HOW TO FIND YOUR
PERFECT FIRST HOME

First-Time Buyer Guide

City Mortgage Solutions Ltd

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As a mortgage is secured against your home or property, it could be repossessed if you do not keep up the mortgage repayments. We are a credit broker not a lender.

FIRST-TIME BUYER GUIDE

Welcome

Buying your first home and taking on a mortgage can be an overwhelming experience. It's often the most significant financial commitment you'll make, so thorough research and advice are crucial to fully understand the implications before proceeding. This guide aims to demystify commonly used terminology and provide insight into the steps involved in first-time home ownership.

This guide will also help to explore current market options and aim to offer solutions to help you make informed decisions. Once you've gained this knowledge, it's wise to consult with a whole-of-market broker like City Mortgage Solutions. With access to 170+ lenders they can evaluate your affordability and offer a personalised solution tailored to your specific circumstances.

City Mortgage Solutions Limited is Authorised and Regulated by the Financial Conduct Authority. Our Financial Service Registration number is 466719.

City Mortgage Solutions™

FIRST-TIME BUYER GUIDE

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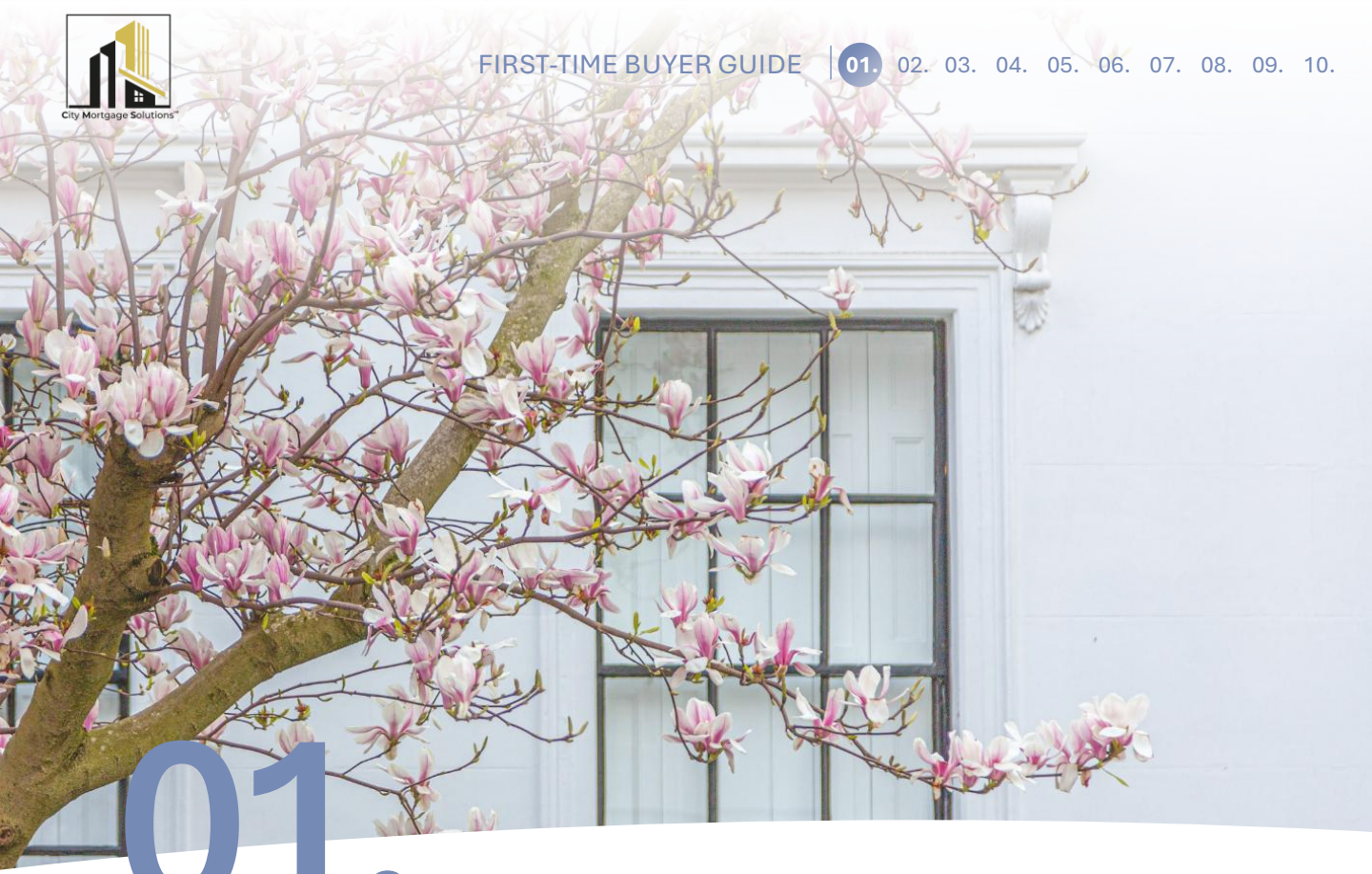


