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financial services

First-time buyers guide

FIRSTXTRA FIRST-TIME BUYERS GUIDE

Buying your first home should be one of the happiest and most exciting times of your life. However, it can also end up being stressful and overwhelming.

It can be difficult to know where to begin. That's why we've put together a useful guide that will explain everything you need to know as a first-time buyer.

At FirstXtra, our friendly team are here to help you every step of the way and make buying a property as stress free as possible.

HOW IS A FIRST-TIME BUYER DEFINED?

A person is generally classified as a first-time buyer if they have never owned a freehold or had a leasehold interest in a residential property in the UK or abroad.

You won't usually qualify as a first-time buyer if:

- You previously inherited a property or were given one as a gift
- You previously acquired a property through a financial institution on behalf of a person under an alternative finance scheme
- You were added to the title deeds of a property that somebody else purchased

ARE THERE ANY BENEFITS TO BEING A FIRST-TIME BUYER?

Stamp duty discount

Although from time to time there are special Government incentives for Stamp duty the standard rates for first time buyers are set out below.

This means you'll pay:

- no Stamp Duty Land tax (SDLT) up to £300,000
- 5% SDLT on the portion from £300,001 to £500,000

You're eligible if you and anyone else you're buying with are first-time buyers.

If the price is over £500,000, you follow the rules for people who've bought a home before.

No wasted rent

Another benefit to buying your own property is that you are investing in in Bricks and mortar and therefore hopefully building equity over the years with the end goal of ownership rather than it going in to your landlords pocket.

That means your monthly payments will solely be going towards paying off your mortgage, rather than it being 'wasted' on rent.

WHAT IS A MORTGAGE?

A mortgage is a loan taken out to buy a property (or in some cases, land). The majority of mortgages for first-time buyers are for 30 or 35 years, but the term can be shorter, or longer depending on your circumstances.

In most cases, before you're able to get a mortgage, you'll need to save up to 5% or more of the property price as a deposit and borrow the rest from a lender such as a bank or building society. However, the greater the deposit amount you can achieve will help you secure a mortgage and achieve a more favourable interest rate.

The 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 your home and sell it so they can get their money back.

Paying your mortgage isn't really any different from paying rent, but instead of paying a landlord, you give your money to a lender and once the debt is all paid off, with interest, the home is yours.

HOW CAN I GIVE MYSELF THE BEST CHANCE OF GETTING ONE?

Get a free credit check

A credit score gives you an indication of your credit health. Most lenders use this score as one of the factors to decide whether to offer you products such as credit cards, loans and mortgages. You can easily check your credit score online for free in just a few minutes.

Plan ahead

When you apply for a mortgage, lenders will look at your income and outgoings. To prove your income you usually need to show pay slips and bank statements from the last three months.
If you're self-employed, you'll need copies of your last 2 years tax computations with corresponding Tax year overviews and business accounts. Planning ahead and getting everything ready can save you a lot of time and stress in the long run.

Cut back on spending

Got a gym membership you don't use but you're still paying for? Or do you maybe splash out on a couple of takeaways a week?
We're not suggesting you don't treat yourself, but looking at your finances and identifying where you could cut back could help save you thousands of pounds a year and give you a bigger deposit. You may find you are spending more than you think each month just on coffee!!

Make sure you're on the electoral roll

If your name isn't on there, you'll find it much harder to get credit and may come into difficulty when it comes to getting a mortgage. Go to The Electoral Commission to find out how to register.

Make sure you have some form of credit

It may sound silly, but the lenders are keen to see if you can keep up with any financial commitments that you may have. We also suggest that you have a minimum of 2 forms of credit which can be in the form of bank accounts, credit card, mobile phone contract, loan, car finance etc.
We also strongly advise that set up Direct debits for these as you don't want to have late payments on your credit file and don't take out too much credit!

WHAT ARE THE DIFFERENT TYPES OF MORTGAGES?

Fixed rate, variable, tracker - there are many different types of mortgages out there - but what exactly do they mean? And how do you know which one is right for you?

The first thing to look at is how are you going to pay back the mortgage and there are really 3 options to choose from.

Repayment mortgage

A repayment mortgage is the most common type of mortgage and is where an individual makes a monthly repayment with some interest paid on top. Once you have paid back all of the mortgage debt and interest, you will own 100% of your property. We would normally advise that this is the best option for most clients.

Interest-only mortgage

With an interest-only mortgage, you only pay the interest on the loan and none of the capital. At the end of the term you'll still owe the original amount you borrowed.

