

## Mortgages (*ref 08*)

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### **Thinking About Buying a Home?**

Owning your own home can give you a great deal of satisfaction. For a disabled person ownership may be the route to greater independence, control and choice over how you live your life. It can bring greater long term security and sometimes maybe the only way of getting a home in the right place. Buying a home is probably the most expensive single purchase you will ever make. It makes sense to obtain as much information as possible on the various options open to you before entering into any commitments. (Housing Options has a factsheet on the alternatives).

Once the decision to buy has been made, one of the first stages of the home-buying process is to approach a mortgage lender to find out how much it would be willing to lend to you.

### **Choosing a Mortgage**

There are a large number of lending institutions offering a wide range of mortgages. Mortgage offers may be advertised in the press and in specialist consumer magazines. Many of the daily newspapers also feature regular articles on current 'best buys'. Mortgage brokers are able to advise borrowers on what deals are available and can act as intermediaries between borrowers and lenders.

If you are looking for a mortgage for Shared Ownership the number of lenders who lend on this basis is slightly limited - ask your local Housing Association who to approach. If you are seeking an interest only mortgage to be repaid through Income Support the number of lenders is very restricted.

### **How Much Can I Borrow?**

Lenders' decisions as to how much to lend to a particular borrower will vary, but generally they will lend up to three times the borrower's earnings. Where there are two borrowers, the multiple might be three times the higher salary plus once times the other income, or two and a half times the joint income. Factors which the lender will want to take into account are whether you have other regular financial commitments, past history of paying (if you have had a mortgage before) and so on. Some lenders will give you a mortgage to be paid off from your benefits if you are disabled and not able to work at all.

### **Other Costs**

There are a number of costs which you will need to take into account in order to ensure that you do not over-commit yourself at the start. You may need to pay a fee for a mortgage valuation to be carried out for the lender (this is explained below) and, if you are borrowing more than 75% of the value of the property, you may be required to take out a mortgage indemnity policy, which will protect the lender against a shortfall in the event of your being unable to keep up your repayments.

In addition to these costs, Stamp Duty - a government tax on property purchase, which must be paid if the purchase price exceeds £125,000. If the property cost between £125,001 and £250,000 the charge is 1% on the full price of the property (ie not merely the excess where the price exceeds £125,000). Between £250,000 & £500,000 the duty is payable at 3%. A fee must be paid to the Land Registry for registering the title to the property; these fees are set according to a scale published by the Land Registry. Finally, you will need to pay the solicitor who acts for you and your lender in the purchase of the property. There is no fixed scale for this. It is advisable to make a rough estimate of the total amount payable in fees, charges etc before making a final commitment to borrow a certain amount. There are also other costs connected with moving - services connection charges, standing charges, Council tax, water rates etc, all of which need to be paid soon after moving in to a new property.

If you are moving from residential care, hospital or setting up home for the first time you will also need to allow for furnishing and equipping your home. You may be able to get some help with the costs from the Social Fund or local charities.

Your lender will require that you insure the property against fire and other damage (buildings insurance). You would also be well advised to make sure you have adequate contents insurance, though this is not necessarily required by lenders; often, a combined policy is available. If you have opted for a fixed-rate or discounted mortgage, you may find that one of the conditions attached is that you insure with a particular insurer. If this does not suit you, you should have the option of going to another insurer, but your lender may increase your monthly repayments slightly as a result.

You may also wish to consider life assurance or payment protection insurance cover to ensure that, should you die or lose your job, funds will be available to help your dependents, if you have any, or you pay off the mortgage.

