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APPLYING FOR A MORTGAGE

New rules alter the way lenders consider whether to lend to you

Buying a home is the largest purchase you're likely to make. Before you apply for your mortgage, it's essential to make sure you know what you can afford to borrow. A mortgage is a loan taken out to buy property or land. Most run for 25 years, but the term can be shorter or longer.

KEEP UP YOUR REPAYMENTS

The loan is 'secured' against the value of your home until it's paid off. If you can't keep up your repayments, the lender can repossess (take back) your home and sell it so they get their money back.

On 26 April 2014, new rules came into force which changed the way that the sale of a mortgage is regulated. The Financial Conduct Authority (FCA), which regulates all mortgage lenders in the UK, has changed its rules following a long and detailed review.

LENDERS' SYSTEMS AND CONTROLS

These new rules, known as the 'Mortgage Market Review', alter the way that a lender will now consider whether to lend to you when you apply for a mortgage.

These rules affect lenders' systems and controls and won't have a direct impact on your mortgage application. Your lender will need to see details of your income and outgoings to make sure you can afford to repay your mortgage both now and in the future.

SPENDING AND FUTURE PLANS

When you now apply for a mortgage as part of the process, we'll review your spending patterns and future plans and recommend a mortgage which is right for you. This new process is likely to take longer than it would have done previously but brings with it the peace of mind that the mortgage you take out is the right one for you. As part of our service, we'll inform you about the charges and the range of mortgages available.

Lenders will decide how much you can borrow based on your income and expenditure. The lender will also ask you questions about your monthly outgoings. They will consider different types of expenditure when deciding whether the mortgage you have applied for is affordable.

They will ask questions about the following:

- Committed expenditure, including loan payments, credit card bills, child maintenance and school fees
- Basic living costs, including council tax, utilities (gas, electricity and water bills), phone bills, cost of travel to work, insurance premiums and food
- Quality of living costs – this category will be quite wide but could cover spending on clothes, entertainment and household goods, amongst other things

MORTGAGE AFFORDABILITY PAYMENTS

Your lender will want to know if you expect your income to come down or your spending to go up materially in the foreseeable future. As well as checking whether you can afford your mortgage at the outset, your lender must also check whether you can afford your mortgage payments over the next five years if interest rates go up. These checks will be carried out whether you are in employment, are planning to retire or have actually retired.

Your lender will need to verify your earnings, so you'll need to provide evidence of income. If you are employed, showing payslips and your P60 will normally be sufficient. If you are self-employed, you are likely to need to show your tax returns, accounts, business plan or projected earnings.

OTHER SOURCES OF INCOME

If you have other sources of income like shares, bonuses or a pension that you want to be taken into account, you will need to show documentary evidence to demonstrate how much you earn from these. The time it takes to obtain a mortgage will vary depending on your circumstances, but you can speed the process up by checking ahead with us on the information we'll need to see.

If you already have a mortgage and want to move to a new lender, you will need to go through the checks

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described above. If you want to stay with the same lender – for example, if you are coming to the end of a fixed rate deal, you are not borrowing any more money and you are not changing the terms of the mortgage – you may not need to go through all of the checks described above.

Once we have submitted your mortgage application – assuming that the lender finds everything is in order – they will then issue you with a mortgage agreement in principle.

MORTGAGE PROPERTY VALUATION

Once the mortgage in principle has been confirmed, your lender will arrange for a valuation survey to be carried out on the property being bought. The purpose of this is to ensure that the property is suitable to act as a guarantee for the loan that you are taking out.

It is important to remember that the purpose of the survey is to confirm the value of the property. It will give no indication of the condition of the property – if you want to know more about the condition of the property, you need to ensure that you also have a structural (or scheme 2) survey taken out.

The surveyor who carries out the valuation survey may be able to do this at the same time, so if you want a structural survey you should discuss this with your lender or surveyor.

MORTGAGE OFFER RECEIVED

Once the basic valuation has been completed – assuming the value of the property meets your lender's requirements – you will receive a mortgage offer.

The lender will provide you with a 'binding offer' and a mortgage illustration document(s) explaining terms of your mortgage. This will come along with a 'reflection period' of at least seven days, which will give you the opportunity to make comparisons and assess the implications of accepting your lender's offer. Some lenders may give you more than seven days to do this.

You have the right to waive this reflection period to speed up your home purchase if you need to. During this reflection period, the lender usually can't change or withdraw their offer except in some limited circumstances, for example, if the information you've provided was found to be false.

PAYING A DEPOSIT – SIZE MATTERS

When buying a property, you will need to pay a deposit. This is a sum of money that goes towards the cost of the property you're buying. The more deposit you have, the lower your interest rate could be. When talking about mortgages, you might hear people mentioning 'Loan to Value' (or 'LTV'). This may sound complicated, but it's simply the amount of your home you own outright, compared to the amount that is secured against a mortgage. ■

REQUIRE FURTHER INFORMATION?

We can help you with your mortgage needs. Whether you're a new customer or we've previously arranged a mortgage for you, please contact us to discuss your requirements.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

Authorised and regulated by the Financial Conduct Authority.