MORTGAGE GUIDE 2020

Professional Friendly Advice from Matthew Nickson Mortgage Solutions

Matthew Nickson
Mortgage Solution

INTRODUCTION

I have worked in the Financial Services Industry since 1998 and have run my own brokerage since 2004. I pride myself on providing professional, impartial and clear advice with no obligation or pressure.

It is important to get advice to ensure the mortgage and associated protection is set up correctly for you, no matter what your circumstances are.

Due to the busy nature of peoples lives I can offer meetings via the telephone / Facetime / Skype and email to work round you. I certainly don't work 9 – 5 so I'm available outside of these hours to work around you. I can help wherever you live in the UK.

I feel it is important to use a Mortgage Broker, whether that be myself (hopefully) or someone else, as a good broker will not only help you source the best deal but will also provide support along the way. The mortgage market can feel a little daunting with all the paperwork but I will help you with that and take as much of the burden away from you as possible.

This booklet has been written to give you some insight into the mortgage market and options available to you. There are a number of areas which haven't been covered such as Help to Buy / Shared Ownership / Lifetime Mortgages (Equity Release) and specialist lending. If you need any guidance in these areas or have any questions please feel free to contact me via email **matt@mnassociates.net** or phone **07947 279 519** and I will be happy to help.

There is no obligation to use me even if we speak regularly, I want to ensure you have the correct information to help you along your mortgage journey so please don't hesitate to ask any questions.

I hope you enjoy the guide and find it useful.

Matthew Nickson

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE OR OTHER LOANS SECURED AGAINST IT.

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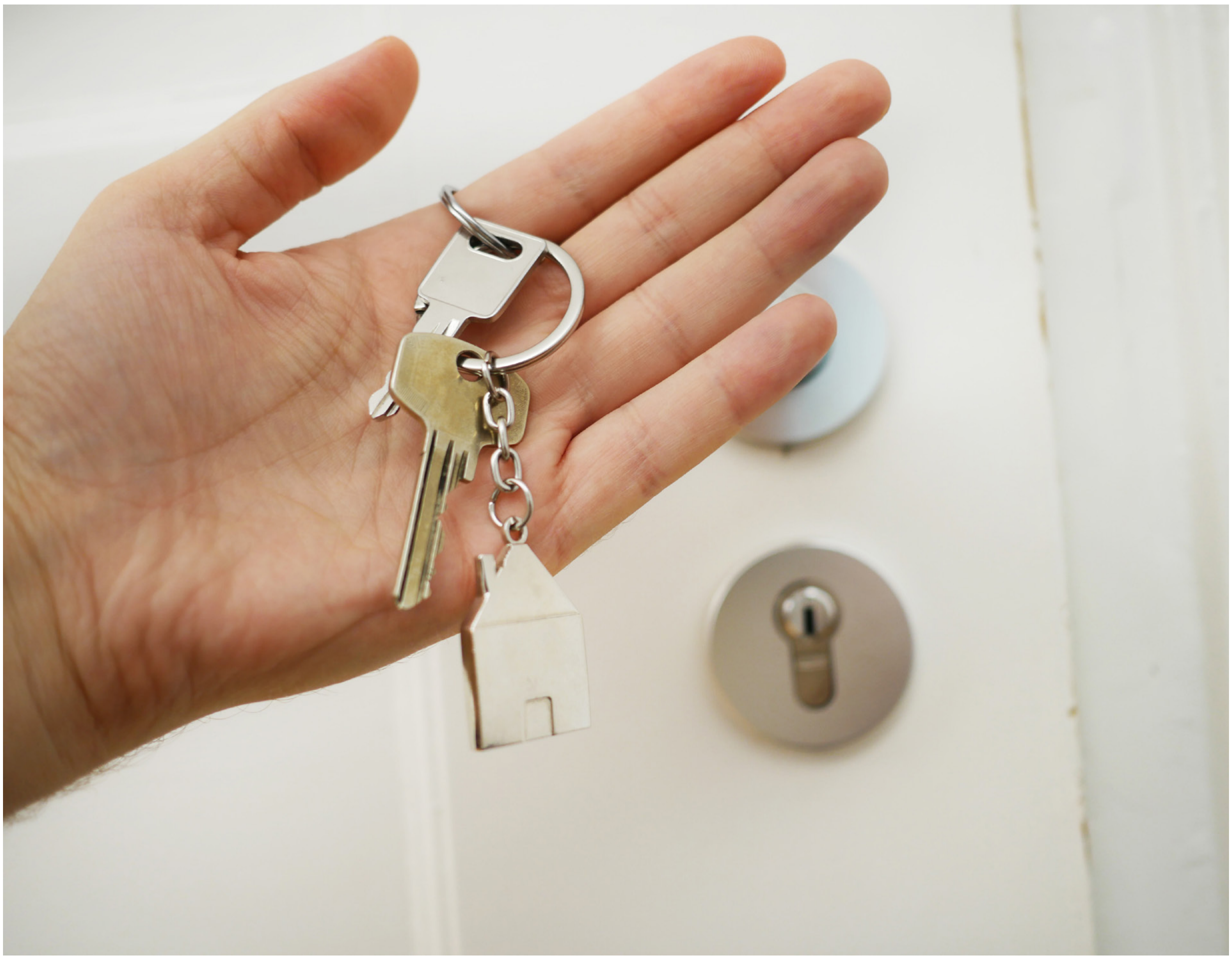