### **What Sort of Mortgage?**

There is a very wide range of types of mortgage available and some may be more suitable for certain types of borrower than others. You may be well advised to seek professional advice from an independent mortgage adviser - although the final choice will be yours alone. Independent advice may be very helpful if looking for a mortgage in circumstances where most lenders are reluctant to give mortgages. However there can be a problem in getting good advice:

- many mortgage advisers will not be familiar with Shared Ownership , mortgages paid through Income Support and similar, unusual circumstances
- they expect to get commission on selling life insurance and similar policies which may be less relevant to some disabled people
- research such as that carried out by the Consumer's Association shows that this sort of financial advice is not always tailored accurately to the customer - if they see they will not be able to sell other things to you they may instead ask for a fee.
- we have had reports of mortgage advisers demanding fees in advance but not finding a mortgage
- a lot of mortgage advisers are 'tied' to a particular company or building society and will only tell you about their products - you will be told if this is the case.

The Council of Mortgage Lenders has recently published a Mortgage Code which sets out standards of good mortgage lending practice. If you would like a copy (its free) call 020 7440 2255.

#### **(a) Capital and Interest Repayment Mortgage**

The most straightforward way of repaying a mortgage is by a **capital and interest repayment mortgage** - usually just called a **repayment mortgage**. You would make regular monthly repayments of both interest and capital so that, over the life of the mortgage (usually 25 years), the debt, together with interest, is entirely repaid.

#### **(b) Interest Only Mortgage**

The other type of borrowing is an interest only mortgage. Every month you make payments to the lender of just the interest. You would then have some other way of saving money so that the capital can be repaid at the end of the term (usually 25 years).

You may decide to take out an **endowment policy**. Over the life of the loan (usually 25 years) the borrower pays a monthly premium into an endowment insurance policy. At the end of the 25-year period, the proceeds of the policy are used to repay the loan. Some endowment policies have the advantage of providing for the loan to be paid off in full in the event of the borrower's death. This may be particularly suitable for borrowers with dependent relatives. Remember, Income Support will only pay the interest on the mortgage and not the cost of the endowment policy. This does not prevent you or a relative taking out an endowment policy to eventually repay the capital if you (or a relative) can afford the payments. It is worth keeping in mind that endowment insurance policies have not been performing well in recent years and there have been many cases of the policy's final value not being enough to cover the loan.

If you decide to link your mortgage to your **pension**, then the lender gets their capital back from the eventual value of your pension when it becomes payable. Again, remember that Income Support will only pay the interest on the mortgage and not any pension or similar contributions.

Financial magazines such as *What Mortgage?* and the financial pages in newspapers will give ideas of what is on the market at any given time.

### **Interest Rates**

There are a number of options available briefly, these can be summarised as:

#### **(a) Variable Rate**

the interest rate will vary according to the base rate set by the Bank of England. If the base rate rises or falls, this will usually be followed by an appropriate adjustment by lenders of their lending rates. In deciding whether to opt for a variable rate mortgage, therefore, a borrower must take a view as to whether interest rates are likely to rise, fall or remain broadly static in the foreseeable future.

#### **(b) Fixed-Rate**

the interest rate remains fixed for a specified period. This may be as little as one year, or for as long as ten years - though the majority of fixed rate mortgages are probably for one to five years. Most fixed-rate mortgages require the borrower to revert to the standard variable rate at the end of the fixed period.

#### **(c) Discounted Rate**

the interest rate charges will be the standard variable rate less a fixed discount of a specified percentage, usually for a fixed period of a few years, at the end of which the borrower reverts to the standard variable rate. These are most often offered to first time buyers and may therefore be of particular value to a disabled person setting up home for the first time.

#### **(d) Cap and Collar**

the interest rate chargeable will be subject to maximum and minimum limits for a fixed period.

If you are seeking a mortgage for Shared Ownership you may find the discounts usually available to first time buyers do not apply. Shop around or talk to your Housing Association.

### **Taking Out a Mortgage When on Income Support**

If your only form of income is via Income Support and you want to take out a mortgage, a lender would have to consider your application very carefully. A lender will usually only lend to a person who has regular employment and able to meet the monthly mortgage repayments. It would only be in exceptional circumstances that a lender would grant a mortgage in other circumstances. You will need to speak to the DWP to see if they would repay a mortgage through Income Support. The lender may want to be advised formally by the DWP whether the mortgage could be repaid in this way. In some cases the DWP will only confirm that Income Support would be payable to meet the mortgage repayments once a mortgage has been agreed by the lender. This situation can usually be resolved by the DWP and lender discussing the matter between themselves to see if a solution can be reached.

