Police Mutual

# Let’s talk

## House Purchase & Mortgages

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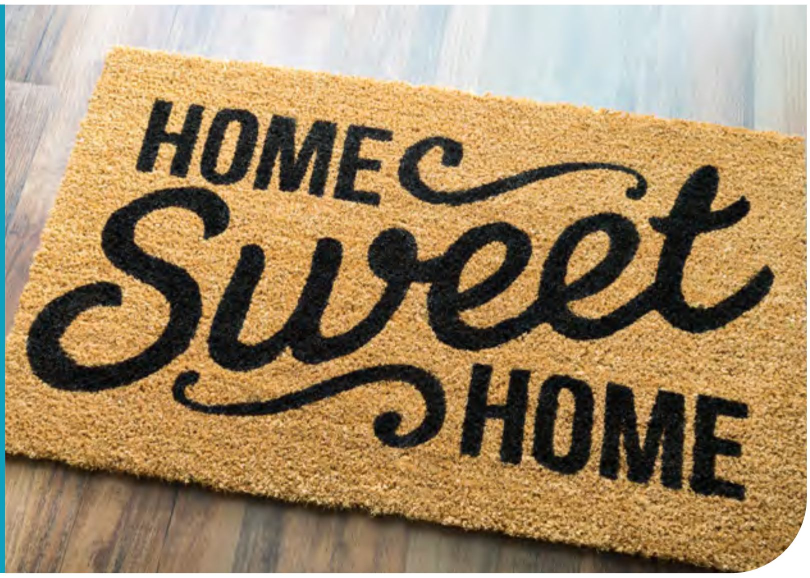
**Buying a home is the largest purchase you’re likely to make. So, it’s important to understand what type of mortgage is best for you, the costs involved and how the process works.**

**Buying a first home, moving house or remortgaging can be an anxious time, with help to buy schemes and thousands of different mortgages available it can be difficult to understand. This guide will be able to help you.**




## 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.
- If your home increases in value, you could use the capital to help move to a bigger home or fund your retirement.
- 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 may be cheaper than your 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 to pay in ground rent.
- 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.

## Can you afford to buy?

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

- A deposit
- Survey costs
- Stamp duty
- Removal cost
- Legal costs

For more details on each of these see later on in this guide.

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.

## Saving for a deposit

If you can't afford the costs right now, think about setting up a saving plan or using a Help to Buy or Lifetime ISA. More details about these can be found later in the guide.


## How much can you afford to borrow for a mortgage?

Don't stretch yourself as you may struggle to keep up repayments. It's important to think about the running costs of owning a home such as household bills, council tax, insurance and maintenance.

Lenders will want to see proof of your income and certain expenditure, and if you have any debts. Lenders may want proof that you will be able to keep up repayments if interest rates rise. A mortgage advisor understands what income is considered by mortgage lenders and can help you understand what you can afford.

Use a Mortgage **Affordability calculator** to work out how much you can afford.

Use a **Mortgage calculator,** to work out how much you'd pay back each month.

