PROSPECT

What you need to know

Mortgages

Helping Guide you on your Journey

Independent Mortgage & Protection Advisers | Isle of Wight

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Relationships

Buying a home may well be one of your biggest financial commitments and it can seem daunting. To be able to navigate the mortgage maze you will probably require the services of a number of reliable professionals. With Prospect Mortgage Services, not only do you have the backing of our friendly and experienced advisers but, should you wish it, you also have the optional support of locally recommended professionals.

- **Estate Agents**
- **Solicitors**
- **Accountants**
- **Letting Agents**
- **Surveyors**
- **Insurance Specialists**

Questions?

What is a mortgage?

A mortgage is an agreement between a lender and a home-buyer to provide the home-buyer with a loan to purchase a property. In return, the home-buyer will give the lender a 'charge' over the property which is legally binding, so that the lender has rights to ensure that payments are made. If the home-buyer defaults on the loan, the lender can repossess the property and sell it to pay the loan.

How much can you borrow?

Lenders will assess your financial status and, if they are happy, they will lend to you based on your calculated affordability. Traditionally, this has been set at four-to-five times income, although some lenders would lend more. The calculation for lending usually considers guaranteed earnings, with overtime and bonuses considered at an agreed reduced level. If employed, your lender will need to see some recent payslips and may also check your income details with your employer.

If you are self-employed, usually your last two-to-three years accounts may be needed, although some lenders will lend based on one years accounts.

You will also be asked about your regular outgoings such as credit cards or personal loans, to assess your existing financial commitments. Some people can find it difficult to meet lenders' affordability criteria, especially if circumstances are a little outside the ordinary – if so, talk to us. We might be able to help find the right lender for you.

How much Deposit?

Normally, you will need to put down a deposit of at least 5% of the value of the property, payable on exchange of contracts. A few lenders will offer Shared Ownership/Equity mortgages. Generally, as a rule of thumb, mortgages involving smaller deposit usually carry higher interest rates, due to the increased risk factor for the lender.

What is a Mortgage Offer?

If a lender accepts your application for a mortgage you will receive an 'Offer of Mortgage' from your chosen lender detailing the conditions of the loan. A copy automatically goes to your chosen solicitor.

What happens on Exchange?

On exchange of contracts, your deposit will be lodged with the solicitor, and from this point you are legally committed to purchasing the property. After this point, it is not normally possible to withdraw from the purchase without forfeiting the deposit and other fees. So, before exchange, it is imperative that you understand all the details of your commitment. Never commit yourself financially until you have a formal mortgage offer in writing, the contents of which you are happy with. All necessary insurances need to be in place by the time of exchange, as from this point you are responsible for anything that happens to the property.

When is Completion?

This is when the property finally changes ownership, at a date agreed between you and the vendor. It usually occurs shortly after exchange. Your solicitor will complete the legal documentation and arrange for the mortgage money to be paid to the vendor's solicitor. You will have to arrange to collect the keys to the property, which are usually held by the estate agent.

More Questions?
Book an appointment online to speak to our friendly adviser team

Charges?

The cost of buying a home can be expensive, especially if you're buying for the first time. As well as meeting the monthly repayments for your new home you need to plan for a number of other charges:

Solicitor's fees

You will need to pay a solicitor legal fees for the conveyancing. Also, the cost of land registry charges and local search fees will be passed to you. Ensure you ask us or your solicitor for an estimate of charges before they start work.

Surveys

You may have to pay for a surveyor to value your prospective new home. The lender's Valuation Report is undertaken primarily for the lender's benefit, but you may be allowed to see a copy of the report. The report will tell the lender if there is something seriously wrong with the property. You may wish to instruct a more detailed survey of the property for yourself. This will be an additional cost to you but it could prove to be money well spent. We have an information leaflet all about this on our website.

Stamp duty

Stamp duty is a Government Tax on property purchases above a specified amount. You pay on increasing portions of the property price above £125,000 when you buy a residential property. We have an excellent Stamp Duty Calculator on our website to help you calculate this cost.

Application Fees

Some mortgage lenders charge an application fee to cover their initial administration costs. Be aware that not all charges are refundable if your purchase falls through. Some lenders offer mortgage deals that will cover all or some of these fees.

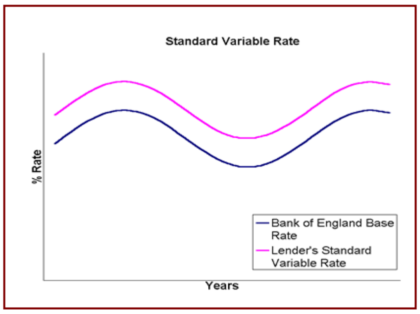
Early Repayment Charges

Many mortgages have financial penalties for early payment or switching mortgage type. These charges may apply for the entire term of the loan or for a limited period. Your mortgage adviser will ensure that you are made aware of any potential charges.

