An Introductory Guide to

Getting on the Property Ladder

Property Cohort

Dear Reader,

Thank you for reading the guide. We hope it is helpful to you.
The aim of this guide is to provide young people with optimism regarding getting onto the property ladder and to give you basic knowledge and guidance on buying a property.

Please only use this guide as a starting point and please consult a mortgage adviser for further professional advice.

We have tried to include as much as we can in this guide; however, we could not include everything. Future guides will cover an array of topics such as: Property sourcing, different strategies to get onto the ladder and conveyancing.

If you would like any more information, or if you would like to know our opinion on any of the schemes mentioned or our opinion on where we think is good to invest; please feel free to contact us on: **info@propertycohort.co.uk** or **@PropertyCohort.**

Best wishes,

The Property Cohort Team

Property Cohort

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What is a Mortgage?
A mortgage is a loan that is secured against a buy property or land. The money you borrow is called the mortgage and the lender charges you interest on the mortgage until it is repaid.

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.

Interest-Only Mortgage
With interest-only mortgages, you pay only the interest on the loan and nothing off the capital (the amount you borrowed).

- Lenders ask that a repayment vehicle is put in place in order to repay the capital oustanding once your interest-only term has expired.
- If the equity in your property is sufficient, lenders will accept sale of your home as a way of repaying the capital; however, if this is not possible, you will have to prove that some kind of investment is in place in order to repay this

NB. Interest-only mortgages are becoming much harder to come by as lenders and regulators are worried about homeowners being left with a huge amount of debt and no way of repaying it.

How Can I Get Help to Find a Mortgage?
Speak to a Bank or Building Society
They will tell you about the mortgages they offer, see how their products stack up against the competition before making a final choice. Their advice is typically free.

Mortgage Advisers
A mortgage adviser is a specialist with in-depth knowledge of the market.
They are able to look at a range of mortgage products which suit your needs. Some look at deals from a limited list of lenders, others are tied to a specific lender, and there are those who will check the whole market for a wide range of products.

Applying for a Mortgage
As a general rule of thumb, lenders will normally lend up to 4.5 times a buyer's salary (some lenders will allow for 5x salary depending on the size of a buyer's deposit), e.g. a salary of £30,000 per annum would result in the bank lending you approximately £135,000.

Initial information such as your salary, expenditure, property price and deposit will be requested to evaluate whether you can afford your desired mortgage.

You will be asked a range of questions about the type of mortgage you want, i.e. appropriateness and length.

It is desirable to obtain a copy of your Experian or Equifax credit report prior to mortgage sourcing, as you may not qualify for a number of lenders due to credit blemishes (there are lenders out there who make provisions for this.)

The buyer will obtain a KFI (Key Fact Illustrations - name soon to change to ESIS), which serves as a quote for the recommended mortgage product.

With your authority to proceed, the mortgage advisers will use this information to obtain a decision in principal from the desired lender. Acceptance will qualify you to proceed with a full application.

Once you have found a property, you will have to inform your lender (or mortgage adviser) who will then carry out (or inform the lender to carry out) a valuation survey on the proposed property.

Once your valuation is complete, your lender will carry out final checks before writing to you and your solicitor with their mortgage offer.

Upon exchange of contracts and completion, mortgage funds will be released to the seller's conveyancers.

1. Keep Track of Your Accounts

Most lenders require two or three years' worth of **UP TO DATE** business accounts. A certified or chartered accountant will be able to help you with this.

2. Ask for an SA302 Form

Lenders are likely to look at the income you have declared to the tax man in a form known as an SA302. Your accountant will be able to request one for you, or you can call HMRC yourself on 0300 200 3300. Further information is available at: HMRC.

3. Keep Tabs on Your Spending (Same applies to those who are not self-employed

Lenders will assess your ability to afford a mortgage by looking at all of your regular outgoings e.g. shopping, phone bills, and child care payments. Reduce your expenditure in the year (or months if you're not self-employed) before applying.

4. Be Realistic About What You Can Afford

Take into consideration the possibility of a downturn in your business fortunes - it's always better to be safe than sorry!

5. Save! Save! Save!

If you have less than two years' accounts or a poor credit rating, we highly recommend you save as much as possible so you can put it towards a deposit.

6. Don't Switch Before Applying

Changes to your self-employed status e.g. from sole trader to limited company in close proximity to when applying for a mortgage is not recommended. It may cause confusion and prompt a delay in approving your application.

7. Seek Expert Advice (Same applies to those who are not self-employed)

There are a wide range of mortgages available for self-employed buyers. There are also specialist lenders who offer products designed specifically with the self-employed in mind. We suggest expert advice before making making a choice (we would recommend www.arnegrey.com).