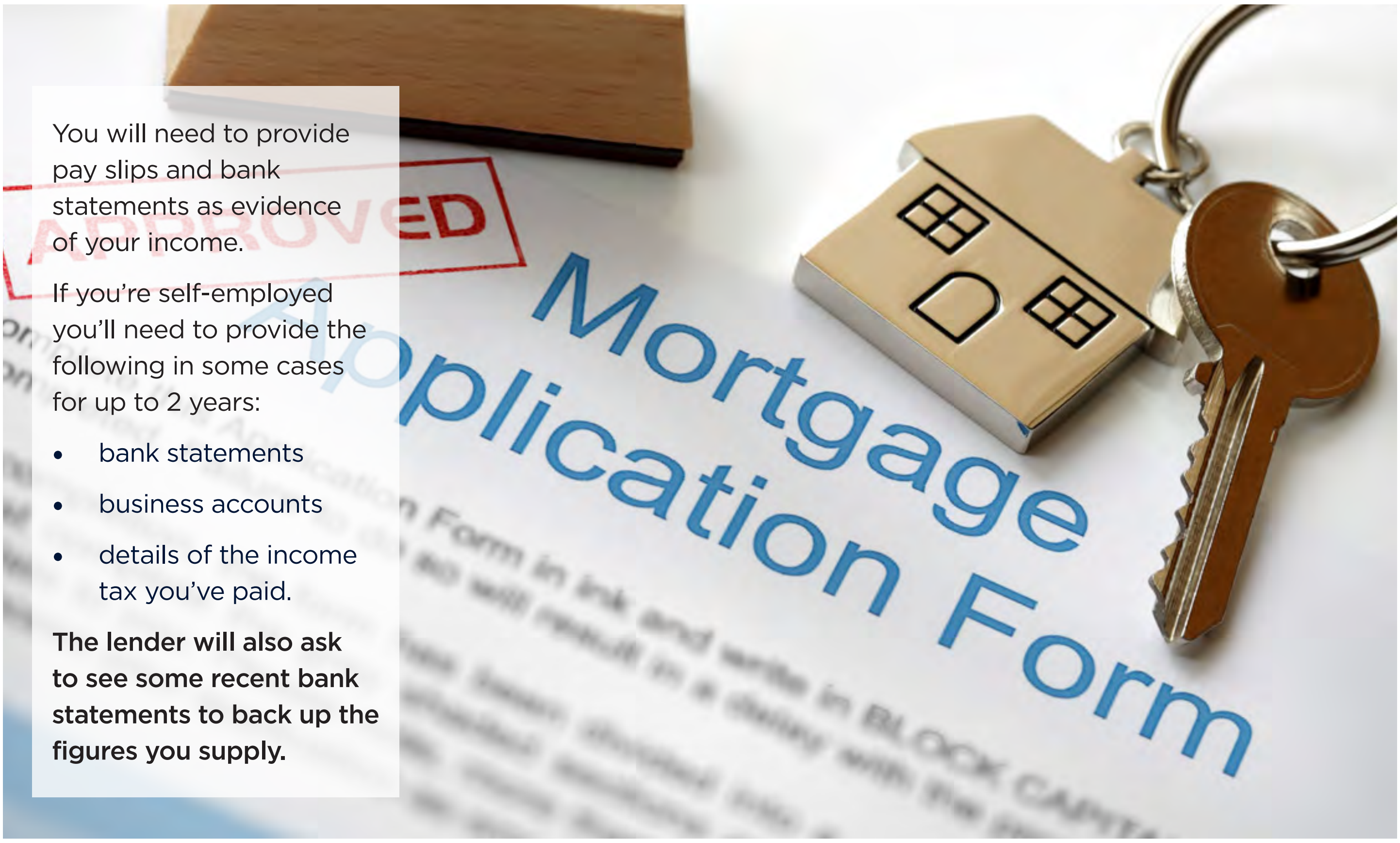
## When working out how much you can afford to borrow, the lender may take into account:

### Your income

- your basic income
- income from your pension or investments
- income in the form of child maintenance and financial support from ex-spouses may be included
- any other earnings you have – for example, from overtime, commission or bonus payments or a second job or freelance work may be taken into account.

### Your outgoings

- credit card repayments
- maintenance payments
- insurance - building, contents, travel, pet, life, etc
- any other loans or credit agreements you might have
- bills such as water, gas, electricity, phone, broadband.




You will need to provide pay slips and bank statements as evidence of your income.

If you're self-employed you'll need to provide the following in some cases for up to 2 years:

- bank statements
- business accounts
- details of the income tax you've paid.

**The lender will also ask to see some recent bank statements to back up the figures you supply.**

**It's a good idea to check your credit score** - using one of the various companies available online including, Experian, Equifax or TransUnion, before applying for a mortgage.
This will give you time to correct any mistakes in it that may make the mortgage lender turn you down or reduce the amount they are willing to lend you.

## Help to Buy scheme: Equity Loan

The Help to Buy scheme is a Government-backed scheme that's designed to make getting on the property ladder a little easier for borrowers who can't afford a big deposit.