CHAPTER ONE

WHAT IS A MORTGAGE?

A mortgage is likely to be the biggest financial commitment you will take, so it's important you are fully aware how mortgages work.

The reason people take out a mortgage varies, here are a few examples:

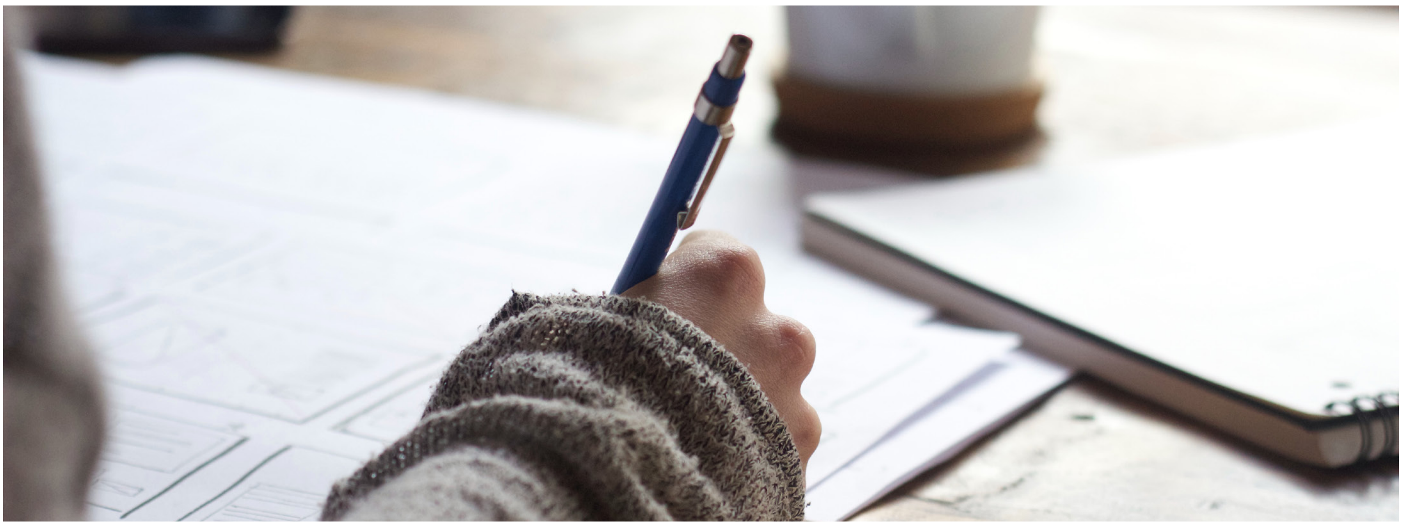
- House Purchase
- Land Purchase
- First Time Buyer
- Second Homes
- Buy to Let
- Let to Buy
- Re-mortgage
- Shared Ownership
- Help to Buy
- Later Life Lending (55+)

A mortgage is effectively a loan.

