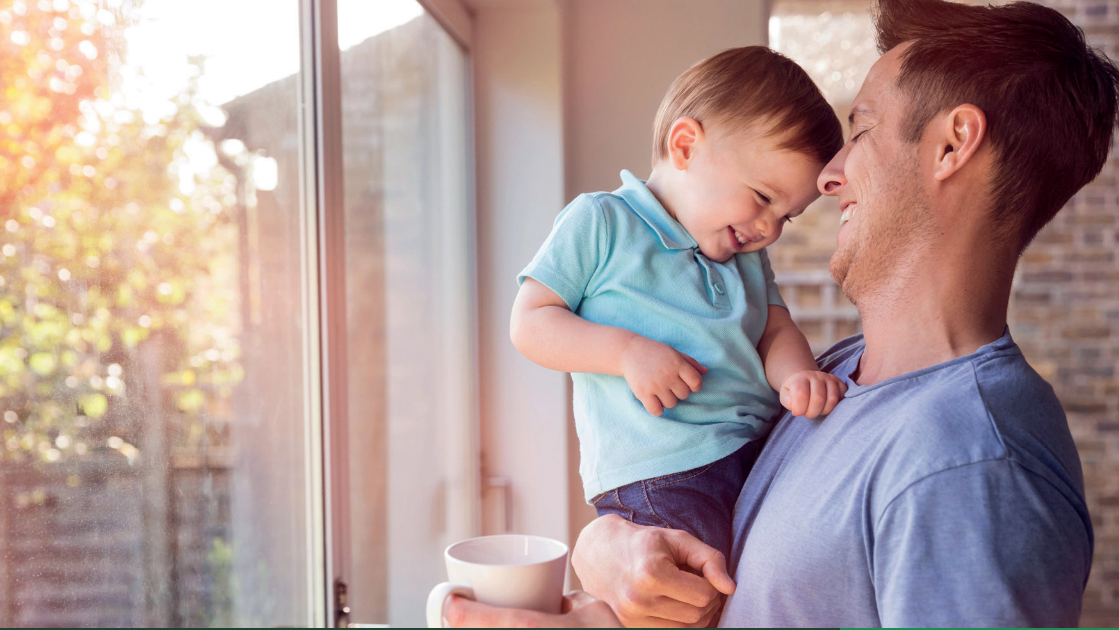


You can afford your mortgage now, but what if…?

the Money Advice Service

- Planning for a change in circumstances
- Understanding different types of mortgages
- Sort out your saving and insurance needs

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free, impartial advice. As well as advice about mortgages, we offer information on a wide range of other money topics.

Visit our website today for advice, tips and tools to help you make informed decisions and plan for a better future.

moneyadviceservice.org.uk

Free impartial advice
on the web
on the phone

Here to help you

This guide is for you if you are buying a home for the first time.

A mortgage is a long-term commitment. Find out how to prepare for situations where your payments or income may change, so that you can cope more easily and lower the risk of losing your home.

Lenders assess what level of mortgage payments you can afford, taking into account your personal expenses as well as income.

Contents

First things to do

There are a number of actions you can take to safeguard your home in the future

1 **Understand how interest rate changes could affect your payments**
Check whether you can afford your mortgage if interest rates rise or a fixed-rate or discounted rate mortgage comes to an end.

Use our **Mortgage affordability calculator** on
moneyadviceservice.org.uk/affordabilitycalc

2 **Work out your budget**
Make sure you include all your household expenses, including utility bills, home insurance and Council Tax or Rates, so that you can decide how much you can afford to borrow. Don't forget to include the costs of moving either.

Use our online **Budget planner** on
moneyadviceservice.org.uk/budgetplanner

3 **Start saving**
Put some money aside to help you deal with unexpected emergencies. It can also provide a cushion if your income changes.

Use our **Savings calculator** on
moneyadviceservice.org.uk/savingscalculator

4 **Get the right insurance**
Think about insurance to protect yourself and your household from life changing events such as property damage or loss, illness and redundancy.