The scheme applies to all new-build properties in England up to a specified amount dependent on what area of the country you buy in.

The government will lend you a minimum of 5%, up to 20%, or 40% if you live in London, of the purchase price and you borrow the rest from a mortgage lender.

You won't be charged interest on the government loan for the first five years after purchasing your home.

After the first five years you will be charged interest of 1.75%, rising annually by the increase in the Consumer Price Index (CPI) plus 2%.

At the end of the mortgage term, or if you decide to sell your property, you must repay the same percentage of the total market value as the initial equity loan (i.e. if you received an equity loan for 20% of the purchase price of your home, you must repay 20% of the total market value at that point).

For more details on the scheme click here.

- Help to Buy Scotland
- Help to Buy Wales
- Help to Buy Northern Ireland

## What is a Lifetime ISA?

A Lifetime ISAs (also known as LISAs) is an ISA created to help people save for their first home or retirement. To open one you must be 18 or over but under 40.

You can put in up to £4,000 each year (counts towards your annual ISA limit), until you're 50. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. For more details of the scheme click **here.**

## Which Mortgage to choose?

The money you borrow is called the capital and the lender then charges you interest on it until it is repaid. The type of mortgage you are able to apply for will depend on whether you want to repay interest only or interest and capital.

### Repayment mortgage

With repayment mortgages you pay the interest and part of the capital off every month. At the end of the term, typically 25 years, you should have paid it all off and own your home (subject to you keeping up the mortgage repayments).

### Interest-only mortgage

With interest-only mortgages, you pay only the interest on the loan and nothing off the capital (the amount you borrowed). Then at the end of the term you need to pay the capital part of the loan back to the lender. These mortgages are available in limited circumstances.