The mortgage taken is secured against the property you have purchased to safeguard the lender. If you don't keep up repayments on the mortgage, the lender can repossess (take back) the property and sell it to recoup some or all of the outstanding mortgage.

The term of a mortgage is typically taken between 5 - 40 years subject to the lenders restrictions. The longer the mortgage term the more interest you will pay.

There are two different types of mortgages, Capital Repayment and Interest Only which will be covered in Chapter 2.



CHAPTER TWO

WHAT TYPES OF MORTGAGES ARE THERE?

Choosing how to repay your mortgage is one of the most important factors. Not only does the mortgage have to be repaid at the end of the mortgage term, you also have to ensure you can meet the monthly repayments each month. (How to protect your mortgage is covered later in the guide).

There are two types of mortgages that you can take:

Capital Repayment Mortgage (Repayment Mortgage) or an Interest Only Mortgage. Please see below for more details:

CAPITAL REPAYMENT MORTGAGE:

This is the most common type of mortgage.

When you take this type of mortgage, you are repaying the capital and the interest each month and this will result in the balance gradually reducing over the term of the mortgage. In the early years you are paying more towards the interest, but as time goes on more of your payment will go towards repaying the outstanding capital.

As long as the mortgage repayments are met each month, this mortgage will be repaid in full at the end of the mortgage term.

INTEREST ONLY MORTGAGE:

The criteria for interest only mortgages is stricter than for a capital repayment mortgage, so is not quite as common.

With interest only mortgages you only pay off the interest each month, therefore the capital never reduces and you will still need to repay the mortgage amount that you originally borrowed.

For example, if you borrowed £100,000 today and took the mortgage over 25 years on an interest only basis, you would still owe £100,000 in 25 years time.

So how do you repay the capital on an interest only mortgage?

It is your responsibility to ensure that you have a repayment vehicle in place which is sufficient to cover the outstanding mortgage. Some examples of what people use to repay the capital are:

- Investments
- Pensions
- ISA's
- Sale of another property

It is important to remember that if you intend to use some form of investment/property to repay the capital that values can go up and down and cannot be guaranteed. There is a risk that you wouldn't have sufficient funds to repay the mortgage so this would need to be monitored and reviewed on a regular basis.

CHAPTER THREE

WHAT TYPES OF INTEREST RATES ARE THERE?

Choosing the type of interest rate you take is a very important decision. There are various types of interest rates but in reality they are either a 'Fixed' rate or a 'Variable' rate.

STANDARD VARIABLE RATE (SVR):

Each lender has a baseline interest rate which they call their Standard Variable Rate (SVR). This is the interest you will go on to once your introductory rate has expired.

It's important to understand that the lenders SVR can be changed when they want to. Usually they will only change once the Bank of England moves but they don't have to wait, they also don't have to reduce/increase the rate in line with the Bank of England.

It is important to be aware of when an introductory rate is due to expire as the SVR is usually higher and you could end up paying substantially more.

FIXED RATES:

A fixed interest rate is exactly what it says, the interest rate is fixed for a set period of time.

This means that should interest rates go up or go down it won't affect your monthly payment. Whilst you are within your fixed rate period, your mortgage payment will not change.

You can take a fixed rate over various terms such as 2 years, 3 years, 5 years, 7 years and 10 years, among others. This type of interest rate is protecting you against any interest rate rises, however, it is important to note that if interest rates drop you will not benefit from that as you have a fixed interest rate.

