SIMPLY MORTGAGE

NEWSLETTER FROM A1 FINANCIAL SOLUTIONS

APRIL 2021	ISSUE #13	SPRING

WHAT SIZE MORTGAGE COULD I AFFORD TO BORROW?

Understanding how mortgage affordability is calculated is key

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Limiting the environmental cost and making it greener

WHAT SIZE MORTGAGE COULD I AFFORD TO BORROW?

Understanding how mortgage affordability is calculated is key

When you apply for a mortgage, the lender's decision on how much you can afford to borrow can seem like a mysterious one. But there's no magic or secret behind the outcome, just a simple affordability formula.

Here are the factors the mortgage lender will consider.

YOUR INCOME

In the past, your income was the only factor that mortgage providers would base their decision on. But things have become more complicated since then. However, your income is still considered to be one of the main determinants of whether you can afford to pay back the mortgage loan.

Some mortgage lenders may offer larger loan amounts to people in certain professions with higher earnings or higher combined household incomes. In some cases, the income multiple you'll be eligible for can also depend on the loan-to-value ratio you're borrowing at. But following the coronavirus outbreak, many mortgage lenders have imposed stricter rules on how much you can borrow.

So, you'll need to prove to mortgage providers how much your annual income is. If a significant portion of your income doesn't come from your regular salary, but instead from overtime, bonuses, commission or dividends, you'll need to find a mortgage provider who will include these in their consideration. Some will also include pension income, tax credits and allowances.

YOUR CREDIT SCORE

Mortgage providers will always check your credit score with a credit reference agency before agreeing to lend you money.

Your credit score will reflect any financial issues you have encountered in the last six years, such as loan defaults, county court judgements, individual voluntary arrangements or bankruptcy. These issues will affect whether a mortgage provider will lend to you, how much they will lend you and the interest rate available to you.

YOUR DEPOSIT

Having a large deposit (relative to the value of the property you intend to buy) demonstrates a certain level of financial responsibility to mortgage providers. It also lowers the risk of lending to you, as the money lent could be more easily recovered when the property is sold, if you were to default on the loan.

So, generally speaking, the more you have saved, the more money you'll be able to borrow.

YOUR OUTGOINGS

One of the ways that affordability checks have changed in recent years is that mortgage providers must consider how much of your income is spent on essential outgoings. After all, knowing your income isn't that helpful if you already spend 70% of it on bills and loan repayments.

ESSENTIAL OUTGOINGS INCLUDE:

- Groceries, toiletries and cleaning supplies
- Household bills, e.g. gas, electricity, broadband
- Car costs, e.g. vehicle tax and fuel
- Other essential travel costs, e.g. train fares
- Insurance, e.g. home, life, medical, critical illness insurance
- Medical costs, e.g. contact lenses or prescriptions

- Debt repayments, e.g. credit cards or other loans

OTHER SPENDING

As well as how much of your income is spent on essentials, mortgage providers will also look at the cost of your current lifestyle.

So, they might want to know how much you spend on:

- Dining out
- Entertainment
- Shopping
- Holidays and non-essential travel
- Gym memberships

If a large part of your salary is spent on these non-essentials, you'll be less likely to keep up with mortgage repayments in the future. So, if you have costs in these areas that you'd happily sacrifice to afford a bigger mortgage, you might consider cutting them several months before you make your application.

FUTURE OUTGOINGS

It's not enough for mortgage providers simply to assess how easily you can afford a mortgage now, as it's a long-term loan. They'll need to consider if you'll be able to afford it in the future.

So, they'll consider the likelihood of various circumstances occurring while you have the mortgage, such as redundancy, serious illness or having a baby. If you're currently pregnant or have young children, the cost of raising these children may be included even if it is not reflected in your current spending.

Having enough cash savings (at least enough to cover between three to six months' worth of outgoings and spending) can help to demonstrate to a mortgage provider that you would still be able to afford your mortgage.

FUTURE INTEREST RATES

There are other future changes that could affect your ability to afford your mortgage repayments, and the most significant is an interest rate rise.

Mortgage rates could rise and fall multiple times over the lifespan of your mortgage and, unless you have a fixed-rate mortgage, could lead to your monthly repayments increasing. A mortgage provider will check if you'd still have enough income left after your essential outgoings and other spending to make these repayments, based on certain assumptions they use.

Though mortgage providers all use broadly the same affordability criteria when deciding how much to lend you, there are small differences in what they'll each check, which could mean that one mortgage provider will lend you more than another. It can be time-consuming to find the provider that will lend you the money you need. We can work with you to find the best arrangement.

WANT TO DISCUSS HOW TO GET THE BEST MORTGAGE DEAL AVAILABLE?
We can help navigate you through every stage of finding and applying for a mortgage to get the best deal available. For further information or to discuss your situation, please contact us.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

SHOULD I BE CONSIDERING A REMORTGAGE?

5 reasons when it pays to review your mortgage deal

In the current economic climate, many homeowners may be unsure about when is the right time to look for a new mortgage. Is the time right now or should you remain with your current mortgage? It's a very important decision that could impact your finances by thousands of pounds every year.

Remortgaging is the process of getting a new mortgage on your existing property, either with your current or a new lender. More often than not, the main reason to remortgage is to save yourself some money, but it's not the only one.

