Borrowing to buy your new home

What we'll cover:

We are here to help you

Buying your first or next home can be stressful. There are many questions you will need to ask yourself regarding your choice of property.

This guide will help you to understand the benefits, risks and associated costs of borrowing to buy your new home.

As your adviser, we are on hand to answer your questions. We will help you with the tricky process of not only getting a mortgage, but getting the right mortgage.

We will help you with:

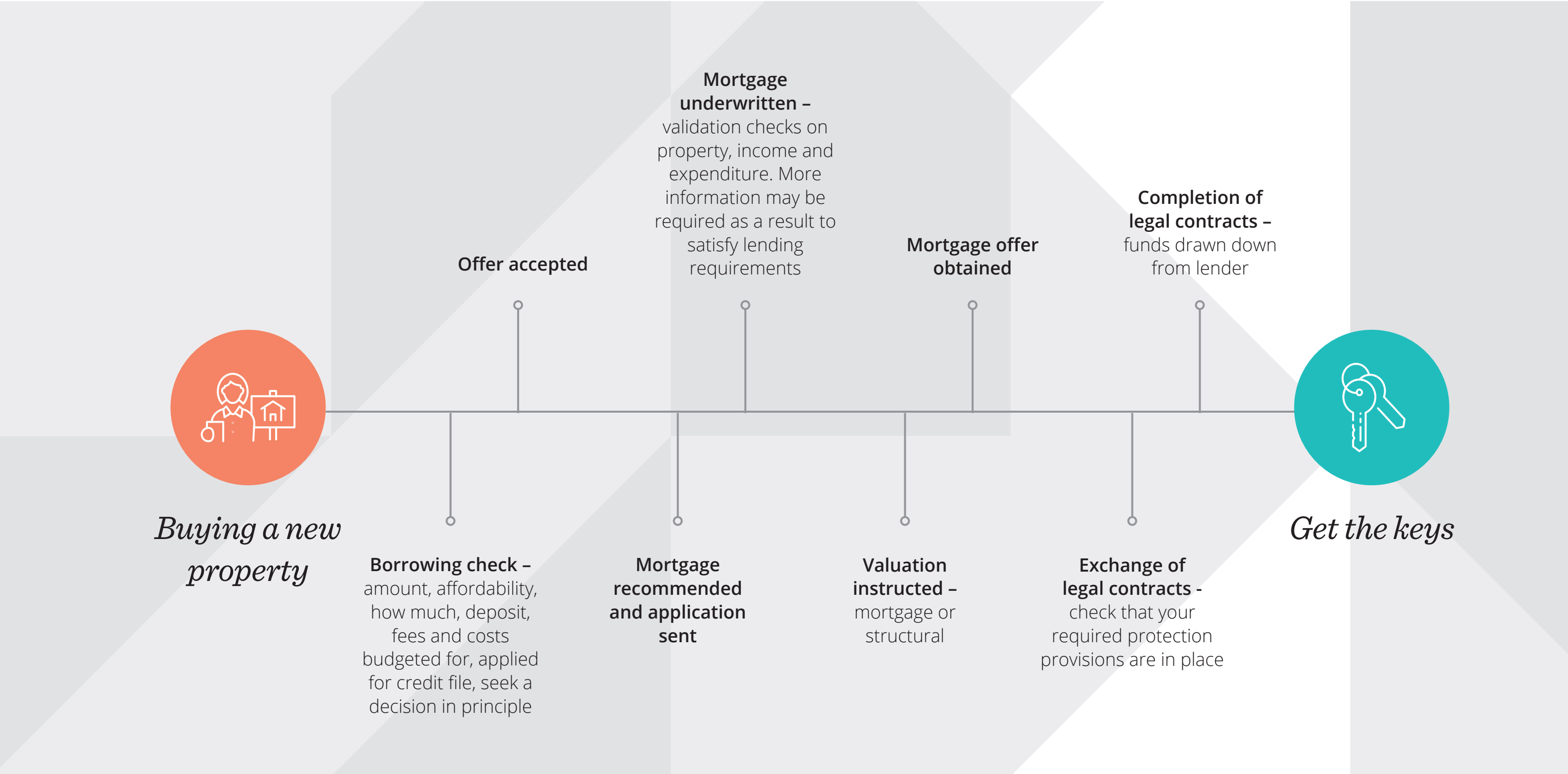
- How much will it cost?
- Can I afford it?
- How much deposit will I need?
- What type of mortgage do I want?
- Will I get a mortgage?