You will also usually find that fixed rates are more expensive than the variable rates, but you should ask yourself whether it's important to have stable payments, and is the difference in cost worth the peace of mind?

TRACKERS:

This means the interest rate you take tracks a certain interest rate. This is usually the Bank of England but this isn't always the case. Please ensure you read all the paperwork before you proceed with this type of product.

In practice the rate is usually a margin above the Bank of England for a period of time. For example, if there was a 1% above Bank of England Base Rate Tracker available this would mean your current interest rate would be 1.75% (This is based on the Bank of England being at 0.75% as of 10.01.20).

Should the Bank of England rate increase to 1%, your tracker rate would increase to 2% (1% Bank of England plus 1% margin above Bank of England). The same rule applies if the interest rate reduces, however, most lenders will have a limit to how low it can go.

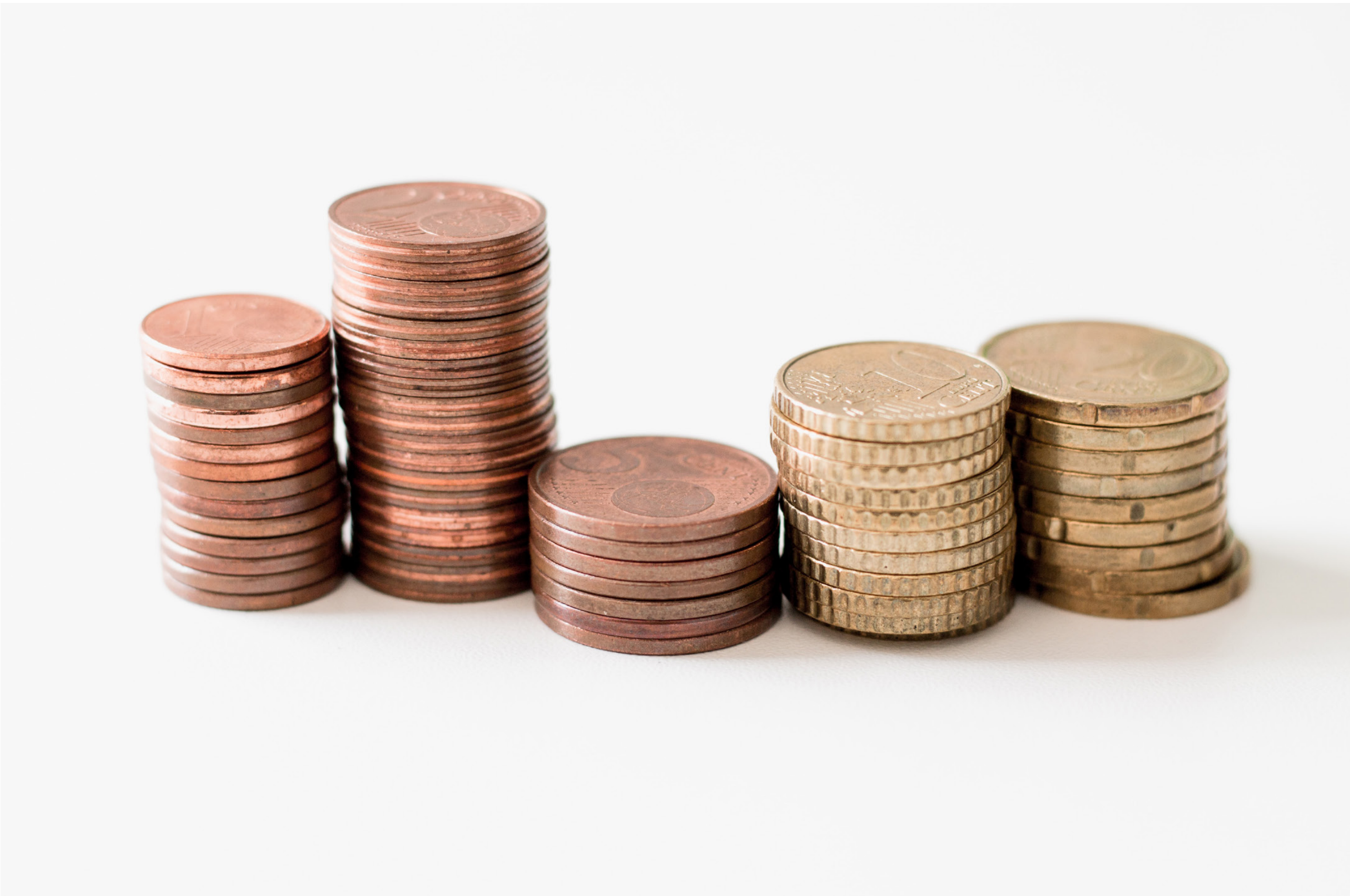
Similar to the fixed rates you can also get different terms. You can also get lifetime rates, which will have the same margin throughout the term of the mortgage.

