AWS

PRIVATE FINANCE

All you need to know to own your own home

FIRST-TIME BUYERS | COMPLEX INCOME STREAMS | DAY-RATE CONTRACTORS | PERSONAL INSURANCE | BUSINESS INSURANCE

AWS
PRIVATE FINANCE

Introduction

AWS Financial Services helps you achieve the best possible funding for your circumstances, whether you are buying a home to live in, a holiday or second home, purchasing your first investment property or adding to an investment portfolio. We tailor our service to your individual needs and because we are whole-of-market, you have the peace of mind of knowing we will find the best deal for you.

We have produced this guide to help you understand what you need to consider and the steps you need to take when buying a property or remortgaging.

You'll find a range of information regarding the costs involved. There's also a useful step-by-step planner and important information on how to protect your home and family.

When taking out a mortgage through AWS Private Finance, you will be allocated a mortgage adviser who will provide practical advice at every stage of the process. This will save you time shopping around for a mortgage that best suits your needs and circumstances. Get in touch for more information.

Contents

Costs of buying your home 3

How much can I borrow? 4

How long will my mortgage last? (Term of mortgage) 5

Ways to repay your mortgage 6

How is interest charged and paid? 8

Common features of a mortgage 10

Protecting your future 14

Costs of buying your home

There are a number of costs incurred when buying a property so you must budget accordingly for them.

Application/arrangement fees

Most mortgage lenders will charge you an application or arrangement fee, which is stated at the outset. When comparing mortgages, it is important to take the fee into account as well as the rate charged as some lenders will charge a low rate and a higher fee, while others may charge a higher rate but a lower fee. The right product for you will depend on your loan size and circumstances.

Solicitors' fees

When you buy a property, you enter into a legal contract and will need to pay a solicitor to handle the paperwork, as well as cover the cost of land registry charges and local search fees. Some lenders offer 'free' legal fees as part of the mortgage which works out cheaper but bear in mind that it could also slow down the transaction as these conveyancers are often extremely busy.

Stamp duty

This is a tax you pay when buying a property worth £250,001 or more, depending on its total value (see below), if it is the only residential property you own. If you own another residential property, you usually pay 3% on top of these rates.

BAND	RESIDENTIAL RATES
Up to £250,000	0%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%
FIRST TIME BUYERS	
Up to £425,000	0%
The next £200,000 on properties worth up to £625,000	5%
(If the price is over £625,000, you cannot claim the relief. Follow the rules for people who've bought a home before).	

This table is for guidance only and is correct at the time of printing.
Please speak to your solicitor/conveyancer if you need advice on the rate applicable to you. Stamp duty rates for Scotland can be found at https://www.revenue.scot/land-buildings-transaction-tax/guidance/calculating-tax-rates-and-bands

Valuation and survey fees

If you are taking out a mortgage, you will have to pay for the property to be valued for the lender's security, although some lenders offer a free valuation as part of their mortgage offer. This doesn't tell you anything about the property's condition of the property so it's worth paying for a survey to make sure you know of any problems or issues before buying. See page 17 for more information on types of survey.

Mortgage advice fees

Mortgage brokers are paid via a procuration fee they receive from the lender when you take out a mortgage, with many advisers charging you a fee on top of that for the advice you receive. Your adviser will give you an initial disclosure document (IDD) which explains the fees they charge. Read this carefully as some brokers may charge you a fee even if you don't proceed with the mortgage.

Other costs

If you are selling a home as well as buying, there are additional costs to consider, such as estate agents' fees and extra legal costs. If you have an existing mortgage which you are not porting to your new property, your lender may charge you an exit fee and potentially an early repayment charge if you are in a fixed or discounted period. You will also need to budget for removal costs.

RISK: MOST LENDERS WILL LET YOU ADD THE ARRANGEMENT FEE TO THE MORTGAGE BUT IF YOU DO THIS, INTEREST WILL BE CHARGED ON IT DURING THE TERM OF THE LOAN. SOME FEES WILL NOT BE REFUNDED EVEN IF YOUR MORTGAGE DOESN'T GO AHEAD.

How much can I borrow?

