**Module 3**
Session 7

# First Time Buyer

## Lesson summary

Getting your foot on the property ladder can be an exciting financial milestone after many years of saving. However, the world of mortgages and conveyancing can be confusing. This session is your guide to the home buying journey.

## Learning Objectives

To be able to talk about the steps of the mortgage journey.

To be able to discuss the factors that can affect our mortgage borrowing.

To be able to understand mortgage terminology.

## Lesson preparation

1. HSBC PowerPoint slides to facilitate lesson: Module 3 Session 7 First Time Buyer
2. HSBC Worksheet M3W7 to complete the activity
3. HSBC Stretch Challenge M3SC7 to further embed learning as homework or a class project
4. Prepare examples of your own experience or a friend/family member's experience of buying a home to use during the session
5. Calculators for mortgage related maths questions (Slides 7+10)

Essex Year of NUMBERS | HSBC UK

# Slide 2: Overview Of The Mortgage Journey – 5 mins

## Group work: Worksheet M3W7

What is the correct order of the mortgage journey. Work in groups to put the different stages of the mortgage journey in the correct order on the worksheet.

Move on to the next slide for the answers.

**CLICK to reveal the answers on the worksheet. How many did you get right.**

**Step 1 – Work out your budget:**
This is how much you can afford to borrow and spend each month on repayments

**Step 2 – Find your new home:**
What is important to you? What is going to be good value?

**Step 3 – Apply for your mortgage:**
Normally an appointment at the bank or with a mortgage broker to look closer at your mortgage and protection needs

**Step 4 – Appoint a legal representative (solicitor or licensed conveyancer):**
They will liaise with the sellers legal team

**Step 5 – Your mortgage offer is confirmed, and a valuation will take place:**
This confirms the assets are worth the amount being borrowed. Remember a mortgage is a secured form of lending

**Step 6 – Liaise with the legal representative:**
They will support you in checking on progress of surveys and contracts

**Step 7 – Exchange contracts and agree a completion date:**
Once contracts are exchanged you are legally bound to buy the property

**Step 8 – Complete your mortgage:**
Your completion date is when all monies are exchanged and you can pick up the keys to your new home!

# Slide 3: Working out your budget – 8 mins

**Explain to the group what a mortgage in principle is.**

### Mortgage In Principle:

A mortgage in principle or decision in principle is confirmation from a lender that they are prepared to lend a certain amount to you ahead of buying your new home and you will usually need this in place to make an offer to buy a property. It's not guaranteed as circumstances change but is more of an indication that at that point in time they will lend to you.

- Maximum mortgage borrowing is worked out using salary multiples
- This is normally around 4.5 times your gross pay
- This can vary between providers
- You may end up with less than this due to your type of income or personal situation/ other financial commitments that you may have

**Group work: Discuss how the type/level of income that you earn, or your personal situation could affect your mortgage offer/decision in principle. Consider group answers given and discuss the remainder of slide content if not brought up in group discussion.**

**CLICK to reveal answers.**

### Types of income:

**Employed Vs Self-employed** – Rules can vary but most banks would like you to be employed for at least 3 months or self-employed for at least 3 years before applying for a mortgage.

**Ask the group: Why do you think this is?**

A mortgage is a long term debt and self-employed businesses are considered more high risk so the stability/profitability of the business needs to be proven.

**Frequency of Pay** – Your income could change once it has been averaged.

- Paid Weekly – you would need to multiply your average weekly earnings by 52 and then divide this by 12 to work out a monthly average
- Paid Monthly – you would need to find the average of last 3 months pay
- Self Employed yearly profit – you would need to find the average of last 3 years to prove the company is successful

**Additional earnings** – You could top up your income with a side job or claim certain benefits. Banks have rules on what could be used as income for the mortgage and you would need to show that this income was consistent again calculating averages over a fixed period.

**Correct Documentation** – If you can't evidence your income, you can't use it for your mortgage. Most employed people will simply provide bank statements and pay slips for the past three months. If you are self-employed, you will need to produce your yearly accounts to demonstrate your income.