DISCOUNT RATES:

This is when a lender will offer you a discount off their standard variable rate (SVR). The length of the discount is usually 2 years upwards.

As an example, if the lenders SVR is 5% and the discount is 2% then the interest rate you would be charged is 3% (5% - 2% = 3%).

Please bear in mind the discount is always taken from the SVR which can change so your payments could go up or down.



CHAPTER FOUR

HOW MUCH DEPOSIT DO I NEED?

It is still possible to get a 100% mortgage, however, you would need understanding parents to help as this type of product will need either security against your parents home or savings tied up in an account.

The minimum deposit is usually 5% of the purchase price.

If you are buying a property for £100,000, the deposit would be £5,000.

As a general rule, the higher the percentage of deposit you have against the value of the home, the lower the interest rate, however other factors will determine the final product that is available to you.

You may hear the term Loan to Value (LTV). This is the percentage of the property value you are borrowing, for example:

5% deposit equates to 95%

10% deposit equates to 90%

15% deposit equates to 85%

20% deposit equates to 80%

and so on

Depending on the size of the deposit will dictate the mortgage product you are offered. If you had a 12% deposit you would fall within the 90% rate as lenders will only reduce the interest rates at each 5% increment. You would need to increase the deposit to 15% if you wanted the benefit of the 85% rates.

CHAPTER FIVE

WHAT DOCUMENTS WILL I NEED FOR AN APPLICATION?

Being prepared for an application is key. Having everything the lender requires will make the process much easier.

Different lenders ask for different things to support your application. I have outlined the documents that I would requested in every case so we are prepared for lenders requests:

- Passport
- Driving Licence
- Last 3 months bank statements for all accounts that show salary credit and outgoings
- Evidence of your deposit if from savings. If a gifted deposit an additional letter from the person gifting the deposit could be required

(Please note, you need to use statements and not the transactions lists that banks provide.)

You will also need income evidence:

EMPLOYED:

- Last 3 months wage slips
- Last P60

(The lenders may ask for more evidence to support your application if you earn commission, bonus or overtime)

SELF EMPLOYED:

- Last 3 years signed accounts
- Last 3 years SA302 (Tax Computations)
- Last 3 years Tax Year Overviews

(I request all these documents to ensure I get a full picture of your circumstance)

Lenders do have the right to ask for more information but this is a good guide to what is generally required. For example if you are applying for a Buy to Let mortgage, copies of tenancy agreements maybe required.

Another key tip I can give you is to be prepared with details of your affordability. This is a breakdown of your credit commitments and outgoings such as gas, electricity, water etc. Using accurate balances is important as is declaring all credit.

CHAPTER SIX

WHAT FEES WILL I HAVE TO PAY?

This will usually depend on what type of mortgage you are going for, but I have outlined a few of the more common ones below:

ARRANGEMENT FEE / PRODUCT FEE (LENDER)

This is a fee charged by the lender.

This can vary from £0 upwards. It isn't uncommon to see the lenders Arrangement Fee to be around the £999 mark.

