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MORTGAGE SERVICES

Busting Mortgage Myths

Splitting facts from fiction

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Getting a mortgage is a major financial commitment so it's best to gather as much information as possible before you start. However, during the process you may come across some outdated and incorrect information. Below we will look at seven common mortgage 'myths' and give our expert verdict on each one.

Myth1: You'll need a much bigger deposit because of Covid-19

Verdict: Yes, but maybe not!

Okay, so due to Covid-19 lenders have tightened up their criteria and the loan-to-value percentages have generally gone down, meaning you'll need a relatively larger deposit in most cases. However, if you're in the market for a newly built home you can still buy one with a deposit of just 5% via the Help to buy Equity Loan scheme.

Equity loans are available for newly built homes with a price tag of up to £600,000 – for both first time buyers and home movers. With this scheme the government lends you up to 20% (40% if you're in London) of the cost of your newly built home.

So, you put down 5%, the government gives you a loan for 20% and the remaining 75% is your mortgage from a lender. You won't be charged interest on the 20% government loan for the first five years of owning your home.

Myth 2: You can't get a mortgage if you have a low credit score

Verdict: Not entirely true.

Contrary to popular belief, a credit score isn't everything and you can still get a mortgage with a below average score. You can have a low score if you haven't used much credit in the past, which is not your fault, so as long as you don't have anything negative on your credit file you should have options available.

Even if you have bad credit history, as in something negative such as a CCJ or missed payments, you may still be able to secure a mortgage, however it's worth being aware that your options may be limited and the mortgage deals available could have higher rates and fees and may require a larger deposit.
It is best to contact a mortgage broker to discuss the options available to you based on your own personal circumstances.

Myth 3: You are too old to get a mortgage

Verdict: Age is just a number, as long as all the numbers add up!

There is no maximum (or minimum age) to get a mortgage, each lender has their own age limit which typically varies from 70 to 85 years as the mortgage term end age. So, in most cases, age may limit your options but doesn't mean you're not eligible.

For instance, if you're 50 and you want a term of 30 years, you'll be limited to lenders who accept 80 years and above as the mortgage term end age. If you are 65 you may find that you can only get a mortgage for a 20-year term with a limited set of lenders. Goes without saying, all other criteria (income, affordability, credit history etc.) need to be met.

Myth 4: It's very difficult to get a mortgage if you are self-employed

Verdict: Well, yes and no.

The basic criteria for approval are the same for everyone: a stable income, affordability and good credit history. However, providing proof of income for self-employed borrowers is generally more burdensome, in terms of the documentation required. That's why it's a common misconception that it will be more difficult for self-employed applicants to get a loan than salaried workers.
If you're self-employed with a stable income, you'll need a good mortgage adviser and a good accountant, and it should be alright.

Myth 5: Lowest interest rate = cheapest mortgage

Verdict: Not necessarily.

Do not assume that lowest mortgage rates mean the best value. There are several factors influencing the overall cost of your mortgage.

1. Type of deal: You could have a tracker mortgage and your rate could increase at any time, while having a fixed-rate mortgage would mean you rate stays the same for a period.
2. Length of deal period: After the initial deal period, you'll be put on the lender's standard variable rate, which is usually much higher.
3. Fees: These could amount over £1000 and must be taken into consideration when calculating the overall cost.

Myth 6: There's no point looking into mortgages until you've found a property

Verdict: Wrong!

It would be a mistake to put the mortgage process on hold until you've found the home you want to buy. Instead you should be proactive and meet with an adviser before you start searching for a property, so you know what your budget should be. Shop around for the property and scope out the mortgage market to see what you can afford. You should also apply for a Decision in Principle (DIP) that lets you get ahead of the game and can make you a more attractive buyer.

Myth 7: You need to wait to apply for a mortgage if you have recently changed your job

Verdict: Probably not.

You can still get a mortgage if you've just switched jobs, it is not a deal breaker. Lenders realise that length of employment does not always correlate to stability - to climb up the ladder, one often needs to switch jobs. So, if you have a good career history and have switched jobs in pursuit of a better opportunity that should be fine. However, there are may be some exceptions, for instance, if you've had a complete career change or if the new job has a long probationary period, or if you've just switched to a temporary contract, etc.

It would be best to speak with a mortgage adviser if you find yourself in such a situation – getting professional advice will ensure that you don't unnecessarily ignore a career opportunity just because you are about to apply for a mortgage or that you don't put your move on hold because you started a new job!

Whether you are taking your first steps towards getting a foot on the property ladder or buying a bigger place for your growing family or investing in property, being armed with the right information is essential to your journey. As we demystify the world of mortgages, we would like to offer our services for a free consultation. If you are looking to get a mortgage, get in touch with us today.

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At Alexander Southwell Mortgage Services we can with all your Mortgage and Protection needs. Get in touch with us today on 02380 971117 or 07470 701788.