How to... BUY A HOUSE ON £15K

words: linda mccormick

Scarlet reveals how to get a stiletto on the property ladder with only a £15K salary

The average house price in the UK is a crazy £200,000, so it's not surprising that many first-time buyers are having difficulty getting a foot in the door. However, with the Government and mortgage lenders finally waking up to this fact, affordable housing is starting to spring up. But before you start looking for your first mortgage, here's what you need to know to bag a bargain...

MORTGAGE BASICS

There are hundreds of mortgages available, but the most common ones you're likely to hear about are 'interest only' and 'repayment' mortgages, which are paid back at either a variable, fixed or fixed discount rate.

Interest only mortgages allow you to pay off just the interest on the amount borrowed. This means your monthly repayments are lower but the loan never decreases. So if you borrowed £100,000 at an interest rate of 5.5% over 25 years, your monthly repayment would be £458.33, but at the end of the mortgage term you'd still owe that £100,000 and would need some form of investment running concurrently to pay off that lump sum. However, if you sold the property before the full term of the mortgage expired, you could potentially (particularly in today's market) walk away with a profit, which could be used as a down payment on your second gaff. "Also consider some form of insurance to protect the loss of your income due to sickness, accident or redundancy, commonly called mortgage payment

image: getty

protection," says Kim Steven Barrett, an Independent Financial Advisor. "On average it will cost £6.50 to protect every £100 of your monthly payments."

Repayment mortgages cover both the loan and its interest, so at the end of the term you have nothing more to pay, but your repayments will be higher. On a £100,000 loan over 25 years with 5.5% interest your monthly payments would be closer to £622, but the property would be all yours by the end of the mortgage term.

Regardless of which of the above basic mortgages you choose, deciding to pay back your loan at a **variable rate** means the interest rate of the loan fluctuates depending on the rate set by the Bank of England. So if you had a mortgage at an initial rate of 5.5% and the Bank of England increased its interest rate to 5.75%, your repayments would also increase. For example, on an interest only £100,000 mortgage, monthly repayments would then rise from £458.33 to £479.16. But rates could also go down, and therein lies the gamble.

If you'd prefer to guarantee what your repayments will be, you can opt for a **fixed rate** mortgage, which means the interest rate won't change for an agreed term, usually between one and five years; but you can fix the rate up to 25 years. **Fixed discount rate** mortgages offer customers the opportunity to pay a reduced interest rate for a set period, which is another way of making ends meet in the early years of your mortgage. With both these options, however, if you sell before the agreed term expires, you'll need to pay a fee for getting out of the mortgage early.

With these standard mortgages, you can borrow approximately three to five times your salary, so on a £15K salary that's between £45,000 and £75,000. But what do you do if the pad you want costs more than a standard mortgage will allow? Read on – we have the answers…

GUARANTOR MORTGAGES

If you have a family willing to bail you out should you fall back on repayments, one of them can sign as guarantor. Newcastle Building Society offers 100% mortgages to professionals earning £15,000 or more, as long as a close relative also signs on the dotted line. It does depend on the relative's age and financial status though, as the banks need to make sure they'll get their money back. So, if the property you want is £100,000 but your borrowing limit is restricted to £70,000, a close relative can act as guarantor for the remaining £30,000.

GRADUATE MORTGAGES

Scottish Widows and HSBC offer these mortgages to people under 35 who have graduated in the last five years and hold an HSBC Graduate Bank Account with their salary being paid into it. Depending on your outgoings and the health of your credit rating, they will allow you to apply for 100% of the property value, plus a further 2%, so if your property is worth £80,000 you can borrow £81,600. The extra 2% can go towards the extra costs (see box).

PRE-PURCHASE TIPS

- **Start saving your wage slips.** You'll need at least three months' worth and your P60 to prove your earnings to a mortgage lender.

- **Be realistic.** Make a list of *all* your outgoings and then deduct it from your income to see exactly what monthly repayments you can comfortably afford – some mortgage lenders will ask to see this.

- **Shop around.** The better the deal you get, the less you'll have to pay back. Visit offer-comparing sites like Moneysavingexpert.com, see the *Sunday Times* for their list of the top mortgage offers, and find a reputable independent financial advisor at Unbiased.co.uk or call 08000 853 250

- **Be careful.** "Low charging rates are designed to attract you to a product. Look out for the fees that will be charged to secure the mortgage, like arrangement and valuation fees," says Kim Steven Barrett.

- **Have an open mind.** To find a pad on a low salary you may need to make some sacrifices, like travelling further to and from work every day, so be prepared to look beyond your dream locations.

SHARED MORTGAGES

Sharing a mortgage with a friend may be the perfect solution, but think about it – long and hard. She may be your

WHAT'S ON OFFER?