This fee can usually be added to the mortgage, subject to restrictions. However, be aware by adding the fee you are potentially paying interest on that fee for the term of the mortgage. If you can afford to pay the fee it would be the cheaper option in the long run.

Don't get seduced by the lower interest rate, look at the whole picture. It maybe better for you to go with a higher interest rate and no fee than a lower interest rate and higher fee. For example:

Monthly Mortgage Payment	- £500
Arrangement Fee	- £999
Interest Rate	- 1.75% for 2 years
OR	
Monthly Mortgage Payment	- £505
Arrangement Fee	- £0
Interest Rate	- 2% for 2 years

You can see there is only £5 per month saving above. Over 24 months that is £120. If you went with the cheaper rate with the fee, you are paying £999 to save £120 that doesn't make sense. This isn't an exact calculation as the saving could be higher or lower depending on the mortgage size but it's important you are aware that the cheapest interest rate isn't always the best.

BOOKING FEE:

Some lenders charge a booking fee to secure the interest rate you are applying for. This is usually upfront and is non refundable. It isn't as common as it was but some lenders still charge it so be vigilant.

VALUATION FEE:

This covers the cost of an inspection of your potential home. This is for the lenders purpose only and is not a thorough survey. You can opt to get a better survey but this is your choice, so I have not included it in this list.

For more information on what a valuation does and other survey options please see the link below:

https://www.ricsfirms.com/residential/moving-home/surveys/rics-consumer-guide-home-surveys/

SOLICITORS FEES:

This fee is paid to your solicitor, the cost will depend on the value of your property. Ensure you ask for a clear breakdown of fees, taking into account any additional work required.

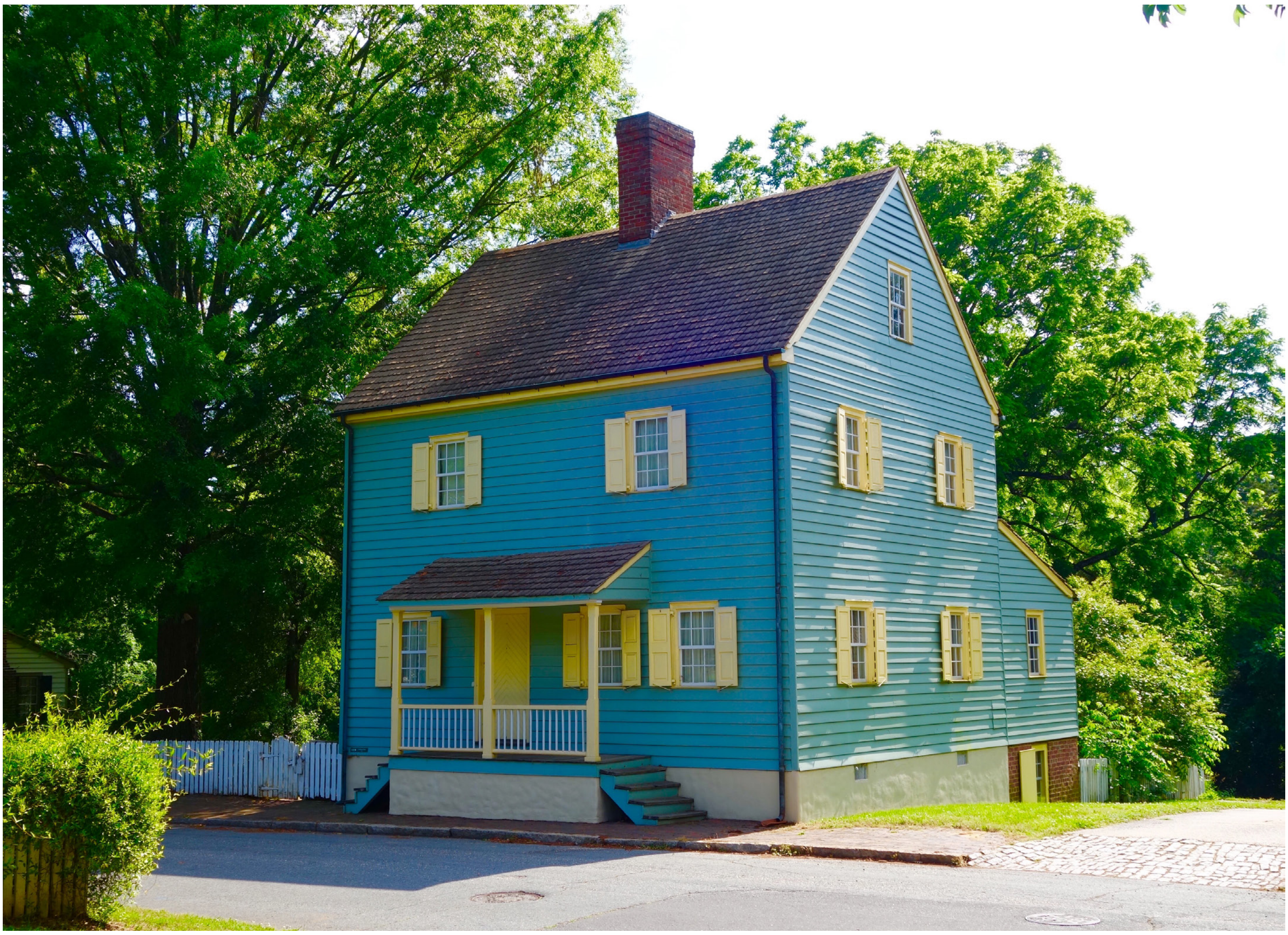
Solicitors fees vary a lot but I can provide a quote if required to give you an idea.