## Personal Situation:

**Outgoings** – The more you spend, the less space in your budget there will be to afford to pay a mortgage. Remember you want to look like a low-risk borrower so it's a good idea to try and cut back your spending habits as you are getting ready to buy a home showing that you can live well within your means and afford the mortgage payments on top of this. Lenders may ask for specifics on certain areas of spending, and in other areas they will use the national averages.

For example:

**Travel costs** – How much do you spend on getting to work? You need to work to earn money so this is an essential cost in your mortgage budget.

**Dependents** – Do you have any children? Do you care for an elderly relative? These are also considered essential costs in your mortgage budget.

**Sole or joint application** – You can combine your income with your partner to be able to afford to borrow more for the mortgage. Remember this will be a joint financial association so you will both be equally responsible for paying back the mortgage.

**Credit Score** – If your credit score is too low you may get a reduced mortgage in principle as the risk is too high to lend you a larger amount of money. Additionally, the mortgage may be approved but on a higher APR which is more expensive for you to repay.

# Slide 4: How far does my money go? – 6 mins

**Ask the group: These charts show how salary differs by age and region. What do you notice about the average salary vs house prices in the UK?**

- North/South divide
- London and surrounding areas
- Hot spots for property prices in the South West / East of England – premium coastal living could be pushing house prices up

**Ask the group: What else do you think affects the price of property?**

Cities; jobs; investment; local resources; transport links; supply and demand; schools; quality of living; desirability of the area eg Sandbanks.

**Ask the group: Would any of the average salaries be able to afford the average house price in their respective region? Remember it's 4.5 times salary.**

No, none of the average salaries would be able to afford the average house price without saving thousands of pounds for a deposit.

Sources – Office for National Statistics (ONS):

- Released 26 October 2022, ONS website, statistical bulletin, employee earnings in the UK: 2022. Median annual salary & by age: PROV – Age Group Table 6.7a – Annual pay - Gross 2022.xls
- ONS UK House Price Index summary: December 2022

# Slide 5: Government Support – 3 mins

**For many people, saving a large deposit for a mortgage can be an extremely difficult financial goal. Therefore, the government has programmes and products to try and support people in making this goal more achievable.**

**CLICK to reveal:**

**Lifetime ISA**

- Available to open if you are 18 – 39
- You can contribute up to £4000 annually
- The government will add in 25% bonus on your deposits (£1k max annually)
- Earn interest on your own savings and government bonus each year. Interest is tax free as this is an ISA
- The maximum bonus is £33,000 if you open it at 18 and put in the maximum amount until you are 50
- This can be used on a property value up to £450,000

**Shared Ownership**

- There are many shared ownership schemes across the country for new build houses
- Typically, you buy a share of the property worth between 25-75%, and pay rent on the rest
- You have the option to "staircase" when you can afford to buy more of the property
- Rent is determined by property value, maintenance and service charges
- If you wanted to buy a 50% share of a house, you would only need to find a 5-10% deposit for your share not the whole value

**Ask the group: Have any of your parents/guardians/siblings used any of these schemes?**

Talk through schemes and refer the learners back to ownyourhome.gov.uk for further guidance if they are interested in understanding more.

# Slide 6: First Time Buyer – A Case Study – 6 mins

**Talk through the case study line by line with maths elements for the young people to calculate as you work.**

**Consider the first time buyers on screen – this is for a joint application**

- Each earn a gross annual income of £25,000 giving a joint income of £50,000
- Each have saved a deposit of £10,000 giving a total deposit of £20,000

**Ask the group: Work out the maximum that they can borrow (Young people may wish to use calculators to work this out).**

- 50,000 x 4.5 = £225,000

**CLICK to reveal property price:**

They have found a house they like for £200,000. They must pay at least a 5-10% deposit as banks don't let you borrow 100% of the value in most circumstances.

**Ask the group: Assuming they use their entire deposit of £20,000. How much will they need to borrow to buy the house?**

**CLICK to reveal answer:**

- £200,000 – £20,000 = £180,000

**Ask the group: Does anyone know what stamp duty is?**

**CLICK to reveal answer:**

Stamp duty is tax paid based on the value of the property you are purchasing as a percentage of the purchase price.