01.

Why Do I Need a Mortgage?

Over the past decade, the average house price in the UK has surged by 31% in the past 10 years, as per a recent house price index from Nationwide (Q1 2024 compared to Q1 2014).

One significant factor driving this increase is the substantial shortage of homes being built annually in the UK, which has driven up demand for home ownership. As a result of the escalating prices and deposit requirements, many now must rely on banks to secure a mortgage and assist them in the purchase of a property.

Before taking a mortgage, it is important to understand a number of the barriers faced so you are as prepared as can be before embarking on the journey of homeownership.

02. Barriers to Home Ownership

AFFORDABILITY

This is one of the main issues faced when buying a property in the UK. The rising cost of borrowing along with the current cost of living crisis has led to many lenders tightening up on how they assess the lending available. Many first-time buyers also have concerns with the increased rates and how this will impact their monthly payments and further worries if rates were to rise in the future.

DEPOSIT

With wages not keeping pace with the cost of living this has led to a reduction in disposable income. Therefore, it is harder to keep regular savings aside for both a rainy day and to save towards a house deposit, especially for those who are renting.

EDUCATION

While there's plenty of information online about buying your first home, it can often be confusing and misleading. It might not cover all the associated costs or requirements needed to get on the property ladder, such as maintaining a healthy credit score.

MARKET KNOWLEDGE

With fluctuating interest rates and a volatile property market, determining the right time to buy can be tough. Estate agents often pressure first-time buyers, making it hard to ensure a fair price. This is where market knowledge is crucial in helping buyers to make informed decisions to avoid overpaying.

NAVIGATING THE PROCESS

For first-time buyers, knowing where to start and understanding the length of the process can be challenging. Some of the processes include giving notice to a landlord when renting, having a mortgage pre-approved before viewing properties, and ensuring the deposit is available and in the bank.

03. The Mortgage Process

This gives a guide to the stages involved in buying your first property and the ideal process if engaging with a whole of market broker like City Mortgage Solutions.

START

FINANCIAL ASSESSMENT: HOW MUCH CAN I BORROW?

First stage would be to assess your finances to determine your borrowing capacity and budget. This involves understanding your deposit, income, credit commitments, credit rating, and your property goals such as when and where you want to buy. Armed with this information a broker can then run affordability checks with suitable lenders to give you an estimate of how much you can borrow.

It is advisable to arrange a “Decision in Principle” at this stage, which will involve a credit check and aims to give you comfort that a mortgage lender can proceed. It also gives the seller and estate agent comfort that you are serious about buying.

PROPERTY SEARCH

With your budget and mortgage availability set, you can start your property search. Befriend local estate agents—they know the area and can prioritise your interests. Plus sign up to online sites such as Rightmove and Zoopla to ensure you see properties as soon as they become available. In the current climate, estate agents often require a decision in principle or verbal confirmation from a broker about your finances before booking a viewing. Sharing any potential properties with your broker, if instructed, to check for mortgage suitability is important. For example, ensuring a flat has a certain number of years remaining on the lease or that a house is not in an area of high flood risk.

OFFER AND ACCEPTANCE

Once a suitable property is found and confirmed as proceedable by your lender and broker, you can make an offer. While verbal offers can gauge interest, a written offer is always required. The offer should highlight key reasons for acceptance, such as your ability to act quickly because you're not in a property chain, don't need to sell another property to proceed, have secured a decision in principle, and have confirmation from the lender that you can move forward.

