Your Free Guide to Mortgages

Please find enclosed your free copy of the *MoneySavingExpert.com Guide to Mortgages*, sponsored by L&C.

The guide provides a great starting point towards understanding how money can be saved by finding the best possible mortgage to suit you. There are thousands of mortgage deals available at any time, so finding the best one for you can be both time consuming and confusing. We can reduce time and hassle by understanding your needs and recommending the best mortgage to suit your circumstances.

A pleasant surprise

Many of our customers phone us thinking that they will be unable to get a mortgage. So it is a pleasant surprise when they realise that we can not only help with our expert advice, but that we will not charge a broker fee for our award-winning service.

Another surprise is that mortgage hunting can be surprisingly simple – because we do the work for you. The whole process is conducted quickly over the telephone, with back up and advice provided throughout. We even provide our customers access to our unique online tracking facility so they can chart the progress of their mortgage.

For a free no-obligation review, simply call us on **Freephone 0800 694 0444** or enquire online at www.landc.co.uk/ml/mortgage-guide.

We look forward to hearing from you – and finding the very best mortgage to suit your needs.

Yours sincerely,

Phillip Cartwright
Managing Director

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First Time Buyers' Mortgage Guide 2016

Written by Martin Lewis, Liz Phillips and Guy Anker

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All information correct at time of going to press (January 2016).

Independence and integrity

"This guide is written with absolute editorial independence"

This guide is sponsored by London & Country Mortgages. That's the reason we can print and distribute it for free.

So let me make something very plain.

This guide is written with absolute editorial independence. What's in it is purely dependent on my, and my team's, view of the best ways to save money and the sponsor's view on that is irrelevant.

However, the reason I agreed to allow London & Country to be the sponsor is because after detailed research into those brokers that offer coverage nationwide, London & Country has come out as one of the top ones for a number of years.

It's very important that this is understood and no one thinks it is the other way round, in other words, it is recommended because it sponsors the guide. Like everything with MoneySavingExpert.com, the editorial (what's written) is purely about what's the best deal.

If London & Country no longer offers the deal it currently does, and either starts charging fees or stops being independent and offering products from across the market, we'd ditch it as a pick immediately. You can check if that's happened via an up-to-date article on mortgage brokers on the site. Just go to www.moneysavingexpert.com/mortgagebrokers.

Who's this guide for?

It's for anyone who wants to buy a property and needs to persuade a financial institution to lend them the cash to make it happen. The UK mortgage market is highly competitive, but also far pickier than it used to be.

So the challenge is threefold. First, you need to sort yourself out so that you're attractive enough to lenders to get a mortgage. Next you need to make sure you can get a mortgage, then you need to ensure it's one that's cheap and right for you.

So this is specifically for...

New buyers

Those who don't own a property and are looking to buy one. Whether you've a small or large deposit, and whether you've got a good or bad credit history, this guide will explain your options.

Who this guide isn't for.

Remortgagers

If you already have a mortgage and want to cut the cost, then there's a special guide just for you. Go to www.moneysavingexpert.com/remortgageguide to get it.

Buy to Let

If you are buying a new property as an investment to rent out, rather than to live in, the issues are substantially different. For that, we have a special buy-to-let guide. Go to www.moneysavingexpert.com/buytolet.

Martin's Mortgage Introduction

Getting a mortgage is one of the biggest financial commitments you're ever likely to make so it should be taken seriously. However, while it may feel scary, it needn't be difficult.

As we'll explain later, there is a lot of help available. You can, and often should, use a mortgage broker to go through the options with you. They have access to information you don't — such as lenders' credit and affordability criteria — so a good broker should help match you to the right deal.

You may ask: "Why bother writing a guide, if I'm just going to get a broker to do it for me?" The answer is simple: mortgage brokers are advisers, not teachers. Ultimately, it's you who takes the decision and you who'll feel the impact of that decision.

Even though you're taking advice, asking the right questions and understanding exactly how mortgages work is the best weapon possible.

So see this free guide as a way to tool up your knowledge to put you in a confident position to make the right decision. By the end of this guide, I hope you'll not only understand how to get a mortgage, but how to get the best MoneySaving mortgage possible.

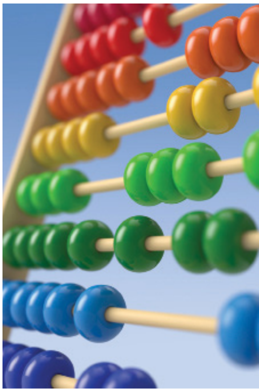
Is a mortgage right for me?

In the mid-noughties, you only had to catch a mortgage lender's eye for it to throw out a mortgage deal at you. You could borrow whatever you wanted, sometimes shockingly even more than the home you were buying was worth. Time and the credit crunch have changed things radically.

These days many struggle to get mortgages, so much so the Government has even launched a range of schemes such as Help to Buy to try to push lenders to offer more.

So the starting point for first timers is no longer about choosing the mortgage that's right for them. It's about ensuring you'll be chosen for a loan by a mortgage company at a rate that is affordable for you.

Can you really afford a mortgage?



First things first. This is a numbers game so before you do anything else, have a good look at your finances. Use www.budgetbrain.com to do a full budget to calculate what you can realistically afford to pay every month. Do your homework to find out what's available.

It's important you do this before lenders do. You can use www.moneysavingexpert.com/mortgagecalc to see how much your mortgage is likely to cost you each month. Think carefully about whether you can afford it, and what would happen if interest rates went up. The mortgage needs to be within your financial comfort zone; don't push too hard, you just risk future unaffordability and that can be catastrophic.

What will they lend to you?

Historically, lenders simply multiplied your income to work out how much to lend you. Typically, a single person could borrow four times their single salary while a couple would be offered three times their joint salary.

Now it's all about affordability. Lenders look at your income compared to your outgoings (bills and other debts) and work out how much spare cash you have each month.

This can get tricky. Some lenders are so picky that even when you've paid debts off — say, on a credit card — just before applying, they factor in how much available credit you have. Or they may see you as a higher risk if you're using more than half the credit available to you. They'll also factor in all your credit card and loan repayments.

Even once they've done the maths, they'll want you to have a cushion in case mortgage rates rise, and to ensure you're not right on the edge of your finances. As a result, mortgage lenders will 'stress test' you on a higher mortgage rate, typically 6-7%, to check if you could still afford to repay.

Martin's Mortgage Moment

Renting isn't a dirty word

"Must own, must own, must own," has become a mantra of our age. I remember meeting a 21-year-old couple while filming who were upset they weren't on the housing ladder yet.

Let's make this plain. Owning a house is great, but not a necessity. As the credit crunch showed, house prices can and do go down, both in the short term and the long term. True, over the very long term it's unlikely, but no one can predict the future.

If you're buying a house to live in, the fact you won't need to pay rent really does help the equation. Yet don't starve to do it.

Your overall finances are more important, so make sure you can afford the house and definitely don't overstretch yourself — if you think it may be a little much, take a step back and pause. Not owning is better than getting repossessed. Better to wait a little until you're secure. Remember, renting isn't a crime. In some circumstances it's worse, but if house prices drop, it's often the winner. No one really knows, so don't panic.

Have you got a big enough deposit?

The days of deposit-less mortgages are long gone. Often, you're going to need to get a substantial sum of cash together to get a property at a decent interest rate.

The deposit not only proves that you're solvent and have financial discipline, but it also means the mortgage loan is less of a risk for the mortgage company. That's because a mortgage is a secured loan (in other words, if you can't repay, it gets your home) so by lending the money it's taking a gamble on house prices.

If you've a 20% deposit, then house prices would need to drop by 20% before it wouldn't be able to recoup the full amount of the loan if you couldn't pay it back. So the bigger the deposit, the more it's protected.

There's no easy shortcut to getting the cash — it may come from saving up (see www.moneysavingexpert.com/moneymakeover for tips to help), money from parents or grandparents, selling your car, cutting back on everything or getting an inheritance. But the fact remains — no deposit = no mortgage.

Q. How big a deposit will I need to get a mortgage?

A. To get a mortgage you usually need a minimum deposit of 5%. Yet to get a good rate, currently you'll often need more than 20% of the home's value as a deposit and more than 40% for the kick-butt market-leading deals.

The golden rule is quite simple. The bigger the deposit, the better the rate, the lower your monthly repayments, the cheaper the mortgage. The difference between a 5% and 10% mortgage is huge; the next big jump's at 20%, then 40%. So if you have any chance of pushing yourself up a band (or perhaps asking parents to help), do it.

The effect of having a bigger deposit

Deposit	5%	10%	20%	25%	40%
Interest rate	3.04%	2.18%	1.53%	1.29%	1.14%
Loan amount	£142,500	£135,000	£120,000	£112,500	£90,000
Monthly cost	£679	£584	£482	£439	£345
Total cost over 2 years	£16,296	£14,016	£11,568	£9,536	£8,280

Based on the best value 2-year fixed rates for a first-time buyer with a house purchase price of £150,000 on a capital repayment basis over a 25 year term.

The table on the next page (top) shows the effect of having a bigger deposit, as the rates get better the more you have (rates correct in January 2016).

