You can afford your mortgage now, but what if…?

- Planning for a change in circumstances
- Understanding different types of mortgages
- Sort out your saving and insurance needs

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Here to help you

This guide is for you if you're buying a home for the first time.

A mortgage is a long-term commitment. Find out how to prepare for situations where your payments or income may change, so that you can cope more easily and lower the risk of losing your home.

Contents

Lenders assess what level of mortgage payments you can afford, taking into account your personal expenses as well as income.

First things to do

There are a number of actions you can take to safeguard your home in the future.

1. Understand how interest rate changes could affect your payments
Check whether you can afford your mortgage if interest rates rise or a fixed-rate or discounted rate mortgage comes to an end. See page 7.

Use our **Mortgage affordability calculator** on **moneyhelper.org.uk/mortgage-affordability-calculator**

2. Work out your budget
Make sure you include all your household expenses, including utility bills, home insurance and Council Tax (or Rates in Northern Ireland), so that you can decide how much you can afford to borrow. See page 10. Don't forget to include the costs of moving either.

Use our online **Budget Planner** on **moneyhelper.org.uk/budget-planner**

3. Start saving
Put some money aside to help you deal with unexpected emergencies. It can also provide a cushion if your income changes. See page 14.

Use our **Savings calculator** on **moneyhelper.org.uk/savings-calculator**

4. Get the right insurance
Think about insurance to protect yourself and your household from life-changing events such as property damage or loss, illness and redundancy. See page 15.

Read about insurance on **moneyhelper.org.uk/insurance**

Work out how much you can afford to borrow

Make sure:

- You're not taking on too much if you are borrowing the maximum available. Just because you can afford it now doesn't mean you can afford it in the future. See pages 4 and 5.

- You will get documents that illustrate your mortgage from your adviser or lender. These can give details of the costs and features of the mortgage, including how much your payments could differ if interest rates were to change. So make sure you read them carefully and keep them for future reference if needed. See pages 7 to 9.

- You understand the difference between repayment and interest-only mortgages, and how to make sure you pay off your mortgage by the end of the term. See pages 7 to 9.

- You understand the difference between fixed interest rates and variable interest rates, and know which kind you have and when any fixed-rate period is ending. See pages 8 and 9.

- You understand the interest rate deals on offer. The lowest rate isn't necessarily the cheapest as there may be fees that are added to your mortgage. See page 8.

- You understand the overall costs of buying a house, including Stamp Duty (Land and Buildings Transaction Tax in Scotland and Land Transaction Tax in Wales) and any redemption charges, should you decide to repay your mortgage earlier. See page 11.

Planning ahead for a change in circumstances

Buying your first home is an exciting time but mortgages are a long-term commitment and it's easy for your circumstances to change during that time.

Before a lender agrees to give you a mortgage, they will check that you can afford the monthly repayments and that you can manage should interest rates rise. They will look at your income as well as your outgoings.

They could ask about planned changes that might impact your future income, such as having children, retirement, or a possible change in living circumstances.

So before you apply for a mortgage it's a good idea to do your sums and work out what you can afford.

By thinking about your long-term goals and the potential problems that can arise, you can plan for the future and be better placed to deal with the unexpected.

Use our **Mortgage affordability calculator** to work out if you'll be overstretched, should circumstances change **moneyhelper.org.uk/mortgage-affordability-calculator**

Common changes over the mortgage term

During the course of a typical 25-year mortgage many things can change.

Interest rates can change
You need to understand what your rate is now and what will happen if it goes up. Lenders will 'stress test' your mortgage repayments to see if you could still afford the payments if interest rates rise.

Find out more about interest rates and how they can change over time – see page 7.

Your job situation could change
Mortgage lenders consider what you can afford to borrow at the time you apply for a mortgage. They will look at your current income and your expenses, but they'll also want to look at any planned changes to your lifestyle which could impact your income.

You may want to make changes such as re-training, setting up your own business, working fewer hours to improve your work-life balance, or giving more time to care for dependants. You may need a financial cushion to be able to do this.

For guidance on saving to create an emergency fund – see page 14.

To find out about insurance to protect your income if you are made redundant – see page 15.

You could become ill or be injured in an accident

You can help reduce the risk of losing your home by taking out insurance to help pay the mortgage if you die or are unable to work. If you have children or a partner and depend on each other's income to pay the mortgage, the need for insurance is really important.

There are different kinds of insurance to protect you in different situations:

- life insurance
- income protection insurance
- critical illness insurance
- mortgage repayment protection insurance.

For advice on these types of insurance - see page 15.

You could become a parent

You may already have children or could be planning to have them later. This can affect your finances. One or both of you may not work as much – or not at all. Could you afford your mortgage on just one income?

