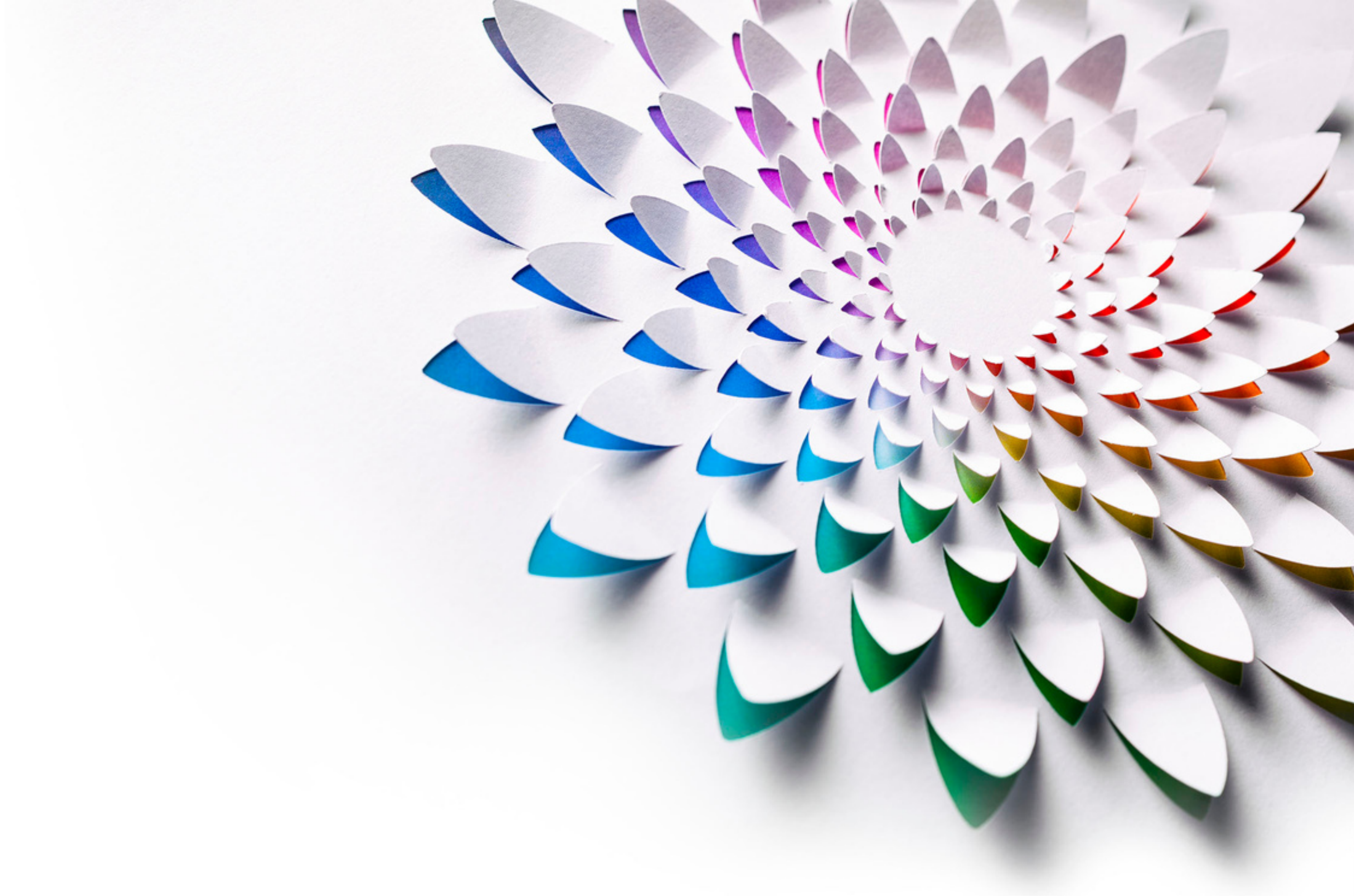
EQUITYSELECT

Unlock the potential

# Mortgage Guide



# Contents

# Introduction

**When it comes to getting on to the property ladder, buying an investment property or remortgaging your current home, there's so much information available that it can seem a bit overwhelming. Equity Select regularly receives enquiries from people who just don't know where to start!**

In light of this, we've put together this guide, which covers the main points to be aware of when it comes to arranging a mortgage.