## Capacity to Take Out a Mortgage

It is important for any individual applying for a mortgage to be aware of the legal and financial implications of becoming a homeowner and their responsibilities for repaying the mortgage. When applying for a mortgage, the person must be capable of both contracting and understanding the contract which is being entered into and the effect of the contract. If this is not the case, the lender will not agree to the mortgage. This is because the contract may be unenforceable by the lender who risks not getting their money re-paid. However, the lender would usually be willing to explore whether there are other way of raising the finance, for example, a further advance secured against a parent's property etc. There are a variety of mechanisms that may be possible to provide a lender with the reassurance they need including joint ownership with someone who does have legal capacity such as a parent or brother or sister. If this is a problem talk to Housing Options.

Lenders or financial advisers would have to ensure that they offer services in a way that does not go against the *Disability Discrimination Act* rules. There are two possible problems here. One is around the rule that anyone can refuse a service if they have reasonable grounds for believing that the other person does not understand the contract. The other is that there are more complicated rules about insurance which say, in essence, that insurers can offer less favourable terms if they can show that they are offering insurance against a higher 'risk'. If you run into either of these problems, the Disability Rights Commission can offer you advice through their regional offices.

## The Mortgage Valuation

Once your lender has advised you as to how much you may borrow, it will want to satisfy itself that the property you are intending to buy represents value for money. This is because, should you for some reason become unable to repay the loan, the lender may need to sell the property and recoup its money. If the amount which it had lent you was significantly more than the amount for which it was able to sell property, the lender would suffer a shortfall. The lender will therefore arrange for a professional valuer/surveyor to visit the property to give an assessment of its value. In the vast majority of cases, the valuer's opinion will be that the value is either close to or the same as the amount which you have agreed to pay. Sometimes, however, the valuer will notice something which he believes will have an effect on the value of the property and this may, in turn, affect the amount which your lender is prepared to lend to you. It may even make the lender decide not to lend at all, though this is rare.

The mortgage valuation is carried out for the lender - although you may be asked to pay a fee for it, and you will almost certainly be sent a copy. The mortgage valuation report is not intended to give detailed information about the physical condition of the property and you should not rely on it for that purpose. If you want a more detailed report - and lenders generally advise this - then you may opt either for a *Home Buyer's Report and Valuation* or a very detailed *Buildings Survey* (formerly known as a *Structural Survey*). Your lender may explain these options to you.

## Related Factsheets

Shared Ownership Explained Simply - Homebuy (ref 09)

[www.housingoptions.org.uk/general\\_information/gi\\_factsheets/fs\\_09.pdf](http://www.housingoptions.org.uk/general_information/gi_factsheets/fs_09.pdf)

Pathway to Homebuy and Home Ownership for People with Long-Term Disabilities - HOLD (ref 10)

[www.housingoptions.org.uk/general\\_information/gi\\_factsheets/fs\\_10.pdf](http://www.housingoptions.org.uk/general_information/gi_factsheets/fs_10.pdf)

Shared Ownership, Homebuy and HOLD (ref 07)

[www.housingoptions.org.uk/general\\_information/gi\\_factsheets/fs\\_07.pdf](http://www.housingoptions.org.uk/general_information/gi_factsheets/fs_07.pdf)

Income Support to Meet Mortgage Interest Payments, the Cost of Large Repairs or Adaptations (ref 18)

[www.housingoptions.org.uk/general\\_information/gi\\_factsheets/fs\\_18.pdf](http://www.housingoptions.org.uk/general_information/gi_factsheets/fs_18.pdf)

If you require further information or have other queries contact Housing Options.

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