Lenders take into account several factors when working out how much you can borrow:

- Your income, outgoings, and any expected changes to these. Lenders will take basic pay into account but some will also consider regular overtime or bonuses.
- Outstanding debts and credit commitments.
- Your credit history.
- Your deposit.

Before making an offer on a property, it's important to work out how much you can borrow. A 'decision in principle' is confirmation from a mortgage lender as to how much they will lend you. This helps you know the maximum offer you can make on a property and speeds up the mortgage process because once your offer is accepted, you can go back to the lender to complete your application.

How long will my mortgage last? (term of your mortgage)

Typically, mortgage terms tend to be 25 years, but many borrowers are now opting for 30, 35 or even 40 years as they try to keep their monthly costs down. The longer you take your mortgage out for, the cheaper the monthly payments but you will make many more of them so it will cost you more in the long run. One option is to opt for a long term to make it more 'affordable' and then overpay when you can to clear the balance earlier, reducing the interest you pay.

Ideally, your mortgage term will end before you retire, so you don't have to worry about paying it from retirement income. However, if you have the sort of job which you can carry on with for years after the state retirement age, it may be practical to opt for a longer mortgage term.

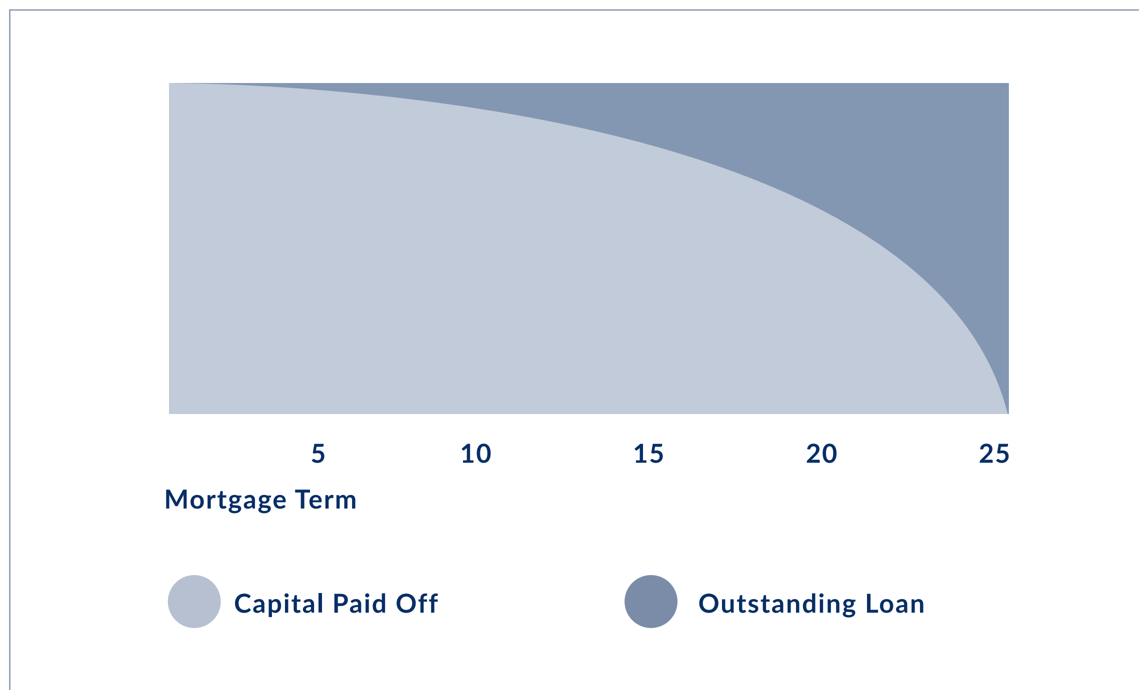
Ways to repay your mortgage

Repayment mortgage

Most borrowers opt for a repayment or capital and interest mortgage. Your monthly payments are made up of part of your outstanding debt, plus interest so you're paying off a small part of your mortgage.

The advantage of a repayment mortgage is that your loan gets smaller over time. As long as you keep up with the repayments, you have the certainty that your mortgage will be repaid by the end of the term and your home will be yours.