As a business, we specialise in helping you, our clients, by guiding you through the process and taking away as much of the paperwork and pain as possible. If, after reading this, you still have unanswered questions or would like more information, please feel free to get in touch, and we will be more than happy to assist you.

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# Mortgage Deposit

Before we get deeper into mortgages, we first need to cover your contribution towards the purchase of your new home. Banks and building societies are happy to give you a loan to buy a property; however, if they were to give you 100% of the money required, it would mean that they'd be taking a huge risk. You'd own the property, but the bank would have 100% of its value secured against it, in the hope that you'd be able to repay them. As a result, to reduce the risk to themself as the mortgage lender, they'll expect you to contribute towards the purchase.

**A mortgage deposit is the amount of money that you, as the buyer, have available to put towards the purchase. The more money you have, the less you need to borrow, and therefore the less risk there is to the lender**.

Mortgage lenders will only offer you a loan of up to 95% of the property's value. As a minimum, you'll need to have 5% of the purchase value as a deposit. Your deposit can come from money you've saved over a period of time or it can come in the form of a non-refundable gift from a family member.

The size of your deposit is one of the factors that the mortgage lenders take into consideration when calculating how much interest you'll pay on your mortgage. In simple terms, the lower the deposit you have available, the higher the interest rate you'll pay. Again, this is because the bank is taking a higher risk. Each lender chooses different thresholds when it comes to setting their interest rates. For most, the interest rates set are based on the following deposit sizes:

**5%, 10%, 15%, 20%, 25%, 35% and 50%**

The larger the percentage of the purchase price you have as a deposit, the lower the rate of interest you'll be charged on your mortgage. This means lower monthly payments, less interest paid over the duration of your mortgage and less risk to the lender.

If you're close to moving from one of the deposit brackets listed above into the next, it's worthwhile checking how big an impact that will have on your mortgage interest rate. If you can continue saving for a few more months to get into the next bracket, the difference could be well worth the wait. For example, if you've currently got a 9% deposit saved, increasing it to a 10% deposit will not only give you access to more mortgage products but it will also give you access to lower interest rates.

# Credit Scores

Having a deposit in place is the first thing you need to consider when buying a property. The next equally important element is your credit score. It's important to stress here that each bank and building society has different ways of assessing your credit score. The majority of them have an internal scoring system that only they have access to. There are, however, credit reference agencies that can provide you with a generic credit score based on the information that they have on file. Experian, Equifax and Trans Union are the most well known of these.

**When mortgage lenders are assessing whether or not to grant you a mortgage, they'll look at your credit history over the last six years. They'll look at your credit score first. The higher it is, the better! They'll also check how you've managed your credit agreements over the last six years. Have you missed any payments? Have you defaulted on any of your accounts? Have you been subject to a county court judgement? Have you been bankrupt? Do you have a lot of outstanding debt?**

The answers to all of the above questions are viewed differently by each bank. Some are more flexible than others when it comes to what's happened in the past. However, all of them will expect to see that you've had no issues in the last 12 months. It's worth obtaining a copy of your credit report at the very start of the mortgage process, so you can see what information is on file about you. As a business, we request that you, as our client, obtain a copy of your file before you even go to view a property. As each lender assesses credit reports in different way, if we can get a copy in the early stages, we can find out which banks are most likely to accept your mortgage application. If there are issues on your credit report, we can work with you to resolve them and get you into a position where the mortgage lenders are going to be happy to offer you the loan.


There are a few fundamental ways to make sure your credit report is accurate and shows a true reflection of you. Over the page, we cover the main points that we come across most often.

