

A guide for a...

FIRST TIME BUYER



BluechipFinancial



Table of Contents



Introduction	I.
The Application Process	II.
Useful Documents to Gather	III.
Property Valuations	IV.
Conveyancing	V.
Interest Rates/ERCs/Fees	VI.
Repayment Methods	VII.
Deposit/LTV	VIII.
Stamp Duty	IX.
Affordability	X.
How can a broker help you?	XI.

Introduction



Who can benefit from this guide?

Anyone wanting to buy a property who would like further assistance on obtaining a mortgage. Applying for a mortgage can be complex and this guide should go towards navigating you through the buying process.

We will go through what you need to have ready to help with finding the right deal for you and the mortgage application process.

First Time Buyer: Someone who has never owned a major interest in a residential property in the UK or any other country and intends to live in the property as their main residence. This is applicable even if buying with someone else. To qualify for First Time Buyer rights, all parties purchasing the property must be First Time Buyers.

Product/Rate	The interest rate applied to the mortgage
Agreement in Principle (AIP)	A certificate from the lender confirming how much they are prepared to lend based on income.
Lender	The provider/bank for the mortgage
Loan to Value (LTV)	Percentage of the property value you are borrowing.
Mortgage	A loan to buy a property. This is secured on your home (unlike a personal loan which is 'unsecured').
Mortgage Term	Length of time to repay the loan.

The Application Process



Pre-Application

You first need to provide all your details and documents so we can review your income, expenditure, credit and deposit to determine your affordability and eligibility with lenders.

Applying to the lender & Property Valuation

Once you have the property you want to buy, we will review the market for the best lender option for you and look to submit a mortgage application. Here the lender verifies your ID, income and deposit. They will also instruct a valuation on the property you are buying to confirm the value and that it is a suitable security to lend on.

Conveyancing

After the lender has completed all checks and they are happy, they will issue you with a formal mortgage offer. It will then be down to your solicitor to progress this through to completion.

Useful Documents to Gather



Category	Acceptable forms
Name ID	<p>Valid Passport - <i>If providing a non-UK passport, you will need to provide Right to Reside also</i></p> <p>Valid Driving Licence - <i>Full or provisional</i></p>
Address Verification	<p>Bank Statement - <i>dated within the last 3 months</i></p> <p>Council Tax Bill - <i>dated within the last 12 months</i></p> <p>Utility Bill (Gas, Electricity, Water, Landline - not mobile) - <i>dated within the last 3 months</i></p> <p>Government Issued Correspondence (Tax Letters, Benefit Statements, Official Government Notices) - <i>dated within the last 12 months</i></p> <p>Credit Card Statement - <i>dated within the last 3 months</i></p> <p>Driving Licence (if not used for name ID)</p>
Employed Income	<p>Latest 3 months payslips and P60</p>
Self Employed Income	<p>Latest 3 years tax calculations and corresponding tax year overviews</p> <p>Latest 3 years full accounts</p>
Bank	<p>Latest 3 months showing:</p>

Statements	<ul style="list-style-type: none"> • Account Holders Name • Sort Code • Account Number • Running Balance • All credits and debits <p><i>If employed - they need to match the last three payslips you have provided</i></p> <p><i>If self employed and have a separate business account, please provide 3 months of this account</i></p>
Proof of Deposit	<p>Latest three months to evidence savings. <i>Any large transactions will need to be clarified and further evidence to show source of funds may be requested</i></p> <p>For funds within an investment portfolio - a portfolio dated within the last 12 months</p> <p>For Bonds - the latest statement dated within the last 12 months</p> <p>If receiving a gifted deposit - a signed letter from the donor confirming their name, the amount, relation to you and that the funds are non-repayable and non-interest bearing on the property. 3 months of the donor's bank statements also required to evidence source of funds. If the gift has been transferred, this needs to be 3 months prior to the transfer. <i>Any large transactions will need to be clarified and further evidence to show source of funds may be requested</i></p>
Other	<p>Credit file - <i>we recommend Check My File as this covers 3 different agencies</i></p>

Property Valuation



Mortgage Valuation (Standard)

Minimum valuation required by a lender confirming the property value and that it is suitable security to lend on.