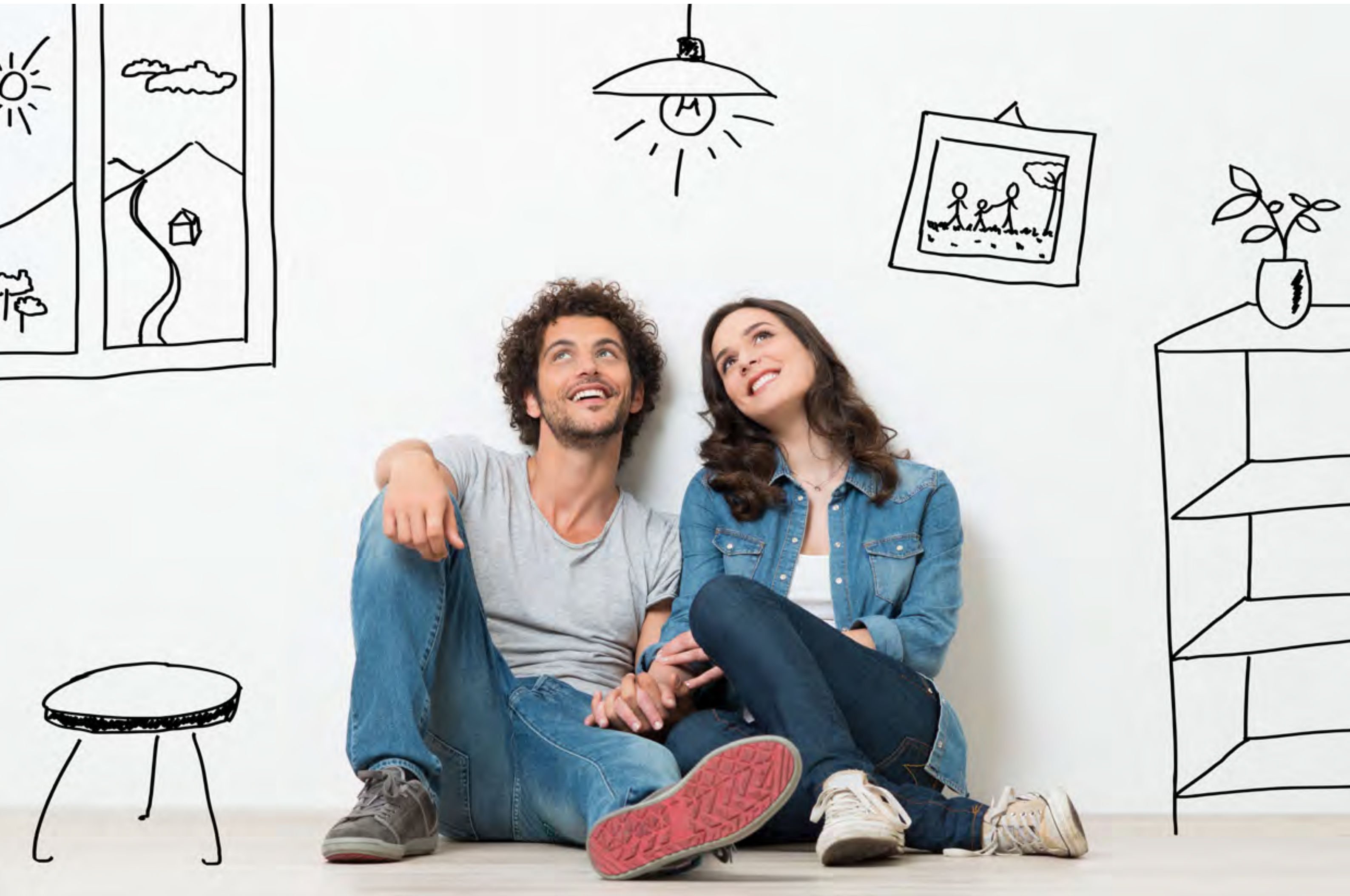
## Different types of mortgage

There are two main types of mortgages:

- **Fixed rate:** The interest rate you're charged stays the same for a number of years, typically between two to five years. This helps with budgeting and provides you with peace of mind and stability of mortgage payments.
- **Variable rate:** The interest rate you pay can change due to changes in the Bank of England base rate. There are many variations of this type of mortgage including discounted and tracker. A discounted variable mortgage tracks at a set percentage below a lender's standard variable rate. A tracker mortgage follows an external interest rate, usually the Bank of England's Base Rate.

### Offset mortgages

Offset mortgages, let you link your mortgage to your savings. The savings balance is used to reduce the amount of interest charged on the mortgage. It is not guaranteed to clear your mortgage early.



## Moving House and Re-mortgaging

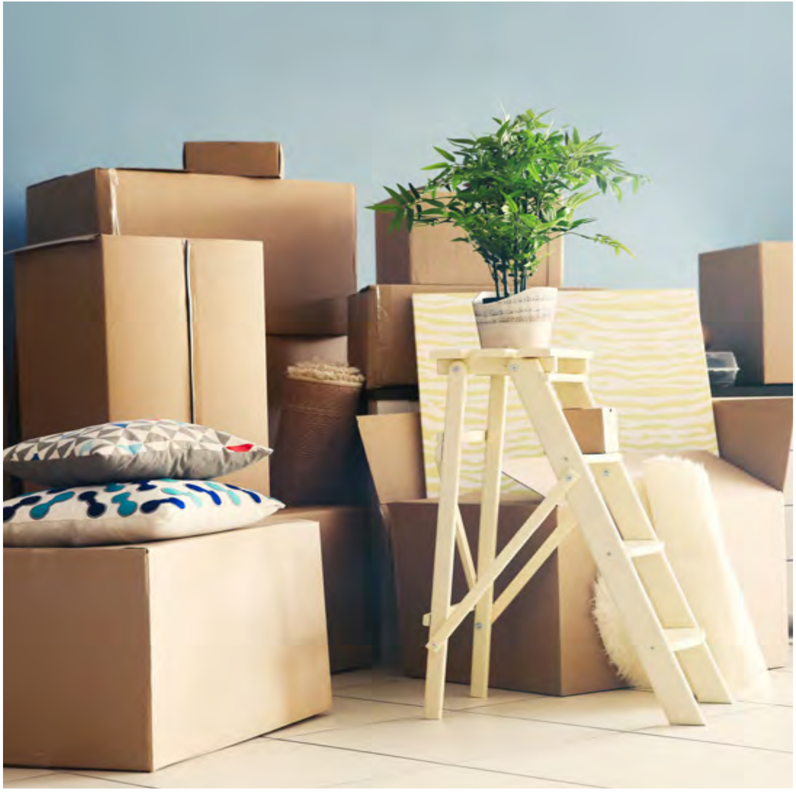
You may want to move to a bigger home or stay where you are and just move your mortgage to another lender or deal.