# How To Improve Your Credit Score

### Electoral Roll

Mortgage lenders will ask for your address history for the last three years. They'll check your credit file to make sure that the information you've told them matches with what they think they know. If you're living with friends or family, it's important to make sure you're on the electoral roll. It's also important to make sure that your bank statements and payslips reflect your current address. Ensuring you're on the electoral roll might seem obvious, but you aren't added automatically, you have to register yourself. If you need to add yourself to the electoral roll, visit this government website:
https://www.gov.uk/register-to-vote

### Financial Associations

Your credit report will show individual people whom you're financially connected to. If you're no longer connected to a listed person, you can ask the credit agency to remove them from your report. The benefit of removing people you're no longer connected to is that they won't impact your credit score once removed. If their score drops and you are still connected to them, it will also reduce your score!

### Good Behaviour

Lenders can see how you've managed your credit commitments over the last six years. Whilst we can't change the past, we need to make sure that, in the months leading up to applying for a mortgage, you don't have any late payments or missed payments on your file. The majority of lenders are looking for at least 12 months of good credit behaviour. If you've had some difficult circumstances and your credit report isn't perfect, it may be that we need to wait for a few months until you're in a better position to maximise your chances of obtaining a mortgage.

### Payday Loans

Avoid payday loans where possible. These are a way of accessing money quickly. However, they're also a great way of reducing your chances of obtaining a mortgage. Nearly all lenders are concerned if they see that you've been using payday loan services. To them, this shows that, at some point during the month, you've been unable to cover your living costs and have needed to resort to short-term (expensive) borrowing. From their perspective, this shows that having a mortgage may not be right for you at this moment in time. Typically, most lenders will expect to see no payday loans on your credit report for at least 12 months prior to you applying for a mortgage.

### Overdraft

Like payday loans, constant use of your overdraft facility isn't viewed favourably by the banks when it comes to obtaining a mortgage. Your overdraft is designed for emergency situations, not for month-to-month living expenses. If you're in your overdraft when you apply for a mortgage, some banks will insist that this is cleared in full before they'll offer you a mortgage. Realistically, before they'd be comfortable with you having the responsibility of a mortgage, the banks will want to see three to six months' worth of your bank statements to show that you don't need to rely on your overdraft to cover your living expenses .

# How Much You Can Borrow

**By far the most common question that comes up in our day-to-day conversations at Equity Select is 'How much will the bank let me borrow in terms of a mortgage?'**

The truth is that every bank will offer you a different amount depending on the size of your deposit, your credit score, how much you earn, and what monthly credit agreements you already have in place, such as car loans and credit cards. If you're reading this and are a first-time buyer, it may seem strange to find this out; however, for those of you who already own a property, there's a good chance that you've seen in the past how this part of the process works.

As a general rule of thumb, most banks will cap the maximum you can borrow at 4.49 times your income, regardless of your credit score, deposit size or monthly credit commitments. There are some lenders who'll allow you to borrow more than 4.49 times your income if you earn over a certain amount of money or work in specific professional industries, though. This is why working with an adviser can be invaluable. Advisers will search the market and work out which lenders are not only the most likely to accept you application but also which lenders are able to offer you a mortgage of the size that you need.

Depending on how you earn your income, some banks may be more suited to your situation than others. Income can come in all shapes and sizes, so it's important for your adviser to know as much detail as possible when assessing how much you can borrow.

Banks will take different amounts of different types of income into consideration. The list below details the main income types that we come across:

**Employed Income**
Basic salary, regular overtime, bonuses, shift allowance, car allowance and commission

**Self-Employed Income**
Net profit, salary and dividends, and rental income

**Other Income**
Pensions, state benefits, town allowance, maintenance and stipends

# Costs When Buying a Property

**We've spoken already about the need for a deposit when it comes to buying a property. There are other costs involved, which we'll touch on in this section. Every lender has different fee structures and incentives that they offer. There isn't a one-size-fits-all solution, but these are the most common ones:**

**Arrangement Fee** – This is the main fee charged by the bank or building society for arranging the mortgage. The fee varies between lenders, and not all lenders charge one. For those that do charge this, a typical fee is around £995. This fee is usually paid up front and is only refundable up to a certain stage in the mortgage process. Most lenders will allow you to add this fee on to your mortgage; however, that will mean that you're increasing the amount of money that you're borrowing, which will therefore increase your monthly mortgage cost. As a result, you need to think carefully before you decide to go down this route.