It's worth noting that back in 2012 anything under a 10% deposit was impossible to get. The big change to the market recently has been the growth in the number of 5% deposit mortgages, primarily due to the Government's Help to Buy scheme (more on this later).

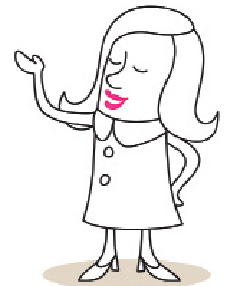
Yet while they're available, the rates are still high compared to having a bigger deposit. So you should do your affordability maths carefully before plumping for one.

Q. In the best buy tables it says "LTV", not deposit – what does that mean?

A. This is a figure lenders often use to indicate how big a deposit you need and you'll see it in best buy tables. LTV stands for the loan-to-value ratio (LTV), which is the percentage of the property value you're loaned as a mortgage. In others words, it's the proportion that you're borrowing.

To calculate this, simply subtract your deposit as a percent of the property value from 100%. So if you've a £20,000 deposit on a £100,000 home, that's a 20% deposit, meaning you owe 80% — so the LTV is 80%. Just in case you're struggling or scared of maths, here's an easy table...

LTV	Equals deposit of	LTV	Equals deposit of
95%	5%	70%	30%
90%	10%	65%	35%
85%	15%	60%	40%
80%	20%	55%	45%
75%	25%	50%	50%



The reason it's expressed this way is so the same term can be used for those getting a first mortgage and those who want to remortgage (changing your mortgage deal later on). Once you have a mortgage, you no longer have a deposit, so it becomes all about what proportion of the property's value you're borrowing.

It's worth thinking about LTVs for a moment. They're not just affected by the amount you put into a property, but also by house prices. This is crucial — by buying a property, you're investing in an asset where the price moves.

A practical example... let's say you have a £10,000 deposit on a £100,000 house — that means you owe £90,000 at the start. That's an LTV of 90%.

After a few years you'll have paid a little off and now owe £85,000. If you came to remortgage (get a new deal) and the house's value is the same, your LTV becomes 85%.

Yet if the house is now worth more, say £120,000, then your LTV is about 70% (as it's £85,000 divided by £120,000 multiplied by 100). This means you'll be likely to get a much better mortgage deal. Equally, if the house's value had dropped to £80,000, you'd now owe more than it's worth (which is called negative equity) and be unable to remortgage.

Q. OK. I think I've got it. So for a 90% LTV mortgage I need a deposit of 10% of the property price?

A. Big picture yes, correct, but it's not quite that simple. The mortgage company will do a valuation of the property. The lender will base the LTV calculation on the *lower* of the purchase price or the valuation. So if it values the property at less than you paid for it, it'll only lend you 90% of the value it has placed on the property. So this could mean you need a larger than expected deposit if its value is *less* than what it's being sold for.

An example will help.

You're buying a house and you agreed a £200,000 price with the seller and have a £20,000 deposit. Yet the mortgage valuation says it's only worth £190,000. For a 90% LTV mortgage the company will only give you a £171,000 loan (90% of £190,000), so now you'll have to put up a £29,000 deposit to make it up to £200,000. You'll have to find a further £9,000 to buy the property, which works out as a 14.5% deposit on what you actually paid.

If that happens to you (don't panic, it doesn't happen to everyone) it's worth considering at that point whether it's really the right place for you.

Q. What about Help to Buy ISAs?

A. If you're a first-time buyer saving for a mortgage deposit, the Help to Buy ISA set up by the Government at the beginning of December 2015 is a no-brainer.

Those 16+ can earn interest of up to 4% and then get 25% added on top when they use it for a mortgage deposit. Nothing else comes close. Here are the basics...

- You can save up to £1,200 in your first month, then up to £200 each month after. When you use it for a deposit, a 25% bonus is added on top.

- The minimum you need saved to get a bonus is £1,600 (which'd be £400).

- The biggest bonus possible is £3,000 – which needs £12,000 saved.

- If you're buying with someone who's owned before you can get one, they can't. If two first-time buyers buy together, they can both get one.

- You need to use it on a property costing £250,000 or less, or £450,000 or less within the London boroughs.

- You don't have to use it for a deposit. You can make partial (or full) withdrawals. You'd still get the interest just not the bonus.

- Help to Buy ISAs can be used with ANY residential mortgage (normal mortgage, new build, shared ownership, Help to Buy), just not buy-to-let.

- And don't think if you get a top-paying Help to Buy ISA from a particular lender that you must also get its mortgage. You're free to get a mortgage from anyone so you should ALWAYS check across the market.

For full info on how Help to Buy ISAs work see **www.moneysavingexpert.com/helptobuyisa**.

Q. Is a Help to Buy the best type of 5% deposit mortgage?

A. In late 2013, the Government launched the second part of its Help to Buy scheme to much fanfare (and some controversy). The idea was to support those who had sufficient incomes to repay a mortgage but were struggling to get a deposit together.

In a nutshell, this Help to Buy 'mortgage guarantee' scheme provides an insurance policy for mortgage lenders so if you put up 5% on a home worth less than £600,000, the Government will insure the next 15% for the lender in case of problems.

As lenders are taking the same risk as if you had a 20% deposit, they can offer more mortgages at a 95% LTV than they would've done — and that's the big impact. It's not so much that they're far cheaper, just that they're far more readily available.

And that's pretty much all you really need to know. If you've only got a 5% deposit, you need to look for a 95% LTV loan. Some will be funded through Help to Buy, others won't. To you that's irrelevant, what counts are the fees, rate and terms. So if the best 5% deposit mortgage is Help to Buy, and it's right for you, great, go for it. If it's not, go for the other. The fact it's Help to Buy gives YOU no greater or lesser comfort.

Q. Isn't there another Help to Buy scheme just for new builds?

A. Yes. The Help to Buy (equity loan) scheme is the original version, launched in April 2013 and still running. It's only for those buying a new build and the scheme works slightly differently depending on where you are in the country.

In England, it's only for those buying a new build worth under £600,000 (£300,000 in Wales). Rather obviously, it was set up to help encourage building because of the UK's shortage of houses.

Here, provided you've a deposit of 5% and you pass the criteria, the Government will give you an interest-free (for the first five years) loan of 20% of the purchase price and you raise a mortgage of 75% for the rest.

As you're only borrowing 75% you'll get access to cheaper rates than you would for a 95% mortgage — meaning the mortgage here is far cheaper than in the standard Help to Buy scheme.

Yet you're not just getting a mortgage, you're also getting an interest-only equity loan.

- For the first five years the Government loan is interest-free, then it's about 1.75% from year six onwards. (To be confusingly technical, it's 1.75% indexed to inflation plus 1% from year seven, so if inflation were 3% in year seven you'd pay 1.82%).
- Do note, here you are only repaying the interest, not the loan itself.
- The idea is you pay back this loan when you sell the property, by giving the Government 20% of the sale price — so it shares in any growth or loss. So if house prices rise rapidly, you'll repay a lot more than you borrowed. If you want to pay it back earlier, the market value of the property will be assessed.

A practical example...

Purchase price:	*£200,000*
Your 5% deposit:	*£10,000*
The Government will lend you 20%:	*£40,000*
So you need a mortgage for 75%:	*£150,000.*

Further down the line, you sell the property for £220,000.

You need to pay back the Government its 20%.

20% of £220,000 is £44,000.

You need to pay the Government back £4,000 more than you originally borrowed from it.

CHAPTER 2

If you're buying in Scotland, this scheme has closed to new applicants. However, the Scottish First Minister has announced that a new scheme will launch to replace it.

Northern Ireland also has a different scheme known as co-ownership, where the purchase price is limited to £175,000 and there's no interest to pay, but you do pay rent on the Government's share.

Q. What are shared ownership schemes?

A. You may be eligible for one of the many shared ownership schemes available across the country. As the name suggests, here you're not buying the whole property outright, just a cut of it.

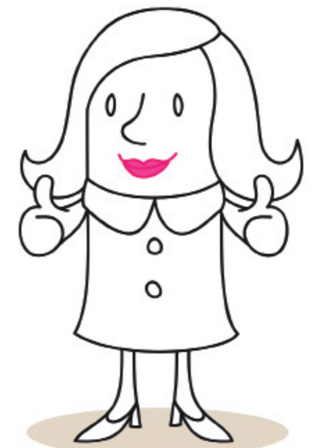
Usually run by housing associations, borrowers typically buy a share of a property worth between 25% and 75% and pay rent on the rest. Later on, if you can afford it, you've a right to increase your share of the property.

There are no simple rules for who will get one. It depends on who is offering it. The housing association will decide, based on how much you earn and the cost of local housing. Earn too much and you won't qualify, earn too little and you won't either. It can even take into account whether you have children or not — some areas prioritise families.

There is also additional help for 'key workers' such as nurses, teachers and police officers, although the eligibility criteria varies according to local priorities. These are usually offered by local authorities.

When selling, be warned that the housing association will have a say where it still owns a share.

If you're considering it, it's a very different type of deal to the mortgages in this guide, and you will need a specialist mortgage, which will be harder to find. Read more at **www.moneysavingexpert.com/sharedownership** and **www.gov.uk/affordable-home-ownership-schemes**, or contact your local authority and/or housing association.