Our role is to:

1. ensure you pay the right monthly amount
2. save you time and effort by recommending the most appropriate solution
3. stop you missing out on the most cost effective way of arranging your loan.

To help clarify technical terms and jargon, we have included an A-Z glossary, which is based on our understanding of taxation, regulation and legislation for the 2025/26 tax year.

The mortgage application process



Things to know about the mortgage process

Scottish buying process
Buying a property in Scotland is different to England and Wales, in the way you make and agree your offer, as well as gain entry to your new home.

Fixed price vs offers over
There are two ways of buying a property – 'fixed price' (where the person selling the home dictates the exact price they are willing to accept) and 'offers over' (where the person selling receives offers over a given price).

Fixed price is effectively a 'first to offer the price wins' race. Offers over is more like 'blind bidding' as a deadline is usually set, offers made and the person selling the house can choose their preferred buyer (usually on price).

Concluding missives
This happens normally around two weeks after the offer has been accepted, and searches have been done. It is similar to 'exchange' in England and Wales, in that the contract is binding afterwards.

Date of entry (settlement)
Similar to 'completion' in England and Wales, this is when funds have been taken from the lender and keys to the new property are made available.

While this is the standard process, please be aware that there are things that can delay progress that are outside of our control (e.g. property not valuing to the levels expected, further proof of income required by lenders).

A-Z mortgage glossary

Accident, sickness and unemployment cover

This is a renewable cover that provides payment for a short period of time if an accident, sickness or unemployment occurs. Often there is a deferred period after the point of claim (e.g. six weeks), and it is after this point that benefits are then paid. Benefits are normally only paid for periods of up to two years. Be aware that premiums will vary at renewal each year.

Affordability

Before taking out a mortgage, ask yourself:

- Can I still afford the repayments if interest rates rise?
- Can I repay the loan if house prices fall?

For example, if you find a mortgage with an interest rate of 3% fixed for three years. That's a great rate. After three years you find interest rates have increased, will your salary cover the increase in repayments?

Annual percentage rate of charge (APRC)

This is the interest rate that takes into account the total charge for lending you the money each year.

It includes the added costs of the loan (such as arrangement fees), as well as factoring in the frequency that interest is charged (e.g. daily, monthly, quarterly or annually).

This results in a figure that shows the equivalent rate on an annual basis.

Builders incentives – new-build 'off plan' offers

These may be attractive to the price you pay for the property. Be aware that some lenders may restrict the amount they lend in relation to these types of contracts.

This protects them against market sentiment and may mean you have to invest more of your own deposit.

Buildings insurance

This is insurance that protects the property, fixtures and fittings. It can protect against fire, flood, subsidence and accidental damage. The amount of cover chosen is to cover the rebuilding cost of the property, which is often different to its market value. The amount you have to pay towards any claim is called an excess, and can vary depending on what is being covered (e.g. subsidence, fire).

Completion

The stage in England and Wales where the property ownership finally changes for a purchase. Your conveyancer arranges for your deposit and lender monies to be paid to the person selling and completes the legal documentation.

Contents insurance

This insurance protects items that can easily be removed from a property. Cover can be for risks such as fire, theft or accidental damage. The amount you have to pay towards any claim is called an excess, and can vary depending on the item covered and what it is being insured against (e.g. accidental damage, theft).

Conveyancer

The job of a conveyancer (or solicitor) for a purchase is to help:

- Carry out a search of local planning information for items that may impact the value (e.g. upcoming land developments, new roads).
- Prepare a fixtures, fittings and contents list – this makes it clear what you are buying (e.g. kitchen appliances, lights, carpets).
- Confirm from the vendor whether they are aware of any material, structural or other defects to the property that you should know about.
- Obtain proof that the property legally belongs to the person you are buying it from.
- Research and find the property's legal boundaries.
- Review and advise you on the contract for sale (prepared by the seller's solicitor).
- Agree a completion date.

Most lenders will be prepared to accept your choice of conveyancer, as most experienced solicitors will have acted for the lender in question before. However, it can be best to check beforehand.

