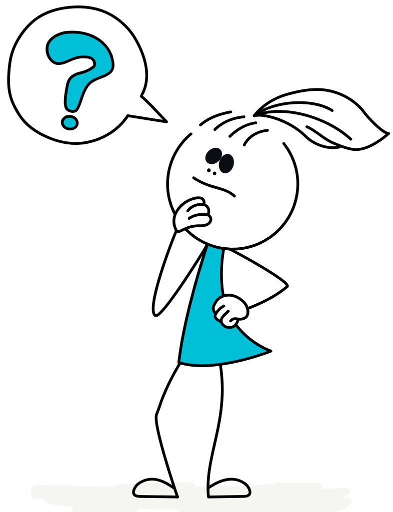
Knightwood Mortgages First Time Buyer Guide

MORTGAGES EXPLAINED

WHAT IS A MORTGAGE?

A secured loan from a bank or building society that lets you buy a property. The bank has the right to take back and sell the property if you cannot keep up with monthly repayments.



HOW DOES IT WORK?

When you get a mortgage, you will pay back the amount you have borrowed, plus interest, in monthly instalments. Some mortgages have longer and shorter terms.

HOW DO DEPOSITS WORK?

A deposit is a down payment you put towards the cost of a property you want to purchase. The higher your deposit, the less you will need to borrow.

For example, if you wanted to buy a house for £300,000 and had a deposit of £30,000 (10%) your mortgage provider will lend you the remaining £270,000 (90%) of the purchase price.

This is known as the Loan-to-Value (LTV)

The remaining figure of £270,000 is the amount you will pay back across monthly instalments, until it is paid off in full.

MORTGAGES FOR FIRST TIME BUYERS

Most banks and building societies offer first-time buyer mortgages, with many options available. In addition, there are also other mortgages such as:

Bad credit mortgages

Designed to help those who have had financial struggles in the past.

100% Mortgages

A loan for the entire cost of the property, meaning you don't need a deposit.

Guarantor mortgages

You can purchase a property with a small deposit if a relative or friend is willing to be named on the mortgage with you to act as guarantor for the payments.

Right to Buy/Right to Acquire

This scheme allows you to buy your council or housing association property at a discounted price. You can then use this discount as part of your deposit.

Self-employed mortgages

Those with their own business/ contractors/sole traders.

HOW TO KEEP AFFORDING YOUR MORTGAGE

Aim to have six months' worth of mortgage payments set aside in a savings account that can be used in an emergency. Even a safety net of a few months' worth of expenses in savings can help you in case your circumstances change.

Set up a direct debit, allowing you to never miss a payment as long as there is enough money in your account. Missing payments could negatively impact your credit record and the amount you owe could increase. If you fall too far behind, your lender could repossess your house.

It's important to act on any insurance recommendations so that you are covered in the event of death, critical illness, or loss of income.

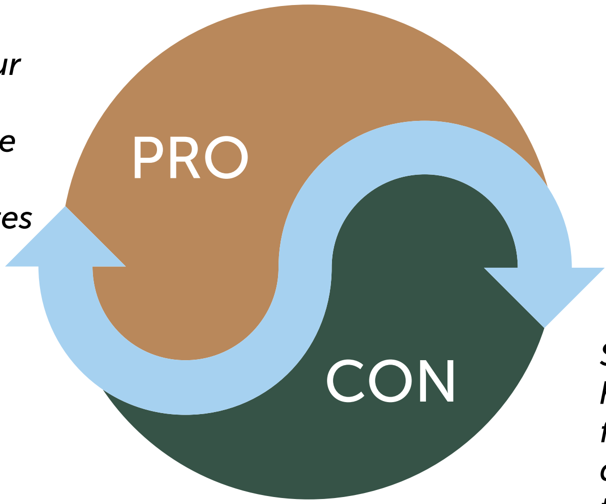
FIXED RATE VS TRACKER MORTGAGES

Fixed-rate

Regardless of interest rate changes, a fixed-rate mortgage is secure for the length of the fixed-rate product.

Whether your product is two, three, five years or longer this type of mortgage is protected from interest rate changes. However, if rates fall your payments will remain the same and you will miss out on the benefits of lower rates.

You know exactly what your mortgage will cost. Your payments will never change during the fixed term, no matter how high or low rates go.