Read about insurance on
moneyadviceservice.org.uk/insurance

Work out how much you can afford to borrow

Make sure:

- You're not taking on too much if you are borrowing the maximum available. Just because you can afford it now doesn't mean you can afford it in the future. See pages 4 and 5.
- You will get documents that illustrate your mortgage from your adviser or lender. These can give details of the costs and features of the mortgage, including how much your payments could differ if interest rates were to change. So make sure you read them carefully and keep them for future reference if needed. See pages 7 to 9.
- You understand the difference between repayment and interest-only mortgages, and how to make sure you pay off your mortgage by the end of the term.
- You understand the difference between fixed interest rates and variable interest rates and know which kind you have and when any fixed-rate period is ending. See pages 8 and 9.
- You understand the interest rate deals on offer. The lowest rate isn't necessarily the cheapest as there may be fees that are added to your mortgage.
- You understand the overall costs of buying a house, including Stamp Duty and any redemption charges should you decide to repay your mortgage earlier. See page 11.

Planning ahead for a change in circumstances

Buying your first home is an exciting time but mortgages are a long-term commitment and it's easy for your circumstances to change during that time.

Before a lender agrees to give you a mortgage, they will check that you can afford the monthly repayments and that you can manage should interest rates rise. They will look at your income as well as your outgoings.

They could ask about planned changes that might impact your future income, such as having children, retirement, or a possible change in living circumstances.

So before you apply for a mortgage it's a good idea to do your sums and work out what you can afford.

By thinking about your long-term goals and the potential problems that can arise, you can plan for the future and be better placed to deal with the unexpected.

Use our **Mortgage affordability calculator** to work out if you'll be overstretched, should circumstances change **moneyadviceservice.org.uk/affordabilitycalc**

Common changes over the mortgage term

During the course of a typical 25-year mortgage many things can change.

Interest rates can change
You need to understand what your rate is now and what will happen if it goes up. Lenders will 'stress test' your mortgage repayments to see if you could still afford the payments if interest rates rise.

Find out more about interest rates and how they can change over time – see page 8.

Your job situation could change
Mortgage lenders consider what you can afford to borrow at the time you apply for a mortgage. They will look at your current income and your expenses, but they'll also want to look at any planned changes to your lifestyle which could impact your income.

You may want to make changes such as retraining, setting up your own business, working fewer hours to improve your work-life balance, or giving more time to care for dependants. You may need a financial cushion to be able to do this.

For advice on saving to create an emergency fund – see page 14.

To find out about insurance to protect your income if you are made redundant – see page 17.

You could become ill or be injured in an accident
You can help reduce the risk of losing your home by taking out insurance to help pay the mortgage if you die or are unable to work. If you have children or a partner and depend on each other's income to pay the mortgage, the need for insurance is really important.

There are different kinds of insurance to protect you in different situations:

- life insurance
- income protection insurance
- critical illness insurance.

For advice on these types of insurance - see page 15.

You could become a parent
You may already have children or could be planning to have them later. This can affect your finances. One or both of you may not work as much – or not at all. Could you afford your mortgage on just one income? You may face the additional costs of childcare on top of the costs of raising a child.

Childcare can be costly. To get an idea of what you might need to pay, search for *'Cost of childcare'* on **moneyadviceservice.org.uk**

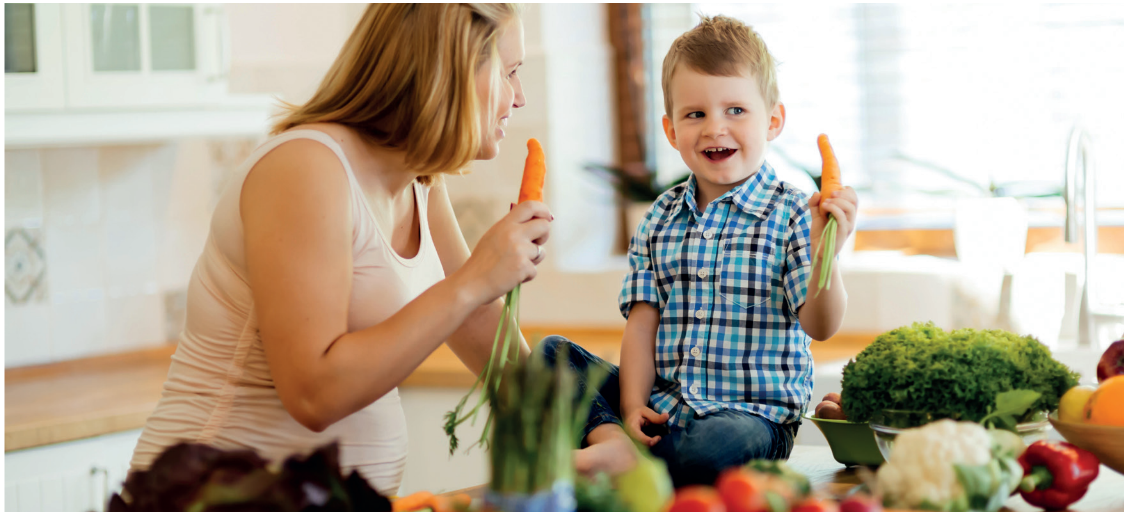
Find out about budgeting for a family on our website **moneyadviceservice.org.uk/familybudget**