In this instance they wouldn't need to pay any stamp duty as the property is valued at less than £250,000. For properties over £425,000 the stamp duty can be between 5-12% of the purchase price.

For a property that is say £500,000, you would pay no stamp duty on the first £425,000 and then 5% on the portion that is between £425,001 and £500,000 (5% of £75,000 = £3,750).

The next decision is to select a mortgage product. The customers are given options around different types of mortgage product.

**CLICK to reveal:**

They have opted for a fixed mortgage.

**CLICK to reveal any additional commitments:**

They have no additional child care costs or large outgoings, so they can borrow the full amount of from their salary multiples.

### Ask the group: (CLICK) What other fees or charges do you think they will need to plan for?

Discuss and then reveal answers on next slide.

---

## Slide 7: Buying your first home – Building your budget – 3 mins

### There are also other fees to consider when planning ahead for your mortgage application. Fees vary depending on the value of the property being purchased – these numbers quoted are based on a purchase price of £200k.

**Deposit** – While 5% is the minimum you'll need, there are plenty of reasons to save more if you can.

1. Cheaper monthly repayments – it might sound obvious, but the bigger your mortgage deposit, the smaller your loan will be. The smaller your loan is, the cheaper your monthly repayments will be
2. Better mortgage deals – a larger deposit will also make you less risky for mortgage lenders and so they'll generally offer you lower interest rates. For example, the average rate on a two-year 95% mortgage in March 2024 is 5.91%, whereas for 90% mortgages it is 5.46% – a difference of 0.45%
3. Improved chance of being accepted – all lenders conduct affordability checks to work out whether you can afford the mortgage repayments, based on your income and outgoings. If you only put down a small deposit you are more likely to fail these checks because you'll need to spend more on your mortgage each month
4. Less risky – if you own more of your home outright you are less likely to fall into 'negative equity', where you owe more on your mortgage than your property is worth. Being in negative equity can make moving house or switching mortgage very difficult

**Conveyancing Fees** – A solicitor will need to be paid to handle the conveyancing for your property. Conveyancing is the legal process of transferring a property from one owner to another. Your solicitor or conveyancer will check the contract, all associated legal documents for the property (including the lease if there is one) and find out about the property's history through planning and title searches. They will also check the local area to make sure that there is nothing significant that you need to be aware of.

**Removal Costs** – Prices vary depending on how much and how far you are moving. You could hire a van and move yourself or hire a moving company to help you move. You can even hire removal companies that help you pack up your things and unpack your things too!

**Booking Fees** – Many mortgage providers can book you special interest rates for your mortgage, but they often include a fee to be paid. These often have a lower interest rate than the fee free option. Your mortgage provider will be able to let you know how much money you could save by paying an upfront fee.

**Stamp Duty Land Tax** – This goes to the government and won't be included even if your lender will cover legal fees. A permanent change to the initial stamp duty threshold for first time buyers means that anyone buying their first home won't be liable for stamp duty if the purchase price is below £425,000. Full Stamp Duty relief for everyone else who are not first time buyers is available up to £250,000. For homes above this rate, the level of stamp duty due varies:

- £250,001 (£425,000 for first time buyers) to £925,000: Stamp Duty rate of 5%
- £925,001 to £1.5 million: Stamp Duty rate of 10%
- Anything above £1.5 million: Stamp Duty charged at 12%

First time buyers will need to declare that they have never owned a property either in the UK or abroad. If a property is being purchased by more than one individual then all parties will need to be first time buyers to qualify for the relief.

**Valuation** – This is a check by your mortgage lender to confirm a) the property exists and b) the value of the property to reassure the lender that it can recover the debt if you miss payments and it repossesses and then sells your home. The cost of the valuation depends on the property's value, and your lender, but assume it'll be about £250. This is not to be confused with a survey, which is optional but advisable (especially if you're buying an old property).