The lender will instruct this and can sometimes be a desktop/drive by. A desktop (AVM) or drive by means they will not physically enter the property.

Home Buyer Report

A more in depth survey that you can opt for, the surveyor will also look at the condition of the property, visible defects, advice on repairs/maintenance and confirm the risk of any issues.

Building Survey

This is the most comprehensive type of valuation available where the surveyor will complete a full structural inspection, provide a detailed analysis of issues, provide advice on repairs/maintenance as well as potential costs risks to property issues.

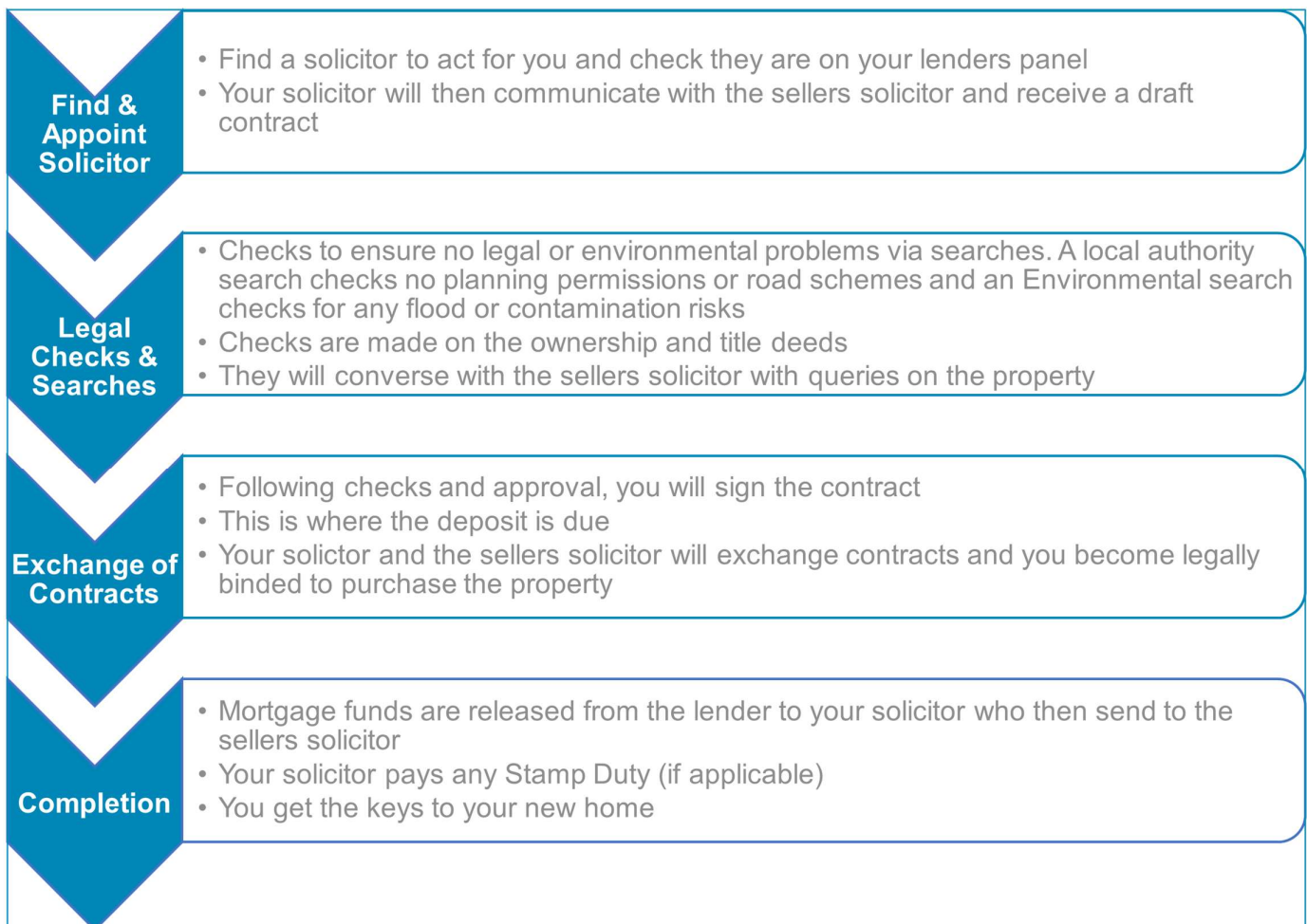
This could be useful for an older property or a property in need of a renovation.