This type of mortgage is common to have when you have a separate repayment vehicle like an ISA, property portfolio or you receive your income in large lump sums. Lenders have separate criteria for this and not everyone can access this type of repayment.

Part repayment and part interest only (Part and part)

As it says on the description, this a mixture of both a repayment mortgage and an interest only mortgage. The lenders criteria for this is normally the same as for interest only borrowing.

Fixed rate

This is often the most popular type of mortgage among first time buyers because the interest rate stays the same (i.e is fixed) for the duration of the loan.

This means you know exactly what you are going to be paying and there are no nasty surprises. Fixed rate mortgages are typically taken out over a period of 2, 3, 5 or 10 years before returning to a variable rate for the remainder of the mortgage. At this stage we would be in contact with you to discuss looking at your options to potentially re-mortgage or switch to a new rate with your current lender.

Variable rate mortgage

Like a fixed term mortgage, you can choose to be tied in for 2,3, 5 or 10 years.

But as the name suggests, the interest rate isn't fixed and can therefore go up and down throughout the duration of the loan depending on the rate of inflation.

Some variable rate mortgages have the added benefit of not have any early repayment charges but in most cases the rates tend to be higher.

Tracker rate mortgage

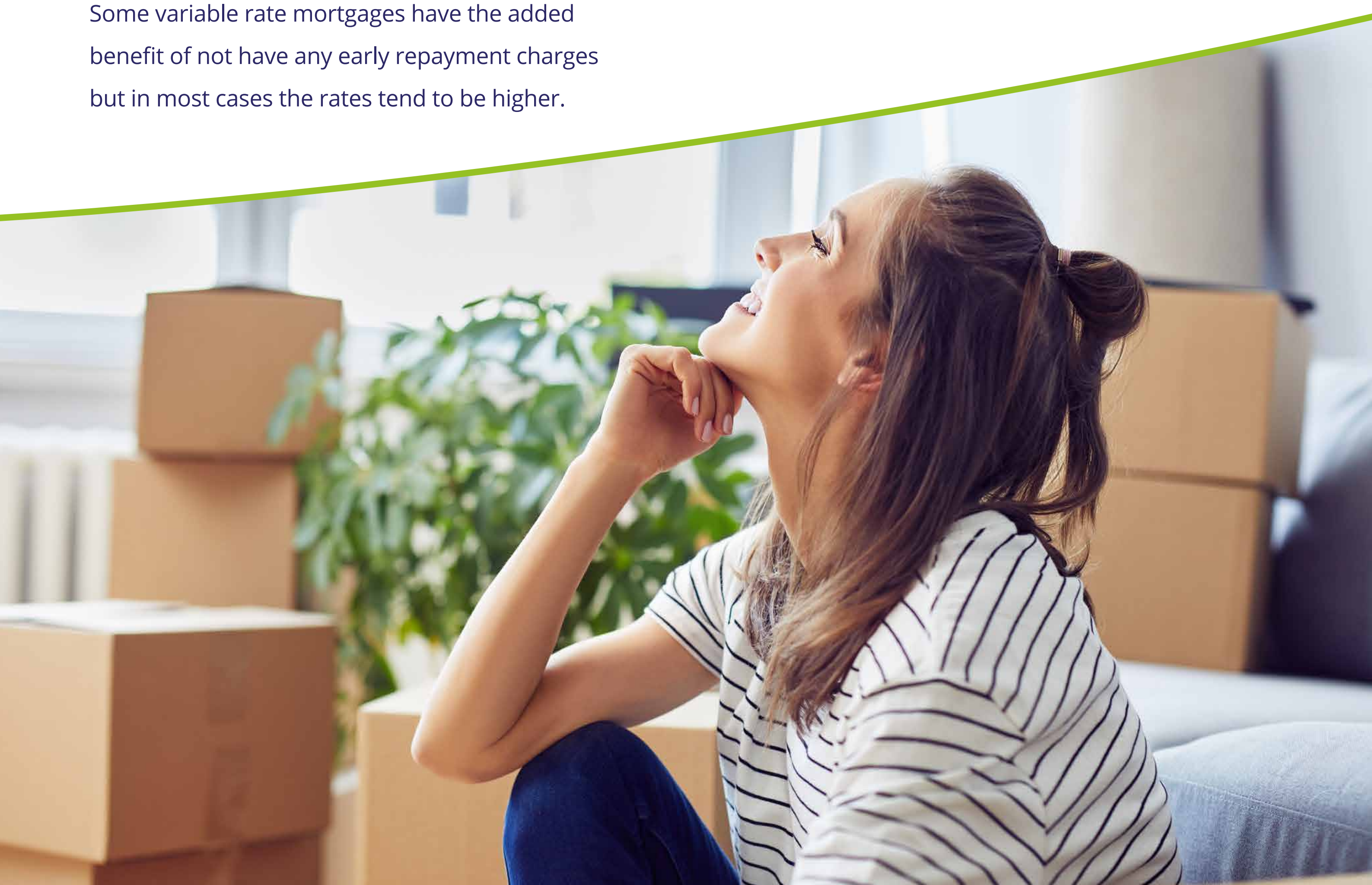
A tracker rate mortgage is very similar to a variable rate mortgage.