You’ll also need to instruct a solicitor to act on your behalf and it is best to take recommendations from a broker, friends or family as costs can vary greatly based on location and experience. Various costs involved in the process is explored later in this guide.

MORTGAGE APPLICATION

Once the offer is accepted, the estate agent will send a Sales Memorandum to both the buyer and the solicitor, and approximate timescales for the next steps will be agreed upon. At this stage, it's advisable to review mortgage rates and finalise the lender choice, which may differ from the initial lender used for the decision in principle. The formal mortgage application will then be submitted, with all necessary documents provided for underwriter assessment. This application will be sent to the chosen lender, managed by the mortgage broker or advisor, and typically takes several weeks to process. Required documents generally include proof of income, bank statements, and identification.

GETTING AN OFFER

The application requires two approvals: underwriting and valuation. Underwriting assesses income, expenses, employment, and overall financial situation to ensure mortgage payments can be managed. The lender's surveyor values the property to confirm its condition. A detailed survey is recommended for added peace of mind. Once these conditions are met, the mortgage offer is issued. Recommendations for surveyors who conduct thorough inspections on the property are available and full details of options available are noted later in this guide.

COMPLETION AND LEGAL PROCESS

During mortgage processing, solicitors address legal queries. After receiving the mortgage offer, legal contracts are signed, an agreed deposit is paid to secure the property, and contracts are exchanged. Once exchanged, the completion date is set, marking the time to move in and pay the remaining deposit. Legal obligations begin once contracts are exchanged.

FINISH

04. Types of Mortgages and Rate Options

Now that we have a brief overview of the mortgage process, let's look at the different types of mortgages and rate options available.

Mortgage Rate Types

FIXED RATES

Fixed rate mortgages offer monthly payments that remain unchanged for a specified period, typically two, three, or five years, regardless of fluctuations in the Bank of England base rate. This consistency in payments makes fixed rate mortgages a popular choice for borrowers, particularly first-time borrowers.

VARIABLE RATES

There are two main types of variable rates: **a base rate tracker rate and a discounted variable rate.**

Tracker Rates

Tracker rates are linked to the Bank of England base rate. This means your rate will rise if the Bank of England decide to increase the base rate or alternatively fall if the base rate decreases.

Discounted Variable Rates

Discounted Variable Rates are like tracker rates but are tied to the lender's Standard Variable Rate (SVR) instead of the Bank of England base rate. They tend to be more volatile as the lender decides whether to pass on the discount or not. As such they are generally not recommended due to their unpredictability.

Some tracker and variable products come without early repayment charges (ERCs), allowing you to make overpayments or repay the mortgage in full at any time. This flexibility is ideal for those expecting future rate drops or those who receive bonuses or commissions and want the option to pay down their mortgage occasionally. However, it's important to note that tracker and variable rates can fluctuate, meaning your monthly payments could increase if interest rates rise. While these products offer greater flexibility, they may also come with higher initial rates compared to some fixed-rate options, so it's essential to weigh up the potential cost implications alongside the benefits.