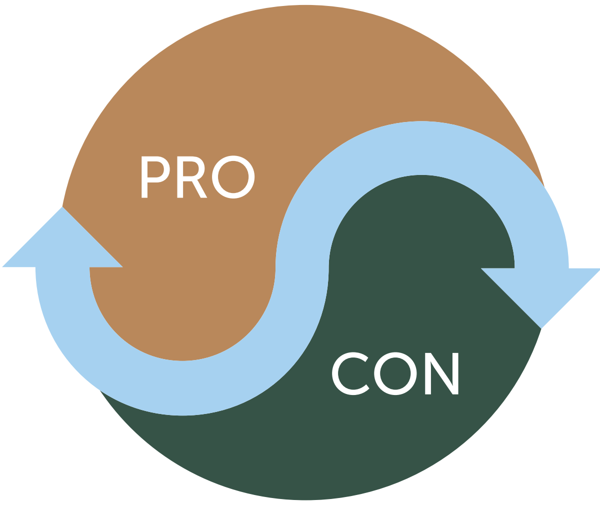


Starting rates are typically higher. If interest rates fall, your payments won't drop. If you want to exit the product, you will have to pay Early Repayment Charges (ERCs).

Tracker

Rates track a fixed economic indicator – typically the Bank of England base rate. If the rate increases, so does your mortgage payment. If it falls, so does your mortgage payment.

Transparent. Only economic change can move your mortgage rate.



Uncertainty. Large increases to the bank base rate could mean significantly higher future costs.

BANK OF ENGLAND AND INTEREST RATES:

WHAT DOES THIS MEAN FOR YOU

Bank of England (BOE) Base Rate

- Set by the Bank of England and reviewed monthly, the base rate is a benchmark for the cost of borrowing money
- It influences many other interest rates in the economy. That includes the lending and savings rates offered by high street banks and building societies

WHY IS THIS IMPORTANT?

- If the base rate rises, borrowing could become more expensive for you as mortgage lenders use this to price their products. So if you are looking to get a mortgage in order to buy a house, it's crucial to think about what higher costs would mean for you.
- It's very important that you understand how a change in interest rates could impact your ability to pay your mortgage.

TYPES OF MORTGAGES AVAILABLE

FIXED RATE

Your payments are locked in and you only pay the fixed amount, regardless of what the Bank of England Base Rate is doing.

- Your mortgage rate is fixed for a period — typically 2, 3, 5 or 10 years
- Gives you a fixed figure so you can calculate your monthly budget
- Exact cost known
- You are protected from rate increases (during fixed period)
- You move on to your lender's Standard Variable Rate at the end of the fixed rate period (unless you remortgage or select another product from that lender)

Look out for:

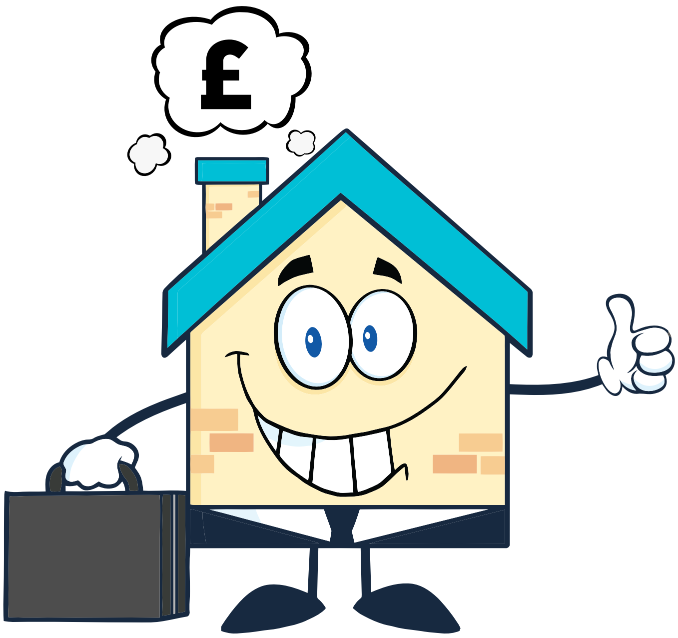
- Early Repayment Charges and arrangement fees (these are likely)
- Payment shock when a fixed rate product comes to an end with new available rates dramatically higher

How does the Bank of England affect this?

