Make sure you're happy with the mortgage product you're getting, and that you can cover any changes in your mortgage payments should they occur.

If you're happy with the offer from your mortgage provider, and all of the relevant searches and any enquiries regarding the property or your mortgage are resolved, you will need to pay the deposit to your solicitor and prepare for the exchange of contracts. To do this you need to make sure that the funds you're going to use are ready and accessible. Whether you're using money from a savings account or receiving a gift from a family member, you don't want to encounter any delays at this stage! You're nearly there!

If you were to be buying and selling at the same time, the funds you're receiving from the person buying your existing property will be used towards the deposit for your new one. However, this is your first time, and so once you transfer your deposit, your conveyancer will transfer it to the seller's conveyancer.

You're now ready to exchange contracts, at which point the deal becomes legally binding and the completion date will be fixed.

When the day of completion arrives, your conveyancer will use the money received from your mortgage lender to send the balance of the purchase price to the seller's solicitor.

As soon as the funds are received, you'll be able to pick up your keys and get started with your big move!

And now the fun begins! Decorating, furnishing, and generally making your house your home - so enjoy!

You definitely will have earned it!

Who Am I And Who Is More Than Money?

Well firstly, we're an actual family, Andy, Luke and Sam Stevens, we're the directors and leaders of our company and team. So, when we say it's our family looking after your family, we really do mean it.

We started More Than Money because we were fed up of people receiving bad advice, fed up of people not knowing what mortgage product they had and why, fed up of people (our potential customers) getting a bad deal! This is the fault of poor advisers, giving poor advice.

We also know the importance of having a mortgage, we have our own families, are our mortgages, as well as finding countless mortgages for people just like you!

Mortgages can seem confusing and believe us we know why! Banks and brokers can make it so. Let us do the hard work, we'll talk to you in your language, we won't make it harder than it needs to be and we have access to every type of mortgage in the UK... so trust us, we'll find you the right one.

It's our mission to get as many people as possible to understand how to insurer themselves, their family and their home or anything mortgage related, by giving them simple bite size information on our website, social media or through our books. If you still need to chat to us for extra peace of mind, to run a quote or a comparison, we're only a phone call away.

Me? Well I've run a very successful estate agency in Kent for over 20 years as well as being a fully qualified financial advisor. I hold a CII qualification in Mortgage and Protection advice (Which might mean nothing to you, but this is a very important qualification in our industry…)

I offer a 'No Win No Fee' service and can provide a FREE quote in no time at all.

Please contact me or my team TODAY!

01233 55 54 54

enquiry@morethanmoney.uk