**Surveys** – When buying a property it is important to get a survey done to check that all is in order with the property. There are three main types of survey:

1. Condition report – A basic traffic light system to show you what condition the property is in based on a visual inspection by your surveyor
2. HomeBuyer report – A more detailed report with recommendations for anything that should be looked into further – for example signs of damp – and advice on budget needed to fix the issue(s)
3. Building survey – This gives you a full structural survey and can be useful if the property you are buying is old or if you are planning to do work to the property once you are in. This one is the most expensive option

**Let's look at the costs (you may ask the group to help with finding some of the mid-points):**

1. Conveyancing fees mid point in cost range: £825
2. Removal costs mid point in cost range: £425
3. Booking fees mid point in cost range: £1,000
4. Stamp duty: £0
5. Valuation: £250
6. HomeBuyers Survey, average cost for a 2 bedroomed property valued at £200,000: £420 (mid point of range on the slide £900)

If we take all this into consideration, the total amount needed to complete these purchases has increased from £20,000 to £22,920. Don't forget about the extra moving in costs when planning your financial goals too as you may need to buy furniture, kitchen equipment etc.

Sources:

- Current UK mortgage rates. Rightmove (accessed March 2024) rightmove.co.uk
- Valuation Fee- valuation fee scale source. HSBC (accessed March 2024) What Is A Mortgage Valuation? | Mortgages – HSBC UK
- SDLT/Conveyancing Fees/Local Searches/Removal/Funds Transfer Charge Home Owners Alliance (accessed March 2024) hoa.org.uk
- How much does a house survey cost in 2024? Home Owners Alliance (accessed March 2024) hoa.org.uk

# Slide 8: Finding your new home – 6 mins

### 1. The first step to find a new home is to think about your requirements of a property?

### Ask the group: What would you need to know about the property?

Number of bedrooms/bathrooms, size of rooms, garden, garage/driveway/parking, cost of bills, insulation, leasehold or freehold, cost of council tax, security, floorplan, access to the property

**CLICK to reveal list of things to think about when purchasing a property:**

### 2. Is the property leasehold or freehold? (CLICK to reveal more information)

**Freehold** – The freeholder of a property owns it and the land it is on.

**Leasehold** – You own the property but must pay a lease on the land. This can involve a monthly/yearly service charge which you would need to budget for. A lease is typical if you buy a flat. This price does not stay the same and can go up each year. It's worth checking the history of how much the charge has previously been put up each year so that you can budget for this.

### 3. Start to research cost of bills

Council tax bands can be found online. You would need to divide the total bill by 10 or 12 depending on how many months you wish to pay it over.

Pick a gas and electricity supplier: Look at the comparison sites to find the best deals. Some companies will give you a discount if you sign up for both and lock in for a fixed term.

Explore Internet/TV/Phone packages: Make sure the internet service is at the level that you need particularly if you stream your TV services or enjoy gaming.

### 4. Make an offer but remember your maximum budget/deposit

The offer is subject to contract and satisfactory survey. This means you can end the transaction if you discover something bad about the property during conveyancing.

**5. Ask the seller to take the property off the market to prevent further offers.**

**Ask the group: What would you want to know about the area that your property is in?**

**CLICK to reveal answers:**

Transport, services, nightlife, green spaces, doctors, schools, crime rates, local gym/classes, any neighbour disputes, any planned developments (could be good or bad for your property value), flooding.

Remember to write a list of questions for the estate agent to answer during any viewings and do some research online to see if you can find any additional information out as well.

---

# Slide 9: Loan To Value – 8 mins

**Remember that you must pay a deposit towards the purchase of the property you are buying. The more deposit you pay the less risk there is to the bank. Banks measure this as Loan to Value or LTV.**

The lower the LTV means you own more of the house and gain access to lower mortgage interest rates as there is more equity in the house should the bank need to repossess the property if you are unable to pay your mortgage (so that they can recover the money they have lent you).

LTV is calculated by dividing the loan amount by the property value and then multiplying the answer by 100 to calculate as the percentage.