Credit reference agencies

These agencies hold information on most UK adults. That data helps lenders assess the risk of lending to a specific person. There are a number of agencies in the UK, the main ones being Experian, Equifax, Callcredit and Checkmyfile.

Credit score

To help a lender assess your application, it is usual that they will use a form of scoring system to decide whether to accept your application. Different lenders give different levels of importance to your circumstances, and some set a higher pass mark than others.

It is normally based on three core areas:

- Public record information (e.g. the electoral roll).
- Credit account information (e.g. records of amounts of loans and your payment history).
- Search information (e.g. the number of applications you have made for credit).

This means that care is required to ensure you approach the most suitable lenders, as an application will be recorded as a search (even if unsuccessful) and can then influence other lenders' decisions.

Critical illness cover

Critical illness protection is an insurance which helps protect you if you become critically ill. Policies cover specific conditions, usually including cancers, strokes and heart attacks. Unlike most income protection policies, you are paid a single lump sum that could allow you to pay off the mortgage, for example, or to adapt your home if you become less-abled.

Deposit

A house deposit is an initial payment made by a buyer towards the purchase price of a property, representing a portion of the total cost.

Less risk taking means lower loan-to-value (LTV) ratios, and personal deposits need to be larger than in the recent past.

Typically you will need at least 5% as a first time buyer and 20% to access the most competitive interest rates on the market.

Disclosure

It is a legal requirement that you disclose your circumstances fully and accurately. Also, non-disclosure of credit commitments, missed payments, County Court Judgements (CCJs), accurate address history, and number of dependents will have a big impact on your application now and also on any future application for financial services (as evidence of this may be loaded onto fraud databases).

Disclosing any issues to a lender does not automatically mean the application will be declined - indeed many lenders have provision for this type of business.

You may wish to consider obtaining a credit report to identify any historical or current credit issues, as well as check your past address history.

Drawdown

During the completion stage, this is when funds are released from your lender to be used for the property purchase.

Early repayment charge

This is normally shown as a percentage of the loan but can also be a fixed fee. They apply if you repay your loan during any special incentive periods (e.g. discount). Some products extend that time beyond the initial period so be aware. Part payments can also sometimes trigger this, although most lenders allow a small percentage a year to be repaid without this happening.

Exchange

In England and Wales, this is the stage after which you are legally committed to purchase the new property. Usually deposits will be moved to the vendor's conveyancer, so if you withdraw from the process you will lose the deposit. Insurance and protection should be in place at this point.

Equity

The difference between the value of your home and your outstanding mortgage is known as equity. You could use the equity in your home as your deposit for your new mortgage. Less risk-taking by lenders means lower LTV ratios, so the more equity the better. If you get into trouble making your mortgage repayments your lender needs to be sure it can cover the outstanding mortgage by taking your home and selling it. The lower the LTV the more chance your lender has of achieving this.

To get the better deals on interest rates, you'll need around 20% equity. As a rule, the more equity you have, the lower your interest rate.

Family income benefit

This cover will pay out if death occurs, and provides an income per year for the term remaining on the policy. For example, for a 20 year term, where the claim occurred after five years, there would be 15 annual payments made in total.

The payments are not normally subject to income tax but may impact some state benefits.

Freehold

If you own the freehold of a property, it means that you own the building and the land.

Friends mortgages

The theory is that by joining together with friends you increase total income and therefore affordability. You own a share in the property that equates to your contribution.

You need to be sure you have covered all eventualities with a legally binding contract that applies to all parties.

Gazumping

This is where the seller decides to take a higher offer, even after initially accepting yours. This could leave you out of pocket on expenses like the legal costs and survey fee. In England and Wales, the sale is secured by law only when contracts have been signed and exchanged.

Under the Scottish system, the seller confirms his acceptance of the offer.

If the seller then gets a better offer and wants to change his mind, his solicitor will refuse to act for him on the new transaction – as doing so would leave him open to charges of professional misconduct.

Guarantor

A guarantor takes on some of the risk of you being unable to meet your repayments. The lender will normally require your guarantors to offer their property as security against the guaranteed part of the mortgage.

Technically they become immediately liable to repay the outstanding loan if you are no longer able to make your payments. In reality, what usually happens is an agreement is made between the lender and the guarantor, so they maintain payments until you are able to do so.

