FACT FILE

Mortgages and how to survive them

MoneySense for schools

Mortgages are quite complicated, so before falling in love with your dream home, make sure you have as much information as possible to help you make a decision. The first step is to talk to your mortgage provider or an independent **financial advisor**.

Think carefully about your **budget** and how much you can afford to pay back every month and still have some spare cash to enjoy the occasional night out or a holiday.

You will definitely need a **deposit**. Mortgage **lenders** can expect you to have a deposit ranging from 10% to 40% of the cost of the property.

The ratio between the amount of the mortgage and the value of the property is called the **loan to value** (LTV). For a £90,000 mortgage on a property worth £100,000 the LTV would be 90%, so you'll need a deposit of £10,000.

Generally, the bigger the deposit you have the better deal you'll get on a mortgage loan.

The amount you'll have to pay back each month depends on the kind of mortgage you choose. Your provider will talk you through the options.

Repayment mortgages: you arrange a loan from a lender for a fixed term e.g. 25 years, where you make payments monthly. Each monthly payment is made up of capital (the amount you borrowed) and its interest. At the start, each monthly payment consists of more interest and the capital reduces slowly. There are different options for this type of mortgage:

- **Fixed-rate mortgages:** Your repayments are fixed at a certain rate of interest for a specified time – maybe two or three years. Your monthly repayments remain the same regardless of whether interest rates go up or down.
- **Tracker mortgages:** You pay an agreed percentage above the Bank of England's base rate. As the base rate goes up and down, so will your mortgage repayments.
- **Interest-only** mortgages are another type of mortgage where your monthly repayments cover the interest only – not the capital – of your home loan. You will usually be required to have a long term investment fund put in place to pay back the original loan by an agreed future date.

Have a go at the case study: getting a mortgage

Getting a mortgage

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One-off costs

There are many one-off expenses involved in buying a home and moving. These can add up to quite a lot of money so you need to factor them into your financial planning.

Legal cost: Usually a solicitor or licensed conveyancer needs to be appointed to deal with the legal aspects of buying a property. You will need to budget for their fees and other legal costs.

Stamp duty: This is a tax paid when you buy a property above a certain price set by the government.

Valuation/survey: Lenders will want a survey of the property to make sure it's worth the money they are lending you.

Mortgage arrangement fees: Some mortgage lenders charge an arrangement or application fee when you take out a mortgage. Some mortgage lenders will let you add the cost of this to the mortgage. If you choose to do so, it's worth remembering that you will be paying interest on that amount over the term of the mortgage.

Buildings insurance: You usually need to take out this insurance before you can get the mortgage to buy your property.

And remember: if you don't pay your mortgage repayments, your credit rating will be affected, and ultimately your home could be repossessed.