Q. Any other schemes I should look at if I'm struggling to afford a mortgage?

A. There are, but be careful. Getting a mortgage isn't the be-all and end-all. Ensure your finances are suitable. Don't push it too hard.

There are a few further options available but they can be costlier...

Asking family/parents to act as a guarantor

Many first-time buyers rely on help from mum and dad for their deposit. But parents can be much more directly involved. There are a number of mortgages which incorporate parental finances in one way or another. It's a big topic, so if you need this it's worth talking it through with a broker (see chapter 7).

A number of deals will take parental income into account as well as the child's income, as long as the parents can still cover their own mortgage — this can help you get a bigger mortgage as it's worked out on a higher income multiple. To avoid tax complications the parents are not listed as owners, but guarantee to cover the mortgage if you can't so they are liable for repayments and arrears.

It's also possible for parents to guarantee just the extra portion of the mortgage above the amount covered by their child's income, or to undertake to cover repayments should the child default.

Parents can also help their children without surrendering their cash. There are some offset mortgages (more about these later) which will use parental savings to reduce the child's mortgage, while still allowing them access to the cash if necessary.

Mates' mortgages

There's a growing trend for friends (or siblings) to club together to buy a property — some lenders allow up to four people to get a joint mortgage.

Clearly, the pooled salaries increase your buying power, but remember you'll need a bigger property, which could take you into a higher price and stamp duty bracket. See www.moneysavingexpert.com/stampduty.

You need to consider what would happen if one of you lost your job or wanted to sell your share. It's not something to be done lightly. Once you take on a mortgage together you're financially linked — your friend's credit rating will now affect yours.

Don't do this without sorting a legal contract between you covering all the 'what if' possibilities and what your rights are. Too many people arrange it thinking "we're good friends" or even "we're lovers" and don't think about what could go wrong, causing a nightmare.

It's better to have the discussions when you're still friendly than to be fighting later if it all goes wrong. A shared debt, especially a large one like a mortgage, ties you down almost as much as marriage does.

Martin's Mortgage Moment

The mortgage ticking timebomb — can you really afford it?

To say UK interest rates are low right now is a bit like saying the phone-hacking scandal caused newspapers a small PR issue. Interest rates aren't low, they're cave diving, wallowing 1.5 percentage points beneath the recorded 200-year historic low.

For a number of years we have been in an interest rate anomaly. Today's rates aren't normal, they are staggeringly abnormal. To put it in context, those who are coming to the end of their 25-year mortgage term were paying 14% when they started.

And while rates seem cheap now, actually in some ways they're more expensive. The gap between the UK base rate and mortgage rates has grown in recent years. Before the credit crunch you only paid one or two percentage points more, now many lock in at 3 or even 4 percentage points above base rate — a much bigger margin.

That mightn't sound much but every percentage point adds at least £60 per month on a £100,000 of mortgage to your repayments.

So when the base rate finally turns and starts to rise (which some think will be this year, it may've already happened by the time you read this) it's likely mortgage rates will eventually shoot up, mostly in parallel. For the nation, that's a ticking time bomb — millions may struggle to be able to afford to repay.

Yet you're still able to position yourself accordingly. If you're looking to get a mortgage now, think extra carefully if you could really afford such a hike and don't plan on paying rock bottom rates forever.

If the base rate returns to 2008's historically normal 5% (not a prediction — just a possibility) then someone with a £200,000 interest-only mortgage tracker could see their payment explode from £500 to £1,330 a month.

Boost your chances of getting a mortgage

Having a big enough deposit isn't the end of the game. It's just the start. These days, affordability and credit checks play a crucial part in a lender's assessment of whether they will give you a mortgage.

Each lender has its own bespoke criteria, so this is more art than science. Think of it as a beauty parade where you need to make yourself as attractive as possible to lenders in the hope they'll pick you out of the line-up.

Not everyone will view you the same way, but there are many little and large things you can do to shape up and stand out that are likely to make a big difference. Let's run through them...

Boost your credit score

This isn't a quick fix. Some of the techniques below need to be done months before applying, so ensure you do the necessary groundwork in good time or risk a rejection.

The lender's aim is to ensure you're a profitable customer and can make your repayments. It does this by credit scoring you, to try to predict your future behaviour based on your past.

These criteria aren't published, so it's impossible to pinpoint which lender wants what. But many mortgage brokers (see chapter 7) have a reasonable idea which lenders are pickier and what they look for in a borrower.

Lenders are now much more selective — if your score is poor, almost all will reject you. Here are some quick tips to help but if it's an issue for you, spend more time and read the complete guide at www.moneysavingexpert.com/creditrating.

> "Think of it like a beauty parade where you need to make yourself as attractive as possible to lenders."

Quick tips

Get on the electoral roll

If not, it makes life so much more difficult. Go to www.gov.uk/register-to-vote to register on the electoral roll or to check whether you're already registered. For anyone ineligible (mainly foreign nationals), you can add a note to your credit file saying you've other proofs of address/residency.

Check your credit file

Get copies of your credit file from all three credit reference agencies — Equifax, Experian and Callcredit. But don't bother paying for 'credit scores' that the agencies try to flog you, they're only loosely indicative.

You can do this for free (or even get paid to do it) if you know how, see www.moneysavingexpert.com/creditcheck.

Once you get your file, check everything for errors. If you think your file is wrong, ask the lender to correct it. You can add a *notice of correction* to your file explaining why it's unfair or how the circumstances arose. If the credit reference agency won't help you, you can complain to the Financial Ombudsman.

Just remember that lenders also rely on your application form and their past dealings with you, which the credit files don't contain.

Check addresses on your file

It's one thing people often miss. Check your address is up to date on all active accounts (even if you no longer use them). One woman didn't get a mortgage because her unused but still active old mobile contract was listed at a past address. Anything unusual causes lenders a worry.

"Don't bother paying for 'credit scores' that the agencies try to flog you, they're only loosely indicative."

Break with past relationships

Write to credit agencies asking to be delinked from any ex you had joint finances with. This stops their credit history affecting your applications.

Build / rebuild your score

If you have a poor credit score, it takes time to rebuild it. Perversely, one way to do it is to get a credit card and spend on it each month. This proves to lenders you can borrow responsibly.

Yet only do this if you ALWAYS repay in full to avoid interest. Put about £50 on it each month, clear it each month for a year, and it should help. If your credit rating isn't good enough to get a normal card, see the www.moneysavingexpert.com/badcredit guide for how to get a card.

Time it right

Issues such as county court judgments for unpaid bills are wiped from your record after six years, so wait for that until you apply. Applications only stay on your file for a year, so if you've a raft of those (eg, lots of credit cards) then wait.

Don't miss payments / pay late

Set up a direct debit to make at least the minimum repayment on credit cards so you're never late and never miss a month. It's always better to repay more, so make manual repayments on top when you can.

Keep other applications to a minimum in the months before a mortgage

Applications, whether successful or not, go on your file, so space out applying for anything that adds a footprint to your file (including car insurance and mobile phones). The worst thing is a lot in a short space of time as it makes you look desperate for credit.

Prioritise your mortgage if that's the most important thing, and hold others off until you've got it.

Never withdraw cash on a credit card

This is specifically noted on your file. It's frowned upon as its incredibly expensive and not a good sign. It looks like you're desperate for cash and can't live within your budget.

Never apply after rejection

Always check for errors on your credit files before applying for anything else. If not, even if you fix an error later on, all the footprints from rejected applications may kibosh your ability to gain credit anyway.

Again, please remember, these are just the tip of the iceberg. For a full guide to boosting your credit score, go to www.moneysavingexpert.com/creditrating.

More tips to boost acceptance chances

An extra £100 can secure a mortgage

Just putting down 0.1% more than the minimum deposit can boost your acceptability, or at least cut the amount of documentation the lender wants to see.

For example, imagine you're applying for a 75% maximum LTV loan on a £100,000 property. Instead of just putting £25,000 down, put down £25,100. That extra 0.1% could see you speed and ease up the application process.

Stay out of your overdraft

If you're constantly using your overdraft this could be seen as living close to the edge of your finances, so avoid it if possible. In fact, some lenders may not tolerate you being in your overdraft at all in the last three months.

And if you've no choice but to be in your overdraft, should you be getting a mortgage?

Avoid payday loans like the plague

Not just because their rates of interest are hideous but because a few mortgage underwriters (the people who decide if you'll get a mortgage) simply reject anyone who's got such a loan as it indicates poor money management.

If you've had a history with payday loans or problems with them see www.moneysavingexpert.com/payday.

Close unused credit cards

If you've lots of unused credit available, this can be seen as a negative, as you could borrow large amounts on a whim without passing a further credit check. Even if you've paid an old card off and stopped using it, it'll still show up as active (as available credit) unless you write to the card company and shut it down. But there can be circumstances (such as shutting a long-standing account with an unblemished history) where closing cards could be seen as negative. For more details to help you decide, see www.moneysavingexpert.com/closeoldcards.

What type of mortgage to choose?

It's important to understand a mortgage is just a loan. Though, admittedly, a big one. However, it has two special characteristics.

- It takes a long time to repay

It's designed to be paid back with interest over a long period, typically 25 years. That means while the interest rate can be low, as it is applied over a long period of time, you still pay a lot for it.

