Derbyshire™
Mortgage Services

First Time Buyer Mortgage Guide

Being a first time home buyer can be both exciting and daunting. We've created this in-depth first time buyer mortgage guide to ease any concerns, and make the process as stress free as possible.

Taking that first step onto the property ladder is an important moment in your life, and in order to buy your first home you will almost certainly need a mortgage. As one of the largest single transactions that you are likely to make in your lifetime, understanding what a mortgage is and what you are committing yourself to is vital. At Derbyshire Mortgage Services, our aim is to make sure that any first time home buyer has all of the help and information they need to find the best deal on their first time buyer mortgage for their individual circumstances. From the associated costs of buying a home that you might not even think of, to specific schemes and products for first time home buyers, this guide will be a handy source of information for your first time buyer mortgage.

Typically, you can borrow around **4 to 4.5 times** your income

1. Mortgages – The Essential Information

1.1 What is a mortgage?

A mortgage is a loan that you take out and secure against your property. You then make a series of monthly repayments over a number of years that are comprised of both capital (the original sum you borrowed) and interest. If you don't repay this loan as you have agreed, the lender can take possession of the property and sell it to retrieve the money you owe.

1.2 How much can I borrow?

The amount you are able to borrow for a mortgage will vary from lender to lender as well as depending on your own financial status. Typically, you can borrow around 4-4.5 times your income, but this will depend on the assessment the lender makes of your income and outgoings, and whether your income is comprised of basic pay, self-employed income, commission, overtime, or a variety of other forms of income. Our mortgage calculator can help to provide a rough estimate of the sum you could borrow, but if you'd like a more accurate figure, don't hesitate to contact one of our experienced advisors.

1.3 How much will my mortgage cost?

How much your mortgage costs you each month and overall will depend on how much you borrow, over how many years you choose to pay it off, and the interest rate on the deal you choose. Many first time home buyers will choose a mortgage that is paid off over a longer period of time as this makes monthly repayments more affordable, but this will mean that you ultimately pay more interest. There are also a variety of deals specifically for first time buyers, but these can vary from lender to lender and don't necessarily equal the best deal overall. Call us and we can give you an estimate of your monthly repayments for free.

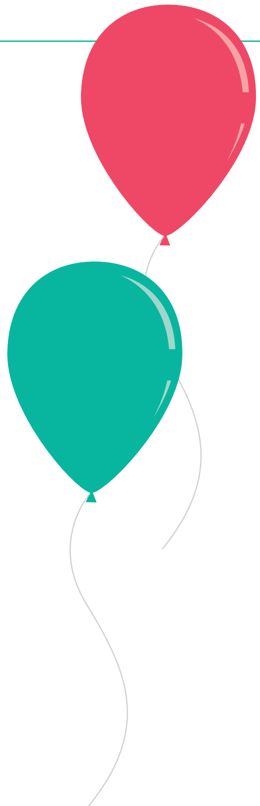
1.4 Where does my deposit fit it?

The purchase price of your home will be made up of a combination of your mortgage and your deposit. When purchasing any property and finding a suitable mortgage you will need a minimum of 5% deposit. The percentage that your mortgage then makes up of the purchase price is called the loan to value (LTV). For example, if you were purchasing a property for £100,000 you would need a minimum of £5000 deposit - with this deposit your mortgage would be £95,000, and you would have to select a 95% LTV product. The more deposit you are able to pay, the better interest rate you are likely to get on your mortgage deal.

1.5 What are the different types of mortgage?

The choice of mortgages can be overwhelming, which is why we're here to help find the type of mortgage which is right for you. While there are many different names for different types of mortgages, the most common fall into two categories: Repayment Mortgages and Interest-Only Mortgages. Repayment mortgages are the most common way of repaying your mortgage, where each month you will repay some of the capital and interest until you have paid back everything and own your home outright. Interest only mortgages are difficult to obtain without a repayment vehicle or a large amount of equity in your property. They will require you to just pay the interest month by month, but pay the capital outright at the end of the period – it requires a lot of planning to ensure you have a suitable repayment vehicle in place. Within these two categories, however, there are further variations:

- Standard Variable Rate (SVR) Mortgages are a rate determined by the lender. These tend to be higher rates and lenders can change these. The interest rate will also fluctuate as mortgage rates change.
- Fixed Rate Mortgages will hold the interest rate on your mortgage as fixed for a certain number of years (anywhere between 2 and 10!), before reverting to the lender's SVR. While on the fixed rate you will know exactly how much you will be repaying each month, but you could be stuck on a higher rate if other mortgage rates go down. You can get out of a fixed rate mortgage if you choose, but you will have to pay a charge for switching before the end of the period.



