CAMPBELL & McCONNACHIE

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Buying your first home

A guide to successfully getting onto the property ladder.

Buying your first home is one of the biggest financial decisions you're ever likely to make. Understandably it can be a stressful and daunting process.

Stricter lending conditions and increasing house prices mean that purchasing a first home is harder than ever.

Despite these challenges, there are steps you can take today that will put you in the best position possible to secure your first property.

Saving for a deposit

Getting enough money for a deposit is the biggest hurdle for many prospective first time buyers. Even with an inheritance or financial help from family members, saving takes time and perseverance.

As well as planning your savings strategy you'll need to decide where to put your money in order to get the best interest rates to maximise your savings.

Help to Buy ISAs

Help to Buy ISAs were launched on 1 December 2015 and allow individuals over the age of 16 to save up to £200 into an account per month. Buyers can also deposit a lump sum of up to £1,000 when they set up their account.

The money will earn interest and will also qualify for a 25% bonus (up to £3,000) from the government provided that you save at least £1,600 and the funds are used to buy a house.

To be able to open a help to buy ISA, you must:

- be aged over 16
- be a UK resident with a valid national insurance number
- be a first time buyer
- not have another active cash ISA in the same tax year.

To be eligible for the government bonus, the property you buy must:

- be in the UK
- not be a second home or a buy-to-let
- cost no more than £250,000 (£450,000 in London)
- be purchased with a mortgage
- not be rented out once you have bought it.

Other ways to earn interest on your savings include:

- **bank accounts** - some current accounts offer generous interest rates though there are usually conditions to meet each month in order to receive interest
- **ISAs** - save up to £15,240 (2016/17) a year tax-free and earn interest
- **regular savings accounts** - these accounts offer good rates but have a maximum contribution each month.

It is likely that you'll use a mix of different products. Shop around for the best rates but also look at restrictions such as savings limits and restrictions on accessing your money.

The personal savings allowance allows basic rate taxpayers to earn up to £1,000 a year in savings interest tax-free. The allowance is £500 for higher rate taxpayers while additional rate taxpayers do not have a personal savings allowance.

Talk to us about your savings.

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First time buyers

Deposit size

At the very minimum you will need a 5% deposit. However, a larger deposit will allow you to access to better rates on mortgages.

A key piece of terminology to familiarise yourself with is loan-to-value ratio (LTV). This refers to the amount of money you are borrowing compared to the value of the property.

The difference between the 2 is the percentage you put down as a deposit. For example, an 80% LTV means that you are borrowing 80% of the property's value and putting down a deposit of 20%.

The lender will value the property and the LTV will be based on the figure they think it is worth (not how much you have agreed to pay for it). If they value it as less than you have offered, you will either need to renegotiate with the seller or increase your deposit.

How much can I borrow?

Lenders base their calculations on affordability rather than salary alone. This involves looking at your income and your outgoings including bills, credit card and loan repayments.

Lenders will often stress test the amount they are willing to lend against a higher interest rate to see if you could still afford the monthly repayments.

On top of this some lenders use credit scores to help decide if they are willing to lend and if so, how much.

Getting into good habits will help improve you credit score. For example:

- not missing any payments
- closing credit accounts you no longer use
- making sure you are on the electoral register
- fixing any mistakes you find on your credit report.

Property taxes

Stamp duty land tax or land and buildings transaction tax in Scotland are charged at different rates according to a band system.

Rates apply only to the portion of the property's value that exceeds the relevant band threshold.

House price		
England, Wales, Northern Ireland	Scotland	Rate
Up to £125,000	Up to £145,000	0%
£125,001 - £250,000	£145,001 - £250,000	2%
£250,001 - £925,000	£250,001 - £325,000	5%
£925,001 - £1,500,000	£325,001 - £750,000	10%
£1,500,001 and above	£750,001 and above	12%

You should also budget for:

- mortgage arrangement fees
- legal and survey fees
- moving costs
- buildings and contents insurance.
- renovations, redecorating and furniture.

Helping a child buy a house

It's not uncommon for parents to want to help their child buy a home. Here are some of the options and the tax implications.

Gifts

Money from parents can provide a boost to a child's deposit. Although there is no immediate tax implication, the gift could become liable for inheritance tax if the donor dies within 7 years of making the gift.

Your child won't have to pay income tax on the gift but it may affect their eligibility to other benefits.

Lending money

There are 2 choices if you want to lend money: repayment over time (you child pays back the loan in instalments over time) or repayment when they sell the house (you'll receive a lump sum when your child sells the house).

In either case you may wish to have formal agreement drawn up by a solicitor to avoid any misunderstandings or disagreements.

Using your home

Equity release allows home owners over 55 to use some of the value of their property to provide a lump sum or income.

Another option is to borrow money from your home in the form of a secured loan.

It is important that you understand potential implications if you are considering either of these options.

Mortgages

If your child is finding it difficult to get a mortgage you could act as guarantor for part or the entire mortgage. You won't be listed as an owner but you will be liable for repayments and arrears.

Other options include joint mortgages and offset mortgages.

We can advise if you are considering helping your child financially.