The disadvantage of a repayment mortgage is that in the early years of your loan, the majority of your payments go towards paying interest rather than the capital, so the overall amount you owe won't reduce by very much initially.



Interest-only mortgage

Less popular than a repayment mortgage is interest only whereby you pay only the interest on your loan and none of the debt. This means cheaper monthly payments than with a repayment mortgage but at the end of the term, you still owe the original amount borrowed and will need to repay the capital from another source. This could be an investment and/or savings, downsizing (selling the property and buying something smaller, paying off the mortgage using the difference), making lump sum payments during the course of the term or switching to a repayment deal.

The advantage of an interest-only mortgage is that if you are using savings or investments to clear the debt at the end of the mortgage term and these perform well, you may be able to pay it back earlier than if you had opted for a repayment loan. This will reduce the interest you pay.

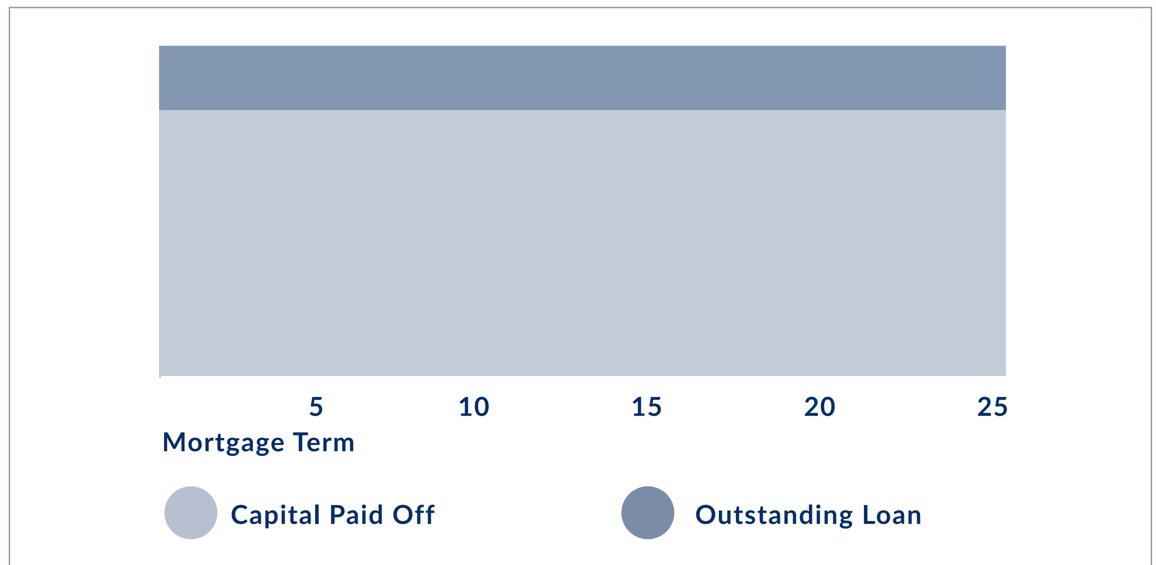
However, the disadvantage of relying on savings or investments to generate enough money to clear the mortgage is that there are no guarantees that they will perform well enough to do so. At the end of the mortgage term, you're responsible for repaying the debt in full; if your savings or investment plan doesn't cover it, you'll be responsible for paying the difference. Your lender can demand repayment, and charge you interest on any outstanding balance until it's repaid. Lump sum payments or changing to a repayment mortgage may not be possible if your circumstances change and you can no longer afford the increased amounts.

If you opt for downsizing as a method of repaying the loan, this is also not fool proof as even if you have enough equity now, house prices could fall and may leave insufficient equity to repay the loan. It is not advisable to rely on house prices increasing as this might not happen.

Some people may be hoping for an inheritance or similar windfall. However, there are risks associated with this plan as people can change their Wills so this is not guaranteed. The amount you receive may be different to what you expect, or you may not have inherited by the time your mortgage term ends or you retire and there can be a delay in receiving funds from an estate.

Many lenders will only accept certain plans to repay an interest-only mortgage. Lenders tend to only offer interest-only mortgages to higher earners so you may not qualify for one in the first place. Your AWS Private Finance broker will be able to guide you and advise whether interest only is for you.