Conveyancing



What is Conveyancing?

The legal process of transferring ownership of a property from the seller to you, the buyer.



Interest Rates/ERC's/Fees



Interest Rates

A percent on top of the loan that is added to monthly payments, for borrowing money from the lender.

Fixed	Tracker	Discount	Capped	Standard Variable Rate
<ul style="list-style-type: none"> • Rate stays the same for a set period (1-10 years) • Monthly payment remains the same for the interest rate term • ERCs are payable if mortgage repaid within the rate term 	<ul style="list-style-type: none"> • Rate tracks the Bank of England Base Rate • Can go up or down if the Bank of England reduces/increases rate • Often are ERC free 	<ul style="list-style-type: none"> • Certain amount below the lenders Standard Variable Rate • Can go up and down depending on if the Standard Variable rate increases/decreases • Often ERC free 	<ul style="list-style-type: none"> • Variable rate with safety cap so it cannot go above certain limit. • Rarely available • Able to benefit from rate reductions and protected in rate increases although tend to be a high cap and starting rate tends to be high. 	<ul style="list-style-type: none"> • Every lender has their own • The automatic rate your mortgage will be on if you do not renew your product at the end • Typically, high and would increase/decrease alongside the Bank of England Base Rate

ERCs (Early Repayment Charge)

A fee charged by the lender if you repay your mortgage sooner than the applied term. A charge may also occur if paying off a lump sum that is more than your overpayment* allowance.

For example, if you had a £200,000 mortgage that had an Early Repayment charge of 3% you would need to pay an additional £6,000 to repay the mortgage early.

***Overpayments** - a way to pay more than your monthly payment to reduce your loan sooner and the amount of interest you pay over the mortgage term. This can result in the mortgage ending sooner. The typical allowance is 10% of your mortgage balance per annum. Anything over this would result in an ERC.

Fees

When considering a mortgage to buy your first home, you also need to consider the fees involved. See below what fee's you can expect:

- **Arrangement fee** - This will either be a set fee or a could be based on a % of the loan amount. Whether there is an arrangement fee will depend on which interest rate product you choose. It is a fee that can be added to the loan but by doing this it means you will be paying interest on the fee for the length of the loan.
- **Admin fee** - Some lenders charge this and is often described as non-refundable should the application not proceed for whatever reason.
- **Valuation fee** - Covers the cost of a valuation which is required for lending purposes. Some lenders do offer the option of a free valuation, but this will only ever be a standard valuation.
- **Legal fees** - Costs for your solicitor to complete legal work required with purchasing a property. Costs for the searches required will also be due to your solicitor.
- **Stamp Duty** - Due to the Government and paid by your solicitor. Please see page IX for further details on this.
- **Funds Transfer Fee/CHAPS** - Charge to the lender for sending the funds to your solicitor. The fee covers the cost of making the transfer same day and secure.

Offset Mortgage

This is essentially a mortgage and a savings account in separate pots but with the same lender. The savings you accumulate reduces 'offsets' the interest you pay on your mortgage.

For example, if you have a mortgage of £250,000 and savings of £30,000 you will only pay interest on £220,000.