Higher lending charge

This was previously known as a mortgage indemnity guarantee (MIG). It is where high LTV lending happens and an insurance policy is taken out by the lender to protect itself - should you default and property values decline. This cost is passed on to you through this charge. Not all lenders charge this.

Income protection

Income protection is an insurance which pays out a tax-free monthly sum while you're unable to work because of illness or injury. You can keep claiming as long as you need to, within the length of the policy.

Indexation of benefit

This is a feature that can be added to some insurance plans. This allows the amount of benefit and cover you have in place to increase during the term of the plan. Increases can be set amounts, or linked to inflation or national average earnings increases.

Normally increases happen at each anniversary. Premiums also increase to reflect the higher level of cover.

Interest only mortgage

With an interest only mortgage, your payments to the lender cover only the interest on the loan (i.e. they do not repay any of the capital). The total amount of your debt does not reduce over time and the full amount of the loan still has to be repaid to the lender at the end of the term.

Land taxes

When you buy property you must pay tax based on its value. In England and Northern Ireland you pay Stamp Duty Land Tax (SDLT); in Scotland you pay Land and Buildings Transaction Tax (LBTT), and in Wales you pay Land Transaction Tax (LTT).

The rate at which you pay tax is based on the price of the property and becomes progressively higher as you move through price bands. The current rates of SDLT and LBTT are:

SDLT rate

Property selling price from April 1st 2025	Rate
Up to £125,000	**0%**
From £125,001 and £250,000	**2%**
From £250,001 and £925,000	**5%**
From £925,001 and £1.5 million	**10%**
Above £1.5 million	**12%**

First-time buyers

Property selling price from April 1st 2025	Rate
Up to £300,000	**0%**
£300,001 to £425,000	**5%**
£425,001 to £500,000	**5%**
£500,001 to £625,000	**5%**

Stamp duty changes on April 1st 2025 will also have an effect on first-time homebuyers.

LBTT

Property selling price from April 1st 2025	Rate
Up to £300,000	**0%**
£300,001 to £425,000	**5%**
£425,001 to £500,000	**5%**
£500,001 to £625,000	**5%**

First-time buyers: 0% on first £225,000

You can find an LBTT calculator here:
www.revenue.scot/land-buildings-transaction-tax/tax-calculator/lbtt-property-transactions-calculator

LTT

Property value	Rate
The portion up to and including £180,000	**5%**
The portion over £180,000 up to and including £250,000	**8.5%**
The portion over £250,000 up to and including £400,000	**10%**
The portion over £400,000 up to and including £750,000	**12.5%**
The portion over £750,000 up to and including £1,500,000	**15%**
The portion over £1,500,000	**17%**

You can find an LTT calculator here: www.gov.wales/land-transaction-tax-rates-and-bands

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Leasehold

A leasehold building means you have permission to use the property for a certain term, as agreed with the freeholder who owns the land. Typically this applies to apartments, where the freeholder will be responsible for maintaining the common parts of the building (e.g. entrance hall, staircase, roof), for which the leaseholder pays ground rent.

Legal fees

When you buy or remortgage a property there is legal work that needs to be done which will incur fees.

Let-to-buy

Where you let the home you are currently living in, so that you can facilitate the purchase of your new home. You need to obtain permission to let from your current lender, and they may not agree depending on their appetite for risk. They may also alter the interest rate you pay.

Life cover

This is cover that pays out on death. Some plans pay upon earlier confirmation of a terminal illness where the prognosis is death within 12 months. It can pay out as a lump sum, or as income for a set period.

Cover can last for a set term called Term Assurance, or can last throughout life, called Whole of Life.

The amount of cover can remain the same or increase or decrease annually. Level term assurance stays the same throughout. Decreasing cover is sometimes used to cover a reducing debt, such as a repayment mortgage and usually assumes a given interest rate. Provided your mortgage rates don't exceed that rate, then the cover should reduce at around the same rate as the mortgage. The amount you pay is called the premium. It can either be guaranteed not to change, or it can be reviewable.

Reviewable cover normally changes based on the claims experience of the life assurance company.

Loan-to-value (LTV)

This is shown as a percentage rate, and is the amount of loan compared to the value of the property. The higher the loan-to value (LTV) the lower the deposit required, but typically also the higher the rate of interest payable. See also 'Deposit.'

