First-time buyers guide to getting a mortgage

A foot on the property ladder beckons. After years of determined saving it seems you're finally in a position to become a first-time buyer. But how ready are you, really?

Buying your house is one of the biggest financial commitments you're likely to make and it should be taken seriously. You should look at all the options available, and if you can, use a mortgage broker to help you find the best deal for you.

This guide will help any new buyers looking to purchase their first property to navigate through the maze of house purchasing.

First-time buyer mortgages – the big six mistakes

You're young, bright and about to buy your first home. How difficult can it be? As mortgage advisers we see lots of first-time buyers make mistakes. It's our job to sort out your finances and find the best mortgage for your particular circumstances. Here is a list of things that first-time buyers most often get wrong:

1 Thinking all your earnings are counted by mortgage lenders

First-time buyers often assume every penny on their pay slips and P60s will be counted as income. Wrong. Most lenders will use your basic salary and a proportion of overtime earnings and bonuses to calculate whether a mortgage is affordable. Why? Because lenders work on worst-case scenarios. Bonuses and overtime are easily cut if your firm has a bad year or two.

2 Believing the Help to Buy Guarantee is cash that can be put towards a deposit

Lots of first time buyers think the Government's Help to Buy Guarantee will give them 20% of the deposit on a home, meaning they only have to find 5%. But it doesn't work like that. The scheme gives lenders a cash guarantee should a first-time buyer default on their mortgage. It removes risk from the lender (theoretically making it easier for them to offer mortgages), but borrowers don't see any of the money. Similar guarantees in the new-build market – known as New Buy schemes – operate on the same principle. They don't give a borrower free cash.

3 Not being on the electoral roll

First-time buyers have often lived in lots of rental properties. They have moved from job to job and place to place. Being on the electoral roll perhaps hasn't been a priority. It needs to be when you're buying a home. If you fail to show up on an electoral roll, you run the risk of failing a lender's credit score.

4 Failing to pay mobile phone bills on time

We swap phones, we change contracts and providers. Sometimes we forget to pay a bill or withhold payment to punish a phone company for poor customer service. Unfortunately that unpaid bill will flag up red in a credit score. An unpaid mobile phone bill is the most common reason for otherwise financially responsible first-time buyers running into problems with lenders. Other things that will harm your credit score include unauthorised overdrafts and failing to make credit card payments on time.

5 Forgetting the 'hidden' costs of buying a home

Lots of first-time buyers think they're ready to purchase a home when they've saved the deposit. It is easy to forget all the other costs such as search fees, survey fees, valuation charges, mortgage arrangement and booking fees, stamp duty and legal fees. All can severely impact on your ability to buy.

6 Not speaking to a mortgage adviser earlier

Mortgage advisers don't just run a match-making service for lenders and borrowers. A good one will give you advice months before you are ready to make a mortgage application. They will tell you how to put your finances in order, make sure you get a good credit score, have enough cash to fund your move and, generally, put you in the best possible position to get the best available deal from a lender. Too many first-time buyers don't take advantage of that expertise early enough.

Mortgage brokers, like us, can help first-time buyers with advice on finding the right mortgage. Advisers will search from a large pool of available mortgages to find the deal that will be best for your needs.

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

Essential questions over the page...

8 essential questions
every first-time buyer needs to ask

Before you undertake any signing of documents or parting with cash, there are some simple but important questions you need to ask yourself.

1 Have you saved enough?

Lots of first-time buyers forget the 'hidden' costs of getting a home. You might have enough for a deposit but there are search fees, survey fees, valuation fees, mortgage indemnity fees, legal fees and stamp duty to consider. All can put a considerable hole in the cash you've set aside to buy a property.

2 Are you sure you've saved enough?

The bigger your deposit, the better your choice of mortgages. A 5% deposit is usually the minimum for Help to Buy Guarantee Scheme mortgages. Putting down 10% or more will give you a wider choice of lenders offering more competitive rates with less restrictions over longer terms (a 30 or 35-year mortgage rather than a 25-year deal, for example, will bring down your monthly repayments). Is it worth saving for another few months to get a deal that will put less strain on your day-to-day finances?

3 Are you on the electoral role?

Being registered to vote is important for passing a lender's credit score. If you're not on the electoral roll it could hinder your chances of passing a credit score and end, or severely dent, your hopes of obtaining a mortgage.

4 Can you pass a credit score?

Check your credit file for mistakes. Lenders will run checks before offering you a mortgage. Make sure your credit file is correct and potential problems are resolved prior to making a mortgage application. An unpaid mobile phone bill is the most common reason for a first-time buyer failing a credit score. Going into the red with your bank or failing to pay credit card bills on time can also jeopardise your chances of getting a home loan. Equifax and Experian both offer free 30-day trials for customers wanting to check their credit files. Get a copy of your file and ask your mortgage adviser to talk you through it.