- The loan is 'secured' on your home

Unlike a bank loan or a credit card debt, a mortgage is what's called 'secured'. That means in return for lending you money, the bank uses the property as security for the mortgage.

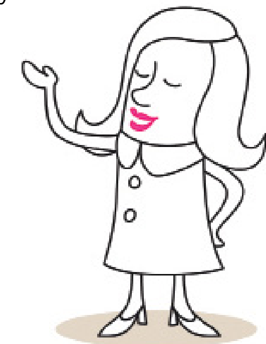
While 'security' may sound comforting, it's the lender, not you, that gets the security. It means if you get into problems and can't repay, it has the right to repossess your home and sell it to recover the money you borrowed.

Not only that, but if it does repossess your home and the amount it gets from selling it doesn't cover what you borrowed, you usually still have to pay back the remainder. That's why ensuring you only borrow what you can afford is crucial.

There is no one-size-fits-all deal. The choice depends on your current and likely future financial situation.

Navigating through the plethora of deals on offer can seem bewildering, but it boils down to a series of consecutive choices — at each one write down your preferences, so when it comes to finding your mortgage you know what's right for you.

> "It's important to understand a mortgage is just a loan. Though, admittedly, a big one."



Choice 1: Repayment mortgage or interest-only?

Unless you have a compelling reason, repayment is the way forward. It's the only option which guarantees you are actually paying off some of the debt every month. With an interest-only mortgage, you just pay the interest. Your monthly payment does not chip away at your actual debt — it just covers the cost of borrowing the money. After 25 years of paying the interest on a £150,000 loan, you would still owe £150,000.

While repayment costs more each month than interest-only, it has the big bonus that it pays off the original debt too, meaning you owe nothing at the end. And in the meantime, when you come to remortgage, you'll have paid off more of the debt so you'll be able to get a mortgage with a lower LTV and therefore a lower interest rate.

It's hard to get interest-only

Frankly, for many these days there's actually no choice. Several lenders have pulled out of offering interest-only mortgages.

This is because the regulator, the Financial Conduct Authority, is clamping down on them hard. It's no longer any good relying on some future promise of bonuses or inheritance or house price rises to cover the capital.

Interest-only mortgages will only be offered in future where there is a credible plan to repay the capital, making them much rarer than they were.

Beginner's Briefing

What is an interest rate?

The interest rate is the cost of borrowing money. So if the rate is 1%, that means if you borrow a pound over a year you'll repay £1.01. If rates are 44%, you'll need to repay £1.44.

While that's simple, when you borrow a large amount of money over a long period — the interest can really rack up, even if the interest rate is low.

For example, if you borrowed £150,000 on a 5% rate for 25 years, you'd repay £113,000 in interest alone.

How it works with mortgages

- **Repayment**

Your repayments are calculated so you'll have repaid all the debt and the interest over the term you agree (eg, 25 years).

This has a strange effect. In the early years, your outstanding debt is larger so most of your monthly repayments go towards paying the interest. Gradually, as you reduce what you owe, most of your repayments go towards paying off the debt.

For example, on a £100,000 mortgage at 5%, after 10 years you'll have repaid £70,000 but only reduced what you owe by £26,000. Yet after a further 10 years, paying another £70,000, now you'll reduce the debt by a further £43,000 because less interest is accruing each year.

If you can afford to pay the debt more quickly, though it would mean a higher monthly payment in the short term, you could save serious cash over the life of the loan.

To see the details for your own situation go to www.moneysavingexpert.com/mortgagecalc.

Many people, once they realise this, then worry that if they ever remortgage to another deal they'll lose all the work they've put in to decreasing what they owe.

This isn't true. Provided you keep the same debt and the same number of years left until it ends (ie, you have 14 years left to repay and you still intend to repay it in 14 years), then it stays the same.

- **Interest-only mortgages**

For those few getting an interest-only mortgage, the cost is pretty simple — if you've borrowed £100,000 at an interest rate of 5%, the cost is £5,000 a year, although remember that means you still owe the original debt (of £100,000).

Choice 2: What type of deal do you want?

This is the really big choice, and it's never easy. There are many different types of deal but all fall roughly into two camps. They're either fixed or variable.

Fixed-rate mortgages

Here, regardless of what happens to interest rates, with a fixed mortgage your repayments are... er... well... fixed for the length of the deal. They don't move. They're like a statue, as still as a pyramid. OK, hopefully you've got it.

So whether you fix for two, three, five years or longer, it's effectively an insurance policy against interest rates going up. Of course, if rates tumble (unlikely in current times) your payments won't fall.

Like any insurance policy, this protection from rate rises costs. So all other things being equal, a three-year fix will have a higher rate than a three-year variable deal. So it's worth evaluating how much the peace of mind is worth to you.

Then again, this isn't always the case and there can be quirks — this is all part of the evaluation process.

If you're worried you may need to move home within the term of the fix, check that you can move your mortgage with you (known as porting). If it is portable and you think you're likely to move during the fixed period, check when you first apply whether the lender will raise the cost of borrowing if you need to borrow more to move into a larger home.

When a fix ends, most move on to their lender's standard variable rate (see page 25).

PROS & CONS OF FIXED RATE

PROS
- Certainty. You know exactly what your mortgage will cost.
- Your payments will not go up over the life of the fix, no matter how high rates go.

CONS
- Starting rates are usually higher than on discount products.
- If interest rates fall, you won't see your payments drop.
- If you want to get out early, you'll pay high penalties.

Martin's Mortgage Moment

Don't let 'fixed rates rising' stories confuse you

Sometimes you will see stories in the press about fixed rates rising (or falling). This can be confusing. What they're actually saying is the rate *at which you can fix* is rising. It's a way of saying if you are going to lock in to a rate, do it soon — the speedy will save money.

But if you have a fixed-rate mortgage, you won't pay any more during the term.

It's important to understand that the rate at which you can fix with a new mortgage does move. So even when UK interest rates are stable, fixed rates change. They tend to follow the City's prediction of long term interest rates.

Variable rates

Here, your mortgage rate, as the name suggests, can and will usually move up and down. The major, but not sole cause of this is changes to the UK economy.

In times of growth and inflation, interest rates tend to be increased to discourage spending. This makes saving more attractive and borrowing costlier — meaning people are less likely to borrow to spend.

In times of recession, interest rates are cut to encourage spending.

However, to complicate things, variable rate deals fall into three categories:

1. Trackers

Here the rate tracks a fixed economic indicator. Usually it's the Bank of England base rate. This means it's completely locked in parallel with that rate.

So if the Bank of England rate increases by one percentage point, so does your mortgage. If it falls by one percentage point, so does your mortgage. Some trackers only run for a couple of years and then go to the standard variable rate (see below) but you can get ones lasting the life of your loan.

But beware any small print that allows your lender to up rates even when the base rate hasn't moved. It's rare, but Bank of Ireland did this in 2013. See www.moneysavingexpert.com/boi.

PROS & CONS OF TRACKERS

PROS
- These are very transparent.
- You know that only economic change can move your mortgage rate, rather than the commercial considerations of the lender.

CONS
- Uncertainty.
- If rates rise, so will yours.
- You may also be locked in to a fixed relationship, so if you are paying a large amount above the Bank of England base rate and interest rates jump, it could mean huge future costs.

2. Standard variable rates (SVRs)

Each lender has an SVR (or a rate with a similar name) which tends to roughly, but not exactly, follow the Bank of England base rate.

Rarely available to new customers, it's the rate you go to when your introductory fixed or tracker special offer deal has ended.

SVRs can be anything from two to five or more percentage points above the base rate, and they can vary massively between lenders.

As the base rate shifts up and down, so lenders traditionally move their SVRs, although not always by the same amount. For example, they may only drop rates by 0.2% when the base rate drops by 0.25%. But when it goes up they often increase it by at least the full amount, meaning they increase profits both ways.

Lenders are allowed to move the rate simply because it's to their advantage. There are many examples of this happening, hiking people's costs.

PROS & CONS OF SVRs

PROS
- They can be cheap in some circumstances, but new mortgage customers are rarely allowed to get them.
- If interest rates are cut, your rate will likely drop too.
- There is usually no early repayment charge, meaning the mortgage can be paid back in full at any point without penalty.

CONS
- Uncertainty.
- There's no guarantee you'll get the full benefit of all rate changes as you're at the mercy of lenders hiking rates at their will.

3. Discount rates

These deals usually offer a discount off a standard variable rate (SVR). The discount tends to last for a relatively short period — typically two or three years.

Yet be careful when you read the marketing materials as they can be quite confusing. Some quote the rate with the discount applied and then the rate you'll move on to later (the SVR). Others quote the initial rate, the amount of the discount and then the rate you'll move to after the discount is over. A few just quote the discount and the SVR. Whatever it says the main thing is to find the rate you'll pay at the start, then check the SVR.

PROS & CONS OF DISCOUNTED RATES

PROS
- It should be cheaper than the underlying rate, such as the SVR.
- If interest rates are cut your rate will likely drop too.

CONS
- Uncertainty.
- If it's a discount off the SVR, there's no guarantee you'll get the full benefit of all rate changes as you're still at the mercy of lenders hiking SVRs at their will.