As part of the process the solicitors will also charge disbursements fees such as land registry and local searches. They will also deal with the stamp duty if required. Please note the stamp duty payable will be different depending on if you are in England, Scotland or Wales and if you own more than one property.

The link below provides further information:

https://www.moneyadviceservice.org.uk/en/articles/everything-you-need-to-know-about-stamp-duty

Ensure you ask your solicitors for a clear breakdown of fees taking into account the mortgage and the source of the deposit as additional checks may be required. You should also request a breakdown of additional fees that may be chargable and how they may or may not apply to you.



CHAPTER SEVEN

HOW MUCH CAN I BORROW?

This is a bit more of an open question.

Historically lenders used to lend an amount based on a multiple of your income. However, nowadays they use an affordability basis to calculate what you can borrow.

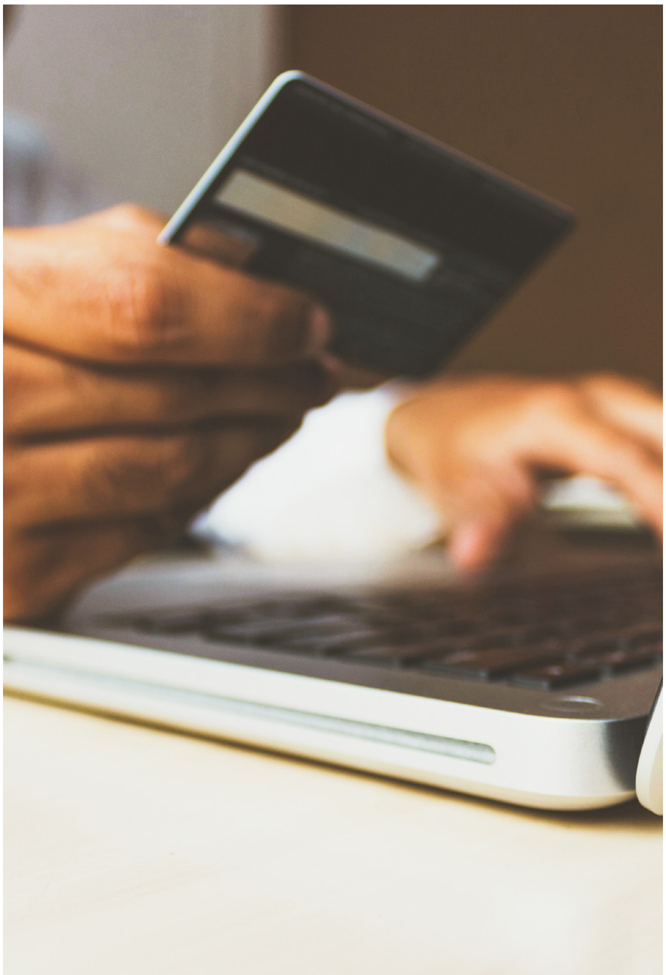
Each lender has their own affordability calculator, some more comprehensive than others. You can enter your details in to 10 different lenders calculators and the amount they are willing to lend is likely to differ.