**Stamp Duty Land Tax** – There are varying thresholds for stamp duty, which depends on the purchase price of the property, whether or not you are a first-time buyer, and whether or not you own any other properties. The key thing to note with stamp duty is that it can't be added to the mortgage loan and it must be paid within 14 days of purchasing a property. Most solicitors will ask for it to be paid on the day you get the keys.

**Valuation Fees** – In order to assess whether the property you're looking to buy is deemed suitable by the bank, an independent survey is carried out by a property surveyor. In most cases, the survey is free of charge and the cost is covered by the mortgage lender. However, if you're expected to pay for the survey, they typically cost around £250. Again, this fee is payable up front where applicable, and it can't be added to the mortgage. Whilst some costs associated with buying a property can seem expensive, having at least a valuation survey carried out on a property you're planning to buy lets the bank know that you're not paying more than it's actually worth. For your own peace of mind, especially when buying an older property, there are additional surveys that you can pay for that give a more in-depth report on the condition of the property. These typically cost between £350 and £750. This may feel expensive, but the report will give you a much more detailed analysis of the property, which could prove invaluable should there be any issues with it.


**Legal Fees** – When you purchase a property, solicitors are required to process the legal work that goes with owning a home. Prices for this vary; however, you would typically expect to pay between £750 and £1,250. Again, this fee can't be added to the mortgage. Most solicitors will ask for their fees to be paid on the day you get the keys to your new home.

# The Mortgage Process

## Step 1

### Let's work out what you can afford

When it comes to buying or remortgaging a property, lenders need to know that you'll be able to afford to repay the money you've borrowed. To work this out, they'll do what's called an affordability assessment. This means they'll assess your current income and outgoings and then look at your credit history to decide how much you may borrow in the form of a mortgage. As part of our service, we'll gather all the relevant information from you and work out how much each lender will let you borrow. As there are so many lenders available, this can take a few days, so it's very important that we gather all your relevant information and you provide your documentation as soon as possible.

## Step 2

### What price bracket can you look in?

Once we have confirmed how much you can borrow and added that figure to your deposit, we'll know what price bracket you can start looking in. In terms of your deposit, you'll need at least 5% of the purchase price as a minimum. The bigger the deposit you have, the less money you'll need to borrow in the form of a mortgage, and the lower the rate of interest the lenders will offer you.

## Step 3

### Getting you the best deal

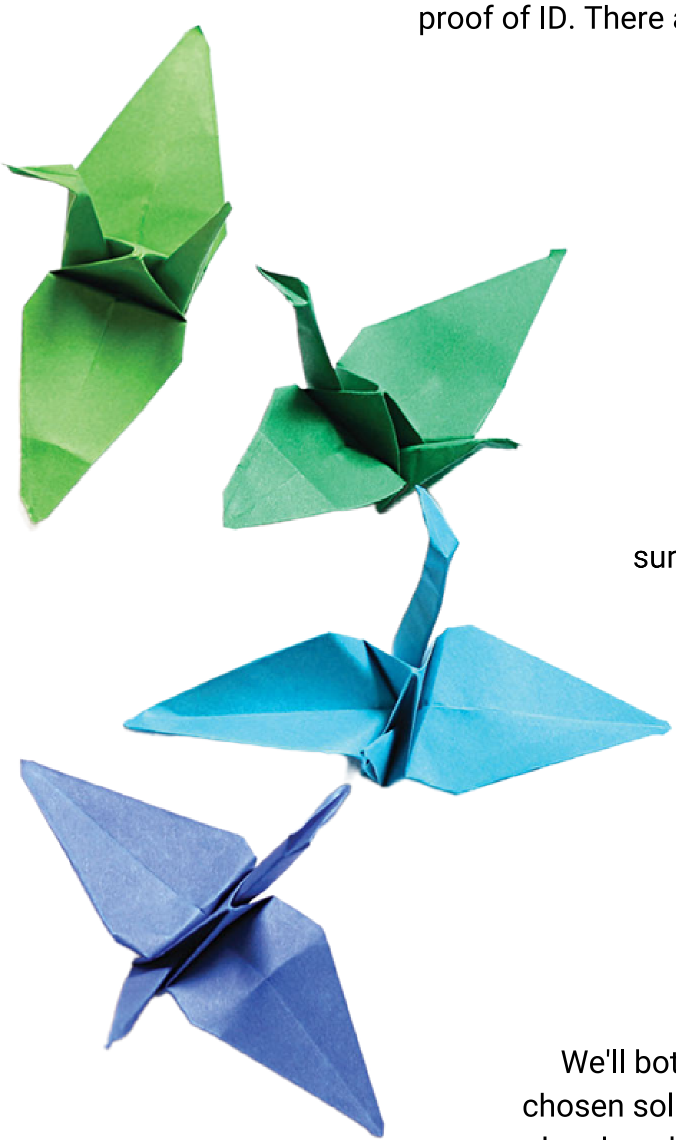
Now you've got your deposit saved, you know how much you can borrow and you know what price bracket you can look in, the next step is to find a property that you like and put in an offer. Once you've had an offer accepted, we'll speak to the lender offering the cheapest deal that is most likely to accept your mortgage application, and we'll ask them to give us a Decision in Principle. This is an outline document confirming that the lender is happy to take you on as a customer based on the information we've provided them with.

