An introduction to **mortgages**



Getting to grips with the basics

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There are times in our lives when we can all use some help and guidance. Buying a home is one of those major steps that's much easier to take if you're well-informed and get some good advice.

Here, we'll provide answers to a few of the questions we're regularly asked by clients.

Important information

As a mortgage is secured against your home, it could be repossessed if you do not keep up the mortgage repayments.

Depending on the type of mortgage you choose, changes in interest rates can affect your payments. When interest rates rise, your monthly payments may increase and vice versa.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.



What's a **mortgage** and how does it work?

A mortgage is a loan that you take out to buy a property. The money you borrow is called the capital and the lender charges you interest on it until it's repaid. The loan is 'secured' against the value of your home until it's paid off. If you can't keep up your repayments the lender can repossess your home and sell it so they get their money back.

When it comes to monthly repayments, these can be interest and capital, referred to as a repayment mortgage, or just interest, referred to as an interest-only mortgage. With a repayment mortgage you make one payment each month to your lender, part of which goes towards paying off the interest and part goes towards repaying the capital borrowed. At the end of the term of the mortgage, as long as you have kept up repayments, your mortgage is paid off.

With an interest-only mortgage you only pay interest each month, not the capital borrowed. This means at the end of the mortgage term you still owe the full amount that you originally borrowed and will need to make other arrangements for paying back the capital.

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What types of mortgage are available?

Mortgages come in various types and we can help you find the one that would work best in your particular circumstances. We can explain the pros and cons of fixed rate, variable rate, standard rate, discount rate, capped rate, tracker, offset and cashback mortgages. If you’re moving into an energy-efficient home or making your property greener, you might be eligible for a green mortgage. We’ll also talk you through the finer detail of how repayment mortgages and interest-only mortgages work. We keep up-to-date with the deals the market has to offer, including those offering free surveys or reduced legal fees, so we’ll be able to explain how these might work for you.

2

How much can I borrow?

Lenders calculate how much you can borrow based on both your income and your outgoings. They also take into account how much deposit you have available. Lenders want to see that you manage your money well. This includes keeping up with bills and credit commitments, managing any existing debts responsibly, and showing that you can comfortably afford your mortgage payments.

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How much deposit do I need?

A larger deposit can often give you access to a wider range of mortgage products and potentially lower interest rates. While many lenders are prepared to lend up to 95% of the property price, with the borrower putting in the remaining 5% as a deposit, more favourable deals and rates are available to those who can put down, say, 20% or even more. It’s important to remember there are also fees and charges that you will be required to pay as part of the process of putting your mortgage in place, so you’ll need to have savings in place to pay for these too.



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Do I need a survey?

Buying a home is one of the biggest financial commitments you are likely to make, so it's important to understand the condition of the property before you proceed. Depending on the age, condition, or type of property, you may also wish to arrange your own independent survey for additional peace of mind. A more detailed survey can highlight potential defects, maintenance concerns, or repairs that may not be immediately apparent. Identifying issues early could help you avoid unexpected costs and, in some cases, may provide an opportunity to renegotiate the purchase price. Your mortgage lender will also arrange a mortgage valuation. This is carried out primarily for the lender's benefit to confirm that the property provides suitable security for the loan and that the amount being borrowed is appropriate in relation to the property's value.

In Scotland, most properties marketed for sale will have a Home Report, which is provided by the seller. A Home Report contains:

- A survey of the property's condition
- A valuation of the property's market value
- An energy report showing its energy efficiency

The Home Report can help identify any issues with the property and provide useful information before you make an offer. There are different types of surveys available, and your adviser can help you understand the options and decide which may be most suitable for your circumstances.

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What does a solicitor or conveyancer do?

They undertake the conveyancing, the legal transfer of ownership from the seller to the buyer. They also review the terms of the contract, carry out searches to ensure there are no planning issues, or problems like flooding, obtaining details of fixtures and fittings the seller is leaving behind, and obtain important documents such as Energy Performance Certificates (EPCs). They arrange the exchange of contracts that commits you to the purchase, arrange your completion date, pay over the Stamp Duty and register your title with the Land Registry. Please note that Solicitors and Conveyancers are not regulated by the Financial Conduct Authority.

In Scotland, the legal process differs from that used elsewhere in the UK. Your solicitor will guide you through making an offer, reviewing the Home Report, negotiating the terms of the purchase, carrying out legal checks, and completing the transfer of ownership. For properties in Scotland, your solicitor will also review the Home Report and manage the legal stages of concluding the purchase through the Scottish system of offers, negotiations, and conclusion of missives.

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There's a lot to take in – how can I get help?

Getting a mortgage can seem like entering a financial maze. If you're not familiar with the way the mortgage market operates, knowing where to start can be overwhelming. We can help you work out how much you can afford to borrow, and we'll recommend the most appropriate type of mortgage for you, identify the right lender and work with you to get a good deal. We know the criteria that the major high street and niche lenders use and we'll help you present your application in the best way to the right lender.

We're here to help

Getting a mortgage is one of the biggest financial decisions you'll make, so it's important to get it right.

Sandringham Advising Partners offer both one-off and ongoing financial advice, with all fees clearly explained and agreed with you upfront before any work proceeds.

If you have any queries, or would like to discuss any aspect of mortgages, whether you're moving up the ladder, looking to downsize, purchasing another property or remortgaging, please do get in touch.

Top **tips**

Speak to an adviser as early as possible

Before you start looking for a property to buy, it's really worth speaking to a financial adviser. They can help you work out how much you're likely to be able to borrow, and give you useful hints and tips that will help you prepare for the mortgage application process.

Your finances need to be in good order – do your sums ahead of time

Mortgage lenders are required by the Financial Conduct Authority (FCA) to adopt an affordability-based approach to lending. This means that banks and building societies scrutinise borrowers' incomes, outgoings and credit history closely and can ask searching questions about your finances. They apply strict affordability criteria as they need to ensure that borrowers can comfortably afford their repayments now, and in the foreseeable future. It's worth looking closely at what you spend and making sure your finances are in good order before making a mortgage application.

Your credit score matters

When a potential lender reviews your application, they'll take a look at your credit report. Generally speaking, the higher your credit score the better your chances of getting a good mortgage deal at a lower interest rate. Simple steps like increasing your monthly credit card repayments, registering on the electoral roll and not taking on additional borrowing before you make your application can help improve your chances of having a good credit score.

The bigger the deposit the better

Saving up for a deposit can be hard going, and the best advice is to start saving as much as you can as early as you can. The more you can put down as a deposit, the better the deal you can expect to be offered.

Make sure you're buying the right property

You might fancy buying an unusual property, but it's wise to remember that lenders can be quite conservative. Some lenders are unlikely to lend on flats above shops or businesses, and others won't consider houseboats or homes that aren't made out of bricks and mortar. If you're buying an older property, your lender will need to be sure there aren't hidden problems that could be costly to put right in the future. That's why it makes sense to have a survey done.





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