- Any interest rate rises won't impact your fixed rate

However

- You will not benefit from any decreases in the base rate



BASE RATE TRACKER

Your payments track the Bank of England Base Rate plus additional interest. This rate is directly affected by the Bank of England Base Rate.

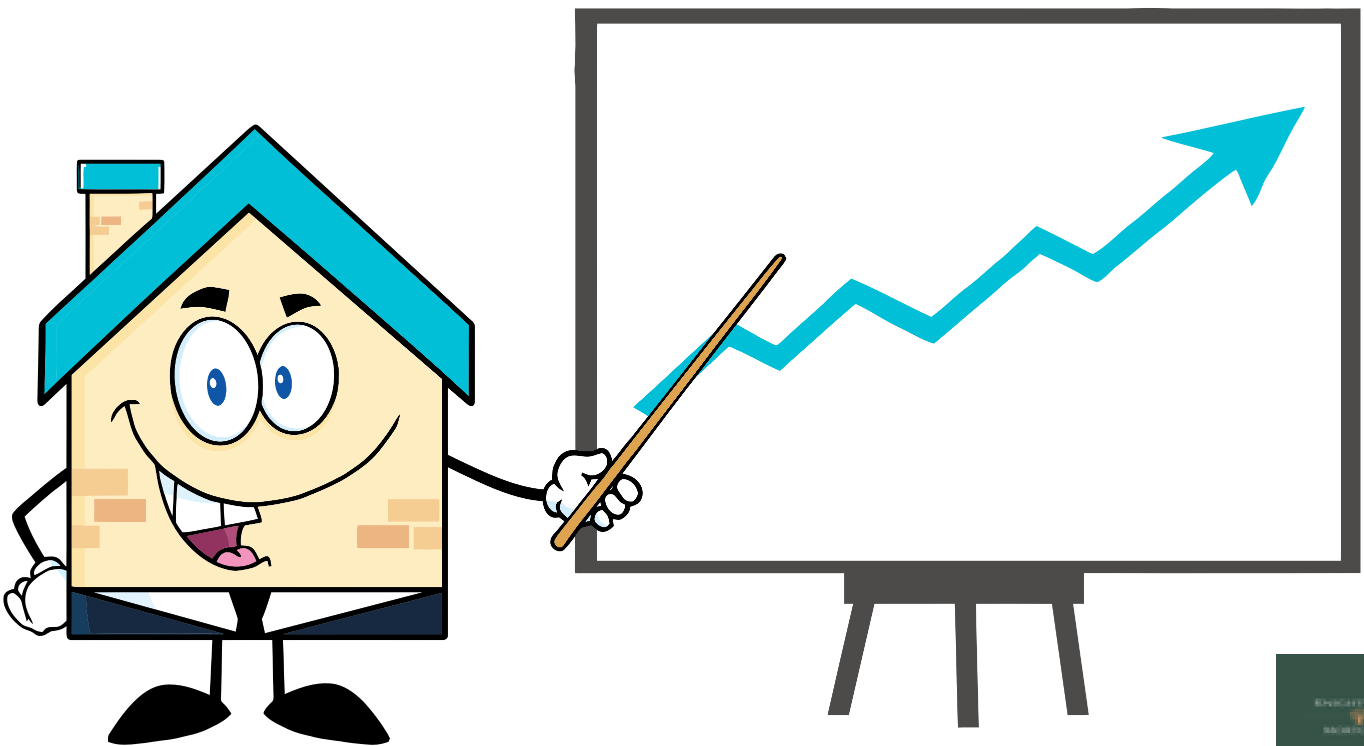
- You may benefit from immediate rate reductions
- Tracks an interest rate that is usually set in line with the Bank of England base rate for a certain period of time
- Payments more accurately reflect underlying interest rates of the time

Look out for:

- Arrangement fees
- Early Repayment Charges and arrangement fees (these are possible)
- Payment shock when changes in the base rate cause rates to be dramatically higher

How does the Bank of England affect this?