- Tracker Mortgages adjust in line with a nominated interest rate, typically the Bank of England base rate. For example, if your base rate is 0.5%, and there's an add-on rate of 1%, your overall mortgage rate will be 1.5%. Some lenders might set a minimum rate to how far your interest rate will drop, but there's no limit to how high it can reach.
- Discount Rate Mortgages are a reduction on the lender's SVR, but the discount will only last for a fixed period (often 2 to 5 years) before returning to the SVR. If the lender changes their SVR, however, this mortgage can also go up and down.
- Capped Mortgages are variable rate mortgages with a cap on how high the interest rate can rise, giving comfort that repayments can't exceed a certain level while you can still benefit from any decline in rates.

2. How much does it really cost to buy a home?

2.1 Stamp Duty

Stamp Duty Land Tax is a fee incurred by any property purchase over a certain value – at the moment this value sits at £300,000 for First Time Buyers. Stamp duty rates are the same in England, Wales and Northern Ireland, although they differ in Scotland. As a First Time Buyer the tax you pay will begin at 5% between £300,001 and £500,000, and thereafter rise steadily to 12% on properties over £1.5million in line with normal Stamp Duty rates, so don't forget to factor this into your budget and deposit if your property purchase price sits within this range. Use our stamp duty calculator to work out how much you will need to pay.

2.2 Insurance and Protection

It's so important to make sure that you and your dependents are protected should the worst happen. Although life insurance isn't compulsory in order to get a mortgage, it's essential to think about whether the mortgage could continue to be paid in the event of your illness, inability to work or death. Without repayments, your home is likely to be repossessed and sold by your mortgage lender to retrieve any money you owe, which could be a devastating circumstance for you and your loved ones.

Buildings insurance, however, is often a requirement of your mortgage lender. Ensure that you stay on top of your buildings insurance and continue to renew it so as not to break any agreement with your mortgage lender.

2.2 Legal fees

When purchasing a property, you will need to make sure you also hire the services of a solicitor to perform the necessary conveyancing. Some lenders might even offer the incentive of cashback towards legal fees on your first time buyer mortgage.

Although, make sure that your solicitor is part of a reputable firm as mortgage lenders are vigilant about mortgage fraud. We are happy to recommend a reputable local solicitor if you don't already have one in mind.

2.2 Surveys

For first time home buyers, some lenders might offer incentives such as free surveys, which can be a great upfront saving. There are three key types of survey that you can have performed on a property, both to satisfy the mortgage lender, and so you can gain more information before you commit to buying the property:

1. Basic Valuation: this isn't strictly a survey, but rather an inspection of and report made against the property solely for the mortgage lender to ensure that they are happy to lend against that property. The lender will appoint a Royal Institution of Chartered Surveyors (RICS) Valuation Surveyor, and will most likely charge valuation fees on a scale that reflects the value of the property. However, you might not even see a copy of this report, and it isn't a substitute for a full survey or Homebuyer's report as it may not pick up any defects or problems within the property.

2. Homebuyer's Report: a homebuyer's report is intended to demonstrate the soundness of a property and whether it is suitable for purchase at the agreed price. The survey is approved by RICS and covers the accessible parts of the property – it is more extensive, and correspondingly more expensive, than a basic valuation. It will specify major defects and, where possible, include a roof inspection, but include no details of remedial work. This survey is most suited for homes built within the last 80 years and up to 2000 square meters.

3. Building Survey (formerly a Full Structural Survey): this is the most detailed type of survey available, and also the most expensive. They can take hours to complete and cover all aspects of the property in great detail and, unlike other surveys, if a defect within the property that would've been present when the survey was carried out is found after the fact (such as woodworm or rising damp), you have right of recourse to the Surveyor. This detailed survey is best suited for older pre-1900 properties, large and unusual structures, properties which require large scale refurbishment or properties which have had structural problems in the past.

3. Helping you onto the property ladder

3.1 Specialist First Time Home Buyer Products

There are many available products from lenders that are tailored to first time home buyers, especially if you're struggling to save up your deposit. There are options that allow parents to help if they are willing to use some of their savings, and there are also products that allow for gifted deposits, provided this deposit is a genuine gift that is not expected to be repaid and the person gifting the money will not reside in the property.