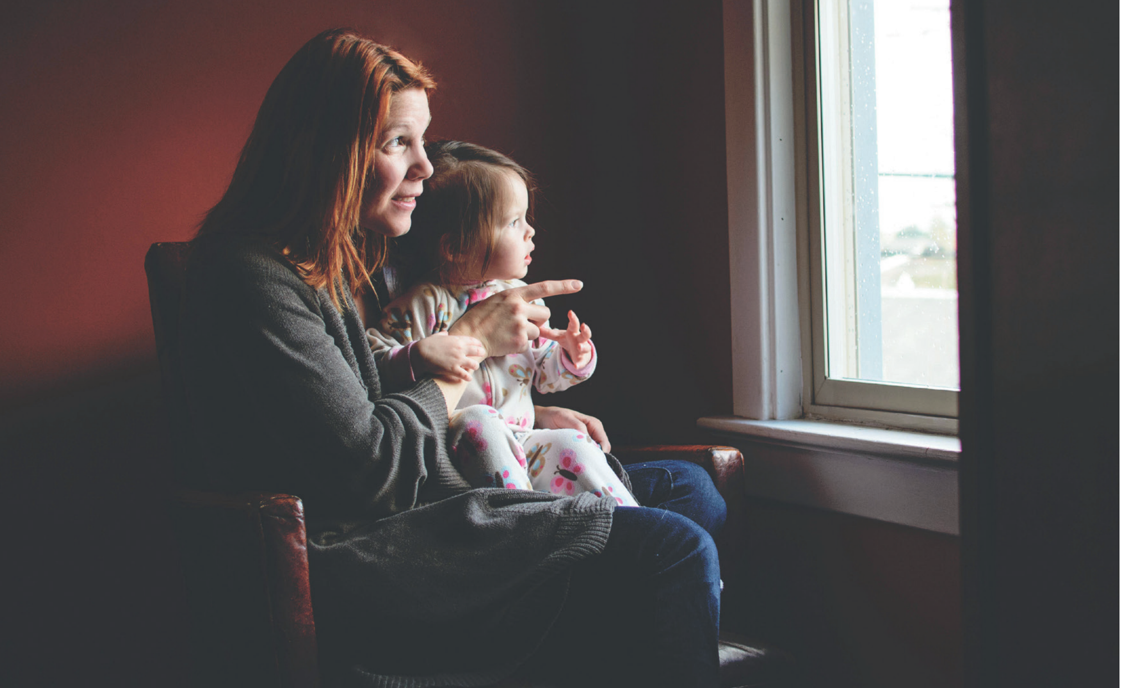
Your living situation could change
Buying with a friend or partner is an exciting time and it may seem not quite right to discuss what you will do if you want to go your separate ways.

But the decisions you make when you buy a property can have an impact later on in life.

The legal arrangements you make when you buy your home will affect how you own the property, what happens if one of you dies, and what your rights are if you split up. You should talk to your solicitor to make sure you have the right arrangements in place.

Read more on sorting out the legal arrangements when you're buying with someone else – see page 12.





Debt advice locator tool

To find the debt advice service that's right for you, including agencies in your local area, use our **Debt advice locator** tool.

Visit moneyadviceservice.org.uk/affordabilitycalc

the Money Advice Service

Understand interest rates

You can see how affordable your mortgage could be in the future if you understand what kind of mortgage you have and what will happen to your payments if interest rates rise.

How a mortgage works

A mortgage is a loan taken out to buy property or land. The loan is secured against the property. This means that if you fail to keep up the repayments on the mortgage the lender could repossess your home. Most mortgages run for 25 years but the term can be shorter or longer.

A mortgage has two parts:

- **the capital**, which is the money you borrow, and
- **the interest**, which is the charge made by the lender until the loan is paid back.

Repayment mortgage

This is the most popular repayment option and the preferred option for most people.

If you have a repayment mortgage you'll make monthly repayments for an agreed period of time (known as the term) until you've paid back both the capital and interest.