4. A hybrid option — capped deals

These used to be more common, but they are now pretty rare. Here you have a variable rate but with a safety cap so it cannot rise above an upper limit.

The rate you pay moves in line with the base rate or SVR but there is an upper ceiling or cap which gives you some protection.

They tend to be offered when people are frightened rates might soar.

PROS & CONS OF CAPPED DEALS

PROS
- You benefit from interest rate falls.
- You've some protection from interest rate rises.

CONS
- The cap tends to be set quite high.
- The starting rate is generally higher than normal variable and fixed rates.

Martin's Mortgage Moment

Choosing between fixed and variable

A fixed rate is an insurance policy against hikes and therefore gives peace of mind. That has to be factored into the equation. Though how much that peace of mind costs you is important too.

Yet a shock horror thought from the Money Saving Expert. Here, choosing a rate isn't purely about which is the cheapest.

Deciding whether to fix is a question of weighing up how important certainty that your repayments will stay the same is for you. I tend to think of this as a "how close to the edge are you?" question.

Someone who feels they can only just afford their mortgage repayments should not be gambling with interest rates. They'll benefit much more from a fixed rate as it means they'll never be pushed over the brink by a rate increase during the term of the fix.

Those with lots of spare cash over and above the mortgage may choose to head for a discount or tracker, and take the gamble that it will work out cheaper in the long run.

Don't look back in anger

I'm sure Oasis were writing about mortgages when they penned that famous line. The truth is, the only way to truly know which mortgage deal is best is with an accurate crystal ball, and they cost way more than a house.

So if you do decide to go for a fixed rate on the basis of surety and later with hindsight realise a discount rate would've been cheaper, this doesn't mean it was the wrong decision. If you needed surety, remember, you got it.

I think it's time for an analogy

If I asked you to call heads or tails on a coin toss and said I'll give you £100 if you win, but you only need to pay me £1 if you lose, then provided you could afford to lose £1, you'd be a fool not to do it.

While the bet itself doesn't increase your chances of winning, the reward for winning is much better than the cost of losing. So if when we actually tossed the coin you lost, that doesn't mean the bet was a bad one. Even though the outcome wasn't what you wanted, you made the best decision based on the knowledge you had at the time. The same is true with fixing your mortgage.

Choice 3: Do you want your mortgage to be flexible?

Once you've decided fixed or variable, the next question is do you want a mortgage that is more flexible? This means getting functions that allow you to increase or decrease what you repay — and overpaying is far more important than any other type of flexibility.

Can you overpay?

The most popular flexible feature is the ability to overpay, which just means paying back more than you need to — whether that's each month or just shoving a lump sum at your mortgage from time to time. This can result in clearing the debt substantially quicker, so you pay less interest overall.

The impact of this can be huge.

Loan:	*£150,000 over 25 years at 5%*
Monthly payment:	*£880*
Total amount repaid:	*£263,000*

This means you paid £113,000 in interest. If you decided to, and were allowed to, overpay by £100 a month, you'd repay the mortgage 4 years and 7 months quicker, saving £23,350 in interest.

Use our special overpayment calculator at www.moneysavingexpert.com/mortgagecalc to see the specific impact for you.

Luckily many standard mortgages allow you to make some form of overpayment, so ask. This means you don't always need something special (as special usually costs more).

However they restrict the amount of money you can overpay — typically 10% of the outstanding mortgage per year or a fixed maximum amount each month (do more and there are harsh penalties).

Timing your overpayment

Mortgage companies calculate how much interest you owe on the debt at different times — the vast majority do it daily, a few quarterly or yearly. You need to know how yours works so you can time your extra payments.

With daily interest the timing doesn't matter, you benefit the next day, but it makes a huge difference if interest is charged annually — and middling if it's monthly.

This is because mortgage overpayments will only count to reduce the interest you pay AFTER the calculation is made. Put it in at the wrong time and you'll miss out.

Say the amount you'll be paying in interest is worked out on 31 December, then you need to make sure you pay the extra in before Christmas. Leave it until January and you lose the benefit of overpaying. You'll still be charged interest as if you hadn't made the overpayment until next 31 December.

Martin's Mortgage Moment

Why overpaying pays so well

Money in savings usually earns far less than the interest on your mortgage costs you. So it's worth doing some simple maths.

Imagine you owed £10,000 on your mortgage charging 5% and had the same in savings earning 2%. The mortgage debt costs you £500 in interest a year, while you only gain £200 on your savings — and that's before tax — making you at least £300 a year better off using your savings to overpay the mortgage.

So it seems it's a no-brainer to use your spare cash to pay down your mortgage quicker. But there are a few spanners in the works.

- **Are you allowed to overpay?** Few mortgages allow unlimited overpayments, but most at least allow 10% of the outstanding debt or £10,000 per year, so check. To get unlimited overpayments, your interest rate will usually be higher.
- **Do you have other debts?** A crucial rule of debt repayments is: clear the most expensive debts first and by that, I mean the highest interest rates.

  If you've credit cards and other personal loans they're likely to have an even higher interest rate than your mortgage (unless you're a rate tart using 0% credit cards).
- **Do you have a cash emergency fund?** Unless you've a very flexible mortgage (more later), once you use money to overpay you can't get it back. That's a real problem if you have an emergency and need it later.

  So be slightly cautious with your overpayments, don't do it to the brink. If you then lost your job and couldn't make the normal repayments, the fact you'd overpaid in the past won't stop you being in arrears.

  This is why I suggest you should always keep an emergency fund that will tide you over for three to six months.

Does it have a 'borrow back' facility?

If you're overpaying, a few mortgages will allow you to get the overpayments back if needed — though they don't always shout about it, making it a hidden bonus.

If it does then you can effectively use your mortgage as a high interest savings account. By leaving money in it temporarily, the net effect is the same as earning interest tax-free at the mortgage rate — very few savings accounts will beat that. However, if it's at a much higher rate, the increased cost on your debt may outweigh the savings gain.

Can you take payment holidays?

Here, the lender will allow you to simply stop paying it when you want. Yet be careful. Lenders don't let you play hooky from the goodness of their hearts.

You'll pay for it as the interest continues to be added to your loan and you won't be clearing anything. Typically, borrowers taking a 'holiday' arrange to miss one or two payments, and their monthly payments are recalculated to spread the cost of the missed payments over the rest of the life of your loan — in other words, it'll go up.

Some lenders insist you have overpaid before you can take a holiday. Plus there could also be an extra penalty or administration charge on top. You can't just decide to take a payment holiday because your lender allows it. You have to arrange it with it first — if you don't, it will impact your credit file and look like you've missed payments willy-nilly. Some lenders may still put it on your credit file, so be careful.

Something a bit different – offsetting

So far, the focus has been on mortgages that are variations on a simple theme. You borrow a set amount of money, you pay back a certain amount every month, and your debt is the amount you borrowed minus the repayments you've made. So far, so straightforward.

However, for ultimate flexibility there is a type of mortgage specifically designed to allow you to use it as a place to put your savings. These still come in variable or fixed deals as described above, but with a twist...

Offset mortgages

An offset keeps your mortgage and savings in separate pots with the same bank or building society. But the big difference is your cash is used to reduce — or 'offset' — your mortgage.

So, if you've a mortgage of £150,000 and savings of £15,000, then you only pay interest on the difference of £135,000.

> "If you put spare cash in an offset mortgage, the effective savings rate is huge."

You still make the standard payment every month, but your savings act as an overpayment, wiping out more of the interest every month, helping to clear the mortgage early. And as we showed earlier, the quicker you pay it off, the less it costs you overall. The best point is your savings can still be withdrawn whenever you want with no problem (but obviously then it no longer offsets your mortgage debt).

The effective savings rate is huge...

The interest earned on £15,000 in a normal savings account is usually taxed. Yet if you've offset £15,000 against your mortgage, there's no tax to pay on the gain you make from lower interest payments. Plus, the mortgage rate is likely to be higher than what you'd earn in a savings account so you're best off paying less interest on the mortgage.

If you're a basic-rate taxpayer, using an offset to reduce a mortgage with interest at 5%, means you'd need a normal savings account paying 6.25% to beat it. For a higher-rate taxpayer 8.33%, for a top-rate 9.1%.

Is it worth it?

Many people get very excited by the idea of offset, but hold your horses. The problem is offsets are usually at a higher rate than standard mortgages.

Think about it. If you've a £200,000 mortgage, while getting a better rate on £20,000 of savings is nice, you don't want to pay a worse rate on the remaining £180,000 debt. So in the main, unless the offset is really cheap, only those who'll be offsetting a substantial amount of savings should bother.

Even then, you could just get a smaller normal mortgage and borrow less or overpay.

Current account mortgages

Here, as it says on the tin, your mortgage is combined with your current account, so you've one balance. This type of mortgage used to be far more common than it is now.

So if you have £2,000 in your current account and a mortgage of £90,000, then you are effectively £88,000 overdrawn. The debt is smallest just after your salary is paid in, and it then creeps up throughout the month as you spend your salary.

You make a standard payment every month which is designed to clear your mortgage over the term you have chosen. The extra money floating around in your account is like an overpayment, which should mean you pay the loan off much more quickly.