- You are not protected from rate increases
- Immediately follows base rate increases and decreases



VARIABLE RATE

Your payments follow your current lender's Standard Variable Rate (SVR). This rate is usually based on the Bank of England Base Rate plus additional interest set by the lender

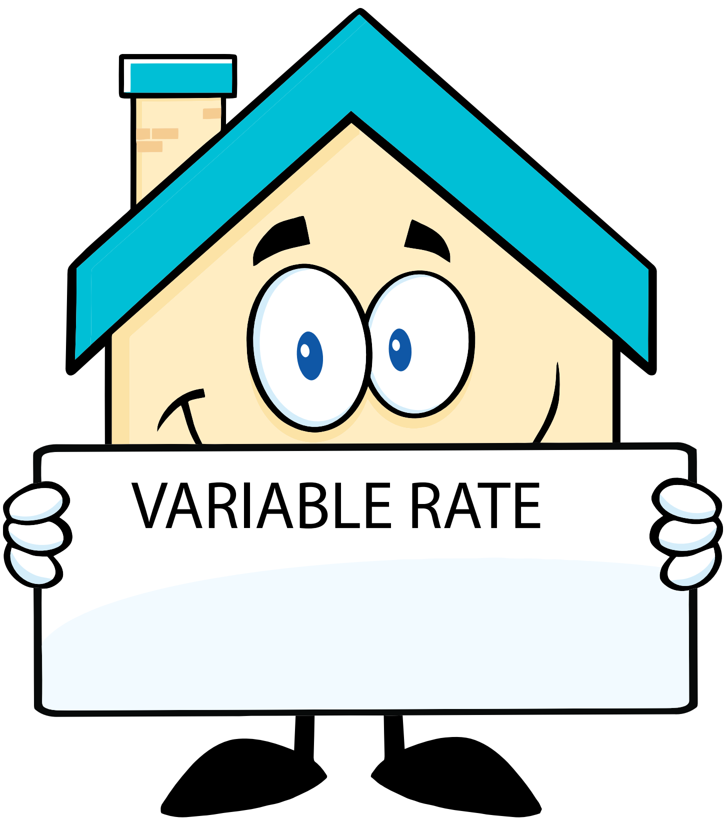
- No hidden extra charges - You always pay the lender's current SVR
- You may benefit from rate reductions
- You are unlikely to have any arrangement fees or Early Repayment Charges
- Provides flexibility to be able to repay or alter your mortgage should your circumstances change, without incurring additional costs

Look out for:

- Your monthly budgeting (this can be more difficult)

How does the Bank of England affect this?

- When the base rate rises - the SVR will likely increase too and this typically is higher for most lenders than the Bank of England Base Rate



HOME BUYING PROCESS

HOW DOES IT WORKS

We're here for you every step of the way. But your journey doesn't end after completion, we will stay in touch throughout your mortgage term and before it expires. We are here to help you with your future needs. Please let your adviser know if you need additional support in any area.

STEP 10 Complete your purchase

STEP 9 Exchange contracts

STEP 8 Pay the deposit and agree moving dates

STEP 7 Conveyancing/legal work undertaken

STEP 6 Mortgage offered by lender

STEP 5 Lender Valuation

STEP 4 Mortgage application submitted

STEP 3 Offer accepted

STEP 2 Find your home and make an offer

STEP 1 Speak to a mortgage adviser to find out how much you can borrow and get a mortgage Agreement in Principle

The home buying process may vary depending on your personal situation. Our mortgage advisers are here to help. A broker advice/administration fee may be payable upon mortgage application. The total fee payable will depend on your circumstances.

Your mortgage adviser will explain any fees applicable including product fees during your initial appointment.

MORTGAGE APPLICATION

Buying a home can be a stressful and confusing time. This step-by-step guide is designed to support and inform you throughout your mortgage application through to completion.

Consultation with adviser

We will assess your circumstances to find the right mortgage for you.

Protection conversation

An essential not an extra, to ensure you are covered in the event of death, critical illness, or loss of income.

Decision/Agreement in principle

Following documentation checks, basic personal details will be submitted to the lender to see if you meet their criteria. A European Standardised Information Sheet or Key Facts Illustration will be provided detailing everything you need to know about a particular product.

Credit searches/application

The mortgage application can now be submitted to the lender who will undertake their own checks before approving the mortgage lending.

Valuation

You will need to pay for a valuation which enables the lender to check the value of the property. You should also consider appointing your own surveyor for a more in-depth survey to satisfy yourself that you are comfortable with the condition of the property.