8. Improve Your Credit Rating (Same applies to those who are not self-employed)

Pay off any debts as soon as they are due, including credit cards and phone bills, to ensure you maintain a positive credit rating. Ensuring you are on the electoral register at your current address will also help your credit rating. As mentioned previously, it is desirable to obtain a copy of your Experian or Equifax credit report.

9. What if You Don't Have at Least Two Years' Accounts?

- Some lenders will accept one year's accounts if you have substantial savings and a good credit record.
- Self-employed workers who have a regular track record of contract work may be able to use this to their advantage.
- It would also be helpful if you can provide evidence of upcoming contracts/work.

- When buying a property, you will need to pay a deposit.
- The greater your deposit, the less interest you pay on the amount you borrow
- Loan to Value (LTV) is a popular term used when talking about mortgages - it is simply the amount of your home you own outright, compared to the amount that is secured against a mortgage.
- For example, with a £30,000 deposit on a £300,000 property, the deposit is 10% of the price of the property, and the LTV is the remaining 90%. The mortgage is secured against this 90% portion.

Saving for a Deposit

Saving is the first step to raising a deposit. The amount you save will be subjective to your personal circumstance e.g. those that still live at home with their parents may find it easier to save compared to those who are already renting.

At Property Cohort we stick to a simple rule of thumb when it comes to saving...
SAVE AT LEAST 20% OF YOUR MONTHLY INCOME.

Example

Monthly Income	£2000
20% Savings a Month	£400
Total Savings a *Year*	£4800
Time to Save 5% Deposit on a Property Costing £300,000	3 Years and 1.5 Months

3 years and 1.5 months is a long time; therefore, our advice to you is that whilst saving is important; it's not the be all and end all. You must make your money work for you. This is how people turn £1000 into £2000 and £2000 into £4000 and so on.

Unfortunately, this how to guide is not for investment opportunities. But we are sure our friends over at Capital Moments could give you some valuable guidance on how to invest your money.

Additional costs to bare in mind when saving for a property/buying a property include:

- Stamp duty
- Conveyance fees
- Mortgage product fees
- Mortgage adviser (if used)
- Furnishing
- Renovations
- Removal hire

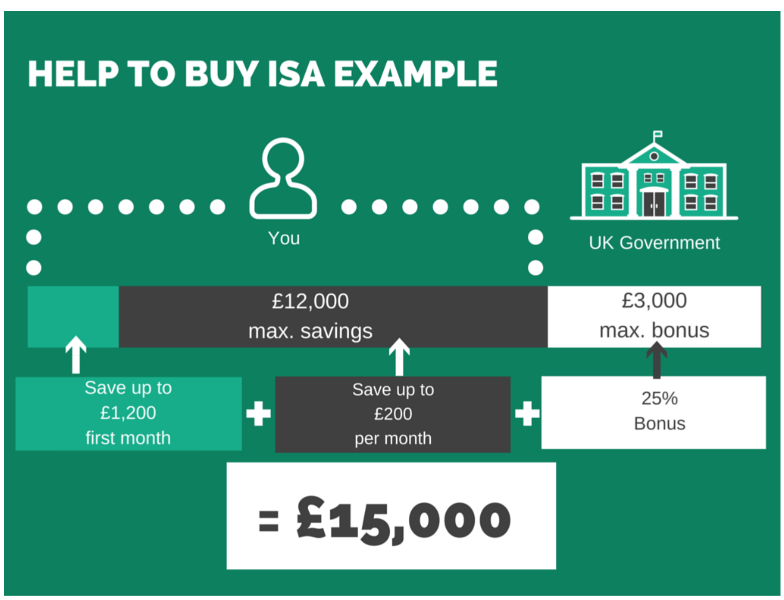
If you are saving to buy your first home, a Help to Buy: ISA and the government can boost your savings by up to 25%.

Key Points

- The ISA accounts are available to each first time buyer.
- You must be 16 or over, have a valid National Insurance number and be a UK resident.
- You must be a first-time buyer, and not own a property anywhere in the world.
- You cannot have another active cash ISA in the same tax year (April): If you have opened a cash ISA this tax year, you can open a Help to Buy: ISA but will have to take additional steps.
- For every £200 (maximum amount you can save a month) you save, you receive a government bonus of £50.
- In your first month, you can deposit a lump sum of up to £1,200.
- The minimum government bonus is £400, therefore; you need to have saved at least £1,600 into your Help to Buy: ISA before you can claim your bonus.
- The maximum government bonus you can receive is £3,000, therefore; you would need to save £12,000 to receive the maximum bonus.
- To qualify for the government bonus, the property you are buying must: cost up to £250,000, or up to £450,000 if you are buying in London.

When Do You Receive the Bonus?

- When you buy your first home, your solicitor/conveyancer will apply for your government bonus. Once they receive the government bonus, it will be added to the money you are putting towards your first home.



