

# FIRST TIME BUYERS GUIDE

A mortgage is a loan secured against a property. There are differing methods of repaying this loan to the lender. All lenders offer different schemes to attract you as a customer. You should look carefully at your personal circumstances in order to get a deal which suits your needs.

## Step 1 – What you can afford to borrow

This will depend on your earnings and can vary between lenders. If you are a first time buyer you may require a mortgage deposit to avoid paying the higher interest rate which you'd probably be charged for a bigger loan to value of the property. At Minerva FMA, we have access to professional mortgages which can provide extra for the initial costs involved.

### Additional costs to consider

Solicitor fees, stamp duty, valuation and survey costs, mortgage lender's application fee.

## Step 2 – Choose your mortgage repayment method & mortgage repayment rate

You need to get a mortgage in principle from a lender. There are many repayment variations:

### 2a – Mortgage repayment methods:

#### Capital repayment mortgages

With this type of mortgage, the mortgage is guaranteed to be repaid at the end of the mortgage term (provided you meet regular repayments advised by the lender). Your mortgage debt is split into capital repayments (i.e. repayment of the money you borrowed) and interest repayments (i.e. repayment of the interest you're being charged for the loan). As you repay your mortgage every month you're paying a bit of capital and a bit of interest until the full debt is repaid. You usually repay mostly interest in the early years and then gradually more of the capital debt. It may seem as if this is costing more but that's because unlike the other types of mortgages you're repaying the capital and not just the interest. Be careful as some lenders charge interest on a yearly basis, which results in you paying a bit more for your loan.

#### Interest only mortgages

With these mortgages you're only repaying the interest owed on the loan. None of your capital debt is being repaid directly. You may rely on other investments such as pensions, ISA's, endowments, off-set savings etc to repay your borrowing to the lender at the end of the mortgage term. You should be very clear that if the investment is not a success then you may not have enough money to repay your mortgage debt and the property will not be yours unless you can repay the remaining sum (e.g. by selling the property).

#### Offset Mortgages

These permit you to offset other savings against your debt, resulting in you paying lower interest on your debt. Further, as interest on savings is taxed, by off-setting your savings they will benefit from a better 'tax-free' rate. You need to weigh up your level of savings relative to your mortgage to see if it is worthwhile in your circumstances.

### Step 2b – Mortgage Repayment Rates:

You can choose an interest deal or rate to suit your individual needs and concerns. These include fixed & capped rate, where you will know what is required every month for a given term or a variable discount or tracker, where monthly repayments will vary. When selecting please make sure you are aware of initial and exit charges i.e. early repayment charges and closure fees.

## Step 3 – Buying the property

If the offer you make is accepted you will need to move quickly to get your mortgage confirmed, you will need a survey/valuation on the building and you need to instruct a solicitor to help with the legal side (conveyancing). When all this is in place you can exchange contracts and agree a completion date.

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Please see our House Purchase – Step-by-Step Guide for full details of all the stages in buying a home (who does what and when).

#### Typical Obstacles:

- The problem of getting the professionals to do their job in good time - and not hold you up (We're talking about lawyers / surveyors / and the mortgage lender).
- Being gazumped – when the seller accepts your offer, then later takes a higher one (there are ways to avoid this happening).
- The survey / valuation may reveal problems with the building. If they are not serious then you could use this to lower the price.
- Being organized yourself – having an agreement in principle before you find your dream home will help. You need to have found a solicitor and you need to get the survey / valuation done in good time.

#### USEFUL TIPS & GLOSSARY OF TERMS

**House Hunting** - You must always remember that estate agents represent the vendors (people selling) and will always try to maximise the price they can obtain on a property.

**Offer** – This is what you offer to pay for the property. You will need to work out what will be included in the sale and your solicitor will usually have an inventory form to help you do this. No offer is legally binding until contracts have been exchanged in England and Wales.

**Underwriting** - the Lenders will usually offer better deals for people who borrow a lower loan to the value of the property. They would also consider your ability to repay (which is usually your income) and the property value itself, before they make a formal 'offer' to lend. This also includes them taking other references, e.g. bank, landlord, valuation, etc.

**Searches** – your solicitor is responsible for carrying out searches on the property. This includes previous ownership, any easements and covenants (e.g. public use, etc.), restrictions on leases and any charges that may apply. This is to ensure that no third party has any claim on the property after your purchase completes. The solicitor will normally require a down payment to act for you.

**Exchange** - the contracts for the sale and purchase are drawn up in two identical parts, with the buyer and the seller each signing one copy. When your solicitor is satisfied with the results of the enquiries carried out on your behalf and that you have agreed your mortgage loan, these two parts are formally exchanged. The contract is then legally binding on both sides. You will normally be required to provide a deposit, e.g. 10%, although the solicitor may be able to exchange and complete at the same time

**Completion** – is when the rest of the money transfer is made (usually by telegraphic transfer) to the vendor's solicitor and you become the legal owners of the property. Your solicitor will require the mortgage amount from your lender, and all other associated costs, such as Stamp Duty, fees, etc.

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

You can choose how we are paid for mortgage services; pay a fee (usually 0.4% of the loan amount) or we can accept commission from the lender; or a combination of research fee and commission from the lender. This will be discussed before we proceed.

The FSA does not regulate some forms of Mortgages.

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