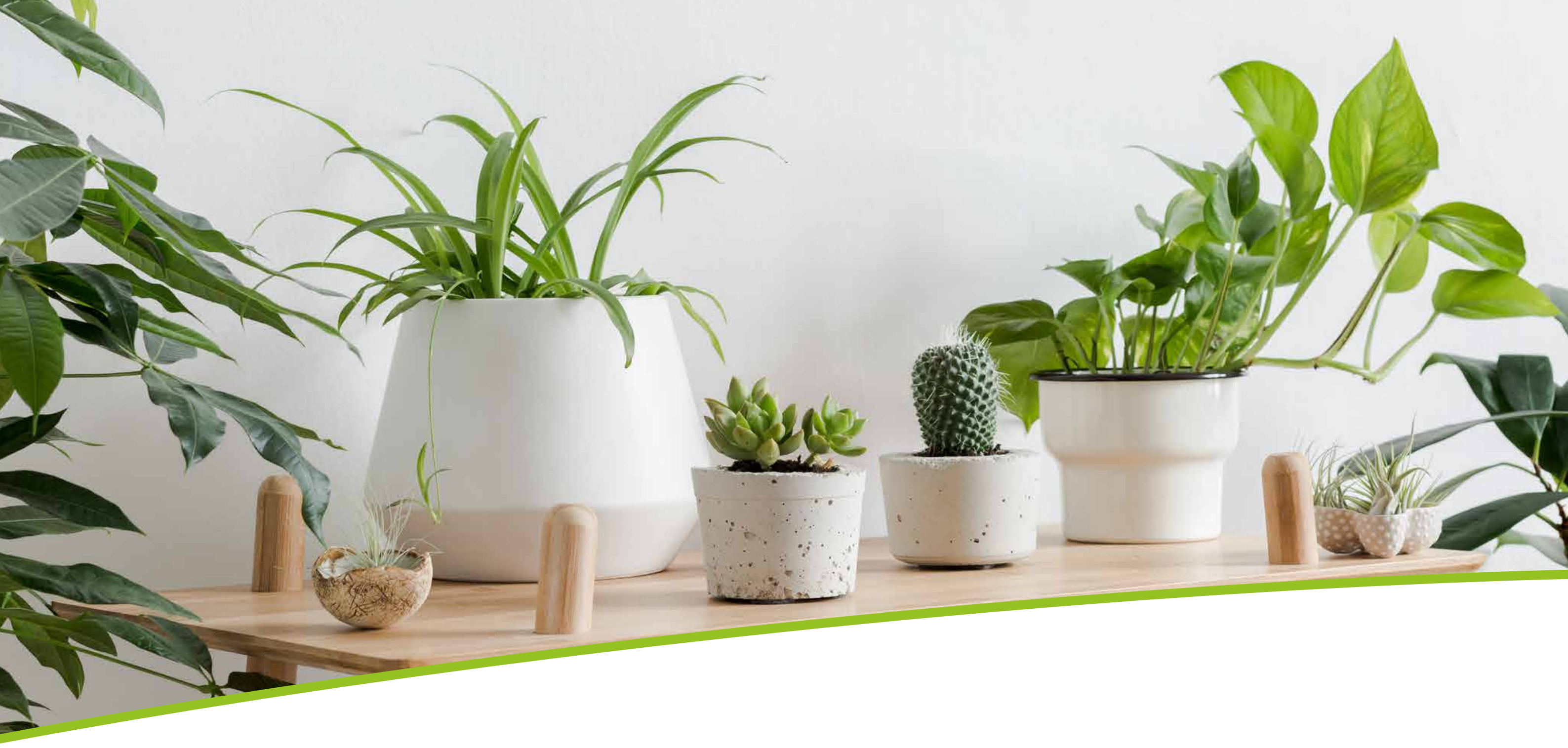
The main difference between the two is that a tracker mortgage follows the Bank of England base rate, rather than the lender's Standard Variable Rate (SVR).