There are various reasons why you may want to remortgage:

- to get a better interest rate and save money or reduce the term
- for more flexibility
- to consolidate debt
- for home improvements
- to release funds.

There are several costs involved whether you are moving house or remortgaging, including arrangement, legal and valuation fees. See other sections of this guide for more details of these.

For more information take a look at the fee free mortgage advice service provided by Tenet Mortgage solutions by clicking here.



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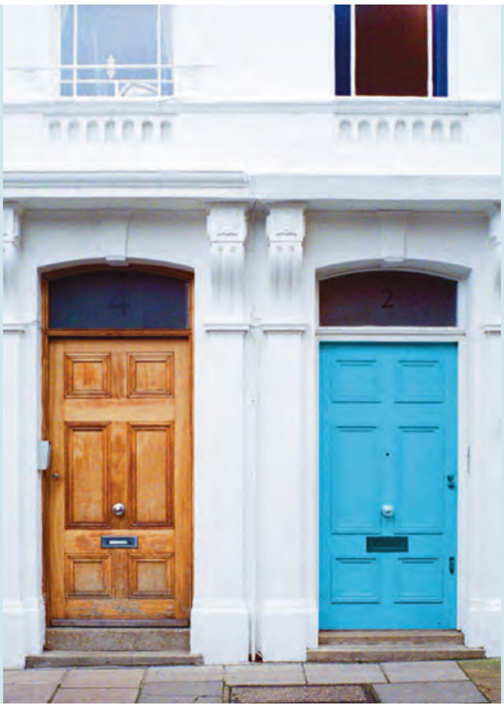
## What is a Buy to Let mortgage?

Buy-to-let mortgages are for landlords who want to buy property to rent it out. The lending criteria around buy-to-let mortgages are similar to those around regular mortgages, but there are some key differences, which are:

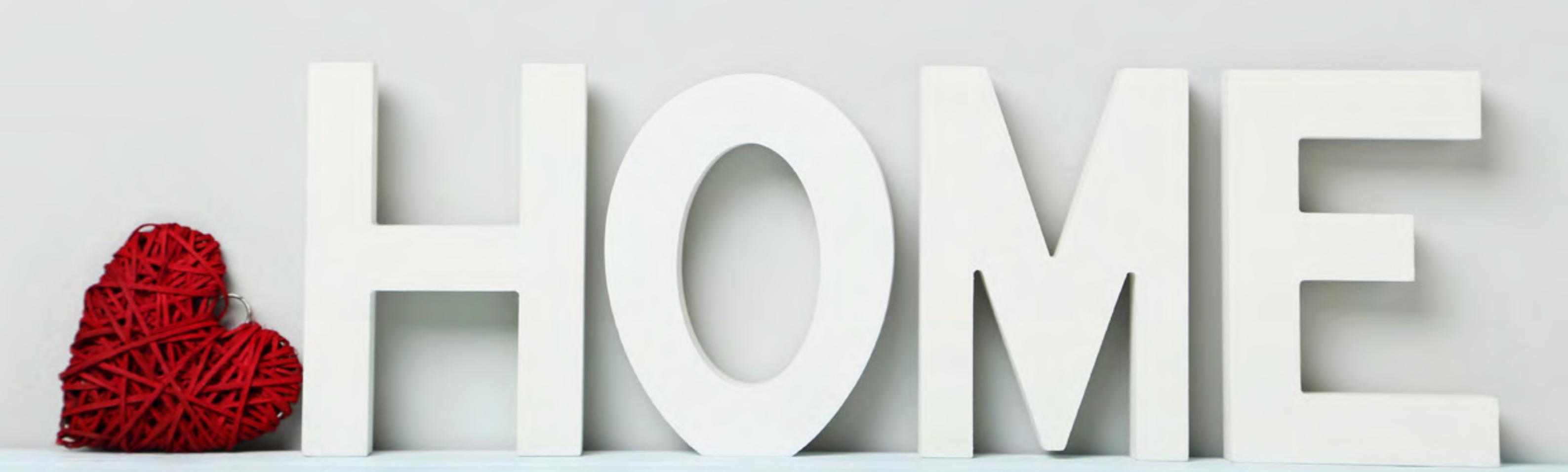
- The minimum deposit for a buy-to-let mortgage is usually 25% of the property's value.
- Most buy-to-let mortgages are interest-only. This means you pay interest on the amount you borrow and repay the capital element of the original loan in full at the end of the mortgage term.
- Fees and interest rates on buy-to let mortgages are usually higher.