Mortgage arrangement fees

This is an arrangement fee for your mortgage. Arrangement fees vary wildly, and may be expressed as a fixed fee or as a percentage of the loan.

Mortgage guarantee scheme

A residential mortgage guarantee scheme was introduced from April 2022 to June 2025, aimed at increasing availability of 91% to 95% loan-to-value mortgages. The maximum property value will be £600,000 and mortgages must be arranged on a repayment basis.

Mortgage types

Type of mortgage interest option	Description	Advantages	Disadvantages
Standard variable rate (SVR)	Your monthly repayments rise and fall in line with changes in your lender's standard variable rate of interest, not necessarily linked to the Bank of England base rate.	The lender does not usually charge an arrangement fee. There are usually no penalties if you redeem the mortgage – often called early redemption penalties.	You have no certainty over monthly repayments. Initial monthly repayments will be more expensive than other options with an incentivised rate for an initial period.
Discounted rate	Your lender gives you a discount against its SVR for a set period of time. It will normally revert to SVR after the initial period.	Repayments are lower than an SVR mortgage.	You have no certainty over monthly repayments. The lender will usually charge a one-off arrangement fee. There are usually early redemption penalties should you wish to redeem the mortgage during a period set by the lender.
Fixed rate	The interest rate is fixed by the lender for a set period. It will normally revert to SVR after the initial period.	Your monthly repayments stay the same even when interest rates rise. You can budget knowing what your monthly repayments will be.	Your monthly repayments stay the same even when interest rates lower. The lender will usually charge a one-off arrangement fee. There are usually early redemption penalties should you wish to redeem the mortgage during a period set by the lender.
Base rate tracker	During a set period the interest rate tracks the Bank of England's base rate. The interest rate is expressed as base rate + x%. The monthly repayments change every time the Bank of England changes interest rates. Some are 'Stepped Trackers' where the margin between base rate and SVR changes at the mortgage anniversary.	You benefit immediately from any reduction in interest rates by the Bank of England. Usually repayments are lower than an SVR mortgage.	You have no certainty over monthly repayments. The lender will usually charge a one-off arrangement fee. There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender.

Type of mortgage interest option	Description	Advantages	Disadvantages
Current account	A single account from which you run your day-to-day finances and your mortgage. It is like a current account with a large overdraft facility secured against your property.	The lender calculates interest on the current debit balance. There are no fixed monthly repayments; you can overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit. You effectively have a credit facility where you only pay interest at the mortgage rate.	The lender will usually charge a one-off arrangement fee. The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term. If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate. Also, other interest options sometimes allow overpayments and offer better rates.
Offset	A similar idea to the current account mortgage but without a single account. Essentially, your mortgage debt is notionally reduced by the balance in your savings account; you pay interest on this notionally reduced debt.	You pay interest on a lower balance than with a traditional mortgage. You can usually overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit.	The lender will usually charge a one-off arrangement fee. The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term. If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate. Also, other interest options sometimes allow overpayments and offer better rates.
Cashback	A mortgage that pays you an up front cash lump sum of either a fixed amount or a percentage of the mortgage advance.	Can be useful for first time buyers who may be on a tight budget and could use the cashback for home furnishings.	There are redemption penalties should you wish to redeem the mortgage during a period set by the lender. The rate is often SVR or very close to it.
Capped	The rate will not rise above a certain level for a set period.	Offers similar security to the fixed rate. Initial rates are usually competitive.	The lender will usually charge a one-off arrangement fee. There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender. Rates are often higher than a fixed rate, and caps are normally only two or three years.
Droplock/ switch to fix	A discount or tracker mortgage, which has an option to switch to a fixed rate at any point within the initial discount or tracker period without paying any early repayment charges.	Benefits from base rates when they are low, with the option to switch to the protection of a fixed rate should interest rates look set to rise significantly.	There can be an arrangement fee when this is exercised. There may not be a fixed rate product available at the time the borrower wishes to switch.