Mortgage types?

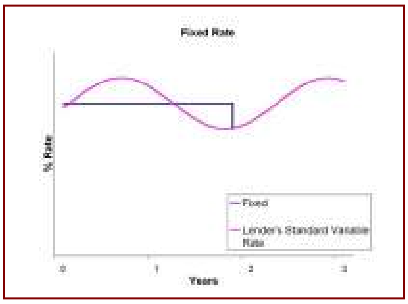
There are a wide range of mortgage types to suit different purposes. Your mortgage adviser can help you determine which is the most suitable type for your circumstances.

Standard Variable Rate (SVR)



Variable rate mortgages are the most familiar type of loan. The interest rate you pay goes up and down during the lifetime of the mortgage, broadly in line with interest rates imposed by the Bank of England. When the variable rate rises, the amount you have to pay rises, and when the rate falls the amount you have to pay falls.

Some lenders offer a way of levelling out interest rate changes over the year. In this way your payments only change once a year. This usually doesn't affect payments overall, but it does make it easier to budget for the year ahead.



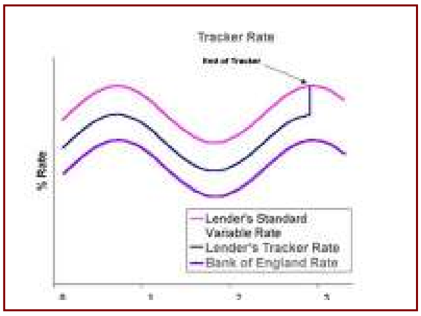
Fixed Rate

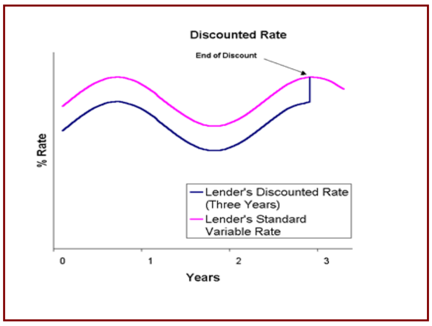
A fixed rate mortgage gives you a guaranteed rate of interest for a set period of time, after which it reverts to a standard variable rate. This situation can be very comforting if you have a large mortgage or a tight budget as you can ensure a fixed payment for an agreed term. These are the most popular mortgage arrangements.

Bear in mind that, although you benefit when interest rates rise, you do not benefit when interest rates fall. You should think carefully about how long you want to be locked into a fixed rate. Fixed interest rate mortgages can have expensive charges if you want to switch during the fixed term.

Tracker

A tracker mortgage broadly tracks the Bank of England base rate. Whereas standard variable rates change monthly or annually, a tracker mortgage will usually change within 14 days of changes to the bank base rate. Thereby, the borrower benefits from both falls and rises in the interest rate sooner.





Discounted Rate

Some lenders offer a discount on the SVR rate they normally charge borrowers for a limited time, at the start of a new mortgage arrangement. After this the mortgage reverts to a standard variable rate. The important thing to keep in mind is the amount by which your payments will increase at the end of the discounted term, as this could be substantial.

Cashback

Some lenders offer cash-back mortgages where a set amount is paid to the borrower shortly after a purchase completes. These deals can be appealing, particularly to first-time buyers, who may need monies to buy home furnishings for the first time.

Flexible

A flexible mortgage still follows the interest rates imposed by the Bank of England, but it allows you to vary or even suspend payments for set periods. You can make overpayments to reduce the outstanding loan or build up a reserve to draw upon in the future. A flexible mortgage could give you the opportunity to repay your mortgage early, if planned effectively.

Lifetime Mortgages

Usually referred to as Equity Release Mortgages, these arrangements are only available to homeowners over 55 years of age. A Lifetime Mortgage allows you to retain full ownership of your home, but you obtain a loan secured on it. This loan can either be taken as a lump sum or be used to buy an income (such as an Annuity), and in some cases both. The loan lasts until you, or in joint cases the last survivor, dies or sells the home. There are many safeguards in place related to these types of mortgages and if you think that it could be right for you, speak to your adviser.

Repaying?

Repayment / Capital & Interest

A repayment mortgage works in the same way as most other loans, you pay a regular monthly payment that covers the capital borrowed as well as the interest. Provided you always keep up with payments, at the end of the term you will have repaid the loan in full.