Although lenders normally change their SVR as a result of The Bank of England Base Rate changing, they don't have to change them by the same amount.

With a tracker rate, the mortgage tracks, by a pre arranged amount, an independently set interest rate.

Some tracker rates will have the benefit of not having any early repayment charges and you can also normally have a tracker rate for 2, 3 or 5 years.





OTHER COSTS TO CONSIDER

When it comes to buying your first home, it is important to remember that it isn't just the deposit you need to pay for. There are also a number of additional costs to consider too.

Here are some of the main ones that you need to be aware of:

Stamp Duty

As discussed at the beginning of the guide, this changes quite a lot so we would always advise you head over to the UK government website for more information and up to date calculators.

Legal fees

A solicitor or licensed conveyancer will carry out all the legal work when it comes to buying and selling your home. Fees can range from £850 and run into the thousands.
We can provide you with a quotation from one of our recommend Solicitors.

Valuation fees

During a valuation, the mortgage lender will look at the value of the property to work out how much they are prepared to lend you. The cost for this varies depending on the lender and property value, but as a rough estimate it can cost anywhere from nothing in many cases up to £1000.

You may also want to have a more detailed survey conducted called a homebuyers report and this would certainly add more to the cost and you may have to organise this independently.

Removal costs

Hiring a company to move your belongings can cost hundreds and depending on how much you have and how far you're moving, sometimes thousands. The price will depend on the size of the property and if you want them to pack and/or unpack for you too. If you want to save yourself some money, you could hire a van and ask family and friends to help you.

Mortgage broker fees

Firstxtra is a Mortgage broker and we will manage your entire mortgage application, from start to finish. There are charges for the advice and administration that we provide and as with any professional service there is a fee to pay. We will provide you with this information when you initially speak to us and we will provide you with a document called an IDD which stands for Initial Disclosure Document and this highlights all the fees and services we provide to you.

WHAT IMPORTANT PROTECTION INSURANCE WILL I NEED?

Getting the right type of insurance is vital as it can help protect you – and your property –you're your family when things don't go to plan or when something serious happens.

Buildings insurance

While it's not a legal requirement, most mortgage lenders require you to have buildings insurance in place when you exchange contracts.
It's the minimum level of insurance required by most lenders and as a result, your chances of getting a mortgage without it are slim. Solicitors will normally ask to see a copy of this on the day you exchange contracts.
Buildings insurance covers the cost of rebuilding your home if it's damaged or destroyed.
Garages, sheds and fences are also covered, as is the cost of replacing items such as pipes, cables and drains.

Contents insurance

Contents insurance covers your possessions in the event of theft, loss or damage, including natural disasters, fires or flooding.
It's separate to home insurance, which covers the building you live in, including fixtures and fittings.
It may be cheaper to buy buildings and contents insurance together – but you can also purchase them separately.

Life Insurance (Cover for Death)

You don't need life insurance to get a mortgage, but it may well be something you'd like to consider, particularly if you have someone who relies on you financially.

Life insurance can offer the comfort of knowing your family or loved ones will be taken care of if the worst happens.

It may mean your mortgage can be paid off without having to leave this responsibility to your family, or risk them having to sell the property and move.

The amount of cover you need will depend on the size of your mortgage and the type of mortgage you have.

Terms and conditions vary from provider to provider, so make sure you check with whoever you're taking your policy out with what's covered and what isn't.

Critical Illness Insurance

Again this is not a legal requirement to have in place when you take out a mortgage. However, as a duty of care to our clients we strongly recommend it.
This type of insurance will pay you out a lump sum if you are diagnosed with a number of critical illness (normally around 50) including Cancer, Heart attack, MS and Stroke to name a few and you can also protect your children with this as well.

By having this type of cover it would help you stay in your home if you were not able to work due to a critical illness.

Income protection insurance

Income protection insurance helps ensure that your monthly payments are covered if for any reason you're unable to work due to sickness or injury. This is normally covered as a percentage of your salary and in many cases, this is 60% of your Gross income.
The policy would pay out a monthly amount allowing you to keep up with your monthly mortgage payments and other associated outgoings.

HOW MUCH OF A DEPOSIT WILL I NEED?

Saving up enough money for a deposit can often be the biggest hurdle that stops people being able to buy their first home.

However, there are many options available now and owning a property might not be as far out of your reach as you think.

Some lenders do offer a 100% mortgage, although this is rare. Generally speaking, you need to try to save at least 5% of the cost of the property you want to buy.