Please note: the diagram below is for illustration purposes only and assumes a fixed rate of interest over the term of the mortgage. In reality, interest rates fluctuate.



Part and part mortgage

It may be possible to take part of the mortgage on a repayment basis and part interest only. This will reduce your monthly payments while also ensuring you pay back at least part of the capital along the way. You will still need to make arrangements to clear the capital at the end of the mortgage term and should seek advice before opting for a combination mortgage.

How is interest charged and paid?

Fixed-rate mortgage

With a fixed-rate mortgage, your monthly payments are guaranteed for a period of time, usually two, three, five or ten years (or longer). At the end of your fixed rate, you will usually move onto your lender's higher standard variable rate (SVR), unless you remortgage onto a cheaper deal at this time.

ADVANTAGES:

- You know the exact amount you'll pay each month, making budgeting easier.
- Your monthly payment stays the same during the fixed period, even if the Bank of England's base rate rises.

DISADVANTAGES:

- Your monthly payment will remain the same during the fixed period, even if the base rate falls.
- If you want to repay your loan early, there are usually early repayment charges during the fixed period.

Base-rate tracker mortgage.

Base-rate tracker mortgage.

Those borrowers who don't need the certainty of a fixed rate to help with budgeting tend to opt for a base-rate tracker mortgage. The interest rate charged by your lender is linked to the Bank of England base rate, so your payments go up and down in line with this.

ADVANTAGES:

- A base-rate tracker is transparent: if the base rate rises or falls, so does your mortgage rate.
- If you are in a rate cycle where base rate is falling, your mortgage payments could end up cheaper than if you had opted for a fixed rate.

DISADVANTAGES:

- Your monthly payments can rise if base rate goes up, which can make budgeting difficult, and you could end up paying a lot more than you would have done if you'd opted for a fixed rate.
- Some lenders impose a collar which means the rate you pay won't fall below a certain level, even if base rate continues to reduce.
- If you want to repay the loan during the offer period of the mortgage, there could be early repayment charges.

Discounted-variable rate.

Some lenders offer mortgages where the initial interest rate is set at an amount below their SVR for a set period of time. At the end of this discounted-rate period, your mortgage usually reverts to your lender's higher SVR unless you review it and switch to another deal.

ADVANTAGES:

- Your payments should cost less in the early years, when money may be tight. But you must be confident you can afford the payments when the discount ends.

DISADVANTAGES:

- Your monthly payments can go up or down which can make budgeting difficult.
- You could end up paying more than if you had opted for a base-rate tracker, as the SVR, which a discounted-variable mortgage follows, is set at the lender's discretion.
- If you want to repay the loan early, there could be early repayment charges.

Standard variable rate (SVR)

This is a standard interest rate, set by the lender at its discretion. It can go up or down in line with market rates (such as the Bank of England's base rate) but there is no guarantee of this.

ADVANTAGES:

- You have more flexibility and can usually repay your mortgage without any early repayment charges. There are no fees to go onto the SVR as there usually is with a fixed or discounted rate.

DISADVANTAGES:

- Your monthly payments can go up and down, which can make budgeting difficult.
- The SVR tends to be more expensive than other mortgage rates, so you are likely to be paying more interest than you need to.

Offset mortgage

An offset mortgage may be suitable for borrowers who have significant savings or balance in their current account, which is offset against the mortgage, reducing the interest you pay. Each month, the amount you owe on your mortgage is reduced by the amount in these accounts before working out the interest due on the loan. If you increase your savings, you will pay less mortgage interest, while if the amount reduces, you pay more interest. Linked accounts that are used to reduce the mortgage interest payments do not attract any interest.

ADVANTAGES:

- These products allow flexibility and can encourage you to save.
- Mortgage payments can be reduced as the level of savings increase, or you can continue paying the same and clear your mortgage early.
- You usually pay tax on your savings. However, if your savings are automatically used to offset your mortgage, you won't pay income tax on these savings – this is particularly beneficial for higher-rate taxpayers.
- You retain access to your savings and can dip into these at any time if required. If you do this though, you will pay more interest on your mortgage.

