Police Mutual

Let's Talk

House Purchase and Renting – May 2023

Buying a home is the largest purchase you're likely to make. So, it's important to understand what type of mortgage is best for you, the costs involved and how the process works.

Buying a first home, moving house or remortgaging can be an anxious time, with help to buy schemes and thousands of different mortgages available it can be difficult to understand. This guide will be able to help you.

To Rent or to Buy?

Before making the decision, it's important to weigh up the benefits and downsides of buying a house as it's such a big financial commitment.

Benefits of owning

- Once you've paid off your mortgage in full, your home will be yours.
- If your home increases in value, you could use the capital to help move to a bigger home or fund your retirement.
- You can spend money improving your home and potentially increasing its value or making it more saleable if you decide to sell.
- In some cases your mortgage payment may be cheaper than your rent for a similar size property.

Potential downsides of owning

- You need to consider the maintenance costs as well as the mortgage payments.
- If you buy a leasehold property, there will be extra costs to pay in ground rent.
- When interest rates rise, your mortgage repayments could go up.
- It may not be easy to sell if you need to as the housing market fluctuates, selling can also be extremely time consuming.
- If you're living with someone and split up, it may be complicated and expensive. Always take legal advice when looking to co-habit.
- The value of your home may fall.

Can you afford to buy?

The first step towards buying a property is working out whether you can afford it. There are many costs involved in buying a home, including:

- A deposit
- Survey costs
- Stamp duty
- Removal cost
- Legal costs

For more details on each of these see later on in this guide.

Whether you decide to rent or buy you will also have monthly expenses to pay including, gas, electricity, home insurance, council tax and water rates.

Saving for a deposit

If you can't afford the costs right now, think about setting up a saving plan or using a Lifetime ISA. Change to - Read our guide **here** for more information.

If you decide to Rent

Renting a home involves more than just being able to pay your rent, before deciding if to rent a property, there are a few things you should consider.

To see how much rent, you can afford, you will need to calculate your other expenses. The most common bills you should expect to pay as a tenant in addition to your rent are the water bill, service charges, council tax and utility bills. To help with your budgeting, you could ask the agency, landlord or previous tenant to provide you with estimates of these bills. Before committing to a rental, ensure you've completed a realistic budget of your costs. Click **here** to use our budgeting tool.

If you are renting a property with other people, it's important to be organised about money. At the start of a shared tenancy, it's a good idea to sit down with your housemates to work out a fair system for sharing the cost of your bills and ensure they're always paid on time.

If you're named on any bill, you're responsible for ensuring it is paid in full. If you miss a payment or don't pay your bills on time, you may get a bad credit rating, which will make it difficult for you to borrow money in the future. For more details on credit ratings click **here**.

Rent arrears

If you cannot pay your rent, don't ignore the problem. Talk to your landlord as soon as possible. Explain why you're going to be late paying the rent and ask for some extra time.

Being repeatedly late with your rent could lead to eviction and a bad reference from your landlord. This may make it difficult for you to find another property to rent. Your landlord may also withhold some of the deposit to cover underpaid rent if you still owe money when you move out.

If you want to talk to someone about how to deal with your landlord, you can call Shelter or the Citizens Advice Bureau, or Housing Advice NI in Northern Ireland.

If you are struggling with your everyday expenses, click here to read our how to spend less guide.

If you're already in arrears with your rent or are struggling with debts, don't worry alone, talk to someone as soon as possible. We've teamed up with **PayPlan***, one of the UK's leading free debt advice providers, who offer free and confidential advice to anyone in serious financial difficulties.

They're able to advise you on a range of debt solutions suited to your individual circumstances, helping to protect you and your family with a sustainable way to manage your debt. Get free and confidential help to combat your debt, call **PayPlan*** on 0800 197 8433.

Financial and legal obligations

When renting a property, it's important to be aware of your financial and legal obligations to the landlord. Before you sign a tenancy agreement, be sure to read it in full, including all the small print. It will list your obligations as a tenant. For example, you might be obliged to do specific things, like maintain the garden or pay certain bills, like council tax or a service charge or have the house professionally cleaned before you leave the property.