Your mortgage payment would remain the same but the savings act as an overpayment to eliminate interest and help to reduce the mortgage sooner.

The savings can be withdrawn whenever but once taken, they are not able to offset mortgage.



Mortgage Term & Repayment Methods



Mortgage Term

This is the length of the mortgage you choose to pay the loan over. The longer the term, the longer the loan but the cheaper the monthly payments are. A shorter term would result in a higher monthly payment, but your mortgage would end sooner leaving you with a mortgage free property.

The mortgage term is different to the rate term; the rate term is how long your interest rate is for. You would select a new interest rate within your mortgage term.

Typically, you would want this term to end before your retirement age. However, it is possible to have a term that lends into retirement. A lender would look at your future income, following retirement. It is important to note that your income post-retirement will be likely be less and you would be relying on pension, savings and investments.



What is a repayment method?

This is how you will pay back the loan to the lender over the mortgage term. There are different types of repayment methods and understanding these are important as it affects monthly payments/when the loan will be repaid.

Repayment (Capital & Interest)	Interest Only
<p>The monthly pays off both the capital of the mortgage and the interest on the loan.</p> <p>As your balance reduces over the term of the mortgage, your monthly payment will go more towards repaying the capital but at the start it will mainly go towards the interest.</p> <p>At the end of the mortgage, the loan will be fully repaid.</p> <p>This is lower risk method and ensures you have no outstanding debt at the end of the term.</p> <p>Monthly payments are higher via this method.</p>	<p>The monthly payment only repays the interest on the mortgage, none of the capital.</p> <p>At the end of the term, the amount you borrowed will remain outstanding.</p> <p>With an Interest Only mortgage you must have a repayment plan in place to cover the outstanding capital at the end of the term. These can be:</p> <ul style="list-style-type: none">• Sale of property (you would need to have a plan for an onward residential, for example would you downsize?)• Investments• Pension Lump Sum• Savings <p>This method allows you to benefit from a lower monthly payment but is a higher risk option.</p> <p>Most lenders have more restrictions on this method so can be harder to qualify for an Interest Only method.</p>

Deposit/LTV



Deposit

You should look to have a deposit together when looking to purchase your first home. This is due on completion of the purchase and is paid via your solicitor. A deposit is typically from 5% of the property value and the remainder of the property value is borrowed from the lender as a mortgage.

Example if you buy a house for £250,000 and put down a 10% deposit, you will be putting down £25,000 and borrowing £225,000 from the lender.

The lower the deposit, the higher the interest rate as you will fall into a higher Loan to Value bracket. You will also be looking at higher monthly repayments if you put down a small deposit.

Your deposit can come from various sources, for example if you are receiving a gift of £10,000 and you have savings of £10,000 you can put these together as a full £20,000 deposit.

See below of an example on how different Loan to Value can impact interest rates. We will continue to use £250,000 as the property value.

Deposit/LTV	5% (95% LTV)	10% (90% LTV)	15% (85% LTV)	25% (75% LTV)	35% (65% LTV)	40% (60% LTV)
Interest Rate	4.64%	4.10%	3.85%	3.85%	3.84%	3.72%
Loan Amount	£237.5k	£225k	£212.5k	£187.5k	£162.5k	£150k
Monthly Payment	£1,223.21	£1,087.20	£996.22	£879.02	£760.89	£692.12

**Based on a 2 year fixed rate Capital & Repayment mortgage, over a term of 30 years*

Types of deposits & buying schemes

Lifetime ISA (LISA) - This is an ISA the Government launched in 2017 and is designed to help individuals buy their first home or save for retirement. To be eligible you must be aged between 18-39. You can deposit up to £4,000 **each tax year**, this can be cash savings for you to gain interest or stocks and shares investing to get share growth (or loss). The state will then add a 25% bonus on top with the maximum bonus being £33,000. The ISA can be used to purchase your first home if the property is less than £450,000. If you are buying in joint names with both of you being FTBs you can both use your LISA savings and bonus.