**CLICK to reveal example:**

- 150K Borrowed divided by 170K property value = 0.882
- 0.882 X100 = 88.2%

**Group work: Click to reveal the LTV scenario for the groups to work out.**

**Ask the group: Look at the next example. Which scenario would give the customer the lowest LTV?**

Calculation 1:

- 155K Borrowed divided by 170K property value = 0.912
- 0.911 X100 = 91.2%

Calculation 2:

- 125K Borrowed divided by 150K property value = 0.833
- 0.833 X100 = 83.3%

---

# Slide 10: Mortgage Choices – 5 mins

**Once the bank has worked out the LTV you will then have different choices to make about your mortgage product.**

**Ask the group: What is the difference between a capital repayment and an interest only mortgage?**

**Discuss and CLICK to reveal answers:**

**Capital Repayment**

- Your monthly repayment includes the capital (the amount you have borrowed) and the monthly mortgage interest
- You can ensure the mortgage is fully paid off by the end of the term
- This is the most common type of mortgage

**Interest Only**

- Your monthly repayment only covers the monthly mortgage interest
- This means the capital of the debt has not been paid back
- You must prove that you have some way to pay off the debt by the end of the mortgage
- Suitable if you are looking to rent out the property

## Ask the group: What is the difference between a residential mortgage and a buy to let mortgage?

**Discuss and CLICK to reveal answers:**

**Residential**

- This is when you borrow money for a mortgage on a property you plan to live in
- You cannot use this property for commercial purposes but working from home on occasion is usually ok – you would need to check this with your lender

**Buy to Let**

- This is when you borrow money for a mortgage on a property you plan to rent out to generate an income
- The mortgage is calculated on the rent the property could generate instead of your income
- You normally need at least a 25% deposit due to the additional risks

## Ask the group: What is the difference between a fixed rate mortgage and a tracker mortgage?

**Discuss and CLICK to reveal answers:**

**Fixed Rate Mortgage**

- Your monthly payments stay the same until an agreed date no matter what happens to interest rates
- Gives security and peace of mind
- You may face fees for paying your mortgage off early or if you want to switch to another mortgage provider

**Tracker Mortgage**

- Your mortgage interest rates are influenced by the Bank of England base rate changes plus an agreed margin from the bank up to an agreed date
- This means your payments could change from month to month
- You may be able to pay the mortgage off earlier with no fees

Once you have discussed each of these preferences through with the bank they would then be able to make recommendations to you on an appropriate mortgage product for you to take.

# Slide 11: Mortgage offer confirmed – What is next? – 3 mins

**Once you mortgage offer has been approved by the bank, most of the work is now handled by your legal representatives liaising with the estate agents. This work can take around 3 months to complete and sometimes longer if you and the seller don't respond in a timely manner or if there are any complications.**

1. **Get a survey** – Your lender will do a valuation to make sure the property is worth the agreed price, is suitable to lend against and to identify any hidden issues. You should also get your own survey too to make sure you are happy with the property/ know of any issues
2. **Appoint a Legal Representative** – Your solicitor or conveyancer will check the contract, all associated legal documents (including the lease if there is one) and find out about the property's history through planning and title searches
3. **Exchange Contracts** – You and the seller have signed the contracts and deposit money has been paid. This is the point of no return for the purchase. You will also agree final completion dates
4. **Completion Date** – Mortgage is drawn down by the solicitor and funds are paid to the seller of the property. You are now the legal owner and can collect your keys

# Slide 12: Stretch Challenge

**This can be used as you see fit for a homework, group project or additional lesson during school hours. Stretch Challenge worksheet M3SC7 provided to record answers:**

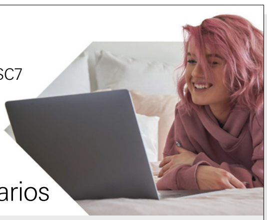
Research the cost of houses in your local area online:

- What could you buy if you were earning the median average salary* (£27,756) a year with a £20,000 deposit?
- What could you buy if you were earning £45,000 a year with a £35,000 deposit?
- What could you buy if you were married and were both earning the median average salary and with a combined £30,000 deposit?