WHAT HELP IS AVAILABLE?

You might feel like owning your own home is a distant dream.

However, there are a number of schemes available to help first-time buyers get on the housing ladder, particularly if you only have a small deposit.

They include:

Help to buy scheme

The Help to Buy scheme offers an equity loan where the government lends first-time buyers in England money to buy a newly built home. The money must be used to buy your main residence and can't be used to buy a second home or a buy-to-let property. To meet the criteria, you'll need a deposit of at least 5% and you can then borrow 20% (40% in London) of the purchase price. Please note this ends in April 2023 and there are regional price caps.

Joint Borrower Sole Proprietor

A joint borrower, sole proprietor mortgage allows multiple people to make payments on mortgage debt while a lone applicant owns the property and is named on the deeds. Usually aimed towards helping family members get a foot on the property ladder or move house, you can maximise your mortgage by combining incomes but keep sole ownership of your property.

Shared ownership

Also known as 'part buy, part rent', shared ownership is a scheme that allows you to buy a share of a property and pay rent on the rest.
It's designed to help people with small deposits and lower incomes get on the property ladder.
You usually buy a stake of between 25% and 75% of the property from a housing association and pay rent of up to 3% on the remaining share.

Gifting deposit

With house prices soaring and wages largely remaining the same, more and more parents and grandparents are looking to help relatives on to the property ladder.
As part of the Anti-Money Laundering checks, your solicitors have to prove where the funds came from.

- The sum gifted

- The source of the funds (within the UK, within the EU, or outside of the EU)

- Your relationship to the applicant; A signed declaration that you won't have any financial interest in the property

- A signed declaration that if the money is loaned it will only need to be repaid when the property is sold;

When it comes to gifted deposits, there are potential tax implications to consider too.

For example, if whoever has gifted the money to you dies within seven years of doing so, you may need to pay inheritance tax (IHT) on the money.

100% mortgages

There are some mortgages where there is no requirement for the buyer to put down any deposit at all.

These are known as 100% mortgages but aren't offered by all lenders. Although there is no deposit to pay, there are still other costs to consider.

TAKING THE FIRST STEPS

The thought of taking the first step might be a daunting one, but at FirstXtra, we are here to make the whole process as easy and stress free as possible for you.
Here's what you can expect when it comes to buying your first home.

Step 1 – Speak to us

Speaking to a Firstxtra mortgage adviser will enable you to work out how much you could borrow, how much you can afford to repay and what kind of mortgage might be right for you.
At FirstXtra, we offer a free of charge initial consultation where we'll ask a few questions to get to know you and understand more about your situation. We will also run through the process and details our costs and services to you.
This consultation can be done face-to-face or virtually and last approximately 30 minutes to one hour. Before the meeting would ask you to provide some information to us which we will request beforehand.
After this one of our friendly advisors will make a recommendation and if you're happy to go ahead, we will look to secure your Decision in Principle (DIP)/Agreement in Principle (AIP).
With A DIP/AIP, you can take the first step to buying your home and will give you an idea of how much you could borrow before you apply for a mortgage.

Step 2 – Look for a property

Once you've established how much you can afford to pay, you can start looking for properties that are within your budget!
Different estate agents list different properties, so its always an idea to speak to several of them and get registered so you've got the best chance of finding your perfect property.

Step 3 – Make them an offer they can't refuse…

So, you've got your DIP and found your dream home. What next? Chances are you'll want to make an offer on the property.
Once your offer has been formally accepted, you can then move on to the next step of the application process.

Step 4 – Make a full mortgage application

This isn't as scary as it sounds! Your mortgage adviser will take you through everything you need to know and handle your full application for you.
At this point, your lender will also organise a mortgage valuation for you.

Step 5 – Draw up the contracts

At this stage of the mortgage application, your solicitors/conveyancers will draw up contracts for the purchase and make sure everything is as it should be.

Step 6 – Exchanging contracts

You've read and signed the contracts – now your solicitor and the seller's solicitor will exchange them. You won't pay for the property yet – but you will have legally agreed to buy it on a specified date agreed by both parties.
It's also this point that you hand over your deposit and we can set up your insurance policies to start.

Step 7 – Complete the sale…and move in to your first home!

The sale is completed once you have exchanged contracts and paid for your home in full. Once the money is transferred to your seller's solicitor, they keys are yours.
It's official, you are homeowners! Now all that's left to do is move in..

Take your first step today.

Get in touch with one of our friendly team for a free discussion and find out how we can help make the dream of owning your own home a reality.

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