With this type of mortgage you have the benefit of knowing your mortgage balance will get smaller every month and that if you keep up the repayments your mortgage will be repaid at the end of the term.

Interest-only mortgage

With an interest-only mortgage you only pay the interest due on the amount you borrowed each month. So while you'll be paying out less than with an equivalent-sized repayment mortgage, you will still owe the amount you originally borrowed at the end of the mortgage term. This amount is called the capital.

Lenders will require that you have a suitable repayment plan in place. This may mean paying separately into an investment plan each month to build up enough money to pay off the capital at the end of the term.

Variable and fixed-rate interest options

The interest rate you pay on your mortgage is set by your lender. Mortgages usually have fixed or variable interest rates. With a fixed-rate mortgage your repayments will be the same for the length of time you have agreed with your lender regardless of what interest rates are doing in the wider market. If you have a variable rate mortgage, the rate you pay could move up or down.

- To find out about the different kinds of fixed-rate and variable rate mortgages search for '*Mortgage interest options*' on **moneyadviceservice.org.uk**

Interest rate rises

Interest rates are still at very low levels but it's likely they could go back up again. This could mean your lender increasing its own interest rates and your mortgage payments if you are on a variable rate mortgage deal.

In the past, interest rates rose rapidly, from 7.5% to 15% in just a few years. Interest rate rises could increase your monthly payments considerably, making them difficult to afford. When you apply for a mortgage, lenders will '**stress test**' your monthly payments to see if you could afford the higher costs. See the next page for an example of how much this could be.

How to get the best mortgage deal

Make sure you understand the interest rate deals on offer. The lowest rate isn't necessarily the cheapest because arrangement fees and other charges may also be added.

You can use an online comparison table to compare the total amount you'll actually pay before you decide which mortgage is best for you.

Read our guide to find out how best to use them.

- Search for 'Mortgage comparison' at **moneyadviceservice.org.uk**

Special rates ending

When you first take out a mortgage you may be offered a 'discounted' or 'fixed' rate which ends after a set period (two or three years, for example). When it ends your payment will change and it is likely to be much higher if it switches to the lender's variable rate.

Key point

- If your fixed rate is coming to an end soon, think about the impact a change in interest rates could have on your budget.

See the impact that interest rate rises could have on your monthly payments.

Example 1: repayment mortgage
You borrow £100,000 over 25 years on a repayment mortgage, initially at a rate of 4%.

Interest rate	Monthly repayments	Increase from 4%
4%	£528	–
6%	£644	+£116
8%	£772	+£244
10%	£909	+£381

Interest calculated monthly

Example 2: interest-only mortgage
You borrow £100,000 over 25 years on an interest-only mortgage, initially at a rate of 4%.

Interest rate	Monthly repayments	Increase from 4%
4%	£333	–
6%	£500	+£167
8%	£667	+£334
10%	£833	+£500

Interest calculated monthly

Remember

With a repayment mortgage, you can be sure that your mortgage will be paid off at the end of the term if you keep your payments up. This is because you are paying back the loan as well as the interest.

Work out your budget

Many people fall in love with a dream property and can potentially put themselves at risk by over-stretching their finances to get it. Before you buy, lenders will assess whether your mortgage payments are affordable.

Borrow sensibly

Lenders will work out what affordable mortgage payments mean for you, based on your income and on your monthly outgoings. These include outgoings you can't easily change, which are **committed costs,** such as debts, loans, credit card bills or child maintenance.

Fixed costs are ones you pay regularly such as utility bills, Council Tax (or Rates in Northern Ireland), insurance, petrol and rail or bus fares. And there are more flexible **living costs**, such as entertainment and leisure, food and toiletries, holidays etc.

This will help you understand how to meet your payments if interest rates rise or your circumstances change.

Don't overstretch

When you take out a mortgage, borrow only on the basis of the income you can be sure of receiving. If possible, don't take irregular income such as bonuses, overtime or commission into account.

Weigh up whether increases in the cost of living and rising bills could move your mortgage from being affordable to difficult to manage.

If you are relying on two salaries, think through what would happen if one of you lost your job, stopped work or reduced your hours to concentrate on childcare.

Work out what affordable repayments mean to you, based on your income and outgoings, while leading the lifestyle you want.

Search for '*How much can you afford to borrow*' on **moneyadviceservice.org.uk**

If you don't borrow the maximum you can afford, you will have more financial flexibility, both now and later on.