## Equity Release

Equity release refers to a range of products letting you access the equity (cash) tied up in your home if you are over the age of 55. You can take the money you release as a lump sum or, in several smaller amounts or as a combination of both.

There are two equity release options, the Lifetime mortgage and home reversion. The fundamental difference between the two is when you take out a lifetime mortgage you still own your own home. But with home reversion plans, you actually sell a share of your home in exchange for a lump sum of money or a lifetime of regular income.




## The cost of buying a home and moving

There are a number of fees to consider when buying a new home, including the cost of moving home, your deposit and solicitor fees.

### Deposit

When buying a property, you will need to pay a deposit. If you have a larger deposit, you may benefit from being eligible for a lower interest rate.

For example, with a £20,000 deposit on a £200,000 property, the deposit is 10% of the price of the property, and the LTV (Loan to Value), which is the amount you will need to borrow is the remaining 90%. The cheapest rates are typically available for people with a 40% deposit.

### Stamp duty

If you're buying a home in England or Northern Ireland costing more than a specific amount, you would normally have to pay Stamp Duty Land Tax (SDLT) on your purchase, unless you're a first-time buyer where there is no Stamp Duty to pay on properties worth up to a higher amount. For more details on the amounts click here. There is currently no stamp duty to pay on any properties purchased in England or Northern Ireland up to £500,000 and this will be the case until the end of June 2021. There are several rate bands for Stamp Duty. Use the Stamp Duty calculator to find out how much you'll pay. Buyers of additional residential properties, such as second homes and buy-to-let properties, will have to pay an additional amount in Stamp Duty on top of current rates for each band.
If you're buying a property in Scotland you will pay Land and Buildings Transaction Tax (LBTT) and in Wales Land Transaction Tax (LTT) instead of Stamp Duty.

### Other costs:

**SURVEY FEE** - the mortgage lender will assess the value of the property to establish how much they are prepared to lend you. There are three different types of survey, Basic Valuation, Homebuyers Report or Full Building Survey. All will include the basic valuation element. If you are buying with a mortgage, the lender will insist on a Basic Valuation as a minimum. Paying for a good survey could save you money on repairs in the long run.

**LEGAL FEES** - You'll need a solicitor or licensed conveyancer to carry out all the legal work when buying and selling your home.

**ELECTRONIC TRANSFER FEE** – this is usually a small costs and covers the lenders cost of transferring the mortgage money from the lender to the solicitor.