Interest Only

With this type of mortgage, as the name implies, you repay only interest. The capital you owe remains constant throughout the mortgage term. In most cases, lenders grant this type of repayment method on the condition that there is a suitable strategy in place to repay the capital at the end of the term. It is your responsibility to ensure that you have enough funds at the end of the mortgage term to repay the loan. We can arrange further advice on these if required.

Protection?

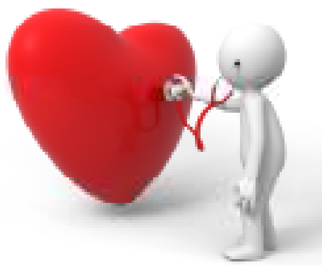
Some lenders will only provide a mortgage if certain conditions are met. Your adviser will notify you of any insurance conditions with your mortgage choice and can ensure these policies are put in place for you:

Buildings and Contents / Landlords Insurance

Most lenders include arranging Buildings Insurance as a condition of the mortgage contract. Your mortgage lender might tell you the minimum amount you need to insure your property for when you take out your loan.

Life Cover & Critical Illness Cover

This form of cover is designed to ensure that your family or dependants have the money to repay the loan in full if you were to die unexpectedly during the term *of* the policy. A critical illness plan provides you a lump sum on diagnosis of a specified critical illness, such as cancer or heart disease. You can use these monies however you wish, including paying off your mortgage or covering the costs of any long term care.



Income Protection

An Income Protection Plan is designed to replace lost earned income. This helps you to continue to meet monthly household expenses if you are unable to work for a set period due to sickness or accident. Specifically, it can help you to continue to meet your monthly mortgage payments, ensuring that your home is safe.

Family Income Benefit (FIB)

Designed for parents with children, this type of policy provides a regular, tax-free, monthly (or annual) payment, for your dependants if you were to die for the duration of the term of the policy.

So, what now?

Obtain an Agreement in Principle

Contact your adviser to get a mortgage agreed in principle/decision in principle. This will make buying your home a lot quicker. Then register with several estate agents to increase the chances of finding your ideal home.

Make an Offer

Make a formal offer on a property, 'subject to contract', once you have found the property you want.

Complete your Mortgage Application

Your adviser will then collect the relevant documentation from you to complete a formal application for a mortgage with the lender you have selected.

Appoint a Solicitor

The solicitor you choose must be acceptable to your lender, as they will act for the lender. The solicitor's main task is to handle the conveyance, which is drawing up the contracts and ensuring that there are no restrictions in place affecting the property.

The Survey

The lender will ask an approved surveyor to conduct a 'valuation report' on the property. You may want to have a more comprehensive survey carried out at this time to ensure that it is in sound condition.

Review the Valuation Report

This will either approve your mortgage or approve it subject to some conditions (e.g. some repair work being carried out). Your estate agent might be able to arrange for the seller to pay for this work or to reduce the asking price accordingly. If not, and if you still wish to proceed, get quotes for the work and appoint a firm. The surveyor will usually carry out a further inspection to ensure everything is satisfactory.

Receive the Mortgage Offer

The lender will confirm the agreement of the loan in a formal Mortgage Offer to you.

Arrange your insurance policies

Your adviser will help you choose suitable cover and arrange for the appropriate applications to be made so that they are all offered and ready for your exchange date.

Your solicitor acts for you

Your solicitor complete their searches and legal checks and will draw up the contract for you to sign. Speak to your solicitor for further information.

Contracts are exchanged

Your solicitor will arrange for contracts to be exchanged between you and your seller. You will also need to transfer your deposit monies to your solicitor ready for completion. Exchanging contracts legally commits you to buying the property. Your solicitor will now give you a completion date.

Start planning your move

This could include contacting a removal firm, if you need one.

Completion date

Contact the estate agent and arrange to collect the keys. Move in!

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What about the future?

Further Advances

Once you've been in your home for a few years, you might think about making major improvements. One way to raise money for home improvements (extension, conservatory, driveway...) is to add a further sum to your mortgage. This route, known as a further advance, is often the cheapest and easiest option.

Re-mortgages

Many homeowners change lenders every few years to take advantage of better mortgage deals. This is known as re-mortgaging. It is very important to check with us to see what charges, e.g. early repayment fees, you might incur before moving your mortgage.

What if you hit financial difficulties?

It's vital not to over-commit yourself, either by taking on too large a mortgage or by incurring other debts. If you do find yourself falling behind with mortgage payments, contact both your adviser at once. Your adviser will assist you in considering ways to try to overcome the difficulties. If you're concerned about this, your adviser can help you plan a sensible budget.

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