Government backed affordable housing schemes

If the sums don't add up and you're on a low income and trying to buy your first home, or you're a key worker, there are several schemes available that may help, including those that allow you to part-rent and part-buy a home – with a view to buying it outright gradually.

There are also government schemes which can help first-time buyers and others to buy homes (particularly new-builds) with a smaller than average deposit.

Search for '*Affordable housing schemes*' on **moneyadviceservice.org.uk**

If you're eligible and need help saving towards your mortgage deposit, then a Help-to-Buy or Lifetime ISA are both products that offer a 25% bonus on your savings.

Find out which works best for you on **moneyadviceservice.org.uk/htblifetimeisa**

You can check how affordable buying and running your home will be if you work out a budget.

You need to think about:

- the extra costs of buying a property
- the new and ongoing costs and expenses.

Make sure you've got money in your budget for all the costs, bills and fees involved. It's important to think about how much you have left over each month to use if your circumstances change or your payments rise.

Use our **Budget planner** to help you on **moneyadviceservice.org.uk/budgetplanner**

Key point

It's important to work out how much money you will have left over, after you have paid all your bills and other expenses before you speak to your lender. You might have to consider a cheaper property or see if you can find a better mortgage deal. **moneyadviceservice.org.uk/affordabilitycalc**

Extra costs of buying a property

Additional costs can soon mount up. These include:

- mortgage arrangement fees, valuation and money transfer
- legal fees
- Stamp Duty Land Tax (Land and Buildings Transaction Tax in Scotland and Land Transaction Tax in Wales)
- removal costs.

If you add your mortgage fees on to the mortgage, this will add to the total cost of borrowing over the lifetime of the mortgage.

Search for '*Mortgage related fees*' on **moneyadviceservice.org.uk**

Find out what your moving costs could be online. Search for '*Buying and moving costs*' on **moneyadviceservice.org.uk**

New and ongoing costs and expenses

Your household bills may also change in your new property. If you are buying a flat, for example, there may be management or service fees. These can be thousands of pounds each year. Find out what they will be before you buy.

Your heating and power bills may be different if you move to a larger property. If you move to a different area your Council Tax bill (or Rates in Northern Ireland) could be considerably more for a property in the same band.

Sort out legal arrangements if ownership is shared

Buying with a friend or partner can be an ideal way of making property more affordable – and for couples, the start of a new life together. But you need to consider what could happen in the future if you want to separate and go your own way.

If you move in with someone else it may seem unromantic or unnecessary to work out what will happen if you split up or want to move on. But sorting out these arrangements when you buy means everyone knows where they stand and it can make dealing with a split much easier.

You need to sort out how the ownership of the property is shared. This may depend on:

- your relationship
- how much you are each putting in to financing the property, and
- what you want to happen to your share of the property if you die.

Legally there are two types of joint ownership:

- joint tenancy
- tenants in common.

Joint tenancy (Beneficial joint tenants)

Joint tenancy is where two people own the property together and don't have a particular share in it. If one of you dies the other person becomes the sole owner of the property. If the property is sold while you are both still alive the proceeds are usually divided equally, but this can be altered in divorce proceedings. This is usually how a married couple or those in a civil partnership would buy a property. It is not appropriate for friends buying together.

Tenants in common

Owning property as tenants in common means the property belongs to you jointly but you also own a specific share of its value. You can give away, sell or mortgage your share. If you die, your share of the property passes to the beneficiary (the person or people you've left money to) in your will.

You decide between you what proportion each of you will own.

This could be different amounts if, for example, one of you contributes more to the deposit or the monthly mortgage payments.

Having an agreement in place can help avoid disputes in the future.

Unmarried couples

If you are an unmarried couple you should think about protecting your interests if you split up. Make sure you understand your situation. The rights you have are very different from those of married couples who split up. If a property is in only your partner's name, you are not automatically entitled to anything, even if you paid towards the mortgage or left work to raise children.

A solicitor can help you by drawing up a Declaration of Trust which sets out how a property is to be divided if you split up. A Cohabitation Agreement is far more extensive and can include bank accounts, pensions, things that you each bring to the home and those that you buy together.