Offer

Provided the lender is satisfied with the valuation, they will then issue a mortgage offer.

Legal work

The solicitor/conveyancer will then complete the searches and other aspects of legal work required in order to exchange contracts on the property purchase.

Exchange of contracts

At this point you will pay the agreed deposit and you are now legally committed to purchasing the property.

Payments

The solicitor will finalise all mortgage arrangements and agree a completion date. Other costs to be taken into consideration alongside the cost of the legal work undertaken will be land registry fees and potential stamp duty fees.

Completion

Funds are transferred by the mortgage lender to the solicitor and the purchase is completed. It's now time to pick up the keys!

HOME BUYING COSTS

Stamp duty

Charged on UK land and property transactions. Stamp duty is calculated at different rates, with thresholds for different property types and transaction values.

There are different rules if you are buying your first home. You can access stamp duty relief which means you pay less or no tax. For more information on the stamp duty thresholds visit www.gov.uk/stamp-duty-land-tax.

Legal Fees

For any purchase you will need a solicitor to complete all the legal work. The fee for this service can vary, but generally costs between £500 - £1200 +VAT.

Survey / valuation fee

All lenders will insist that a valuation is carried out on a property. The applicant pays for this but it is only for the benefit of the lender to check the property is suitable security for the amount they are lending. Valuation fees typically cost between £400 and £600 and will be confirmed by the lender.

THE DIFFERENT SURVEY OPTIONS AVAILABLE

Home condition survey

Best for new-build and conventional homes, this is the most basic survey and typically costs £250.

Homebuyer's report

A thorough survey and valuation of both the inside and outside of the property, typically costing £400+.

Building / structural survey

The most comprehensive survey, essential for older or non-standard properties. On average, costs between £500 and £1,500.

Arrangement fees

Most lenders will charge either an arrangement or a booking fee when you apply for a mortgage product. Some lenders will allow you to add the cost of the fee to the overall loan, which means you do not need to pay this upfront. However, you will pay interest on this fee over the term of the mortgage.

DOCUMENTS

The key to getting the best mortgage product available is to be prepared. Be armed with as much information as possible and ensure you have the correct documentation to support your application.

FIRST STEPS

Before we get started finding you the right mortgage, there are a few things you can do in preparation for our appointment.

- Firstly, make sure your finances are in order. The better your credit rating and bigger your deposit, the more options you will have when looking for a mortgage product.

- Carry out a simple credit search on yourself, this will let you see what lenders will be looking at when they consider you.

- A mortgage lender will assess your essential spending alongside your income and other financial information. They will then undertake an affordability assessment.

- The mortgage adviser will undertake a thorough assessment of your documentation and circumstances and will only be able to submit a mortgage application for you once they are satisfied that you meet the lender's requirements.

In preparation for your forthcoming mortgage advice appointment, make sure all your paperwork is to hand, as well as any details and figures on any earnings and outgoings.

WHAT TO BRING

Please be aware that the adviser/lender may ask for further documentation in certain circumstances

Proof of identity

- A valid passport or
- Full driving licence

Proof of address

- A recent utility bill (last 3 months)
- Council tax bill (last 3 months)
- Bank statement showing current address

Employed applicants

- Payslips (minimum of last 3 months)
- Bank statements (minimum of last 3 months for all accounts)
- Contract from employer (if short term)
- P60 proof of overtime / bonus / commission

Credit report (optional)

- Generated through sites such as Experian / Equifax / Noddle

Self-employed applicants

- 2 years' accounts drawn up by an accountant
- Bank statements (minimum of last 3 months for all accounts)
- Self assessment tax calculation form (SA302) covering 24 trading months
- Most recent year-end must not be more than 18 months before the date of application

PROOF OF YOUR DEPOSIT

Bank statement - showing the full amount of the deposit being built up.

Equity - confirmation of sale price and outstanding mortgage balance.

Capital raised from another property - copy of the mortgage offer letter.

A gifted deposit - letter from the person making the gift confirming the amount and on what terms - further information may be required.

We may also require further evidence of the source and origin of any deposit funds.

JARGON BUSTER

This fact sheet explains some of the common terminology you may come across during your mortgage application.