# The Mortgage Process

## Step 4

### Sending the paperwork

Next, a copy of the Decision in Principle and proof of your deposit are normally sent to the estate agent selling the property; we can help you with this. Once the estate agent has accepted your offer, we'll submit your full mortgage application and send the lender a copy of the documents gathered during our initial meeting. Typically, the lender will ask us for your proof of income, bank statements and proof of ID. There are other documents that they can request; however, these are the main ones.



## Step 5

### Official offer

The lender will then get an independent valuation surveyor to carry out a mortgage valuation survey on the property. If the survey comes back positive (meaning that they think the property is worth the value of the offer), and they're happy with the documents that we've sent them, they'll issue an official mortgage offer to us.

## Step 6

### Completion

We'll both receive a copy of the official mortgage offer and so will your chosen solicitor. It's then down to the solicitor to complete the necessary legal work and arrange a completion date for you to get the keys to your new home! Typically, this part of the process takes two to three months, depending on the the number of properties that are in the chain alongside yours.

# Insurance

**Once your mortgage is in place, we then need to consider the different types of insurance products that are available to protect you and your family should the worst happen. This isn't a subject that people like to discuss; however, it's crucial that we cover this. Like car insurance, we pay it every month hoping that we're never involved in an accident and need to claim against the policy to cover the costs of any damage. Having insurance in place gives us peace of mind that, should the worst happen, you and your family are protected. The following products cover the main types of insurance policies that relate to mortgages.**

## Buildings and Contents Insurance

All mortgage lenders will insist that your property is insured throughout the duration of the mortgage. This is so that if something were to happen to the property – whether that's flooding, a fire or even an earthquake – the insurance policy would cover the cost of repairing the property. You're under no obligation to insure the property directly with the mortgage lender, nor through Equity Select; however, we'll provide you with a quotation to give you a feel for what the cost is likely to be. A top tip regarding buildings and contents insurance policies is to pay them annually where possible. You'll pay more over the year in total if you pay the policy on a monthly basis.

## Life Assurance

This type of policy is designed to pay out a sum of money if you pass away during the term of the mortgage. Typically, this money is then used to repay the mortgage. If you have a family and you were to pass away during the term of your mortgage, this policy is designed to help them repay the mortgage and continue living in the property for as long as they wish to. There are various options when it comes to life assurance; however, the most common one used with a repayment mortgage is what's known as decreasing term assurance. In plain language, this means that the lump sum payable on death decreases over time in line with your mortgage. At the end of the mortgage term, the policy lapses and is no longer required. The benefit of this type of policy is that the monthly cost is agreed from the outset, and because the lump sum payable reduces as you pay off your mortgage, the monthly cost is usually low and is also guaranteed to remain the same throughout the duration of the mortgage.