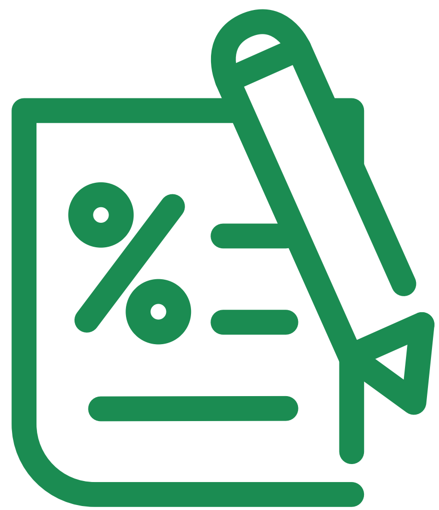
Find out more about living arrangements when an unmarried couple splits up. Search for '*Divorce and separation*' on **moneyadviceservice.org.uk**

Protecting a third-party

With high property prices, you may get help from a parent towards the deposit either as a loan or a gift. They might want to make sure that this is recognised if the property is sold. Your solicitor should be able to give you advice on how to do this.

Key point

Talk to your solicitor, who can explain in detail the different types of ownership and what you can do to protect your financial interest in the property.



Start saving to create an emergency fund

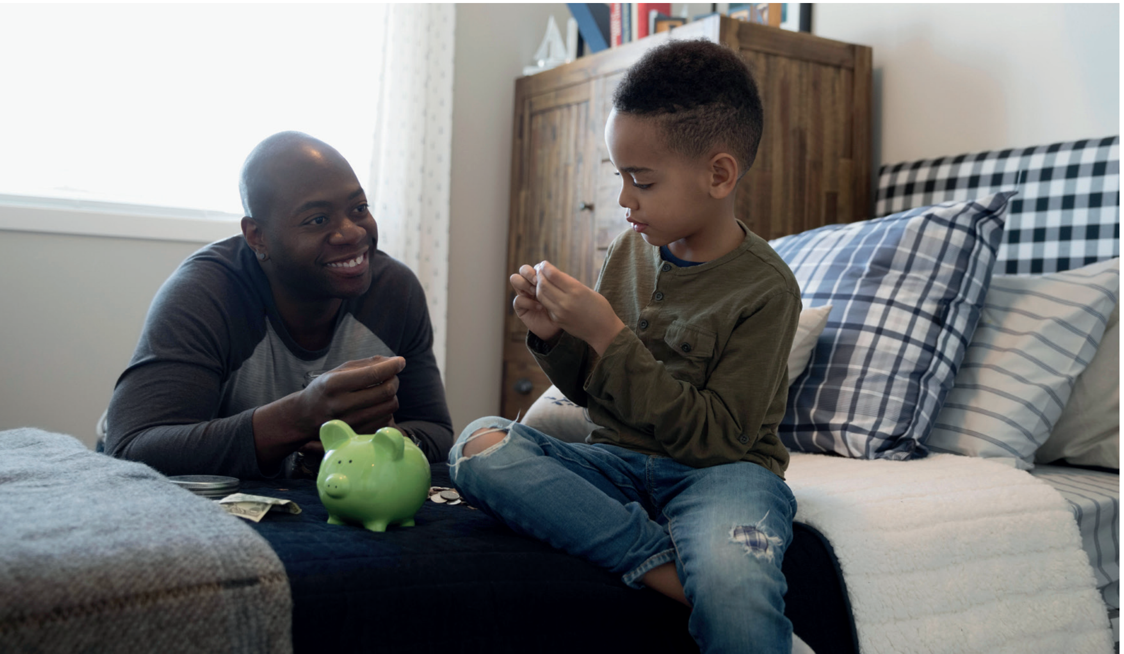
Make sure you have some money put by for a rainy day.

We recommend that you have three months' worth of essential outgoings available in an instant-access savings account. So, if you spend £1,000 a month on mortgage or rent, food, heating bills and other things you can't live without, you should aim for £3,000 in emergency savings.

This will give you a financial cushion if you face an expensive emergency in your home, such as a boiler breaking down. It also means you'll have some cash to tide you over if you face a drop in income.

Start saving for your emergency fund as soon as possible, and make sure you save regularly.

- To check how much money you need to put aside for unexpected expenses search for '*Emergency savings*'
- To find out tips on how to get into habit of successful savings search for '*Set a saving goal*'
- To see what type of account is right for your cash saving search for '*Cash savings at a glance*' on **moneyadviceservice.org.uk**



Work out what insurance you need

Insurance can protect you, your dependants, your income, your payments and your property against a variety of risks such as ill health or unemployment and help keep your home safe.

There are many types of insurance available so it's important to understand what the different policies cover so you can work out if you need it and can afford it.