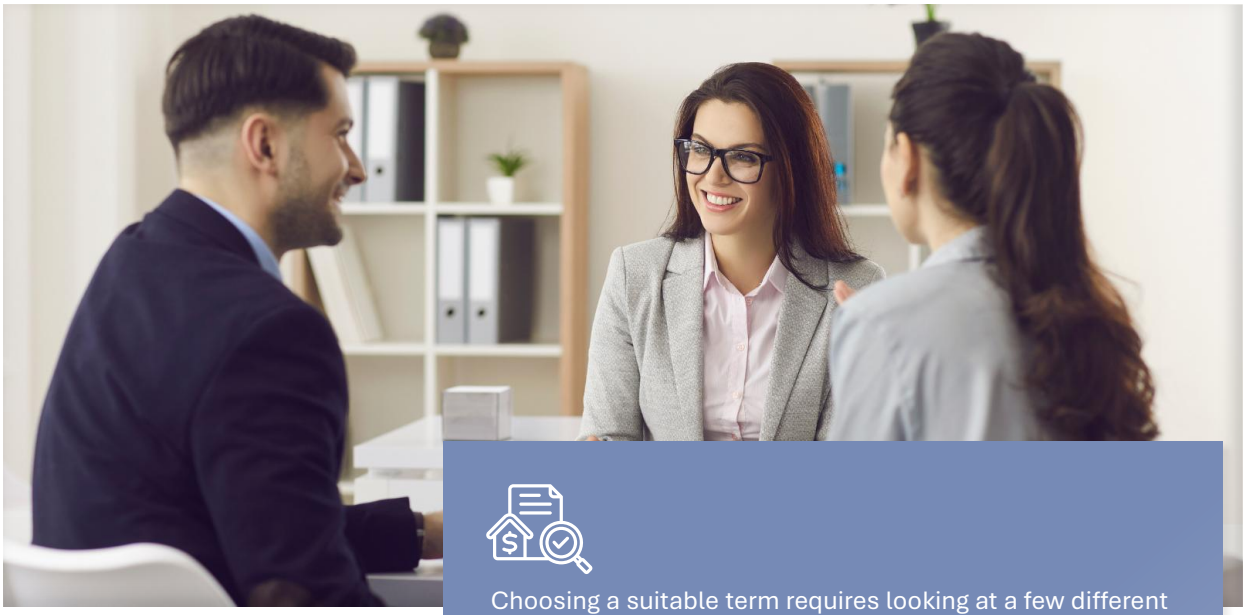
Repayment Methods

CAPITAL REPAYMENT

Most mortgages are on a capital repayment basis, with common term lengths of 25, 30, and 35 years. This term length defines the period over which mortgage repayments are made. With this repayment type, monthly payments cover both interest and principal, ensuring that the loan is fully repaid by the end of the term. For instance, a 30-year mortgage involves paying a combination of interest and principal each month, resulting in the loan being fully paid off by the end of the term.

INTEREST-ONLY

An interest-only mortgage requires monthly payments of only the interest, with the original loan amount remaining outstanding until the end of the term. While this type of mortgage can be advantageous for specific financial strategies, it carries the risk of needing to repay the principal amount at the end of the term.



Assessing Your Mortgage Term

Choosing a suitable term requires looking at a few different factors and therefore choosing a suitably qualified broker can help in this area. Part of a broker's role at City Mortgage Solutions is to assess your individual circumstances and help you decide on the mortgage term and what type of rate suits you best. A longer mortgage term reduces monthly payments but means paying interest for a more extended period. The maximum term available is typically 40 years but can be adjusted in the future if refinancing after your current product expires.

Choosing a fixed rate over a tracker rate may for example be more suitable to you if you want the comfort of knowing what your monthly mortgage payment is each month so can better manage your monthly outgoings.

05. First-Time Buyer Schemes

Now that we've explored different types of mortgages, let's look at what else is available to help you get on the property ladder.

NO DEPOSIT LENDER

While many lenders typically demand a minimum deposit ranging from 5 to 10%, there are now innovative products available from certain lenders requiring as little as 1% deposit. Moreover, some lenders may allow you to proceed without any deposit if you have a proven history of making rent payments on time.

JOINT MORTGAGE SOLE PROPRIETOR / GUARANTOR MORTGAGE (JMSP)

A Joint Mortgage Sole Proprietor mortgage allows multiple borrowers to combine their borrowing capacity to secure a larger mortgage, but only the main applicant's name appears on the mortgage deed. This enables close relatives, like parents, to assist family members (usually children) in getting on the property ladder. The main applicant benefits from the additional income of the close relative, securing a larger mortgage while maintaining sole ownership of the property and minimising stamp duty costs. However, it's important to consider the potential downsides. The guarantor remains fully responsible for the mortgage if the main applicant misses payments, which could put their own finances at risk. This commitment could also impact the guarantor's ability to borrow in the future. Additionally, if the mortgage relies on lodger income, there may be periods where no lodger is in place, which could create financial pressure on the applicant to cover the full mortgage payment without that additional income.