## Critical Illness Cover

This is similar to life assurance in the sense that a lump sum is payable, but with critical illness cover, it's payable on the diagnosis of a specified illness rather than on death. Each provider has a list of illnesses they cover, and they state how severe the diagnosis has to be for you to qualify. Some of the most typical conditions covered are heart attacks, strokes, certain types of cancer, Parkinson's disease and Alzheimer's disease. Unfortunately, being diagnosed with a critical illness is much more common than we would all like, and as a population, critical illnesses are becoming more common in younger generations. If you were unable to work due to suffering from a critical illness, this type of policy would help give you peace of mind that your mortgage would be paid off, and your and your family's home will remain yours.

# Frequently Asked Questions

## Does Equity Select have access to more than one mortgage and insurance provider?

Yes, we work with a large panel of lenders that offer mortgages across the UK. We even have access to lenders that only work directly with mortgage advisers.

## Is Equity Select suitably qualified?

Equity Select is authorised and regulated by the Financial Conduct Authority (FCA). This means our advisers have passed all the necessary examinations in order to offer you advice on mortgages, insurance and equity release.

## What documents do I need in order to get a mortgage?

**Proof of Identification**: An unexpired passport or driving licence.

**Proof of Address**: An unexpired driving licence, a utility bill dated within the last three months, or your council tax letter for the current year.

**Credit Report**: Equity Select will send you a link to download a free copy of your report.

**Proof of Income:**

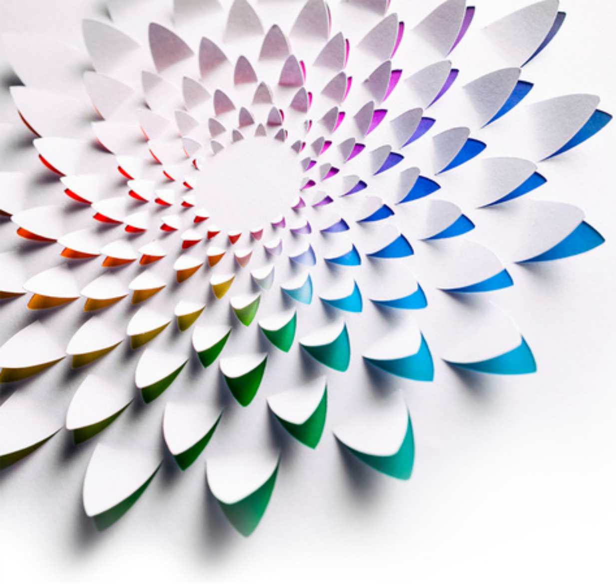
**Employed –** Your payslips for the most recent three months, your latest P60 and your personal bank statements for the last three months. If you receive bonuses or commission, your payslips for the most recent six months, your latest P60 and your personal bank statements for the last six months.

**Sole Trader –** Your tax calculations and tax year overviews for the most recent three years, your personal bank statements for the last three months and your business bank statements for the last three months.

**Limited Company Director –** Your tax calculations and tax year overviews for the most recent three years, your business accounts for the most recent three years, your personal bank statements for the last three months and your business bank statements for the last three months.

## How much will it cost if I want Equity Select to help me?

As a business, we believe in treating everyone the same. All of our clients pay a set fee of £395. This fee covers our time spent working with you, researching your options and holding your hand every step of the way, from our first appointment to the day you get the keys to your new home!



# What Our Clients Say

“Allan found me a great mortgage deal and kept in touch throughout the whole period even after the move had taken place.”

“Allan's customer service is excellent and what I really respect about him is that if he cannot help he will say so. With regard to protection and price he is very honest about the fact that he may not be the cheapest but he goes the extra mile in every aspect of his service.”

“Allan was amazing, he held my hand through every step, pre-empted things that would come up, answered all my questions, sometimes before I asked them, kept in close contact throughout the whole process from the first meeting to getting my keys.”

“Allan walked me through the process step by step, got me a great mortgage deal and followed the whole process through from our first meeting to getting my keys. Going through this process on your own can be pretty daunting when you haven't done it before and Allan kept things really simple, uncomplicated and kept me informed step by step which was very reassuring. The whole process was a great experience.”

“Allan was superb throughout. His customer service is the best that we have experienced. Honest, transparent and nothing is too much trouble. Worth every single penny and should charge more for his dedication!”

“To be honest we were most impressed with Allan and could not have done any better that he had done. I would not hesitate in recommending to any of our friends and relations.”

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