Keep in mind you'll need your deposit back at the end of your tenancy to help pay the deposit on your next rental property and you might also need a reference from your landlord for any future rental or for a mortgage if you decide to buy.

If you are sharing a property with others, it's important you establish whether you are joint tenants, or whether you're the sole tenant and any others living there are your 'guests' and your responsibility. For more details on joint tenancies click **here**.

Tenant's rights

As a tenant it's important that you are aware of your rights in the event of a disagreement or dispute with a landlord. A tenant's rights may vary in accordance with the type of tenancy agreement in existence.

The main responsibilities of a tenant are to pay the agreed rental payment in accordance with the tenancy agreement whilst also taking care to look after the property. This will include general upkeep and may include carrying out minor repairs, such as changing a light bulb. Tenants are required to allow access for the landlord to complete any other repair work upon reasonable notice.

The tenancy agreement should set out the main responsibilities of the landlord, but section 11 of the Landlord and Tenant Act 1985 also implies certain legal obligations.

Renters insurance

If you're renting, chances are that your landlord's insurance will only ensure the building you live in, not the things you own. You may want to consider protecting your possessions, by taking out home contents insurance, to cover items like your mobile phone, television, bike, and laptop.

Rent guarantors

If you're very young, unemployed, or studying, or renting for the first time, your landlord might consider you as more of a risk than other tenants. They might require you to ask someone (usually a parent) to act as a 'guarantor'. This means if you fail to pay the rent, the landlord can legally call on your guarantor to pay it on your behalf.

If you decide to Buy

How much can you afford to borrow for a mortgage?

Don't stretch yourself as you may struggle to keep up repayments. It's important to think about the running costs of owning a home such as household bills, council tax, insurance and maintenance.

Lenders will want to see proof of your income, certain expenditure and if you have any debts. Lenders may want proof that you will be able to keep up repayments if interest rates rise. A mortgage advisor understands what income is considered by mortgage lenders and can help you understand what you can afford.

Use a Mortgage **Affordability calculator** to work out how much you can afford.

Use a **Mortgage calculator,** to work out how much you'd pay back each month.

When working out how much you can afford to borrow, the lender may take into account:

Your income

- your basic income
- income from your pension or investments
- income in the form of child maintenance and financial support from ex-spouses may be included
- any other earnings you have – for example, from overtime, commission or bonus payments or a second job or freelance work may be taken into account.

Your outgoings

- credit card repayments
- maintenance payments
- insurance - building, contents, travel, pet, life, etc
- any other loans or credit agreements you might have
- bills such as water, gas, electricity, phone, broadband.

You will need to provide pay slips and bank statements as evidence of your income.

If you're self-employed you'll need to provide the following in some cases for up to 2 years:

- bank statements
- business accounts
- details of the income tax you've paid.

The lender will also ask to see some recent bank statements to back up the figures you supply.

It's a good idea to check your credit score -

using one of the various companies available online including, Experian, Equifax or TransUnion, before applying for a mortgage. This will give you time to correct any mistakes in it that may make the mortgage lender turn you down or reduce the amount they are willing to lend you.

Different types of mortgage

There are two main types of mortgages:

Fixed rate

The interest rate you're charged stays the same for a number of years, typically between two to five years. This helps with budgeting and provides you with peace of mind and stability of mortgage payments.

Variable rate

The interest rate you pay can change due to changes in the Bank of England base rate. There are many variations of this type of mortgage including discounted and tracker. A discounted variable mortgage tracks at a set percentage below a lender's standard variable rate. A tracker mortgage follows an external interest rate, usually the Bank of England's Base Rate.

Offset mortgages

Offset mortgages, let you link your mortgage to your savings. The savings balance is used to reduce the amount of interest charged on the mortgage. It is not guaranteed to clear your mortgage early.

Moving House and Re-mortgaging

You may want to move to a bigger home or stay where you are and just move your mortgage to another lender or deal.

There are various reasons why you may want to remortgage:

- to get a better interest rate and save money or reduce the term
- for more flexibility
- to consolidate debt
- for home improvements
- to release funds.

There are several costs involved whether you are moving house or remortgaging, including arrangement, legal and valuation fees. See other sections of this guide for more details of these.

