

Tips for First Time Buyers

THE OLD BAKEHOUSE
FINANCIAL SERVICES

These simple tips will help you when applying for your first mortgage. They address the two things which a lender is trying to ascertain:

- Your ability to pay - can you afford it?
- Your willingness to pay - what is your attitude to debt?

Manage your money carefully

The credit check will reveal any late payments, missed payments or county court judgements (where you have been taken to court for not repaying a debt). All of these are treated seriously by lenders as they show that you are not managing your money well, or you are living beyond your means. Use internet and mobile banking wherever possible so you can monitor your account and you will most likely receive notifications if your account is likely to become overdrawn.

Pay your bills by direct debit

Life can be busy and it is all too easy to forget to pay a bill, especially if it is an electronic bill which will soon be lost amongst the daily flood of e-mails. Set up all bills on a direct debit to ensure they get paid automatically - and make you have the money in your account!

Pay first, argue later

Many county court judgements (CCs) can be registered whilst you are disputing a payment. If you want to argue with the water authority about your bill, or dispute the estimated gas bill, or appeal against a parking ticket, then pay the bill first. It is a lot easier to get a refund on an amount you have paid than it is to get a correction on your credit report if a CCJ is seen to be unjustified.

Have SOME credit

If you borrow money and make all repayments on time, a lender can see that you have a good attitude to debt. If you've never borrowed, they can't be certain. It is best, therefore, to get a single credit card, use it for some essential purchases - your petrol, or your weekly shop - and then repay it in full every month before interest is charged.

Don't take too MUCH credit

The affordability test conducted by the lender will look at how much you pay on current loans, credit cards, PCP and hire purchase payments. The more you pay out each month, the lower the mortgage you will be offered. Car salesmen may convince you that it makes sense to spend an extra £25 per week on that shiny new BMW but this will reduce how much you can borrow to buy a home. Lenders are also nervous of too many credit cards with high limits, even if you owe very little, as you could go on a spending spree tomorrow and quickly be forced to repay large amounts each month.

Declare all your earnings

Sometimes, self-employed people can be tempted to avoid putting some income 'through the books'. Obviously this is tax fraud and highly illegal, but will also affect your maximum mortgage as your 'provable' income would be lower.

Show where you live

It can be difficult to remember to update all records when you move house but it is important to do so. If the lender finds you at one address on the credit search, but your driving licence is registered at another, and your bank statements show a third, then your situation can look suspicious. Ensure that you update everyone with your new main residence and register on the electoral roll.

Save for a deposit

You will need a deposit of at least 5% of the value of the property you are buying and a larger deposit may help you to access better rates. Some fortunate first-time buyers will be gifted a deposit by a relative or friend which is acceptable to most lenders, although they will need proof of the source of this money. For others, you will have to save. This can be very difficult if you are renting, as often your rent will be more than the mortgage payments you will be taking on. If you are living at a low rent or rent-free with relatives then saving shows financial discipline and also demonstrates that you have surplus income.

Use a Lifetime ISA

In an attempt to help those trying to get onto the property ladder, the Government offer the Lifetime ISA. This is a savings account which, if you use the money you save as the deposit on a house, will qualify for a 25% 'bonus'. For example, if you save £12,000 into your ISA, an additional £3,000 will be added towards your deposit. If you are buying jointly, remember that you can BOTH have a Lifetime ISA. Please note that the account must be opened a year before you buy a house in order to gain the bonus. Any less may result in loss.

Be aware of schemes which will help

There are a number of schemes to help those buying a home.

- Shared ownership allows you to buy part of a property whilst renting the rest - very useful if the amount you can borrow is limited.
- First Homes scheme is available only on a limited number of properties and allows you to buy these at 30% to 50% less than market value.
- There are also various schemes which allow you to buy a home with a deposit of only 5%.

Old Bakehouse Financial Services will guide you through each stage of this process. We liaise with estate agents, mortgage lenders and solicitors to make sure everything runs smoothly. As we are available outside of normal office hours, many clients use us as a single point of contact throughout the move.

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