But before you look at the 'when', you need first to consider the 'why'. Is your current deal about to come to an end or has it already finished and you've been moved to your lender's costly standard variable rate (SVR)? Are you simply looking to save money, or do you want to release some of the equity in your home to make changes to it, such as renovations or adding an extension? Or, do you want to switch from an interest-only to a repayment mortgage?

Whatever your reason for wanting to remortgage, it's important to obtain professional advice to see if remortgaging is the best option for you and to help you identify the best mortgage deal to meet your needs. There's no right answer for everyone, but we've provided five reasons why remortgaging now could save you money or make you money over the long term.

1. I'M NEARING THE END OF MY PROMOTIONAL PERIOD

You have a fixed or tracker mortgage and you're coming close to the end of the initial promotional period (often two, three or five years). If you don't find a new deal, you'll automatically revert to your lender's SVR when your promotional period ends.

This could be considerably higher than your current rate, and could cost you thousands of pounds in additional interest over the lifetime of the mortgage. Instead of remaining with your mortgage and accepting the higher SVR, now would be a good time to talk with us about a new mortgage deal.

2. I WANT TO TAKE ADVANTAGE OF HISTORICALLY LOW MORTGAGE RATES

The Bank of England base rate is currently unusually low, due to the financial conditions surrounding the coronavirus (COVID-19) pandemic. That means borrowing money now means you can take advantage of lower-than-normal mortgage rates.

Even if you'll pay a fee to exit your current deal early, for some people it could be worth doing so, to secure a rate at a lower level.

3. I WANT TO REMORTGAGE WHILE PROPERTY PRICES ARE RISING

Property prices have been rising in recent months in spite of the COVID-19 pandemic, and that can mean it's a good time to remortgage.

Why? Because your loan-to-value ratio will be lower. In other words, the amount you need to borrow will be a smaller percentage of the market value of your home. If prices fall again, your loan-to-value ratio becomes higher and you may not have access to the best mortgage deals.

4. MY FINANCIAL SITUATION HAS CHANGED

If your financial situation has changed significantly since you chose your current mortgage, you might want to explore other options. Perhaps you have more cash available now, and you'd like a mortgage that allows you to make overpayments as and when you want to. Or perhaps you need to improve your cash flow and need a mortgage with flexible repayments.

5. I WANT TO RAISE CAPITAL

In some situations, you might want to borrow more against your home. For example, you might want to build an extension or carry out home improvements that will increase the value of your home. Or you might want to buy a second property as a buy-to-let. Remortgaging could help you to raise the capital to do this.

IS YOUR CURRENT MORTGAGE DEAL IS COMING TO AN END?

In general, you should start looking for a new mortgage at least three months before the end of your current mortgage's promotional deal. With so many mortgage deals available, we can compare the mortgages that are best for your financial situation.

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ECO-FRIENDLY MOVING

Limiting the environmental cost and making it greener

It's not always the first thing we keep in mind when moving properties. But if you like to live as sustainably as possible, moving home can be a cause for concern. There are challenges presented at every stage, from decluttering to packing and transportation.

ARE YOU WORRIED ABOUT YOUR CARBON FOOTPRINT?

Decluttering -

When moving to a new home, many people take the opportunity to declutter and get rid of belongings they no longer need. While this can be good for the environment – for one thing, you'll cut your carbon emissions by reducing how much you move – you'll need to dispose of your possessions responsibly.

- Donate old furniture to charity or advertise it on a free listings site for people from your local area to pick up
- Gift items to friends or swap them for items you do need. You could create a Facebook group for this purpose to get others involved
- Find out if a local school, youth club or community scheme has any need for household supplies such as leftover paint or gardening materials

Packing -

A great source of waste in the process of moving to a new house is the packing materials, which may only be used once before being thrown away. But there are many different options to get more use from them or dispose of them sustainably.

- Consider how you can use items you already own, such as suitcases and storage containers, to pack your belongings
- Instead of bubble wrap, used balled-up newspaper, or wrap your fragile items in towels or clothing
- Save the boxes that your online orders are packed in to reuse when you're moving
- Look on local listings sites or enquire at local grocers and supermarkets for second-hand packing boxes
- List your own boxes on a local listings site or Facebook group for reuse after you've finished with them
- You'll likely need to buy certain packing materials, such as sticky tape, but you can opt for compostable or recyclable options

Transportation -

Most people rely on a diesel-powered van or truck for the move itself, but you have several options to reduce your carbon footprint.

- Find a carbon-neutral removal company or make a donation to offset the carbon used to transport your belongings
- For smaller moves, hire an electric car or van to transport everything yourself
- If your moving vehicle isn't full, consider how you can use the extra space to reduce the total number of trips the vehicle needs to make. You could pair up with someone in the local area who is also moving. Otherwise, ask neighbours if they have any deliveries they need to make that could be combined with your route.

CHOOSING THE RIGHT MORTGAGE OPTION

A mortgage is probably the biggest financial commitment you will ever make. We'll tailor the right mortgage option for you, and ensure the process is hassle free. Talk to us today.

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When it comes to mortgages, taking advice can be a daunting process, whether you are looking to take financial advice for the first time or you've taken financial advice in the past.

Finances often take a low priority for many people because they are complex, but at Simply Mortgage our clients appreciate our ability to make the mortgage-arranging process both simple and enjoyable.

At Simply Mortgage, we ask the questions, look into your future, give straightforward advice and find the right mortgage solution for you.

Contact us today to begin your journey – we look forward to hearing from you.

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