DISADVANTAGES:

- These types of mortgages are normally only suitable if you have a significant level of savings as offset rates can be higher in the first instance than on non-offset mortgages.
- Lack of choice – not many lenders offer offset mortgages, hence rates can be higher.

.

Common features of a mortgage - facts when buying a home

Here are some useful terms and facts. The specific features of your mortgage are shown in your Key Facts Illustration (which your adviser will give to you). This is an important document which you must read as it highlights any conditions that apply to your mortgage.

Arrears and repossession

If you are unable to pay your mortgage, you should let your lender know straight away, ideally before missing a payment. If you don't keep up your mortgage payments, there is a danger your home will be repossessed by the lender but this is generally a last resort and your lender will try to reach an arrangement with you to enable you to keep your home. If your lender sells your property after repossessing it, you are responsible for any shortfall, including fees associated with the sale.

Annual percentage rate of charge (APRC)

As well as telling you your mortgage rate, lenders must also calculate the annual percentage rate of charge (APRC). This is the total cost of the loan, including interest and fees shown as a percentage rate. This should enable you to compare different mortgages from different lenders. In calculating the APRC, lenders assume you'll pay the mortgage for the full term and lenders must tell you the APRC before you take out the mortgage. Generally, the lower the APRC, the better the deal, assuming you stay on the same mortgage product throughout the term.

Cash back

Some lenders offer cash back, whereby your lender gives you a lump sum when you complete your mortgage. This can be a fixed amount or a percentage of your mortgage. Don't be swayed by such 'freebies' when choosing a mortgage and work out the total cost of the mortgage, including rate, fees and any cash back, when comparing deals. If you switch to another lender in the early years of your mortgage and incur an early repayment charge, you may also have to repay some or all of the cash back.

Credit scoring

When you apply for a mortgage (or any sort of credit) the lender will 'credit score' your application. This helps them decide whether you are a good risk or not, based on whether you have taken out other debt and made the necessary payments as required. It impacts how much they will lend to you, the rate of interest you pay and even whether they will lend to you at all.

Having a good credit history will improve your chances of getting the best rate mortgage. It is worth checking what your credit score is with Experian (www.experian.co.uk) or Equifax (www.equifax.co.uk) before applying for a mortgage as mistakes can be rectified. Your AWS broker can advise whether your credit score is good enough for the level of borrowing you require or whether you need to work on improving it (if it is particularly poor) before applying for a mortgage.

Early repayment charge

If you pay off your mortgage before the end of the fixed or discounted period, your lender may impose an early repayment charge (ERC). This will be set out in the mortgage documentation when you take it out so make sure you read this carefully; ERCs can run into tens of thousands of pounds.

Free legals

Some lenders offer free legal fees when you take out a mortgage or refinance. However, while this will save you money, it can take much longer for the conveyancing work to be done as these solicitors are often inundated with work. If you need your transaction to progress quickly, it is better to pay for a good lawyer.

Energy performance certificates

Every seller and landlord must provide buyers and tenants with an energy performance certificate (EPC). This includes information about a property's energy use and typical energy costs, along with recommendations as to how to reduce energy use and save money. It will give an EPC energy efficiency rating from A (most efficient) to G (least efficient) and lasts ten years.

Negative equity

The value of property can go up and down; if it falls below the amount you owe on your mortgage, you are in 'negative equity'. This is only an issue if you need to sell your property at that time; you'll still be responsible for repaying the full amount of the mortgage so will have to make up the shortfall. However, if there is no need to sell, you can wait until prices recover and you are no longer in negative equity.

Portability

Some lenders let you move or port your mortgage to a new property when you move house but there is no guarantee that they will let you do so. Much depends on whether the lender is happy with the new property or security and whether your own circumstances have changed.

Overpayments

Most lenders let you overpay on your mortgage, either on a monthly basis or via a lump sum, by up to 10 per cent of the mortgage amount per annum. Others will let you overpay by more or less – check the small print of your deal because if you overpay by more than you are allowed to, there may be a financial penalty for doing so. Making overpayments can help you repay your mortgage before the end of the term, saving the interest you pay. However, make sure you keep some money back for a rainy day as money overpaid on the mortgage is often difficult to get back again.