LODGER INCOME

While not a specific product, some lenders can consider lodger income to increase borrowing capacity. By renting a room to a lodger, you can boost your income, which the lender will factor into the overall borrowing amount.

06. Government Schemes

This is an example of some of the main schemes available:

SHARED OWNERSHIP

In this popular scheme, you purchase a share of the property with a mortgage and pay rent to a Housing Association for the remaining part. Over time, as your income increases, you can buy additional shares until you eventually own the entire property.

FIRST HOMES SCHEME

This scheme allows you to buy a property from a developer at a significant discount (30-50% off the market value). When you decide to sell, the property must be resold to someone else under the same scheme.

MORTGAGE GUARANTEE SCHEME

Similar to the First Homes Scheme, the government provides financial guarantees to lenders, allowing them to offer mortgages that cover up to 95% of the property's value. This encourages lenders to accept smaller deposits, subject to standard affordability checks.

Additionally, new schemes are currently under discussion. If you're considering any of these options and want to explore their pros and cons, it is always best to speak to a broker to see if they are suitable.

07. Costs Involved

Once the mortgage process has been established and you are aware of what is out on the market, the next important area to focus on is how much it is going to cost.

As covered already, the monthly payments will vary depending on a number of factors such as length of mortgage term, the type of rate you proceed with and if proceeding on an interest only or capital repayment basis. However, what are the other initial costs that need to be considered:

DEPOSIT

The initial payment toward the property's purchase price is usually between 5% and 25% of its value. A larger deposit can often help you secure better mortgage terms and lower interest rates. However, as mentioned in this guide, some lenders offer products for first-time buyers that require little to no deposit. These schemes are dependent on individual circumstances and are subject to status, meaning eligibility will vary based on factors such as credit history, income, and affordability assessments. Additionally, mortgages with low or no deposit often come with higher interest rates and stricter lending criteria, so it’s important to carefully consider the long-term affordability.

STAMP DUTY

A tax paid when purchasing property above a certain price threshold. First-time buyers may benefit from exemptions or reduced rates depending on the property's value.

SURVEYOR FEE

The cost of hiring a surveyor to assess the property's condition, ensuring there are no major issues. There are three main types of surveys available, which vary in detail and price and as follows.

Basic Survey: The most affordable option and something all lenders will require as part of the mortgage process. Many lenders now offer these for free but if not, the cost is around £250-£400. It provides a general overview of the property’s condition and suitable for newer or well-maintained homes.

Homebuyer’s Report: Priced between £400-£800, this survey offers more detail than a basic survey utilising a traffic light system to identify visible defects and provide maintenance advice. Ideal for standard properties in a decent condition.

Full Structural Survey (Building Survey): The most thorough and expensive survey, costing £600-£1,500+. It delivers an in-depth analysis and is recommended for older, unusual, or significantly altered properties.

LENDER ARRANGEMENT FEE

A fee charged by the mortgage lender for setting up the loan. It can be paid upfront or added to the mortgage balance.

LEGAL/CONVEYANCING FEES

Charges from a solicitor or conveyancer for handling the legal aspects of buying a property, including title searches, contracts, and transferring ownership.

BROKER FEES

A fee paid to a mortgage broker for finding and arranging the best mortgage deal tailored to your needs. Most lenders also pay commission to a broker for the introduction.

REMOVALS

Costs associated with hiring a removals company to transport your belongings from your old home to the new one.

HOME IMPROVEMENTS

Expenses for any renovations or updates you plan to make to the property after purchase, which could range from minor cosmetic changes to major structural work.

The above costs will vary dramatically and so it is worth booking an initial call with a broker such as City Mortgage Solutions to breakdown what you individually need to budget for your first home purchase.

08. Why Choose City Mortgage Solutions?

YOUR TIME

At City Mortgage Solutions, we understand that time is precious, and we strive to simplify the home-buying process. Our dedicated team handles the complexities of researching lenders and staying updated on criteria and rates, saving you valuable hours. We act as your trusted intermediary, managing all documentation, arranging surveys, and handling follow-up communications between application and offer. Beyond mortgages, many clients rely on us for advice on property-related issues, legal matters, and navigating tricky situations with sellers.