5 Do you meet a lender's affordability criteria?

Affordability is the watchword for mortgages. Mortgage advisers and lenders are required by law to see documentary evidence (bank statements, pay slips, etc.) to prove a borrower can make their monthly repayments, both now and in the event of interest rate rises. Some lenders will give you more leeway on affordability than others. You also need to factor in the cost of insuring your property (having buildings insurance cover will be a condition of your mortgage) and insuring yourself against things (illness, redundancy, etc.) that might stop you or your family being able to continue paying the mortgage if something happened.

6 Can you make your finances more presentable?

Lenders will not like lots of debt in your name. Pay off as many credit card bills and hire-purchase agreements as you can. Make sure your bank balance stays in credit for at least three months before you apply for a mortgage. Some lenders will be relatively relaxed about the odd dip into the red (particularly if you're putting down a 10% or more deposit). Others will use it to refuse your loan application. Some lenders also factor in so-called 'non-committed' expenditure (satellite TV subscriptions, gym membership, etc.) into their affordability calculations. If you can do without them, it might help. Be aware that any 'buy now, pay later' deals you take out for a TV, sofa or anything else will also go into a lender's affordability calculations. Don't take on credit for someone else – even if they are making the repayments. If your name is on the agreement, you are responsible for the debt.

7 Is it worth asking the bank of mum and dad for help?

Many lenders will accept cash 'gifts' from parents or grandparents towards your deposit. One offers a mortgage which allows your mum and dad to put money in a specially designated savings account. This account will earn your parents interest and they give the lender security – helping you to secure a mortgage.

8 Have you spoken to a mortgage adviser?

Don't think you need to have all your deposit and be absolutely ready to buy before speaking to a professional. Get advice a few months beforehand. A good mortgage adviser will go through your finances, look for problems, suggest options and draw up an action plan to put you in the best possible position when the time is right to go looking for lenders.

See over for how to improve your chances...

How to improve your chances of getting a mortgage

If you were going to a job interview, you probably wouldn't wear tatty old trainers, sloppy jogging bottoms and a dirty T-shirt. So why would you want to make the same bad impression with your mortgage provider?

Banks and building societies have different criteria for lending, but they all need to be satisfied you are responsible with money and can afford your repayments on the mortgage. 'Affordability' is a non-negotiable bottom line for lenders under new MMR (Mortgage Market Review) rules. Consequently, lenders will want to see evidence – probably going back at least three months – of your income and outgoings to demonstrate that they are not offering a mortgage to a person who might struggle with repayments.

Showing them statements littered with unaccounted spending, missed credit card payments, unauthorised dips into the red and steadily depreciating balances will not put you in their good books.

What you need to do is make your finances presentable to give you a wider choice of competitive mortgage products to choose from.

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- **Don't show lenders dwindling account balances.**
  Lenders want to see you are not spending more than you are earning, for very obvious reasons. Evidence of a commitment to saving – or, at least, having spare cash at the end of every month – will help demonstrate your mortgage is affordable.
- **Cut down on 'non-essential' spending.**
  Some lenders factor so-called "non-committed" expenditure – such as a satellite TV subscription, gym membership, etc. – into their affordability calculations to ensure your long-term affordability should mortgage rates change.
- **Check your credit score.**
  Make sure you are on the electoral roll and check your credit file for mistakes. Lenders will run checks before offering you a mortgage. Make sure your credit file is correct and potential problems are resolved prior to making a mortgage application. If you are worried about something, tell your mortgage adviser.
- **Try to pay off credit card bills and hire-purchase agreements.**
  Lenders work on worst-case scenarios. They will not like lots of high-interest debt in your name. They have to be sure your mortgage will remain affordable if you suffer a drop in income or interest rates rise. Clear as much non-essential debt as you can.
- **Do not go overdrawn.**
  Be extra careful with your outgoings. Going into the red because you forgot about a payment or failed to transfer money from one account to another will not look good. Some lenders will turn down your mortgage application because of an unauthorised overdraft.
- **Don't rely on bonuses and overtime to bolster your finances.**
  Lenders won't consider such income unless it is absolutely guaranteed.

See over the page for top tips...

Top tips on how to get a mortgage

Banks and building societies don't advertise in the lonely hearts.

Mortgage lenders are not looking at your GSOH, caring side, bubbly personality and fondness for long country walks. They sometimes do, however, have very definite ideas about what types of customer they are looking to attract when it comes to mortgages – their perfect match, if you like.

The more of their boxes you can tick, the better your chances of getting coupled up with a competitive mortgage. So how do you sell yourself as Mr or Mrs Right?

✓ You don't have to be loaded

Lenders like people on reasonable salaries. You've obviously got to be able to afford the mortgage. But being in a stable job with a regular income is more important than how much you earn. Lenders like stability. Mortgage lenders don't tend to like it if you have a zero-hours contract job, but some lenders will still offer mortgages if you're in that situation.