Available until 2020, Help to Buy 1 is an Equity Loan scheme.

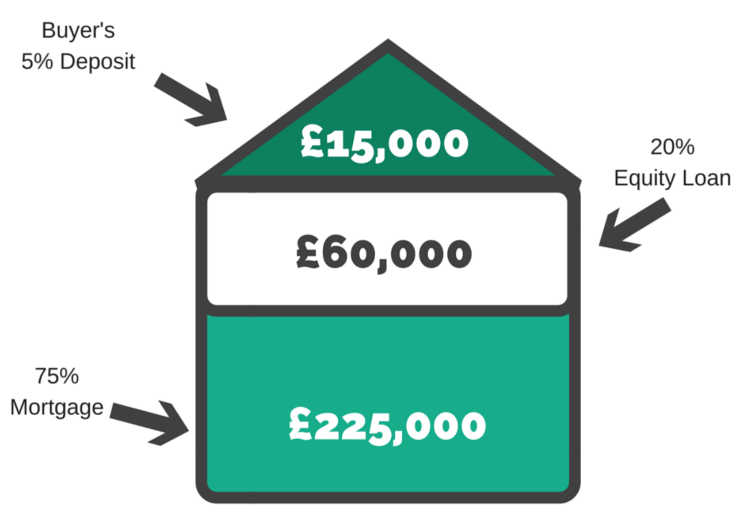
Key Points

- Open to both first-time buyers and current homeowners.
- There is no maximum income requirement, but the property must be a new-build home/
- The Equity Loan only applies to properties worth up to £600,000.
- The property purchased must be your only residence.
- You cannot use Help to Buy to purchase a buy-to-let property.

How Does the Loan Work?

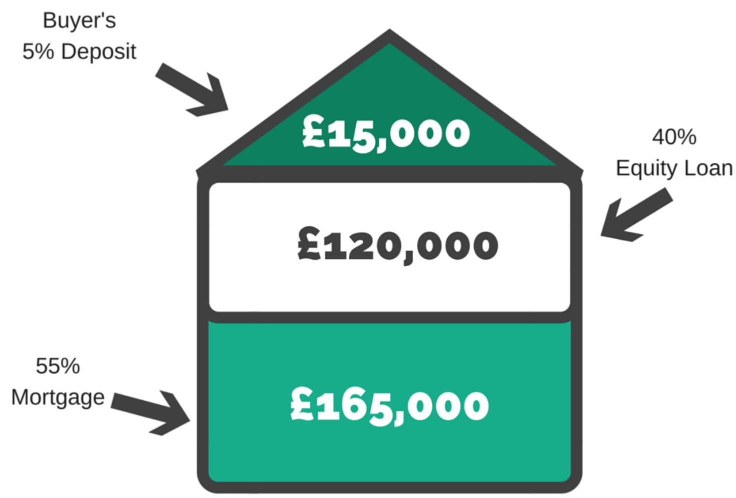
- Buyer required to raise a 5% deposit (5% of the property value).
- Government provide a loan of up to 20% of the property value (40% if in London).
- This is combined deposit of 25% (or 45%) which will give you access to many more mortgages; as the buyer only needs a mortgage on 75% (or 55%) of the property value.

Example - Property Value - £300,000 - 20% Loan



**NB. To reflect the current property prices in London, the Government have increased the upper limit for the equity loan it gives new homebuyers within Greater London from 20% to 40%.

Example - Property Value - £300,000 - 40% Loan



When Can I Repay the Loan?

- For the first five years, the loan is interest free.
- In year six, you will be charged 1.75%, which will climb at a rate of 1% of that figure plus any increase in inflation (as measured by the Retail Prices index), every year thereafter.
- You can start to pay back your equity loan any time after completion, but you have to pay back at least 10% a time.

What if the Property Goes Up in Value?

- The equity loan must be repaid after 25 years, or earlier if you sell your home. If the home is sold, you must repay the same percentage of the proceeds of the sale as the initial quality loan you received from the government.

With Shared Ownership you part buy and part rent a home from a housing association.