EXPERIENCE

Our extensive expertise sets us apart. With over 60 years of collective experience in property finance, we've encountered and resolved a wide range of challenges. As a whole-of-market brokerage, we offer truly independent advice, not tied to any specific lender. Our extensive panel includes over 170 lenders, from household names to specialised lenders catering for more unusual client circumstances.

PERSONALISED APPROACH

Our approach is highly personalised. Whether you're purchasing soon or in the future, we tailor our advice to your unique circumstances. For first-time buyers, we provide guidance on deposits and improving credit ratings, ensuring you're well-prepared for your purchase.

With extensive five-star Google reviews, our track record speaks for itself. We're committed to building lasting client relationships, guiding you through your property journey, starting from your very first purchase.

09. Mortgage Glossary

Here's a glossary of common mortgage terminology:

Agreement in Principle (AIP) / Decision in Principle (DIP) / Mortgage in Principle (MIP)
A document from a lender indicating how much they're willing to lend based on your financial situation, subject to final checks.

Annual Percentage Rate (APR)
The total cost of borrowing, including interest and fees, expressed as a yearly percentage.

Base Rate (BofE base)
The interest rate set by the Bank of England, which influences mortgage rates.

Buy-to-Let (BTL) Mortgage
A mortgage specifically for buying property intended for rental purposes rather than living in.

Early Repayment Charge (ERC)
A fee charged if you pay off your mortgage or overpay beyond a set limit during the initial deal period.

Equity
The difference between the property's current value and the remaining mortgage balance. It represents the portion of the property you own outright.

Fixed-Rate Mortgage
A mortgage where the interest rate is set for a specific period, protecting you from interest rate fluctuations.

Loan-to-Value (LTV)
The ratio of the mortgage amount to the property's value, expressed as a percentage. For example, an 80% LTV means you're borrowing 80% of the property's value.

Stamp Duty Land Tax (SDLT)
A tax paid when purchasing property above a certain value in the UK. First-time buyers may benefit from reduced rates.

Standard Variable Rate (SVR)
The lender's default mortgage rate, which can change at their discretion, typically after your initial deal ends.

Tracker Mortgage
A mortgage with an interest rate that follows the Bank of England's base rate, plus a set percentage.

Underwriting
The process where the lender assesses your financial situation, property, and overall risk before approving the mortgage.

Valuation Survey
A basic survey carried out by the lender to ensure the property is worth the amount being lent.

Vendor
A person or company selling a property or often referred to as a seller. The vendor is the person that owns the property and is transferring ownership to the buyer upon completion of the sale.

10. First-Time Buyer Mortgage Check List

Here is a list of the usual documents that are needed for a mortgage application:

PROOF OF ID/ADDRESS:

- Photocopy of valid passport
- Photocopy of photo driver's license
- Proof of residency OR other visa documents if applicable
- Proof of address (utility bill, council tax bill or bank / credit card statement dated in last 3 months and showing full address)

IF EMPLOYED:

- Latest three months payslips
- Latest P60
- Proof of additional income (bonuses, commissions and overtimes)
- Copy of employment contract (if no P60 available or started employment in last 12 months)
- Salary Increase Letter (if started new role or had a pay rise in last 6 months)
- Latest three months full personal bank statements for where salary is credited
- Latest month personal bank statement for where rent or bills paid from if different from the above.
- Proof of Deposit (bank statements covering last three-month period showing funds. If any part of the deposit is gifted, then would need a gift letter but this would be taken care of at time of application

IF SELF-EMPLOYED:

- Tax Calculations and Tax Overviews for last two years (Accountant can provide or if complete your own self-assessment then this will be available on the HMRC website)
- Latest set of finalised accounts (covering last two years)
- Latest three months business bank statements
- Latest three months personal bank statements for where salary or dividends are credited
- Latest month personal bank statement for where rent or bills paid from if different from the above

OTHER REQUIREMENTS:

- Recent credit report. Please use link to download a free credit report (www.checkmyfile.com)
- Details of Existing Debt (current balances and monthly payments for any credit cards, hire purchase/car lease agreement, loans or any buy now pay later agreements.
- Details of any other monthly commitments (childcare, school fees or maintenance payments)