Any extra cash savings can be added to reduce the balance further. Many people liked the idea but didn't like constantly seeing a debt figure in their bank account.

The additional benefit of the current account element compared to an offset is often overstressed though. Unless you have big bonuses or earn and spend a huge amount each month, it's a tiny gain compared to an offset — and the costs of these mortgages are often much more.

Watch out for early repayment charges

If you think about it, a fixed or discount deal is a special offer — a reduced rate from the lender in the hope that once that cheap price ends, you'll stick with them and pay more. More so, if it gives you a fixed deal and rates drop, it doesn't want you just leaving it, you took that gamble and it wants you to stick.

To ensure this many lenders levy what are called early repayment charges. In other words, if you try to repay and switch to a new mortgage or sometimes just overpay by too much during the special offer period you'll have to pay a hefty fine. It can be 1%-5% of the amount you pay off early.

Consider if you were to clear a £150,000 mortgage early.

1% charge = £1,500
5% charge = £7,500

What a cheek! Even overpaying by £1,000 could cost you £10 – £50 for the privilege.

But not every deal has a redemption penalty. You can often overpay without being stung and in very few cases you can even find fixed rates that let you out for free.

Therefore if you're signing up to a deal you need to be sure it's right for you as you can't change your mind.

Am I free to move after the deal ends?

Once your fixed or discount deal ends, in most cases you are free, and we'd encourage you to consider switching deal. That's because you'll be shifted on to the standard variable rate, which traditionally was always expensive.

In recent times, some lenders' SVRs have been quite decent, so it's not always worth switching. Still, good practice is a few months before your special offer ends start looking to see if you can get a cheaper remortgage deal (remortgaging just means switching mortgage) as for every 1% interest you cut per £100,000 of mortgage that's at least £60 a month saved. Full help in our remortgaging guide at **www.moneysavingexpert.com/remortgageguide**.

The one warning is that a few lenders do levy what are called 'extended redemption penalties'. These last even after the special offer period. They are few and far between, but do check, and try to avoid.

What happens if I need to move house within the mortgage term?

Many mortgages are now 'portable' (check yours), so moving home doesn't have to involve a new deal, which can be important if you have redemption penalties. Though again, not all will let you, so check.

However, if you need additional funding, be careful to choose the right product so that the end dates of your existing scheme and new scheme are similar, enabling you to move both mortgages, if necessary, to secure a better rate. Having no penalties on the top-up sum can often be a good policy.

Mortgages for the self-employed / contract workers

If you're self-employed or would struggle to prove your long-term income — perhaps you've worked abroad or you are on a temporary contract — then getting a mortgage is tough. You'll need cast-iron proof of your income, which isn't easy.

What you'll need to get a mortgage

You'll need rigorous evidence of your income. This is usually done in one of two formats.

- **Business accounts.** You want to be able to show preferably three years of accounts — though two can suffice. Usually, they need to be signed off by a chartered or certified accountant.
- **Tax returns.** If you can't show business accounts then two or three years' tax returns are the next best option.

Do note you'll be assessed on profits, not turnover. And as many company owners try to minimise declared profits to pay less tax, this means it could be harder to get a larger mortgage.

If this is likely to be a complex process then often using a mortgage broker (see chapter 7) will help the process as they'll know which mortgage lenders require what evidence.

While this can work for those in established businesses, to be brutally realistic, it could mean those who have recently started working for themselves will simply not be able to get a mortgage. Alternatively, if you're self-employed and your partner isn't, it may be only their income that counts.

Some people may tell you about 'self-cert mortgages' where borrowers could simply declare how much they earned without having to prove it. Dubbed 'liar loans', they were abused by some borrowers and brokers, leading to people borrowing more than they could afford and, in the worst cases, fraud. Self-cert mortgages were banned in April 2014.

"You'll need cast-iron proof of your income, which isn't easy."

Don't forget the fees

Before rushing ahead with your mortgage application, stop and look at the fees. Fees have shot up. In fact, they've tripled over the last decade and can add £2,000 or more to the cost of your mortgage.

So you need to do your sums to take into account the full costs of buying a house and taking out a mortgage.

You can try to minimise these — and some lenders will give you help towards them — but you can't magic them away. To make matters worse there are a host of fees given different names by different lenders, making them harder to compare.

If you can afford it, keep back some of the money from your deposit to cover these costs. It's a good idea to add the fees to your mortgage loan if you can, so you don't lose any money if the mortgage doesn't go ahead.

Realistically, you might have to add them to your mortgage anyway if you can't spare the upfront funds. But remember, that's expensive as you'll be paying interest on the money for the length of the loan.

If you are allowed to make overpayments once the mortgage is set up, adding them on and then immediately paying them is the best route.

- **Arrangement fee.** This is the highest charge by far — apart from potentially stamp duty, depending on the price of your home — and has risen sharply in recent years. In the first incarnation of this guide in 2004 we warned they could be as high as £500. Now in some cases, they can be around £2,000.

  Even worse are percentage fees, especially if you're taking out a large mortgage. These can be as much as 1.5%-2% of the loan. On a £200,000 mortgage, that would be £3,000-£4,000. Ouch! In the worst cases this is non-refundable if you pay upfront, even if the house purchase falls through, which is fairly common.

  So you actually need to look at the arrangement fee as part of the price of a mortgage. For mortgages under £150,000, the fee is a disproportionately large cost. It's often cheaper to go for a deal with a higher interest rate and lower fee.

  Therefore, you always need to do a calculation incorporating both. Generally the best way is to factor in the fee over the life of the fix or the discount (ie, two or five years). It's easy to do with our mortgage calculator at www.moneysavingexpert.com/mortgagecalc.

- **Booking or reservation fee.** A few lenders also charge a separate reservation fee to secure a fixed-rate, tracker or discount deal. This costs about £100-£200, is always payable upfront and is non-refundable. Other lenders roll this charge into the arrangement fee, so don't be surprised if it's not mentioned.
- **Valuation fee.** This covers the cost of an inspection of your new home.

  This checks a) the property exists and b) estimates a value to reassure the lender that it can get a decent price if you miss payments and it repossesses and then sells your home to recover the debt.

  The cost of the valuation depends on the property's value, and your lender, but assume it'll be about £250. This is not to be confused with a survey, which is optional but advisable (especially if you're buying an old property). While a valuation is for the lender's benefit, a survey is a more thorough check-up of the property for your benefit. It can spot things such as damp or structural problems and costs between £400-£700.

  Special rule in Scotland. Here, the seller must provide a copy of a Home Report which includes a survey, valuation, energy report and property questionnaire. Before you spend unnecessary money on another survey, check the one in the Home Report. If it's dated within the last 12 weeks (or if the seller is willing to get it updated), your lender may accept a retype of the valuation (if the surveyor is on the lender's panel they can retype the valuation on to paper specifically designed for that lender).

  Outside Scotland, the seller needs to provide an Energy Performance Certificate — the band it is in (A – G) will go on the estate agent's details.
- **Legal fees**. Paid to your solicitor, this covers the cost of all the legal work associated with buying a home such as conveyancing and searches of local authority data to check for hidden nasties such as poor drainage.

  Many lenders in England and Wales (not Scotland) will contribute — although in that case you would have to use a solicitor approved by your lender. If you have to pay for your conveyancing, you're looking at £500-£1,500.
- **Stamp duty.** This goes to the Government and won't be included even if your lender will cover legal fees. Occasionally lenders have short-term special offers when they'll pay it — usually for first-time buyers — and some developers offer to pay it if you buy one of their new-build homes.

Stamp Duty in England, Wales & Northern Ireland

The amount of stamp duty land tax — to give it its full name — you'll pay depends on the price of the property. Sweeping changes to stamp duty were announced in the Chancellor's Autumn Statement in December 2014, getting rid of the unfair slab system where you'd pay a single rate on the ENTIRE property. Now you'll only pay the rate for the proportion of the property that's at that rate.

Stamp duty %

Price brackets	Stamp duty
Up to £125,000	0%
£125,001 – £250,000	2%
£250,001 – £925,000	5%
£925,001 – £1,500,000	10%
£1,500,001 and above	12%

Stamp duty £

Price of property	Stamp duty
£99,000	£0
£200,000	£1,500
£350,000	£7,500
£600,000	£20,000
£1,250,000	£68,750
£2,500,000	£213,750

Stamp Duty in Scotland

In April 2015, the Scottish Government changed the stamp duty price brackets that apply to property purchases in Scotland.

The system works the same way as in the rest of the UK, meaning you only pay the rate for the proportion of the property that's at that rate.

Stamp duty %

Price brackets	Stamp duty
Up to £145,000	0%
£145,001 – £250,000	2%
£250,001 – £325,000	5%
£325,001 – £750,000	10%
£750,001 and above	12%

Stamp duty £

Price of property	Stamp duty
£99,000	£0
£200,000	£1,100
£350,000	£8,350
£600,000	£33,350
£1,250,000	£108,350
£2,500,000	£258,350

For more info, including special reductions in certain areas and our full Stamp Duty Calculator, see www.moneysavingexpert.com/stampduty.

