Buying your first home: mortgages explained

How mortgages work, what lenders look at, and how to prepare before you start viewing.

Buying a first home is part financial decision and part emotional one, and the two do not always agree. Understanding how mortgages actually work makes it considerably easier to tell which is which, and to avoid the position of having found the house before working out whether it is affordable.

A mortgage is a loan secured against the property. Secured is the important word: if the payments are not kept up, the lender can take the property. That is why the assessment of affordability matters more than the assessment of what a lender might be willing to offer. A lender's maximum is not the same as a sensible figure for you, because the lender does not know what else you spend money on.

Most first-time buyers use a repayment mortgage, where each payment covers both interest and some of the capital, so the balance reduces over the term. Interest-only arrangements, where the balance does not reduce and must be repaid some other way at the end, are less common for residential purchases and need a credible repayment strategy.

Lenders look at two broad things: affordability and risk. Affordability covers income, committed outgoings, dependants, childcare and the effect of a rate rise. Risk covers credit history, deposit size, the type of property and how long you have been in your work. A larger deposit generally improves the picture, both by reducing the amount borrowed and by giving the lender more comfort.

Two products are usually compared: fixed rate and variable. A fixed rate gives certainty of payment for a set period, in exchange for a rate that may end up higher or lower than the alternative. A variable or tracker rate follows a reference rate and can move. There is no universally right answer; it depends on how much certainty you need and how much movement in payments you could absorb.

Fees and costs go beyond the headline rate. There may be an arrangement fee, a booking fee, a valuation fee and legal costs. Early repayment charges may apply if you move or repay the mortgage during a fixed period. Comparing only the interest rate, as many comparison tables encourage, can miss the difference that fees make on a smaller loan.

Agreement in principle is worth obtaining early. It is not a guarantee of a mortgage, but it establishes the likely level of borrowing and shows agents you are serious. It also identifies

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problems, such as a credit file error, while there is still time to deal with them.

Protection deserves consideration at the same time as the mortgage rather than after the move. A new mortgage is usually the largest debt a household has ever carried, and thinking about what would happen to the payments if income stopped is part of taking it on responsibly.

Finally, think about the whole cost of ownership, not only the monthly payment. Buildings insurance, life cover, maintenance, service charges and the cost of running a home all affect what is affordable. So does the possibility of rates being higher when a fixed period ends.

Mortgage advice is regulated, and this guide is general information rather than personal advice. The right arrangement depends on your circumstances, and your home is at risk if you do not keep up payments on your mortgage or any other loan secured against it.

Important information

Your home is at risk if you fail to keep up payments on your mortgage or any other loans secured against it.

This guide is general information and does not constitute personal advice. To discuss how any of this applies to your own circumstances, contact Conduit Financial Planners on 01708 98 29 58 or info@conduitfp.co.uk.

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