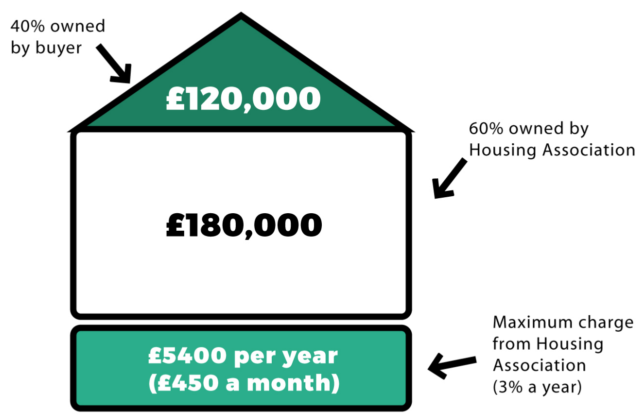
Key Points

- Your combined household income cannot exceed £80,000.
- In London your household income can be up £90,000 from April 2016 for any size property.
- Local authorities may impose their own conditions e.g. that you have to live or work in the local area.
- The share you buy is anywhere between 25% to 75% of the home's value.
- You pay rent on the remaining share (which is owned by the housing association).
- You will need to take out a mortgage to pay for your share of the house.
- You pay a deposit on the share of the property that you own.
- You can use the Help to Buy schemes when purchasing a Shared Ownership property.

How Much Rent Can the Housing Association Charge?

The Housing Association can only charge rent of up to 3% of their share of the property's value.

Example - Property Value - £300,000



How Do I Increase the % Share Amount I Own in the Property?

- To buy a greater share of the property at anytime you must "Staircase."
- The cost of increasing of your share is based on the market value of the property at the time you want to increase.
- You will need to have cash or mortgage finance in place to pay for the additional share.

What if I Want to Sell the Property?

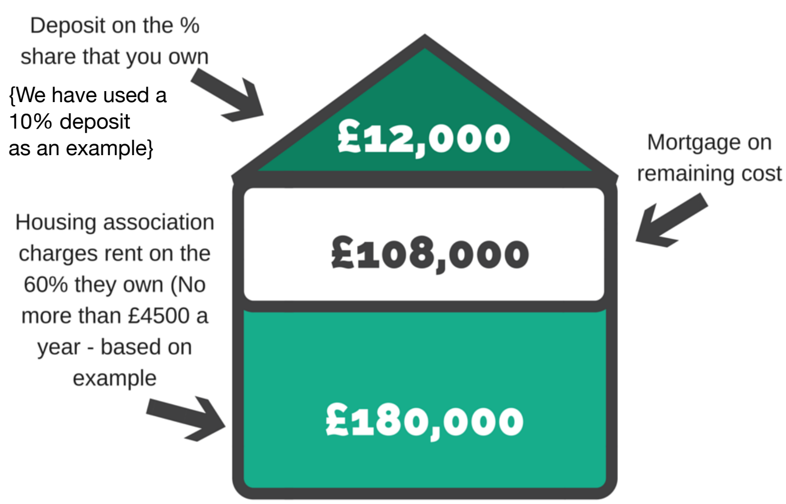
- You can sell the property at anytime; however, the Housing Association has the right to buy the property back first (first refusal) up to 21 years after you fully own the home.
- If you own a share of your home, the Housing Association has the right to find a buyer for it.

What Happens If the Value of the Property Increases?

The value price of your share in the property inceases along with the value price of the Housing Assocation's share in the property.

Example - Property Value - £300,000 - You Own 40% and the Housing Association Owns 60%

Amount Your 40% Share is Worth: £120,000
Amount the Housing Association's Share is Worth: £180,000



Completion
Completion is when the remaining money is paid by the buyer and the mortgage company to the seller. You'll get the keys to your new property on completion day.

Conveyancing
Conveyancing involves legally transferring home ownership from the seller to the buyer. It starts when your offer on a house is accepted and finishes when you receive the keys.

Credit Rating
Your credit score is used by banks, building societies and other institutions to determine the level of financial risk you pose to them if they were to offer you credit. It is calculated using a number of factors, such as number of previous credit applications, your history of debt, and electoral register information.

Decision in Principal
A certificate or statement from a lender to say that 'in principle' they would lend a certain amount to a particular prospective borrower or borrowers based on some basic information.

Deposit
The sum payable as a first installment on the purchase of a property.

Equity
The value of ownership built up in a home or property that represents the current market value of the house less any remaining mortgage payments.

Exchange of Contracts
Exchange of contracts is when the signed contracts are swapped between the two legal firms representing the buyer and seller, and a deposit is paid by the buyer. This is the point at which an agreement becomes legally binding.

Housing Association
Private, non-profit making organisations that provide low-cost "social housing" for people in need of a home.

Individual Savings Account (ISA)
Individual Savings Account that enables you to save or invest monet without paying tax on the interest or on the investment returns you receive.

Loan to Value (LTV)
The amount of your home you own outright, compared to the amount that is secured against a mortgage.

Mortgage
A mortgage is a secured loan taken out ot buy property or land.

Mortgage Product Fees
Also called the arrangement, reservation or booking fee, the product fee is the upfront price attached to a particular mortgage deal.

Stamp Duty Land Tax (SDLT)
The tax you must pay if you buy a property or land over a certain price in England. The current SDLT threshold is £125,000 for residential properties and £150,000 for non-residential land and properties.