	TYPES OF MORTGAGES
Capital repayment	Pays off both the capital and interest elements of the mortgage with each monthly payment, therefore reducing the balance over the term of the loan.
Discount rate	Offers you discounted payments for a given timescale. This interest rate is discounted from the lender's Sandard Variable Rate. This rate can go up or down, but the amount of the discount remains the same for the duration of the product.
Fixed rate	An interest rate agreed at the start of the mortgage that will not change for the duration of the fixed term product.
Interest only	For a set term the borrower will pay only the interest on the mortgage balance, which will remain unchanged. You are responsible for ensuring sufficient funds are available separately, such as investments, to repay your mortgage at the end of the term.
Tracker mortgage	The interest rate is linked directly to the Bank of England base rate. When the Base Rate changes, the rate on your tracker mortgage changes by the same amount, so increases or decreases accordingly.

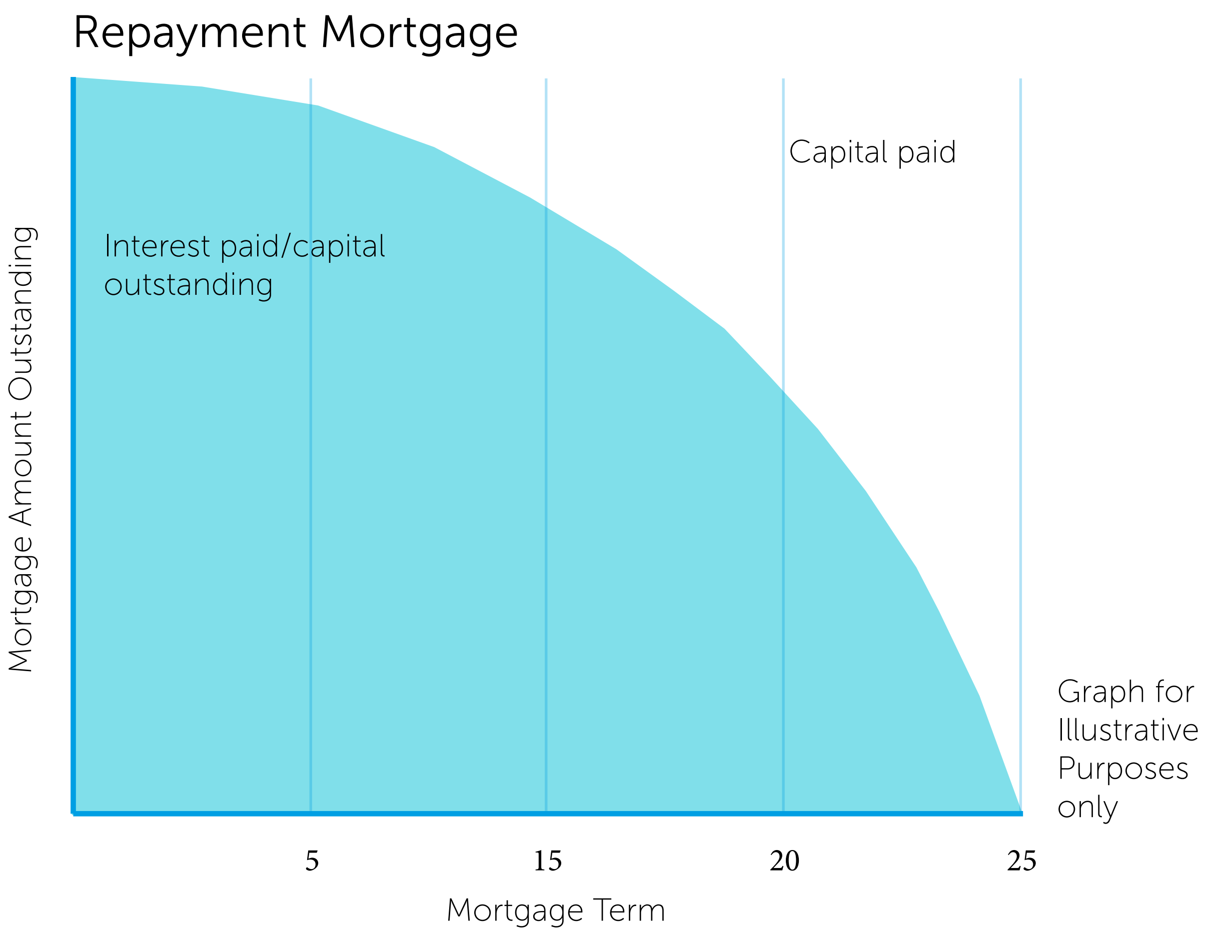
HOME BUYERS JARGON

APRC	The Annual Percentage Rate of Charge is designed to help consumers compare mortgage deals equally, taking into account the initial rate, fees and charges and the follow-on rate. It then calculates a percentage that tells you the annual mortgage costs if you were to stick with the same product until your mortgage is fully repaid.
Bank of England Base Rate	This the rate the Bank of England charges other banks and lenders when they borrow money. This rate influences interest rates charged for mortgages, loans, and other types of credit.
Conveyancing	A legal process when buying or selling property. Completed by either a solicitor or licensed conveyancer.
Equity	The difference between the value of your property and the amount of any outstanding mortgages or loans secured against it.
Exchange of contracts	Happens when both both the buyer and seller have legally committed to the purchase and sale of a property.
Freehold	This means you solely own the property and the land it is situated on.
Leasehold	This means you own the property for a set period of time before handing back ownership to the freeholder, unless the lease is extended.
Mortgage offer	A formal document agreeing to offer you the mortgage. This document will include the terms and conditions that will apply during the whole term of your mortgage.
Remortgage	This is the term used when moving your existing mortgage to another lender.
Searches	These are the enquiries made, usually by your solicitor, at the Land Registry, the Land Charges Register and Local Authorities to ensure there is nothing to cause concern about title to the land and property you intend to buy.
Standard Variable Rate (SVR)	After your product finishes your interest rate will revert to the lender's Standard Variable Rate (SVR). This rate is usually set by the lender in line with the Bank of England's Base Rate.

REPAYMENT METHODS EXPLAINED

The Repayment Mortgage

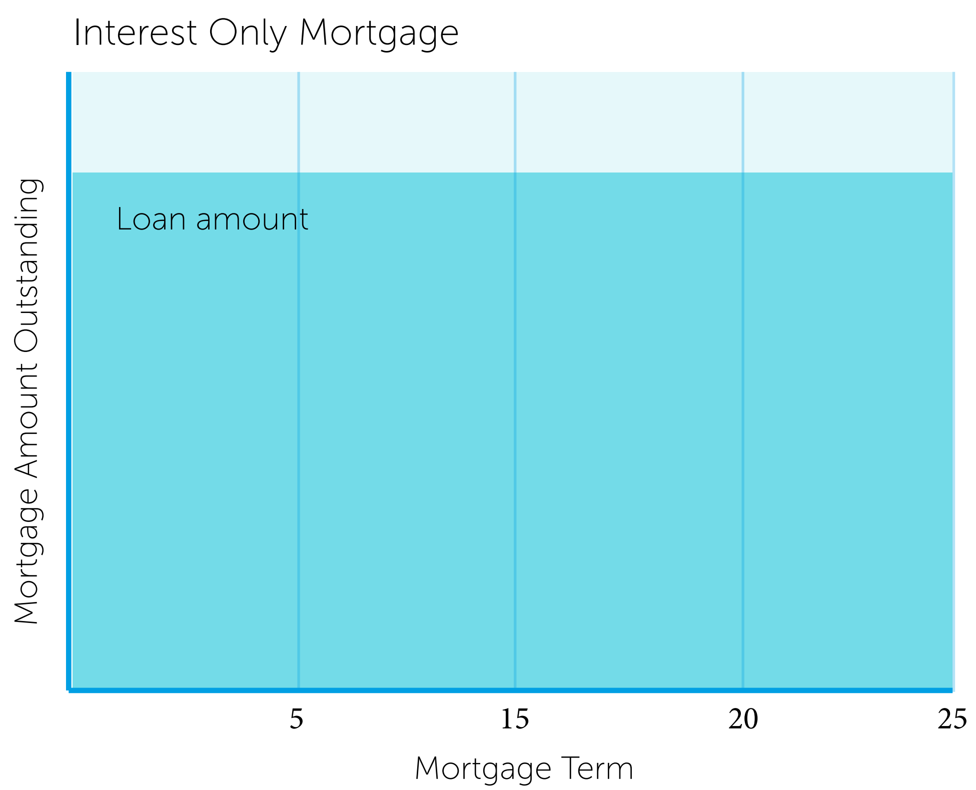
- Each monthly payment to your lender consists of an element of capital and interest.
- Gradually your loan reduces, building up equity in your home.
- At the end of the term your mortgage will be repaid, provided you have kept up-to-date with all of the payments.
- Suitable for people who would like to guarantee the repayment of their mortgage.
- A low risk method.



The Interest Only Mortgage

- Each monthly payment to your lender only pays interest, and none of the capital.
- As no capital payments are made during the term of the mortgage, monthly costs are lower.
- The equity in your home will be dependant on current market value because the capital balance of your mortgage does not decrease.
- Suitable in limited circumstances for people who do not wish to repay the capital until the end of the mortgage term. It is your responsibility to ensure an adequate repayment method is in place to repay the mortgage at the end of the mortgage term.
- Full repayment of the mortgage is required at the end of the term and would usually be paid from proceeds of the sale of your home, inheritance, savings or investments.
- The lender will ask for evidence of a suitable plan or strategy to repay.*
- This type of mortgage is not accepted by all lenders unless an acceptable investment vehicle or repayment strategy is in place.
- If the proceeds of your repayment vehicle doesn't cover the full amount of your mortgage, you'll be responsible for paying the difference and you may need to sell the property to fund this.

*We are not able to advise on the suitability of your selected repayment vehicle. If uncertain, we recommend that you seek independent financial advice



Graph For Illustrative Purposes only

Typical repayment vehicles for interest only mortgages

Individual saving account (ISA)

A mortgage linked to an ISA is where you make monthly payments of interest, to the lender and regular payments to the ISA provider to build an investment designed to help repay the loan at the end of the mortgage term. This may provide you with a tax-free lump sum as well. Remember, however, that the value of an ISA and any income from it can fall as well as rise and returns are NOT guaranteed. There are also typically limits on the amount you can invest.

Sale of mortgaged or other property

Where you make monthly payments of interest, to the lender and plan to use the proceeds from the sale of this property, or any other property you own, in order to repay the capital balance at the end of the term.

Personal Pension Plan

Here you make monthly payments of interest, to the lender and regular monthly contributions to a pension plan. At the end of the mortgage term, usually coinciding with your retirement date, the tax-free lump sum from your pension plan is used to pay off your mortgage balance. It's a tax efficient arrangement, however the tax situation for pensions is liable to unforeseen changes. Disadvantages are that pension contributions need to be high enough to allow for this and you will have less money to provide retirement income.

Endowment policy

With an endowment mortgage you can make monthly payments of interest, by direct debit, to the lender. At the same time you pay monthly premiums to an insurance company, which buys a policy designed to pay off the capital sum at the end of the mortgage term. If you die during the mortgage period, the full amount of the original loan will be repaid. Incidentally, if you already have an endowment policy, you may wish to consider using your existing policy to help repay the loan. However, there are very few companies now offering these types of policies as demand has fallen due to the potential risk of a shortfall and it is not always guaranteed that the mortgage will be paid off when the policy reaches maturity. There may also be fees associated with the policy and they can sometimes be complicated products.

ONGOING SERVICES

As part of the complete service we offer, our advisers are on hand to discuss all of your future remortgage and protection needs, alongside other support should your circumstances have changed. Please let your adviser know if you need additional support in any area.

STEP **7**

Completion

All money is transferred and your remortgage or product transfer is now complete!

STEP **6**

Final checks

Speak to us to ensure all your insurance arrangements are in place before your new mortgage product completes

STEP **5**

Remortgage/Product Transfer offer

Your remortgage/product transfer offer will be issued, subject to lender terms and conditions

STEP **4**

Mortgage valuation

Your lender may arrange a valuation on your property, or this may not be required if a product transfer is chosen with your existing lender

STEP **3**

Your mortgage product

Your adviser will research and recommend an appropriate mortgage product for you, subject to your current circumstances and lender criteria

STEP **2**

Your protection needs

Speak to your adviser to discuss your ongoing protection needs and whether any changes to your circumstances have taken place which could affect any existing cover

STEP **1**

Your remortgage needs

Speak to your adviser in good time before expiry of your existing mortgage product to discuss your remortgage requirements


KNIGHTWOOD
MORTGAGES