Help to Buy ISA - This is a scheme which has now been closed to new applicants but if you have one already, you can still use this. You can look at transferring to LISA, but it would be a good idea to take advice on this.

Shared Ownership - This is a scheme which allows you to purchase a share of a property. Usually run by housing associations and you are typically able to buy between 10-75% of the property. You would then pay rent for the remaining share of the property. Over time, you can look to buy more shares.

The housing association will decide if you are eligible based on your earnings the cost of local housing. Some places will factor whether you have children as they may prioritise families. Some housing associations may also prioritise key workers: nurses, teachers, military, police.

To go with this option, you would need a lender that allows this type of purchase.

Help to Buy Equity Loan Scheme - This is available in England only; Scotland and Wales have their own schemes. You can obtain this on new build homes only and availability varies depending on where in England you are buying. This is a government interest free (for the first five years) loan of 20% of the purchase price (can be up to 40% in Greater London). You must have a 5% deposit and meet criteria. Providing you are eligible; you would then raise a mortgage of 75% LTV.

This scheme allows you to access cheaper rates as you are in a 75% LTV bracket however you must consider that you are not only taking a mortgage, but a new loan too.

Interest after 5 years is around 1.75% and then you are only paying the interest rather than the loan itself. You would look to repay the loan back when you eventually sell the property for 20% of the sale price. This means if the property value increases you will repay more than you originally borrowed but if the value drops you will repay less than originally borrowed. If you want to repay sooner the property value will be assessed.

Example: Purchase price of £250,000, you need a deposit of £12,500 and the government would lend you £50,000. The mortgage loan would be £187,500.

If you then sold the property for £300,000 - you would pay the government back £60,000 which is £10,000 more than you originally borrowed.

Joint borrower, sole proprietor (JBSP) - A type of mortgage where multiple people are responsible for the mortgage payment but not all applicants on the mortgage legally own the property. The owner (sole proprietor) is the person on the property deeds, and the joint borrowers are there to boost affordability whilst not owning the home. This helps you to borrow more money if you cannot raise your required loan alone.

A common theme with this is an individual buying their first home and their parents being on the mortgage to allow for all incomes to be considered when raising a loan amount, but the parents will not legally own the property.

Loan to Value (LTV)

This is how much you are borrowing compared to the value of the property. The figure will be a percentage (mortgage amount / property value = LTV%). On a £175,000 property, with a £17,500 deposit, you would take a mortgage of £157,500 giving you a loan to value of 90%.

The higher the loan to value, the higher the risk is for the lender which is why interest rates are typically higher.

As the term goes on, typically your property value should increase whilst you are paying down your mortgage. As time goes on your LTV should reduce however if property values fall, your LTV will increase. You could end up in negative equity if this was to happen which is where you owe more than the property is worth.

$$\frac{\text{Loan Amount}}{\text{Estimated Value}} = \text{LTV}$$

Stamp Duty (SDLT)



What is Stamp Duty?

SDLT stands for 'Stamp Duty Land Tax' and is a tax due to the government when buying property or land. It is a one-time fee due.

The good news is that as a First Time Buyer you do not have to pay this for properties up to £300,000. This is a tax discount called First Time Buyer Relief. For properties over £300,000 this does become due and the amount goes up depending on the value, see below Stamp Duty Rates as a First Time Buyer.

Property Price	Stamp Duty
Up to £300,000	0%
£300,001 - £500,000	5% on the amount over £300,000 (e.g. for a £400,000 property you would pay 5% on £100,000 of the property)
From £501,000	No relief

Payment of SDLT is made via your solicitor to the HM Revenue & Customs within 14 days of completion. You will need to use your own funds as this cannot be covered by the mortgage.

Affordability



Reviewing your affordability

It is important to review your income and expenditure when considering taking out a mortgage on a property so you can look at how much you can afford. This will avoid potentially future financial stress if you could not maintain a mortgage repayment.