How to get a mortgage

OK, so now you're getting down to the nitty-gritty of actually picking a mortgage. The choice is overwhelming.

Before we get into how you get a mortgage, there are two key questions many people ask before they start searching...

- **What comes first: the mortgage or the property?**

You need a property before a formal mortgage application. Lenders rely on the property you buy as security if you later can't afford to pay. So you need a property in place, with an offer accepted, before applying in full.

That said, you can still get an idea of what you can borrow beforehand by telling your lender or broker your income and other basic details to get an 'agreement in principle' (see below). It will confirm if it won't lend to you, but a yes doesn't guarantee it will as there are still plenty of hurdles to jump.

- **A mortgage agreement in principle — do I need it?**

In a word, no. A mortgage in principle is a conditional offer saying you may be accepted, based on a quick check of your income and, possibly, your credit file. In a heated property market, you are highly likely to be asked for one by a vendor (via an agent) before they will accept an offer. In addition, for first-time buyers, it boosts confidence that they'll be accepted. But it offers no guarantees.

Do beware. Too many of these checks in a short space of time could harm your credit rating. This could damage your mortgage application later down the line — many lenders will run a credit check, leaving a mark on your file. Some offer a 'soft' credit check, which won't be visible, as a far better option. So find out which it is before agreeing to one.

Now... here's how you get that mortgage

Below, we list your options, such as using comparison tables or a broker. One thing you definitely must NOT do is only rely on your bank or building society. Of course you can check out what it's offering but that'll only be a tiny smidgen of the products available in the mortgage market.

Using a broker

What is a broker?

A broker is simply a qualified and regulated mortgage adviser.

As there's a mass of choice and deals can disappear fast, using a broker is a good idea for many people.

Quite simply, they save you trawling through deal after deal to find the cheapest one for your circumstances. Of course, you don't have to use one. If you're confident and prepared to do the work and research yourself then you can go it alone — and we've guidance on how to do that.

However, brokers do have some advantages...

Martin's Mortgage Moment

Mortgage brokers can make it easier and faster

Just going to your existing bank or building society means you'll only be offered its products – nothing wrong with that as a benchmark, but you really want to get the best deal from across the market.

That's where a good mortgage broker can help. I often favour sorting your finances out yourself. But as mortgages are such a big single transaction, getting professional help can be a boon.

A broker should be able to quickly source a relevant product that fits your credit history, offer an extra layer of protection if things go wrong, and carry more clout with lenders to ease acceptance on otherwise unobtainable mortgages.

There are also some lenders that only work with brokers, and some broker-exclusive deals from lenders that are simply not available to individual customers; these are rare, but can be market-leading.

Residential mortgage brokers are strictly regulated by the Financial Conduct Authority (FCA). Yet beware. Not all mortgage brokers are equal.

The key questions to ask a broker

To ensure you pick a good broker, ask the following questions:

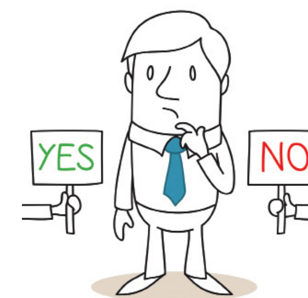
1. "Do you check all the lenders?"

Some mortgage brokers are tied to one or a small panel and we'd dodge those.

The real choice is between one who checks all the lenders that work with brokers (these used to be known as 'whole of market') and ones that check all those plus the few extra 'direct-only' deals that brokers can't set up for you.

The first type has the advantage that some of them (mainly working by phone rather than face-to-face) are fees-free, including London & Country, this guide's sponsor. For the second type, while you pay, you get a belt and braces service, so every possible deal is looked at.

If you do go for the 'fee-free' option, which we'll show you in a few pages, then if you're confident enough, you can quickly check the direct-only deals yourself if you like.



2. "How will you make your money?"

As mentioned earlier, brokers can make money in two ways:

- **Receiving a procuration fee from the lender.** This is roughly £350 per £100,000 of mortgage. It doesn't affect what you pay.
- **Charging you a broker fee.** If your broker does charge you a fee, this can be anywhere between £300 and £1,000 (don't pay more — some do it via a percentage of loan value, if that's too high, avoid).

  While it's legal for them to do so, we'd avoid any broker that charges upfront or even before you complete your mortgage. In other words, don't pay unless you get the mortgage.

  Don't think just because a broker's charging you, it won't be getting a fee from a lender. If the total fee from you and the lender is over £800 and it's not complicated by issues such as your credit history not fitting, there may be room to haggle. And as the lender fee is usually a percentage of the loan amount, that really means haggling on bigger mortgages.

Mortgage brokers are regulated by the FCA, so the fact they earn commission shouldn't influence their recommendation. The advice should be genuinely unbiased. If you're not sure, ask the broker to explain what they based the recommendation on. If you're not convinced, get a second opinion.

For a full rundown of top brokers, see www.moneysavingexpert.com/mortgagebrokers.

3. *"Are you qualified?"*

Make sure you're getting advice from a qualified adviser (the most recognised qualification is called CeMAP). They will assess your needs and eligibility before recommending the most suitable product for you. This route also offers the most protection for you as a consumer.

If the advice turns out to be wrong, the Financial Ombudsman will be able to investigate any wrongdoing. But if you choose a product yourself online, you'll have no comeback if you make the wrong choice.

How to find a broker

For our updated guide to the cheapest big national brokers, see www.moneysavingexpert.com/mortgagebrokers.

But there are lots of extremely good local brokers and if you choose one carefully using the earlier questions, you should get decent face-to-face service. If that's your chosen route, and you don't know one, you can check www.unbiased.co.uk or www.vouchedfor.co.uk to find one in your local area.

On the other hand, the big brokers boast greater market power and sometimes negotiate exclusive deals for their customers with lenders. They are independent of the lenders. If they charge a fee and are going to be paid commission on top by the bank or building society you go with, ask if they'll rebate some of it back to you.

Here are the steps to getting a remortgage with a broker:

Step 1 **Choose a broker**. You should be told explicitly what advice will cost at what stage and how you'll be expected to pay.

Step 2 **Discuss your circumstances with the broker**. They'll recommend a deal.

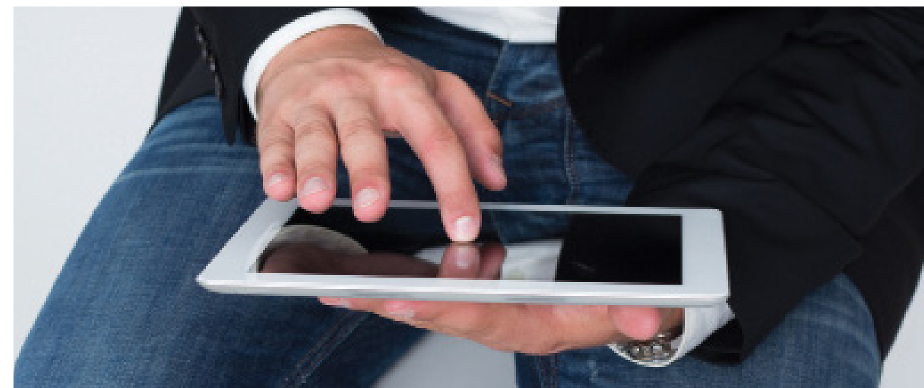
Step 3 **Check direct-only deals**. See if you can beat your broker with deals they can't access. If you can, discuss it with your broker.

Step 4 **Select a mortgage/accept the broker's recommendation**. The broker should recommend a mortgage deal that meets your requirements.

Step 5 **You (if you go direct) or your broker will make the application to the lender**.

Step 6 **Valuation and legal work**. This should take anywhere from one to three months.

Step 7 **Completion**.



Martin's Mortgage Moment

Always check non-broker deals too

There are deals that brokers can't access, because lenders cut them out by offering them direct to consumers only or not paying commission. If you're paying a large fee then you should ask your broker if they will check these deals for you too. If not, you need to check these deals yourself.

The big lenders doing this are HSBC (though it does now operate through a couple of brokers), First Direct, Yorkshire Building Society and Britannia. They can offer some very competitive deals and are always worth checking, but they do tend to cherry-pick the best credit scorers and reject many applicants.

Some lenders which do offer deals through brokers sometimes restrict certain deals to direct-only customers. Any company may decide to do this from time to time.

So for belt and braces, as well as using a broker, it's also worth using MSE's Mortgage Best Buy too (www.moneysavingexpert.com/bestbuys), which also lists direct-only deals — just in case there's a mortgage there that suits you. There's then nothing wrong with telling your broker you've spotted it and asking for their views.

As a final thought, it is a worry that some lenders occasionally try to cut out the broker market. Many people go ahead in getting a mortgage knowing very little (without reading a guide like this) and brokers at least stop people making mistakes. Far better in my view that there's an active, regulated, broker market to help.

Going solo

If you're confident you know what you want, there's nothing to stop you getting a mortgage on your own. Though as explained above, most people are better off using a broker.

As a start point, you can use MSE's Best Buy tool (www.moneysavingexpert.com/bestbuys) to compare rates.

Newspapers also regularly publish best buy tables. Beware — tables often don't include all the fees you'll have to pay, and these can make as much difference as the interest you'll pay.