Type of mortgage interest option	Description	Advantages	Disadvantages
LIBOR	Linked to the London Inter-Bank Offered Rate. This is the rate commercial banks lend to each other, and set every day for different periods (whereas Bank of England would change at most once a month). Most popular is the three month LIBOR. It is set for a three month period, and when this expires it is set for another three months. So in a year it will change potentially four times.	Historically LIBOR can be slightly lower than Bank of England base rate.	You have no certainty over monthly repayments. There is no guarantee that it will not be higher than Bank base rate. The lender will usually charge a one-off arrangement fee. There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender.
Foreign currency	A mortgage that is not in the same currency as your main income. This means it applies to UK property and not only to properties abroad.	If currency exchange rates move in your favour, then the value of your debt can decrease. This can impact it more than interest and repayments in the short term.	Changes in the exchange rate may increase the Sterling equivalent of your debt and repayments, even if interest rates remain the same. Good practice suggests factoring in at least a 20% change in currency values.

Offer

A house offer is a proposal made by a potential buyer to purchase a property at a specified price. It's the initial step in the negotiation process.

One-off costs

One-off costs include land taxes (stamp duty), legal fees, valuation/survey fees, and mortgage arrangement fees (see other sections for details).

Personal income

In order to assess whether you loan is affordable, lenders will look at your current and predicted expenditure. This is of course reliant on your income. Lenders will assess your income looking at areas such as:

- Source – (employed, self-employed, investments, dividends).
- Frequency of payment.
- Gross and net levels of income.
- Bonuses – some lenders do not include this as income as it is not guaranteed. Others may only allow a percentage of bonuses to be included in assessing your affordability.
- Time in your current role.

Private medical insurance

This is insurance that pays the hospital or doctor for your treatment. Some plans also allow you to claim if you are not able to be seen by the NHS within a set period. Other plans may charge a little more and don't have any link to NHS waiting times.

You are either medically checked and underwritten at outset (so you know what you're covered for and what you won't be), or have no medical checking at outset (but conditions that occurred two years before taking out the cover are not covered, and often there is no cover for a reoccurrence within five years after taking out the plan). Premiums are usually reviewable annually.

Property type

Some properties such as flats over commercial properties, studio flats and ex-local authority premises can be viewed as having reduced future attractiveness and as such some lenders may not operate in that market.

Listed buildings (e.g. Grade 1, Grade 2) may have restrictions on how you can maintain or alter the property as well as buildings near to it (e.g. garage). Some unlisted properties can also be subject to similar restrictions (e.g. in an area of outstanding natural beauty).

Regulation

Almost all residential mortgages are regulated by the Financial Conduct Authority for your peace of mind. We will let you know if any of the products or solutions are not regulated, and what that means to you.

Repayment mortgage

With a repayment mortgage your monthly repayments cover both capital and interest on the loan.

As the term continues, the amount outstanding on the loan reduces so the full amount of the loan will have been repaid at the end of the term as long as you have maintained payments.

No other repayment vehicle is needed and it avoids the risk of investing (e.g. in the stock market).

Risks

As with all investments, the value of a property can go down as well as up. Future housing or commercial development nearby, transport links and route changes can all impact value. Interest rate rises can also impact your repayments, and while you may be protected in the short term (e.g. fixed rate), you will be exposed to a different market at the end of any initial period.

The biggest risk to you is not being able to maintain payments if your income is effected in any way.

Self-employed

Self-employment is earning income without being employed and paid by someone else.

Shared ownership

These schemes are available through housing associations and are aimed at buyers who can't quite buy a home outright.

How they work is you buy a share (between 25% and 75% of your home) and pay rent on the remaining share. As time passes and your circumstances improve you have the option to increase your share until you own your home outright.

As usual, restrictions apply; you will also need a special shared-ownership mortgage to buy your share.

Valuation and survey fees

Before a lender will grant you a mortgage it will insist on a valuation to prove the property is worth what you're paying for it. The size of the valuation fee will vary by lender and property value but for a property costing £200,000 expect to pay around £100 (source: Halifax).

The basic mortgage valuation is for the lender's benefit so that it feels comfortable lending against the property.

Costs vary but for a valuation and survey on a house costing £200,000 expect to pay around £445 (source: Halifax).

Vendor

The owner of the property being sold.

Waiver of premium

This is a feature that can be added to some insurance plans. Should you become disabled, or seriously ill and unable to pay the premiums of a plan, this cover can pay your premiums for you.

There is normally a period before this benefit starts where you need to continue paying premiums (a deferred period).

Once the deferred period has passed, you will have your premiums paid for you.

Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.

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