The sort of things that will affect affordability could be, but are not limited to:

- Cost of dependent children
- Monthly day to day expenditure
- Credit commitments
- The length of the mortgage term

Lenders take into account your income and outgoings to work out what they are prepared to lend you.

You may feel that the payment is affordable based on the interest rate you are applying for but lenders will also stress test the payment. This means, you may be applying for a mortgage at an interest rate of 2% but they will work out the payments as if you were being charged 6% plus to allow for a financial cushion as rates can and will change in the future.



CHAPTER EIGHT

WHAT PROTECTION OPTIONS ARE THERE?

One of the areas that gets overlooked when arranging a mortgage is protection.

Most people don't want to take any form of insurance until they need it then it is too late.

To be clear, the only insurance you have to take is buildings insurance. All the other types of insurance are voluntary, however, they are also important so don't automatically discount them.

The sort of protection that's available:

- Buildings Insurance
- Contents Cover
- Life Cover
- Critical Illness Cover
- Income Protection
- Unemployment Cover
- Family Protection

Budget is key here, having protection is recommended to ensure that should the worst happen you and your family are not left in financial difficulty. However, working out what you are prepared to pay for protection is important.

Some of the questions I typically ask are:

- How would you meet your mortgage repayments and household costs if you were unable to work due to sickness or an accident?
- How would your partner survive if you passed away? Could they afford the mortgage without your income?

Insurance is an area that people don't like to discuss. However, it is really important to keep in mind that you are embarking on the largest financial commitment you are likely to take. Do you want to have that unprotected?

BUDGET PLANNER

Gas / Electric	
Water	
Council Tax	
Home Insurance (building and contents)	
Life Cover / Protection	
TV Licence	
Sky / Netflix / BT etc.	
Telephone Line / Broadband	
Mobiles	
Petrol / Travel Expenses	
Vehicle Running Costs (tax, MOT, service etc.)	
Monthly Clothing Expenditure	
Food & Grocery Expenditure	
Childcare / Nursery / School Fees	
Maintenance	
Anticipated Savings	

Type of credit (loan/credit card/HP etc.)	Company	Current Balance	Monthly Payment	Who's name (applicant 1 or 2)	Start Date	Original Term

CHECKLIST

DOCUMENTS REQUIRED:

- [ ] Passport
- [ ] Driving Licence
- [ ] Last 3 months bank statements showing salary credit and outgoings (if this is over more than one bank account then 3 months of each account will be required)

INCOME DOCUMENT REQUIREMENTS:

EMPLOYED:

- [ ] Last 3 months wage slips (last 13 if paid weekly)
- [ ] Last years P60

SELF EMPLOYED:

- [ ] Last 3 years SA 302 (tax computations)
- [ ] Last 3 years Tax Year Overviews
- [ ] Last 3 years signed accounts

PLEASE NOTE:
The lender may ask for more or less than this but these are the standard documents required. More documents are usually required if you want overtime / bonus / commission to be taken into account but this can be clarified to you.

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CONTACT INFORMATION

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