Which Mortgage to choose?

The money you borrow is called the capital and the lender then charges you interest on it until it is repaid. The type of mortgage you are able to apply for will depend on whether you want to repay interest only or interest and capital.

Repayment mortgage

With repayment mortgages you pay the interest and part of the capital off every month. At the end of the term, typically 25 years, you should have paid it all off and own your home (subject to you keeping up the mortgage repayments).

Interest-only mortgage

With interest-only mortgages, you pay only the interest on the loan and nothing off the capital (the amount you borrowed). Then at the end of the term you need to pay the capital part of the loan back to the lender. These mortgages are available in limited circumstances.

The cost of buying a home and moving

There are a number of fees to consider when buying a new home, including the cost of moving home, your deposit and solicitors fees.

Deposit

When buying a property, you will need to pay a deposit. If you have a larger deposit, you may benefit from being eligible for a lower interest rate.

For example, with a £20,000 deposit on a £200,000 property, the deposit is 10% of the price of the property, and the LTV (Loan to Value), which is the amount you will need to borrow is the remaining 90%. The cheapest rates are typically available for people with a 40% deposit.

Stamp duty

If you're buying a home in England or Northern Ireland costing more than a specific amount, you would normally have to pay Stamp Duty Land Tax (SDLT) on your purchase, unless you're a first-time buyer where there is no Stamp Duty to pay on properties worth up to a higher amount. For more details on the amounts click **here**.

For first-time buyers in England and Northern Ireland there is currently no stamp duty to pay on properties of up to £250,000. Wales and Scotland have their own alternative arrangements for first-time purchases.

There are several rate bands for Stamp Duty. Use the **Stamp Duty calculator** to find out how much you'll pay. Buyers of additional residential properties, such as second homes and buy-to-let properties, will have to pay an additional amount in Stamp Duty on top of current rates for each band.

If you're buying a property in Scotland you will pay Land and Buildings Transaction Tax (LBTT) and in Wales Land Transaction Tax (LTT) instead of Stamp Duty.

What is a Buy to Let mortgage?

Buy-to-let mortgages are for landlords who want to buy property to rent it out. The lending criteria around buy-to-let mortgages are similar to those around regular mortgages, but there are some key differences, which are:

- The minimum deposit for a buy-to-let mortgage is usually 25% of the property's value.
- Most buy-to-let mortgages are interest-only. This means you pay interest on the amount you borrow and repay the capital element of the original loan in full at the end of the mortgage term.
- Fees and interest rates on buy-to let mortgages are usually higher.

Equity Release

Equity release refers to a range of products letting you access the equity (cash) tied up in your home if you are over the age of 55. You can take the money you release as a lump sum, in several smaller amounts or as a combination of both.

There are two equity release options, the Lifetime mortgage and home reversion. The fundamental difference between the two is when you take out a lifetime mortgage you still own your own home. But with home reversion plans, you actually sell a share of your home in exchange for a lump sum of money or a lifetime of regular income.

Other costs:

SURVEY FEE - the mortgage lender will assess the value of the property to establish how much they are prepared to lend you. There are three different types of survey, Basic Valuation, Homebuyers Report or Full Building Survey. All will include the basic valuation element. If you are buying with a mortgage, the lender will insist on a Basic Valuation as a minimum. Paying for a good survey could save you money on repairs in the long run.

LEGAL FEES - You'll need a solicitor or licensed conveyancer to carry out all the legal work when buying and selling your home.

ELECTRONIC TRANSFER FEE – this is usually a small costs and covers the lenders cost of transferring the mortgage money from the lender to the solicitor.

ESTATE AGENT'S FEE - this is only paid by the seller, not the buyer, for the estate agent's services.

REMOVAL COSTS – this may be the cost of a professional removal company or of hiring a van to do it yourself.

MORTGAGE FEES - these might include, a booking fee, an arrangement fee, a broker fee and a mortgage valuation fee.

INSURANCE - the lender will require you to take out buildings insurance to protect your new home against damage from fire, floods, subsidence and anything else. It's also a good idea to also cover the contents of your home.

OTHER – you may also need to pay for cleaning or storage costs.

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