Home insurance

There are two types of home insurance – buildings and contents cover.

Buildings insurance covers the cost of repairing or rebuilding your home if it's damaged, for example by storm, floods, fire, lightning or subsidence.

Contents insurance covers you for loss, theft or damage to things in your home, such as your furniture, electrical goods and personal possessions.

Your mortgage lender will normally insist that you have buildings cover – but you don't have to buy it from them. Levels of cover and prices vary widely so shop around to make sure you get the right deal.

- Make sure you get the right cover and get tips for shopping around – search for '*Home insurance*' on **moneyadviceservice.org.uk**

Life insurance

Life insurance pays your dependants a lump sum or regular payments if you die. You need it if your children or partner depend on your income to cover the mortgage or other living expenses. It usually only covers death. However, many policies include terminal illness cover, which can pay out early where life expectancy is less than 12 months.

Life insurance can be very good value. Often just a few pence a day is all you need to provide your family with plenty of financial protection.

Even if you have an employee package that includes life insurance, it's a good idea to buy a policy to cover your mortgage.

- The cost of life insurance varies, so shop around to get the best deal. Search for '*Life insurance*' on **moneyadviceservice.org.uk**

Critical illness insurance

This pays out a lump sum or a regular payment if you suffer from one of the illnesses or injuries listed in your policy, for example heart attack, stroke and certain types of cancer.

It can help if you couldn't support yourself or your dependants because you were too ill to work. For example, the payment can cover mortgage costs or other expenses that you may find difficult to meet.

There are different types of critical illness insurance policies available, so it's important to know exactly what is covered.

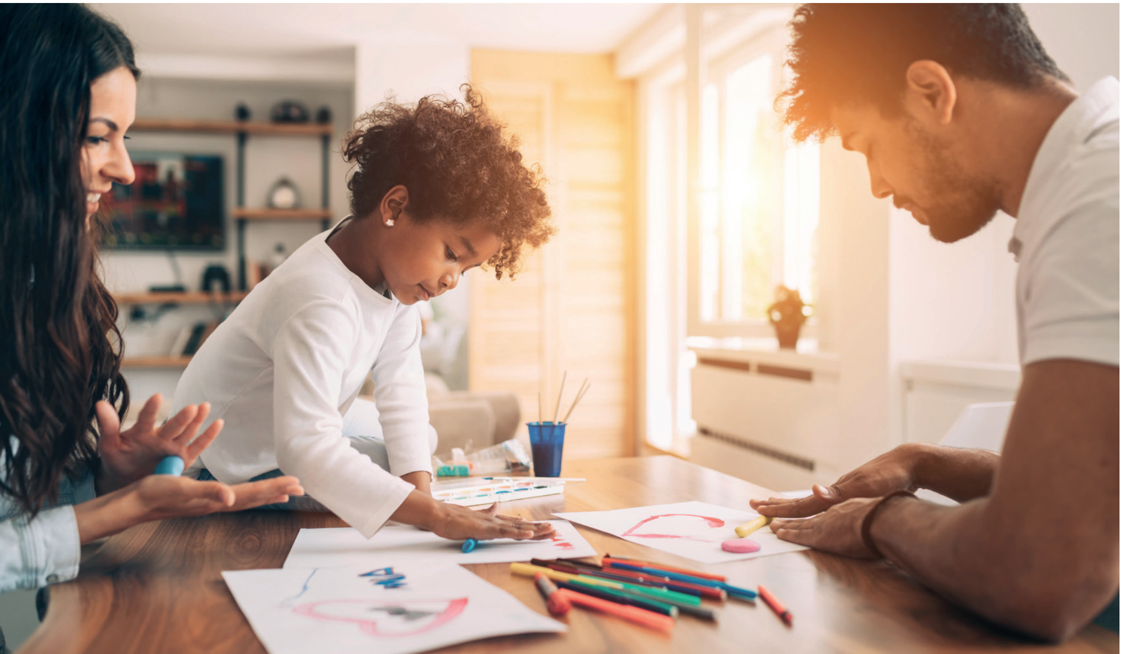
Search for '*Critical illness insurance*' on **moneyadviceservice.org.uk**

Income protection insurance

Income protection insurance covers a wider range of illness and disabilities than critical illness cover. It pays a percentage of your take-home pay regularly until you are able to return to work, retire or reach the end of the policy payment term.