Underpayments and payment holidays

Some mortgages allow you to reduce the amount you pay each month, or to stop making monthly payments, if you've previously overpaid. Lenders only normally allow you to make underpayments or take payment holidays for a limited period. This can be useful if your income falls for a period of time. In both cases you'll be paying less than the normal monthly payment so the amount of your mortgage will increase. Seek advice from a broker before considering underpaying or taking a payment holiday.

Tax and wills

It is worth considering whether there are any tax implications when buying your property; for example, if you are purchasing a buy-to-let you may wish to consider doing so via a limited company. A tax specialist will be able to advise you on this. When you buy a property, we strongly recommend also ensuring your Will is up to date so that if you die, your assets, including your property, are distributed in line with your wishes.

Valuations and surveys

There are three types of valuations and surveys: a mortgage valuation, a homebuyer's report and a full building survey.

- **Basic valuation** – This is paid for by you but completed by the valuer for your lender. It doesn't tell you anything about the condition of the property; it just tells the lender what the property is worth and is used in its decision as to whether to give you the mortgage you require. If problems are found at a later date, you have no comeback against the surveyor.

- **Homebuyer's report –** These cost more than a basic valuation, with the surveyor giving you a lot more information about the property. It's particularly useful if you're buying an older property as it will tell you whether there are any issues or defects with the property before you buy it, which may influence the price you pay. The surveyor may also suggest you need a more detailed survey.

- **Building, or full structural, survey –** This is the most detailed and expensive type of survey. Building surveys are normally asked for by those who are looking to buy:
  - an older property.
  - one which needs substantial refurbishment; or
  - where there have been structural problems in the past.

Although a full survey can be expensive, it may be worth it if significant issues are uncovered which would cost a lot of money to resolve.

Protecting your home and its contents

There are many providers of home insurance so finding the right cover at the best price is not always straightforward. At AWS Private Finance, we can help you choose a home insurance policy that's tailored to meet your individual needs, with a wide range of optional extras. Plus, if you insure both buildings and contents under one policy, you may receive a discount on your premium (subject to minimum premium).

Buildings insurance: what's covered?

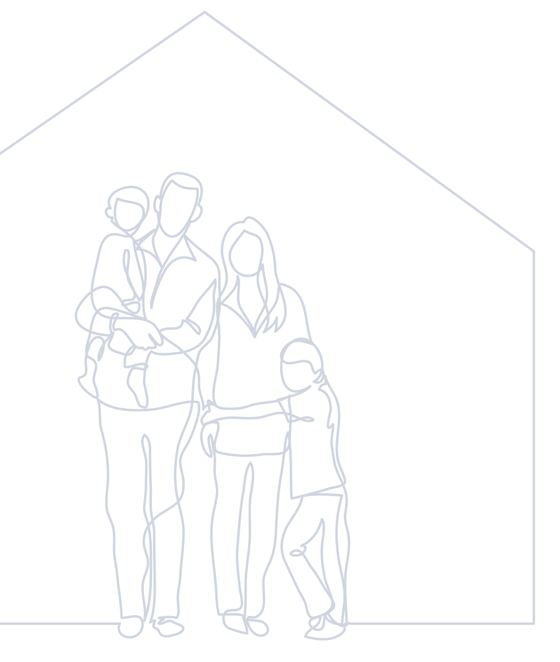
Your home is probably your biggest single purchase, so it's important you have adequate buildings insurance in place. If you have a mortgage, the lender will make it a condition of that loan that you have buildings insurance.

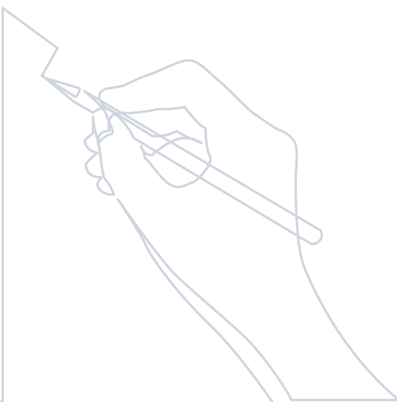
Buildings Insurance covers your home and its fixtures and fittings against loss or damage caused by events such as fire, storm, flood and subsidence. It also covers fewer common causes of damage such as theft, vandalism or damage to your property caused by vehicle collision.