✓ It helps to have a past

Believe it or not, lenders tend to prefer people who have a history of buying things on credit – providing they've paid the bills on time. That shows them you're good at managing your money and can meet regular repayment schedules. Lenders will be less keen on seeing lots of current debt in your name. Debt is bad because it means less money to pay your mortgage. Try to pay off credit cards and hire-purchase agreements – as well as reducing your so-called 'non-committed' expenditure – things like satellite TV subscriptions and gym memberships – before applying for a mortgage.

✓ Be open and honest

If you have missed credit card or hire-purchase payments in the past, don't 'forget' to mention it. The lender will probably find out when a credit score check is run against your name. Some lenders will be relatively relaxed about the odd unpaid mobile phone bill or other unauthorised dip into the red. Other lenders will use it to decide you're not for them. It helps to know where you stand before getting too deeply involved.

✓ Lenders love boring

Steady, safe, reliable, dull. These words are music to a lender's ears. The more of a stick in the mud you are, the better they like it. Dramatic lifestyle changes can affect finances. If you're a couple thinking of having a baby (with one of you giving up work) or making another major commitment, it could count against you. You really should tell your mortgage adviser if you're planning anything major in the next few years. They'll be able to talk you through the implications and find a mortgage that remains affordable as your circumstances change.

✓ Woo them with a sizeable commitment

The more money you can put down as a deposit, the better. Lenders love to see a commitment they can count on. The bigger your deposit, the lower the loan-to-value (LTV) ratio will be on a mortgage. That will enable you to access more deals, over longer terms, at better rates. If you can scrape it together, a 15% deposit really helps.

✓ Be a solid and reliable homeowner

Gentlemen may or may not prefer blondes, but lenders definitely go ga-ga over solid, reliable types – particularly homeowners. Why? Because they consider such borrowers less of a risk. If you have a property, lots of equity and a consistent mortgage repayment record then you are a lender's dream date. They will be falling over themselves to offer you good deals. What if you don't have a home or a sack of cash for a large deposit? Don't worry; someone out there will want you. In mortgages, as in love, there are always plenty more fish in the sea.

See over the page for benefits...

What are the benefits of using a mortgage adviser?

Taking on a mortgage is the single biggest financial commitment most of us will ever make. Yet not enough of us seek impartial, reliable professional advice.

You have a choice of two mortgages; we'll call them Mortgage A and Mortgage B. Both are offered by the same lender and are almost identical – except Mortgage B will give you £1,000 cash-back. Which one do you choose?

It's a no-brainer, right? You're obviously going to buzz for B – the deal which puts £1,000 in your back pocket.

Sorry, that might be the wrong answer. Why? Because it's a trick question.

Mortgage B comes with a £999 arrangement fee. Mortgage A has no such charge.

Arrangement fees are usually added onto the amount you borrow and are paid back – with interest – over the lifetime of the loan. In this case, that £999 fee – on a 30-year, £70,000 mortgage – will cost you £1,700.

Mortgage B – even with its £1,000 cash-back – will effectively cost £700 more in the long term than Mortgage A.

The mortgage market is vast and fluid. While you could conduct your own online mortgage searches, and get access to those mortgages that are directly accessible to customers, why not let mortgage advisers do it for you.

Even if you think you have found a mortgage at a rock-bottom rate, you may be forced to think again. The deal that might look good now might be seen as a massive mistake down the line because there are lots of things that need consideration, such as the type of the mortgage, the term, flexibility and qualifying criteria.

Lenders, like lots of businesses, experience peaks and troughs in demand. Sometimes they have backlogs. If you need a mortgage quickly –perhaps because you want to buy a property at auction – you need to know a lender will be able to deal with your application within your timeframe. And, here's a thing, lenders are not always up front with customers about such things.

Different lenders also have different qualifying criteria for their products. Some lenders may automatically refuse a mortgage because a potential customer has missed a credit card payment in the past few months, for example. It happens. Others will take a more relaxed view. A good mortgage broker knows each lender's rules inside out. Consequently, they can stop customers wasting their time on applications that are destined to be rejected.

This is more important than you might think because mortgage applications inevitably come with credit checks. If a customer has numerous mortgage-related credit searches against their name in a short period of time, it can reduce their credit score.

Mortgage advisers such as ours can give you that crucial information, because they have good lines of communication with the different lenders and its advisers know how well-placed a particular lender may be at any given time to meet your requirements.

This guide is intended as a summary only and does not constitute legal advice given by Nottingham Building Society. No reliance should be placed on this guide and you must make your own decisions. We recommend that you seek legal and/or financial advice if you have any questions or queries.

Many of us don't appreciate the potential perils of trying to find a mortgage ourselves. The DIY approach could see you:

- ✗ Get a less than competitive deal.
- ✗ Suffer delays which could see you miss out on your dream home.

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