For each scenario, consider the following:

- What your budget would be for buying a property and if this is enough?
- How much would the monthly repayments be?
- What local facilities does it have?
- What travel costs would you have to include If you bought that house?(Public transport or cost of petrol etc)

*What is the Average UK Salary? 2023 (standout-cv.com) https://standout-cv.com/pages/average-uk-salary



**Module 3**
Session 7 M3SC7

Stretch Challenge: Mortgage Scenarios

**Research the cost of houses/flats in your local area online.**

For each scenario, consider the following:

- How much can you borrow? Multiply the salary given in the example by 4.5 and then add on the deposit
- How much would the monthly repayments be? Use a mortgage calculator on a bank's website
- What local facilities does the property have that you would use
- What travel costs would you have to include If you bought that house (Public transport or cost of petrol etc)

**What could you buy if you were earning the average salary* of £27,756 a year and have a £20,000 deposit in savings?**

| | |
|---|---|
| **What would your budget be for buying a property?** | |
| **Is it possible to buy a property in your local area with this amount of money?** | |
| **Monthly Repayments** | |
| **Local Facilities** | |
| **Travel Costs** | |

Essex Year of NUMBERS | HSBC UK

Name:

**What could you buy if you were earning £45,000 a year with a £35,000 deposit in savings?**

| | |
|---|---|
| **What would your budget be for buying a property?** | |
| **Is it possible to buy a property in your local area with this amount of money?** | |
| **Monthly Repayments** | |
| **Local Facilities** | |
| **Travel Costs** | |

**What could you buy if you were married, both earning the average salary of £27,756 a year and with a combined £30,000 deposit in savings.**

| | |
|---|---|
| **What would your budget be for buying a property?** | |
| **Is it possible to buy a property in your local area with this amount of money?** | |
| **Monthly Repayments** | |
| **Local Facilities** | |
| **Travel Costs** | |

* Office for National Statistics (ONS), released 26 October 2022, ONS website, statistical bulletin, Employee earnings in the UK: 2022. Median annual salary & by age: PROV – Age Group Table 6.7a – Annual pay - Gross 2022.xls

M3SC7

Name:

# Slide 13: Worksheet

**Worksheet 3.2 – What is the correct order of the mortgage journey. Young people to work in groups to put the headings in the correct order on the worksheet.**

**Step 1** – Work out your budget. This is how much you can afford to borrow and spend each month on repayments.

**Step 2** – Find your new home. What is important to you? What is going to be good value?

**Step 3** – Apply for your mortgage. Normally an appointment at the bank or mortgage broker to look closer at your mortgage and protection needs.

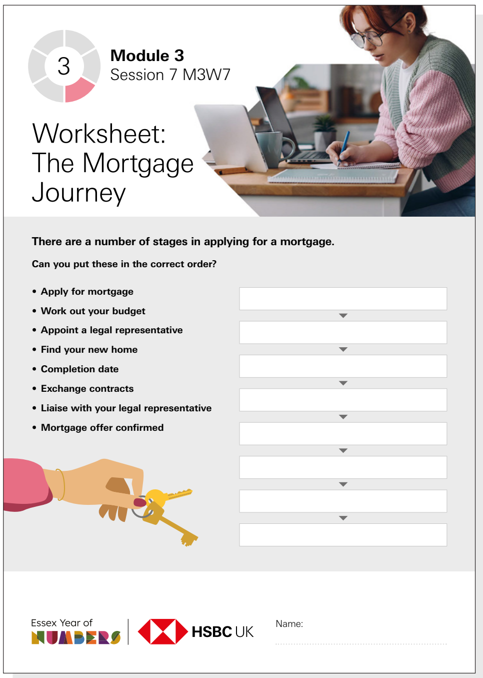
**Step 4** – Appoint a legal representative (solicitor or licensed conveyancer). They will liaise with the sellers legal team.

**Step 5** – Your mortgage offer is confirmed, and a valuation will take place. This confirms the assets are worth the amount being borrowed. Remember a mortgage is a secured form of lending.

**Step 6** – Liaise with the legal representative to check on progress of surveys and contracts.

**Step 7** – Exchange contracts and agree a completion date. This is the day that all monies will be transferred, and you own the house.

**Step 8** – Complete your mortgage and pick up the keys to your new home.


3
Module 3
Session 7 M3W7

Worksheet:
The Mortgage Journey

There are a number of stages in applying for a mortgage.

Can you put these in the correct order?

- Apply for mortgage
- Work out your budget
- Appoint a legal representative
- Find your new home
- Completion date
- Exchange contracts
- Liaise with your legal representative
- Mortgage offer confirmed

Essex Year of NUMBERS | HSBC UK

Name: