Police Mutual

Let’s Talk

Saving for your first home – April 2023

Buying your first home may feel overwhelming especially when the average cost of a first-time buyer home in the UK according to Zoopla is around £228,000. With a deposit needed of 5% to 20%, this is a considerable amount to save.

In order to get a good mortgage deal with low interest rates, you often need a big deposit. If you are struggling to know where to start this guide could help you make your home buying dream into a reality.

To Rent or to Buy?

Before making the decision, it’s important to weigh up the benefits and downsides of buying a house as it’s such a big financial commitment.

Benefits of owning

- Once you’ve paid off your mortgage in full, your home will be yours.
- Building Equity: Equity refers to the amount of value you have in a given asset. As you pay off your mortgage each month, you will be building equity in your home. By building equity in your home, you are also setting aside money for your future. That’s because there are several ways to tap into your home’s equity later on in life.
- You can spend money improving your home and potentially increasing its value or making it more saleable if you decide to sell.
- In some cases your mortgage payment maybe cheaper than rent for a similar size property.

Potential downsides of owning

- You need to consider the maintenance costs as well as the mortgage payments
- If you buy a leasehold property, there will be extra costs payable to the freeholder.
- When interest rates rise, your mortgage repayments could go up.
- It may not be easy to sell if you need to as the housing market fluctuates. Selling can also be extremely time consuming.
- If you’re living with someone and split up, it may be complicated and expensive. Always take legal advice when looking to co-habit.
- The value of your home may fall.

Whether you decide to rent or buy you will also have monthly expenses to pay including, gas, electricity, home insurance, council tax and water rates.

For more details of house purchase and renting, read our guide, here.

Can you afford to buy?

The first step towards buying a property is working out whether you can afford it. There are many additional costs involved in buying a home on top of the deposit, including:

- **Survey costs**
- **Stamp duty***
- **Removal costs**
- **Legal costs**
- **Mortgage set up fees**

*as a first-time buyer in England and Northern Ireland there is currently no stamp duty to pay on properties of up to £250,000. For more details click **here**. Wales and Scotland have their own alternative arrangements for first-time purchases.

Do your research and find out how much houses and flats are currently selling for in the area you want to buy. You can use sites such as Rightmove and Zoopla to see current asking prices and you can even see how much property has actually sold for on the particular street or area where you want to buy. You can then calculate how much your deposit would be.

Once you know the amount of deposit you'll need, you then need to make a plan to reach that goal. Saving regularly is more effective than relying on irregular one-off sums and how long it will take will depend on how much you can afford to set aside each month. Make sure you are realistic about how much you can afford.

Keep a check on house prices – house prices fluctuate and this could mean that either you need to save more or that you could buy sooner than you expected.

Saving

Saving little and often soon adds up. When you are saving a large amount its best to focus on small steps rather than the total amount, which may feel daunting. Once you have gone through the budgeting process and reduced your spending detailed below, you should then be able to see how much you can save each month.

If you have savings in several different places, to be able to readily see what you have saved, you could use an easy to read spreadsheet or App.

Budgeting

In order to know how much you can afford to save each month you will need to complete a budget. Use our budget calculator **here**.

The first step is to sit down and itemise all the money you have coming in and going out. You will then be able to see how long it will take for you to achieve your savings goal. If this time period is longer than you want it to be, then you should consider if you can increase your earnings or make some compromises and reduce your spending.

For more information, read our smart budgeting guide **here**.

Some ideas on how to spend less:

- **Switch to a discount supermarket and buy supermarket own brands.**
- **Reduce fuel costs and cycle, walk to work or lift share to reduce your commuting costs.**
- **Sell anything you no longer need or don't use anymore through a car boot sale or an online auction site.**
- **Help reduce your current rental costs; consider moving back in with Mum and Dad or sharing with a partner or friend.**
- **Get a cheaper deal on your mobile, broadband and utility bills.**

For more details on how to spend less, read our guide **here**.

Lifetime ISA

The Lifetime ISA can be a good option for first time buyers to save for your house deposit.

It allows you to save with a 25% Government bonus up to the age of 50, which can be used either for buying your first home or retirement.

The way the Lifetime ISAs (LISAs) works is, for every £4 you put in, the government will pay a bonus of £1.

You can take a Lifetime ISA as a UK resident from age 18 to 39, you can save up to £4,000 into your LISA each tax year. With the added government bonus, you could have the equivalent of £5,000 saved each year. There's no UK tax to pay on any income or capital gains.

There is a choice of cash Lifetime ISAs or stocks and shares; remember with the stocks and shares option you'll be risking your investment on the stock market. While this could result in profit, you could also end up with less than you put in.

You can have other ISA's as well as the Lifetime ISA but you must not exceed the ISA allowance of £20,000 for the 2023/24 tax year. It is possible to transfer to a new Lifetime ISA, but you will need to check the new provider accepts transfers in.

You can withdraw money tax-free from your LISA when you buy your first home. This is as long as your house isn't worth more than £450,000 and you plan on living there yourself. It must also be purchased with a mortgage.

You should only invest in a Lifetime ISA if you are sure you want these savings for the purpose of your first house deposit or for your retirement. If you need your funds for any other purpose, you will pay a withdrawal charge of 25%

For more details of the Lifetime ISA click **here**.

Savings accounts

An alternative or additional option to the Lifetime ISA are regular savings accounts, easy access savings accounts and fixed rate bonds.

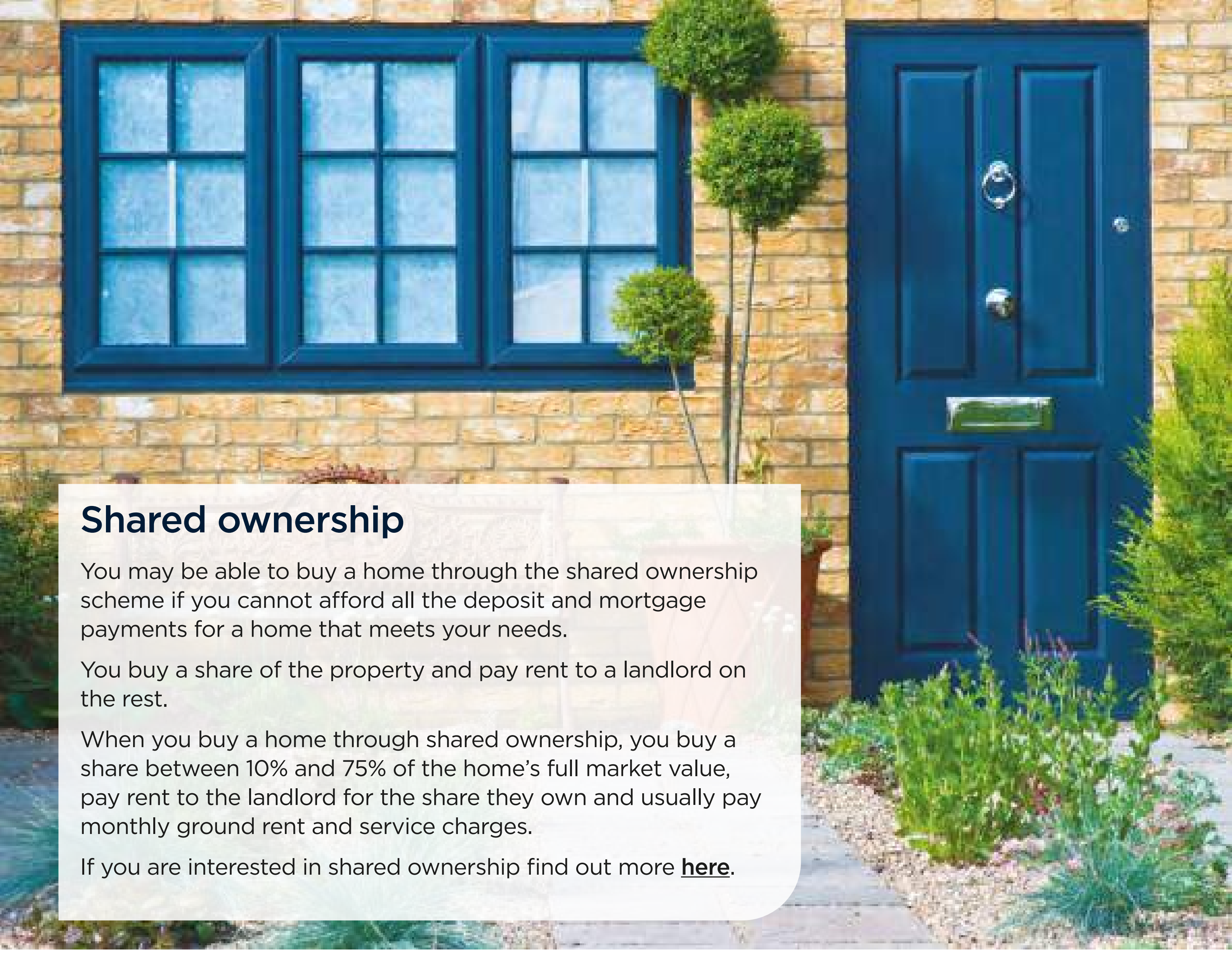
A **regular savings account** is a good place to start building your savings fund. These savings accounts usually work on a minimum monthly payment that needs to be made every month for a specific term. Your balance starts at zero, and then increases each month.

An **easy access savings account** allows you to add payments whenever you choose, and generally to withdraw money as and when you want, although some will have a maximum number of withdrawals that you can make. Notice accounts generally offer higher rates of interest than easy access, but you cannot access your funds immediately, instead, you have to wait for a specific number of days before funds can be withdrawn.

Once your savings pot has grown, you may then want to consider taking out a fixed rate bond. You can usually open these from a balance of £500, however some will require a £1,000 or even £10,000 minimum deposit.

Fixed rate bonds can pay more in interest but often restrict you to one initial deposit only and most will not allow you to withdraw your cash before maturity.

However, if saving is a long-term goal and you have no need of early access in the first year or two, these can be attractive.



Shared ownership

You may be able to buy a home through the shared ownership scheme if you cannot afford all the deposit and mortgage payments for a home that meets your needs.

You buy a share of the property and pay rent to a landlord on the rest.

When you buy a home through shared ownership, you buy a share between 10% and 75% of the home's full market value, pay rent to the landlord for the share they own and usually pay monthly ground rent and service charges.

If you are interested in shared ownership find out more **here**.

Police Mutual Services

Worrying about money can be extremely stressful and may lead to mental health conditions. Police Mutual are here to help. We want to break down the stigma surrounding debt and get people talking about money.

We've teamed up with **PayPlan***, one of the UK's leading free debt advice providers, who offer free and confidential advice to anyone in serious financial difficulties.

They're able to advise you on a range of debt solutions suited to your individual circumstances, helping to protect you and your family with a sustainable way to manage your debt.

Get free and confidential help to combat your debt, call **PayPlan*** on **0800 197 8433**.

Police Mutual

For more information about the products and services available from Police Mutual:

Call us 01543 441630
Visit policemutual.co.uk

We're open from
9am - 5pm Mon - Fri

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