3.2 Help to Buy

The government has created Help To Buy schemes which are designed to help buyers with a small deposit. The Help To Buy: Equity Loan scheme is due to run until at least 2020, and is only available for new-build properties. Under the scheme, you need to put down a 5% deposit, and the government will then lend you up to a further 20% of the property price interest free for the first five years. You then only need a mortgage to cover the remaining 75% of the property price, meaning a lower monthly repayment rate. After those first five years are over, you will then be charged interest on your loan from the government at 1.75%, and this rate will increase each year by the rate of inflation, plus 1%. While there is no maximum income requirement for this scheme, the property you are purchasing must cost £600,000 or less and be your only home.

There are also other specific help to buy schemes for London, Scotland and Wales, and a variety of Help to Buy ISAs you can also invest in.

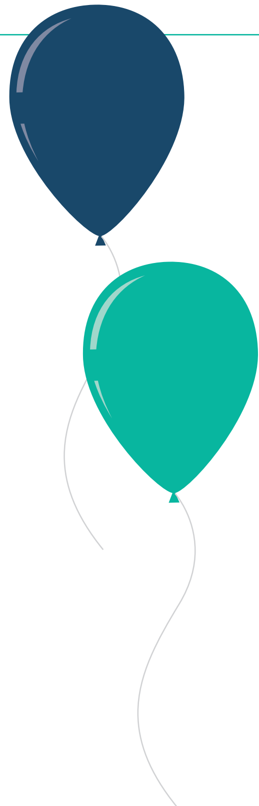
3.3 Shared Ownership

Shared ownership schemes are another way to get onto the property ladder, even if you are struggling to find the deposit or afford house prices in your area. Your ownership of your property is generally leasehold, while a housing association owns the rest of your property. In a shared ownership scheme you typically purchase between 25-50% of the property, using a mortgage to buy your share and paying the housing association a monthly rent on the portion they own. As a result, your initial deposit will be smaller, but remember that you will still be responsible for all of the bills and ongoing costs!

4. The Application Process

4.1 How do I apply for a mortgage?

With Derbyshire Mortgage Services you don’t need to worry about your first time buyer mortgage application because we do it for you! Once your offer on a home has been accepted, we will complete your application and send any requested documents across to the lender. The lender will then review the application and documentation and instruct a valuation on the property to ensure it is suitable security for lending. The cost of this valuation will depend on the lender – some offer a basic valuation for free, whereas others include it as an extra charge, but we will take this into consideration when finding you your mortgage deal. You may also wish to have a Homebuyer’s report done at this point. See our Valuation Guide for more information.



4.2 How important is my credit file?

A good credit file means that you are more likely to get a better mortgage rate, as you will be able to select from a wider range of lenders. All lenders will perform a credit check as they want to make sure that you can keep up with the repayments. To keep your credit score high, make sure you are on the electoral roll at your current address, avoid any unauthorised overdrafts and payday loans, and make sure you don't miss any other debt repayments. While credit issues can make applying for a mortgage more difficult, our advisors may still be able to help you, so it's worth getting in touch to see what we can do.

4.3 What is a mortgage in principle?

Once you've found your dream first home within your budget, many estate agents will ask you for a Mortgage in Principle to demonstrate that you can afford the offer you make on the property. This might also be referred to as an Agreement in Principle or a Decision in Principle – don't worry about the different terminology, they all mean the same thing! It is a statement from the lender to say they would lend a sum of money, following an initial assessment of your circumstances and completion of a credit check.

4.4 What is a mortgage offer?

Once the property valuation is complete and the lender is happy with all aspects of your application they will issue a mortgage offer to both you and your solicitor. We will also be happy to go through this offer with you to ensure that you understand it. This mortgage offer is confirmation that the lender will provide you with a particular mortgage.

4.5 What happens after you move in?

Once you move in to your new home, you'll find you face other regular ongoing bills alongside your mortgage repayments, including council tax and energy bills. You'll also need to ensure that you renew your home insurance every year. It is also important to consider your protection needs to make sure you and your loved ones can stay in your home, should you become ill or die. When calculating the monthly mortgage repayments that you can afford, make sure to factor in these other monthly and annual charges.

If you find you need to remortgage your property or you want to change mortgage lender, why not take a look at our other guides, or get in touch with us to find out more information.

5. What Next?

We hope that this guide has been useful for helping you plan your first step onto the property ladder. Our priority at Derbyshire Mortgage Services is always to find the best deal on a mortgage that is suited to you and your circumstances, and our dedicated team of expert advisors will be with you every step of the way, from first meeting until the day you move in.

We will never charge you for our services, so if you're ready to start your journey to your first home, or if you have any queries, or even if you're just considering your options for the future, why not give us a call on 01332 554098 and let us help you start planning today.