A lender will also undertake this check, but it is important you do it yourself as you can work out a budget before applying.

To start, you need to look at your income - consider all guaranteed income you receive a month (salary, bonus, overtime, benefits, secondary job, etc.). With this figure you need to take your net (take home) paid income.

You then need to look at outgoings, it is important to base this on your future living situation, for example if you live at home with family you need to consider that you will be paying for utilities, council tax, broadband, etc. See below list of expenditure to review when assessing affordability:

- **Utilities: gas, electric, water**
- **Council Tax**
- **Building Insurance**
- **Service charge/ground rent if purchase a leasehold property (most flats will be leasehold)**
- **Broadband**
- **TV Licence**
- **Groceries including food & household supplies (cleaning supplies, etc.)**
- **Transport: fuel, car tax, car insurance, public transport**
- **Childcare, school or nursery costs**
- **Credit card repayments**
- **Personal loans/car finance**
- **Student Loan**
- **Lifestyle costs: gym memberships, subscriptions (Netflix, beauty, etc.), hobbies, eating out, holidays**
- **Savings**

You should also consider any future changes to your income that may occur, for example if you are planning to start a family - what your affordability will look like with maternity/paternity pay.

Credit

Your credit score will play a part in the mortgage application process, so it is a good idea to review this. A credit score is based on how well you manage your credit, and a lender will look at this to check bills/loans/credit have been paid on time, your exact owed credit and if you have any previous adverse. You can obtain a copy of your credit file (which will show your credit score) from the below agencies. But it is important to know that each agency score differently so the number could differ.

-  experian™
- **EQUIFAX**
-  TransUnion ^{tu}

Check My File is a credit reporting service that offers your credit report with data from all three agencies, giving you a clear picture of your credit.

Tips to improve your credit score:

- If you have no credit, this can lower your credit score
- Register for the electoral roll
- Ensure you do not miss payments
- Limit how often you use 'buy now, pay later'
- Keep credit card balance low as lender will look at how much available credit is being used up, the more you use the higher risk you will be deemed
- Avoid applying for loads of credit
- Check your report regularly for any errors/mistakes
- Ensure your address is up to date
- Contact credit agencies to de-link yourself from past relations
- Close unused credit cards

How much could you borrow

Lenders will look at income and multiply by an amount (e.g. 4.5) to get how much can borrow. They will then review your outgoings including debt, bills, etc. Your outstanding debit could be factored even if you plan to repay this prior to completion of your mortgage.

If you are deemed high risk by the lender due to using a lot of your available credit, this could limit the lending they offer.



How can a broker help?



Research whole market	Review criteria and eligibility	Review affordability	Look to find you the best deal
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We can review the whole market to see which lender is offering the most competitive deal. Some lenders also offer exclusive deals to brokers, a deal you would not be able to obtain going direct.

We can review criteria for lenders to check you meet all requirements such as employment type, deposit, etc. This can save you time as we would not recommend a lender you do not fit criteria for.

Once we have all your information/documents we can look at your income, expenditure, credit and deposit to look at affordability. Based on your income we can look to see how much lending you could have.

As we can review the whole market we can look at the most competitive deal for you that you meet criteria for. A lot of First Time Buyers will contact their bank however this may not be your best option.

Obtain an AIP	Process the application	Support through conveyancing stage	Support throughout the whole process
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We can apply for AIPs with lenders for you. This confirms how much you can borrow and can help when viewing properties

We will submit the application to the lender and process your information/documents to satisfy lending requirements.

Once you have your mortgage offer, we will continue to monitor the progress with solicitors to ensure it is all on track.

We are here as general support throughout the whole process. Available to answer any queries, explain the process and provide any recommendations.



Contact us



Expert mortgage advice tailored to you

www.bluechip-financial.co.uk

Your home may be repossessed if you do not keep up repayments on your mortgage

17 Moor Road,
Broadstone, BH18
8AZ

01202 692222

office@bluechip-
financial.co.uk