Scarlet went house-hunting with under £100K…

2 bed flat, Newcastle-upon-Tyne, Your Move, whickham@yourmove.co.uk, 01914 887 023

3 bedroom house, Bedfordshire, Eales and Holland, property@eales-hollands.co.uk, 01234 216 612 *(on 25% shared ownership, monthly rent £200)

2 bedroom apartment, Nottinghamshire, Haart, nottingham@haart.co.uk, 08453 374 682 *(on 50% shared ownership, monthly rent £280)

> Sharing a mortgage with a friend may be the perfect solution, but think about it – long and hard

best mate, but what happens if you buy together and then fall out? Are her rented digs a state, while yours are hoovered to within an inch of their underlay every day? Does she permanently have friends over while you prefer your own space? The fewer living habits you have in common, the harder it will be. You also have to make sure she can afford it and that you're both happy disclosing *all* your financial info to each other.

Once you've decided on a mortgage, draw up and sign a contract between you – no matter how friendly you are. Sharebuy.com specialises in shared mortgages for up to four people; if you all earn £15K you can buy a place for up to £180,000, and Sharebuy will draw up a legal agreement for free. This way if things go tits-up you each have the option of buying a person's share if they want to move on, or if you want to move on and no one can afford your share, you have the right to put the property on the market to get your cash.

HOMEBUY SCHEMES

These schemes can be a good option for those who don't want to live with anyone else, but can't quite afford a pad of their own. The Government has also recently introduced the First-Time Buyer's Initiative (FTBI) as part of the HomeBuy schemes (known as Homestake in Scotland and Co-Ownership Housing in Northern Ireland), to help first-time buyers break into the property market. You buy a percentage of a property from a HomeBuy ownership agent, you have sole occupancy rights, and you also pay a small monthly rent to the agent for their share of the property. You can then buy more shares as you can afford it until you own the whole lot.

"These schemes are excellent in assisting low incomes to get on the property ladder," says Peter O'Donovan of Bestinvest.co.uk, "but as property prices increase, so does the value of the percentage owned by the other party. Therefore the amount to be repaid to them on sale can increase, leaving the owner with less equity than they may realise." So keep this in mind when you get excited about the rise in house prices. For more info call 0845 2307 000 or visit Housingcorp.gov.uk.

BUY-TO-LET MORTGAGES

If you're desperate to live in an expensive spot, but your salary doesn't quite cut it, you could consider a buy-to-let property. Buy a flat in one of the more affordable regions of the UK for investment, then rent where you like. But make sure your investment property yields enough rental income to cover the mortgage.

Julia, 28, has been lucky enough to actually make a profit from rental income on her one-bedroom flat in Plymouth, while renting in Clapham, London. "While I was at university in Plymouth three years ago my parents signed as guarantors so I could get on the property ladder. The flat was £105,000 then and has gone up by £30,000 already, so when I moved to London last year and began renting out the Plymouth property I found I could cover part of my rent here with the income. Now I've got the best of both worlds."

EXTRA COSTS (£ approx)

STAMP DUTY: Government property tax (doesn't apply to properties under £125,000, and some local authorities offer to cover this fee for first-time buyers, so check with yours)
On properties costing between £125,000 and £250,000 it's 1% of the property value
COST: £1,250 – £2,500
On properties costing between £250,000 and £500,000 it's 3%
COST: £7,500 – £15,000
On properties above £500,000 it's 4%
COST: From £20,000

SURVEY: A chartered surveyor must check out a property for structural problems before you buy. There are two types.
Basic Homebuyer's Report
Problems can be missed, meaning that although the initial outlay is lower, you could have to fork out £2,000 for a new roof after you've moved in, rather than negotiating that as a deduction from the house price with the vendor
COST: From £300
Full Structural Survey
Thorough survey offering more peace of mind – but at a price
COST: From £600

LEGAL STUFF: Or conveyancing, as it's called by people in the know; including solicitors' fees, Land Registry and Local Authority searches and bank transfers, all handled by your solicitor
COST: £650

VALUATION: When you put in an offer on a property, your mortgage lender sends an expert to value the property and make sure it's worth the asking price
COST: Free – £400

MORTGAGE LENDERS' FEE: This is an administration fee but not all lenders charge this, and in February the Financial Services Authority began forcing lenders to justify this fee, so it may eventually be scrapped altogether - fingers crossed
COST: Up to £295

MIG (Mortgage Indemnity Guarantee): A one-off premium debit to the mortgage on completion which you may have to pay if you have little or no deposit, to cover the financial risk to your lender
COST: Depends on price of property. As an example, on a £100,000 mortgage this would be £2,000

INSURANCE: This is to cover the building and must be sorted by the time contracts are exchanged. See Insuresupermarket.com for a best deal comparison
COST: From around £300 per year

wth thanks to K.S. Barrett & Associates, kim@unbiasedifa.co.uk, 01992 711 987