Contents Insurance: what's covered?

Contents insurance is not compulsory but worth considering. Most people wouldn't be able to afford to replace all their belongings if they were to lose them in a fire or burglary. Under-insurance is a big problem, with many people underestimating the true value of their belongings. If you are underinsured and have to make a claim, you will have to make up the shortfall yourself, so it's important to ensure you have the right level of cover.

AWS Private Finance has access to a wide panel of insurers so can advise as to the right level of cover to protect you and your family's home, as well as your belongings, at a competitive price.





Protecting your future

Once your mortgage application has been approved, the next step is to think about protecting your home and family. The mortgage isn't usually the only payment we need to make each month. What about covering everyday bills and expenses? Utility bills, food shopping, travel costs, childcare... the list could go on.

It is not a pleasant thought, but...

- How would one partner cope financially with the death or critical illness of the other?
- Could you cope maintaining your current lifestyle?
- Could you continue to raise your family?

In the current economic climate, it's even more important to consider protecting yourself and your family. Protection products can help provide financial peace of mind when it's needed most. They're designed to provide you with a cash sum or monthly benefit (depending on the plan chosen). They are payable, for example if you die or are diagnosed with a terminal or specified critical illness during the policy term and are eligible to claim.

Depending on the products chosen, they could help you to:

- Maintain your standard of living
- Pay your monthly bills and meet your daily living costs
- Clear your debts
- Afford to stay in your family home rather than having to downsize.

How much will it cost me?

Premiums are based on:

- Your age
- Other factors such as health and whether you smoke.

Usually, the younger you are, the less you'll pay. We all want security for our future, a chance to maintain the financial stability we have worked so hard for. That's why it's so important to look ahead and plan for all eventualities.

Who shall I cover?

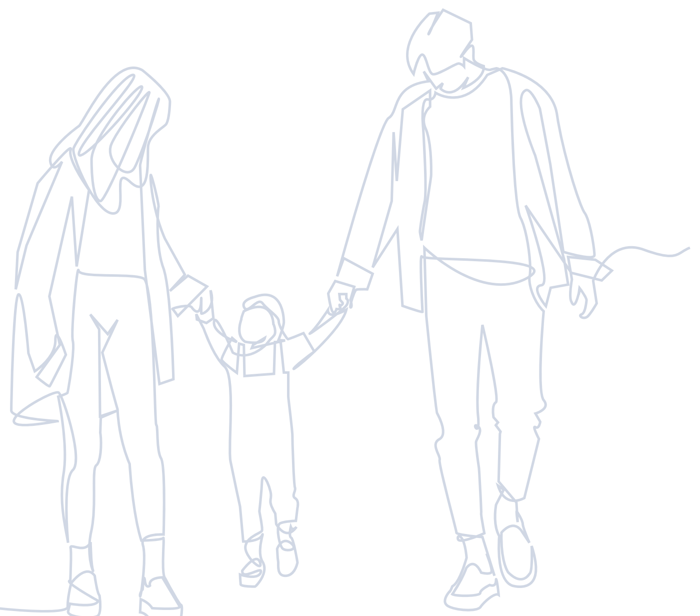
It's important to remember that it's not just the main wage earner that you may need to consider when working out the right cover. What about the work a full-time mum or dad does – how would you replace them if they were to die or be diagnosed with a critical illness?

What you can do to get covered

There are a wide range of protection products available, but it can be daunting working out what cover you and your family need. Consulting an adviser, such as AWS Private Finance, ensures you get the right protection for your circumstances.

How can AWS Private Finance help?

- We will help to fully identify your protection needs and make recommendations specific to your circumstances.
- We'll answer any questions and concerns you may have.
- We will continue to review your requirements on a regular basis, taking into account any changes to your commitments or lifestyle.



4TH FLOOR, SUNSHINE HOUSE, 7 CUTLER STREET, LONDON E1 7DJ

020 3488 1541 • info@awsmortgages.co.uk • www.awsmortgages.co.uk