Step 1 **Select the mortgage deal or deals you fancy**. Get detailed quotes from the lender(s).

Step 2 **Add up all the fees to get a figure for the total cost**.

Step 3 **Work out the cost over a set period — the length of the fixed or variable rate deal, or the life of the mortgage**.

Step 4 **Before you apply, contact the lender to see if you and the property are eligible**. For example, check if your income is sufficient and it'll lend on the property you want to buy (some don't like high-rises or homes near shops).

Step 5 **If you decide to go ahead, apply to the new lender**. Often, this can be done over the telephone or internet.

Step 6 **Valuation and legal work**. This should take between one to three months.

Step 7 **Completion**.

Personalised mortgage best buys

We've created a mortgage best buys table which compares thousands of mortgages in one place. Try it and let us know what you think.

www.moneysavingexpert.com/bestbuys

Watch out for the hard sell on...

As the mortgage market has developed, some lenders — and brokers — try to make more money elsewhere in the mortgage process. So be prepared for the hard sell on the following...

Mortgage payment protection insurance (MPPI)

This is a form of accident, sickness and unemployment insurance (ASU). MPPI is supposed to cover your mortgage payments if you have an accident, become ill and can't work, or, you're made redundant.

There is limited help from the Government in these circumstances but, at best, it will only cover your interest. Plus, what help you get will hinge on whether repossession is imminent, or if you're simply struggling a bit to cover costs. So it's sensible to consider, before you take out a mortgage, how you would manage to meet your repayments in these events.

MPPI isn't a bad policy but it can be quite pricey and has been mis-sold in the past to people who couldn't actually claim on it. This can happen because the insurer didn't carry out any checks when you first applied, it only checked when you went to make a claim.

Be extra careful if you are self-employed, have any reason to suspect you might be made redundant or have any existing medical conditions.

If you do decide to take out an MPPI policy, check carefully:

- That it will pay out if you claim
- When it will pay (you may have to wait several weeks before the policy kicks in)
- How much it will pay and for how long (it'll usually only cover your mortgage repayments for 12 or 24 months)

Buying MPPI from your mortgage broker

Be careful when buying from your mortgage broker here. It may not be able to get you the best priced policy and it is quite common for a broker to offer mortgages from all lenders but then be tied to a single, or small panel of insurers.

Read more on our MPPI guide at www.moneysavingexpert.com/mppi.

Bundled buildings / contents insurance

All lenders insist you take out buildings insurance (if you're buying a freehold property). But be very suspicious of deals which insist you buy your buildings insurance through your lender, though be aware that some lenders levy a fee of around £30 if you decline to take their insurance.

If you go elsewhere for your home cover, some seriously cheap deals are possible. By using cashback incentives some people have even been PAID to take out insurance. See www.moneysavingexpert.com/homeinsurance.

Life cover from your mortgage seller

Would you ask the man who sold you a computer to be your fashion stylist? No, so don't assume just because someone sold you one financial product they'll automatically get you a good deal on extra bits such as life cover or other insurance.

Buying your first home is probably the first time you've thought about life insurance, but don't rush in and grab the first one offered to you. In some cases you can save 50% on the life cover sold by your lender or broker.

For a full guide on how to find the cheapest cover, see www.moneysavingexpert.com/lifeinsurance.

First Time Buyers' quick Q&A

A few final questions some of you may have:

Q. Will the lender lend on my property?

A. Just because you qualify for a mortgage based on your finances doesn't mean you'll get it.

The lender also needs to be comfortable with the property you're buying. Some, for example, won't lend on homes near commercial premises, without a working kitchen or bathroom (even if you plan to refurbish), in a high rise, on a council estate, or if it doesn't like the material used to construct the building.

So declare EVERYTHING on day one of your application so you don't waste valuable time, and really interrogate the lender to ensure it has no restrictions which could kibosh your application.

A good broker can be worth their weight in gold here, as they should know which lenders are more likely to grant a mortgage based on your property.

Q. What paperwork will I need?

A. Before you start, gather everything you could possibly need, but double-check with a lender or broker as early as possible so you don't waste any time in the application process while waiting for key paperwork to arrive.

You typically need:

- Proof of income (often last three months' pay slips or 2/3 years' accounts if self employed).
- Proof of deposit (plus written confirmation from donor — typically parents — if getting a gift towards the deposit that it really is a gift & not a loan).
- Your last three months' bank statements.
- Proof of bonuses/commission.
- Your latest P60 tax form (showing your income and tax paid from each tax year).
- SA302 tax return forms, mainly for the self-employed. These are copies of your self-assessment tax return, which lenders may want to see. These can take weeks to get from HMRC so be prepared well in advance.

Q. What is the mortgage APR?

A. All lenders have to tell you their APR and do so prominently. This is rather annoying as it's a rate in most cases you'll never have to pay and is meaningless — that's why we haven't really referred to it here.

The APR shows you the effective averaged annual interest rate if you held your mortgage for the entire term (normally 25 years).

Therefore, if you had a fixed rate at 3.49% for 2 years and then the SVR afterwards was 4.74%, the APR would be around 4.3%.

So why do we say it's mostly meaningless?

- You never pay 4.3%; it's an averaged rate over the entire term.
- You're likely to remortgage long before the term ends.
- The SVR is a variable rate so is likely to move anyway.

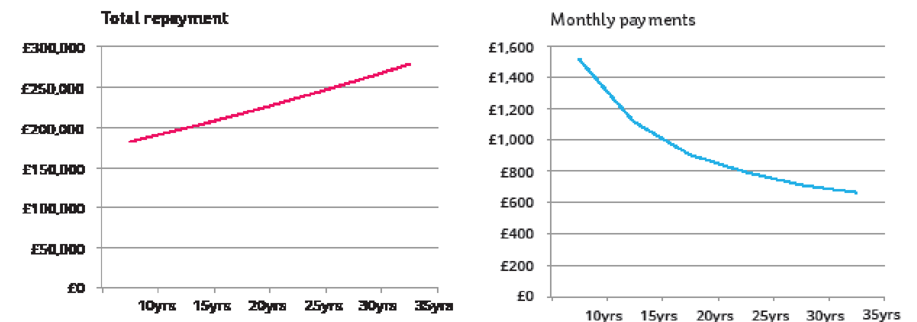
What you really need to focus on is the initial discount/fixed rate, the fees and the rate it goes to afterwards.

Q. How long should I set the term for?

A. The term of the mortgage is an often-overlooked factor. Most people plump for 25 years. However there are a few factors to take into account.

- How old will you be when the term ends? Many lenders won't allow you to take it into your retirement period. This is probably good for you too — as you have to question if could you keep up with the repayments.

- The longer it is, the more you pay. Lengthening the term to, say, 30 years means you pay less each month, but you pay more interest in total. Shortening the term is a bit like overpaying, it's far cheaper if you've got the cash. However, if the mortgage allows you to overpay, better to keep the mortgage long to give yourself flexibility, then make overpayments. The graphs below shows that when you lengthen the term, you pay less per month but much more overall.



Q. How do mortgages for couples work?

A. Most couples buy a property jointly and both their names go on the mortgage and deeds. So you're both responsible for the mortgage payments. If you split up and can't decide how to divide up the property's value, the courts will decide for you.

But you don't have to buy it jointly. A little-known way is 'tenants in common'. This lays down who owns what proportion of the property — say 50/50 — then if you break up or one of you dies, it's clear who owns what.

It's possible to buy it in just one name, but the named person is responsible for the mortgage and the other person's income won't be taken into account when working out how much you can borrow.

Q. Can I leave my property and rent it out to someone else?

A. Yes, but you have to get permission from your lender first before renting it out, called 'consent to let'. In most cases you'll be able to keep your mortgage. However, the lender may increase the rate, or you'll be told to move to a buy-to-let mortgage, which is typically more expensive.

Happy hunting

Right, that's it. You've made it until the end. Bravo!

Yet getting your first mortgage — or even your second or third — is not the end of the story. Your circumstances may change — the deals available will certainly not stay the same. It's perfectly possible that today's perfect fit mortgage will be woefully out of shape in two or three years.

So, it's important to keep your eye on the ball — especially if you've chosen a deal which runs for a set period of time. Put a note in your calendar a couple of months before your time is up. Don't ignore it. Use it as a prompt to look again at your situation and research the market. And make sure that once you've tracked down the best deal, you take it.

I hope this guide has helped — if there's anything you think we're missing for future guides, do let us know via www.moneysavingexpert.com/mortgagefeedback.

Happy hunting

I hope you save some money.

A message from the sponsor:

This guide is sponsored by L&C, the Uk's leading fee free mortgage broker. L&C has helped over 300,000 people find the right mortgage to suit their personal circumstances. Unlike many other mortgage brokers, we charge no fee for our expert advice and advisers are available to help you over the phone 7 days a week.

Our dedication to providing customers a first class mortgage service has helped us win over 100 awards since 2002, more than any other mortgage broker. In fact we've won the most prestigious awards in the mortgage industry on numerous occasions.

We also provide expert comment about the mortgage market and best buy tables for national press, TV and radio.

For fee free advice about the best mortgage for you, call L&C on:

0800 694 0444

Or request a call back at **www.landc.co.uk/ml/mortgage-guide**

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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