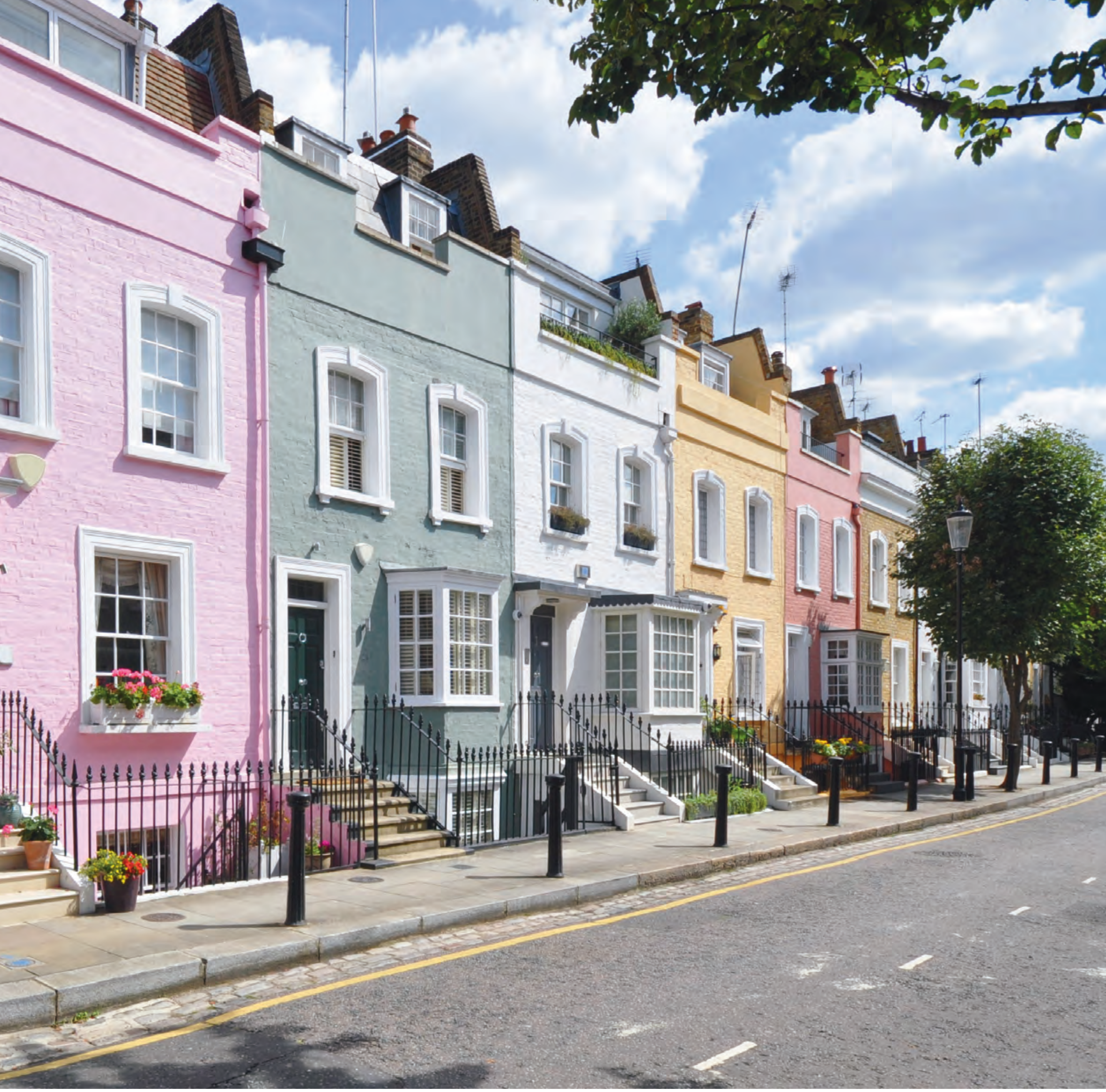
**ESTATE AGENT'S FEE** - this is only paid by the seller, not the buyer, for the estate agent's services.

**REMOVAL COSTS** – this may be the cost of a professional removal company or of hiring a van to do it yourself.

**MORTGAGE FEES** - these might include, a booking fee, an arrangement fee and a mortgage valuation fee.

**INSURANCE** - the lender will require you to take out buildings insurance to protect your new home against damage from fire, floods, subsidence and anything else. It's also a good idea to also cover the contents of your home.

**OTHER** – you may also need to pay for cleaning or storage costs.



A mortgage is a loan secured against your home. Your home may be repossessed if you do not keep up repayments on your mortgage or any other loan secured against it.

Equity release may require a lifetime mortgage or home reversion plan. To understand the features and risks, ask for a personalised illustration.

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