

The Mortgage Store Guide to Applying for a Mortgage

Plan your mortgage early

If you are looking for a new home, it's advisable to understand the type of mortgage you want and what you're able to afford.

Taking time initially to discuss your needs means that you know how much you can borrow and what it will cost. When you find the home you want and put in an offer, you will already be comfortable knowing that the commitment will be affordable.

With higher house prices it's tempting to borrow the maximum amount that a lender is prepared to lend you, but it's important to borrow responsibly- a series of interest rate rises could make an oversized mortgage difficult if not impossible to repay.

Personal and financial circumstances could change in the future and this could affect your ability to repay your mortgage. Whilst you can insure yourself against unexpected changes, it's always best to take a responsible approach to borrowing.

Take time to see your mortgage adviser who will be able to assess how much you can afford, and suggest the types of mortgage that could suit your needs and circumstances. Your adviser will be able to tell you how much and which lenders would be prepared to lend to you, and advise on the most appropriate scheme available.

The amount you can borrow is normally directly related to your income. The standard formula used by many lenders is about 3.5 times your annual salary. If you are applying with your partner the income multiples are normally 2.5 times your joint annual income or 3 times the higher salary plus 1 times the lower salary.

Many lenders now adopt an affordability calculation in assessing how much they will lend you. This takes your salary into account but also includes your outgoings, and the monthly mortgage payments. Your mortgage adviser can tell you which lenders use this method.

If you are employed you may need to produce proof of your earnings and if you are self employed, you may need to provide three years' accounts to your mortgage company.

Some lenders offer self- certification mortgages in which they do not need to see proof of income.

Think about the type of mortgage you want

Your mortgage is likely to be your largest financial commitment – so it's important to think about which home loan that will suit you best.

There are basically just two types of mortgage – repayment mortgages and interest only mortgages.

What exactly are you borrowing?

When you borrow money from your mortgage lender, you commit to paying back the capital (the amount they lend you) and the interest (the charges for borrowing the money).

For example, if your mortgage is for a total of £100,000, the capital to be repaid would be the sum of £100,000. Each year, a charge for borrowing the money will be applied. Let's say the rate is 5% - the annual charge will therefore be £5,000 a year.

Repayment Mortgages

With a repayment mortgage, your payments are calculated to ensure that each month you pay the interest you owe and a contribution to the capital you owe, so your overall debt goes down each year. This type of mortgage is also called a capital and interest mortgage – because you are paying off both elements.

Interest – Only Mortgages

With an interest-only mortgage your monthly instalments pay off the interest you owe but there is no payment made to the capital that you owe. The capital amount stays the same until the end of the term of the mortgage. Many lenders will require that a suitable repayment vehicle is in place to repay the capital owed at the end of the mortgage. The benefit of a repayment mortgage is that you have the confidence of knowing that our mortgage will be paid off at the end of the mortgage term, provided that you make all of the payments.

Tracker, Discounted and Fixed Rate Mortgages

Whether you choose a repayment mortgage or an interest only mortgage, you will be paying interest on the money that you borrow. Lenders offer you different schemes to suit individual circumstances.

Tracker Rate Mortgages

With a Tracker Rate Mortgage the amount of interest you pay for your mortgage will go up and down as the Bank of England's base rate of interest changes. If rates rise rapidly, you could struggle to keep up your mortgage repayments.

Discounted Rate Mortgages

With a discounted rate mortgage, your lender gives you the opportunity to pay less than their standard rate, for an agreed period typically 2, 3 or 5 years. After this period you will usually revert to their Standard Variable Rate (SVR). Some of these schemes require you to stay with your lender on their standard terms for a fixed period after your discount finishes. If you want to move to another lender, you will normally have to pay an early repayment charge.

Fixed Rate Mortgages

A Fixed Rate Mortgage means that the interest rate you pay will stay the same for a given period, usually between one and five years. You might pay slightly more than variable rate schemes but if rates are rising, you are able to budget and protect yourself against sudden rises in your monthly payment.

Different mortgage companies have different offers – it's important to choose a mortgage adviser that can search the market on your behalf and find the best deal for you.

Get a Mortgage Certificate

By now, your mortgage adviser will understand the type of mortgage you're looking for, will know about your financial circumstances and what you can afford.

Your adviser will work on your behalf searching the market and finding the most suitable scheme for your needs. They will then work with this lender to find out, in principle, whether they would be willing to provide a mortgage.

Many lenders will provide a certificate to confirm this. This is not a formal mortgage offer – simply an indication that you are the type of customer they would accept. However, their certificate is important – and valuable – because it shows estate agents and property sellers that you are committed to organising a mortgage and have begun the process.

Make a Formal Application

Once you have searched the property market and found the perfect house or flat, you're ready to make a full application for a mortgage.

There are thousands of mortgages available on the market so making the right choice is really important. Your mortgage adviser will be able to search for the best deal to suit your personal circumstances and financial needs.

Your mortgage adviser can help you with all the paperwork associated with applying for your mortgage and can answer any questions that you might have.

Don't Forget – be Prepared

So, if you're thinking about buying a property – be prepared!

Give yourself time to work with your adviser in finding the best mortgage for you, understand what you can afford to borrow, and get your mortgage adviser to arrange proof that a lender is willing to consider your application. All of these efforts will strengthen your buying position and your bargaining power.