You should consider it if you can't rely on savings or employee benefits to see you through an illness. It can cover most illnesses that leave you unable to work, but usually doesn't cover you for unemployment.

Search for '*Income protection insurance*' on **moneyadviceservice.org.uk**



Payment protection insurance and mortgage protection insurance

These policies are designed to cover your monthly mortgage, loan and credit card repayments if you:

- have an accident
- become ill and can't work, or
- become unemployed.

It can ease your money problems if you get made redundant and are likely to be out of work for a long time, or you have little or no savings.

If you have enough savings, work out whether you want to protect them by taking out insurance, or whether you could get by on your sick pay, or your partner could cover the mortgage and other loan repayments.

You might have to wait between one and three months to be paid out and some policies will only pay for up to a year, even if your unemployment lasts longer, or you are still too ill to return to work.

Payment protection policies tend to have very strict criteria on when they will pay out, so make sure a policy fits your needs before you buy.

For information about the pros and cons of payment protection insurance search for '*Payment protection insurance*' on **moneyadviceservice.org.uk**

For more information about the pros and cons of different types of insurance search for '*Types of insurance*' on **moneyadviceservice.org.uk**

Key point

Income protection, payment protection and critical illness insurance can be complicated. Consider using an independent financial adviser to help you.

Understand the limits of state help

Many people think that if they get into financial difficulty, government benefits will help them out. But most people overestimate how much state benefit they would receive.

Benefits are designed as a safety net. But it's unlikely they would cover your mortgage payments, utility bills, food and living expenses if you fall ill or lose your job. So you need to make sure you have alternative arrangements in place.

Changes to state benefits

There have been a number of changes to the benefits system. Disability Living Allowance is being replaced by Personal Independence Payment, and Council Tax Benefit has been replaced by Council Tax Reduction.

There are also changes to Housing Benefit and the Social Fund. And an overall cap has been introduced to the amount you can get in benefits.

To understand how these changes may affect you, search for '*Benefit changes*' on **moneyadviceservice.org.uk**

Universal Credit is a single monthly payment for people looking for work or on a low income.

For more information search for '*Universal Credit*' on **moneyadviceservice.org.uk**

If you're claiming certain benefits, you might be eligible for help with your mortgage interest repayments. Support for Mortgage Interest is now offered as a repayable government loan.

For more information search '*Support for Mortgage Interest*' on **moneyadviceservice.org.uk**

Unemployment – you may be able to claim state benefits if you lose your job, but these are unlikely to be enough to cover your mortgage. You need to have a plan in place to make sure you can continue to pay it if you lose your job.

Illness – if you haven't been able to work because of illness or disability, you may be able to get state benefits. However, they are unlikely to be enough to cover your mortgage.

Sick dependants – if you face a situation where your child or someone who depends on you becomes seriously ill or incapacitated and needs full-time care, you might be able to claim disability benefits for your child and a Carer's Allowance for you.

If an elderly parent needs constant care, they may be able to claim Attendance Allowance. These benefits are not paid automatically and you have to claim.

It's a good idea to get expert help from advisers who understand the system because claiming benefits can be complicated.

To make sure you're getting the right entitlements visit **moneyadviceservice.org.uk/rightentitlements**

Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online and over the phone.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life-changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit
moneyadviceservice.org.uk

Or call our Money Advice Line on
0800 138 7777

Typetalk
1800 1 0800 915 4622

Financial Conduct Authority (FCA)

To check if your adviser is registered with the Financial Conduct Authority, check the FCA register.
fca.org.uk/register

Finding a financial adviser

These websites can help you find financial advisers in your area.

The Personal Finance Society
thepfs.org

Organisations that give free and confidential help if you have money problems

StepChange Debt Charity
0800 138 1111
stepchange.org

National Debtline
0808 808 4000
nationaldebtline.org

Citizens Advice
citizensadvice.org.uk

Debt Action NI
0800 917 4607
adviceni.net/advice/debt

Use this page to record your notes

the Money Advice Service

You can afford your mortgage now, but what if…? is one of the guides available from the Money Advice Service. To see our full range of guides and request copies visit **moneyadviceservice.org.uk/freeguides**

Money Advice Line **0800 138 7777***
Typetalk **1800 1 0800 915 4622**

If you would like this guide in Braille, large print or audio format please contact us on the above numbers.

*Calls are free. To help us maintain and improve our service, we may record or monitor calls.

Information correct at time of printing (April 2018). These guides are reviewed once a year.

April 2018

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