You may face the additional costs of childcare on top of the costs of raising a child.

Childcare can be costly.

Get an idea of what you might need to pay at **moneyhelper.org.uk/childcare-costs**

Find out about budgeting for a family on our website **moneyhelper.org.uk/budgeting-when-pregnant**

Your living situation could change

Buying with a friend or partner is an exciting time and it may seem not quite right to discuss what you will do if you want to go your separate ways.

But the decisions you make when you buy a property can have an impact later on in life.

The legal arrangements you make when you buy your home will affect how you own the property, what happens if one of you dies, and what your rights are if you split up. You should talk to your solicitor to make sure you have the right arrangements in place.

Read more on sorting out the legal arrangements when you're buying with someone else – see page 12.

Debt advice locator tool

To find the debt advice service that's right for you, including agencies in your local area, use our **Debt advice locator** tool.

Visit moneyhelper.org.uk/debt-advice-locator

Understand interest rates

You can see how affordable your mortgage could be in the future if you understand what kind of mortgage you have and what will happen to your payments if interest rates rise.

How a mortgage works

A mortgage is a loan taken out to buy property or land. The loan is secured against the property. This means that if you fail to keep up the repayments on the mortgage, the lender could repossess your home. A typical mortgage runs for 25 years but the term can be shorter or longer.

A mortgage has two parts:

- **the capital**, which is the money you borrow, and
- **the interest**, which is the charge made by the lender until the loan is paid back.

Repayment mortgage

This is the most popular repayment option and the preferred option for most people.

If you have a repayment mortgage, you'll make monthly repayments for an agreed period of time (known as the term) until you've paid back both the capital and interest.

With this type of mortgage, you have the benefit of knowing your mortgage balance will get smaller every month and that if you keep up the repayments your mortgage will be repaid at the end of the term.

Interest-only mortgage

With an interest-only mortgage, you only pay the interest due on the amount you borrowed each month. So while you'll be paying out less than with an equivalent-sized repayment mortgage, you will still owe the amount you originally borrowed at the end of the mortgage term. This amount is called the capital.

Lenders will require that you have a suitable repayment plan in place. This may mean paying separately into an investment plan each month to build up enough money to pay off the capital at the end of the term.

Variable and fixed-rate interest options

The interest rate you pay on your mortgage is set by your lender. Mortgages usually have fixed or variable interest rates. With a fixed-rate mortgage your repayments will be the same for the length of time you have agreed with your lender regardless of what interest rates are doing in the wider market. If you have a variable rate mortgage, the rate you pay could move up or down.

To find out about the different kinds of fixed-rate and variable rate mortgages at **moneyhelper.org.uk/mortgage-repayment-options**

Interest rate rises

If interest rates rise, your lender could increase its own interest rates and your mortgage payments if you're on a variable rate mortgage deal or you're coming to the end of your current deal.

Interest rate rises could increase your monthly payments considerably, making them difficult to afford. When you apply for a mortgage, lenders will '**stress test**' your monthly payments to see if you could afford the higher costs. See the next page for an example of how much this could be.

How to get the best mortgage deal

Make sure you understand the interest rate deals on offer. The lowest rate isn't necessarily the cheapest because arrangement fees and other charges may also be added.

You can use an online comparison table to compare the total amount you'll actually pay before you decide which mortgage is best for you.

Find out how to best use comparison tables at **moneyhelper.org.uk/mortgage-comparison-checklist**

Special rates ending

When you first take out a mortgage, you may be offered a 'discounted' or 'fixed' rate, which ends after a set period (two, three or five years, for example). When it ends your payment will usually revert to the lenders standard variable rate, or SVR. This is likely to be higher, meaning your monthly mortgage payments will rise.

Key point

If your fixed rate deal is coming to an end, it's important you shop around to get the best deal before switching.

See the impact that interest rate rises could have on your monthly payments.

Example 1: repayment mortgage

You borrow £100,000 over 25 years on a repayment mortgage, initially at a rate of 2%.

Interest rate	Monthly repayments	Increase from 2%
2%	£424	–
4%	£528	+£104
6%	£644	+£220
8%	£772	+£348

Example 2: interest-only mortgage

You borrow £100,000 over 25 years on an interest-only mortgage, initially at a rate of 2%.

Interest rate	Monthly repayments	Increase from 2%
2%	£167	–
4%	£333	+£166
6%	£500	+£333
8%	£667	+£500

Remember

With a repayment mortgage, you can be sure that your mortgage will be paid off at the end of the term if you keep your payments up. This is because you're paying back the loan as well as the interest.

Work out your budget

Many people fall in love with a dream property and can potentially put themselves at risk by overstretching their finances to get it. Before you buy, lenders will assess whether your mortgage payments are affordable.

Borrow sensibly

Lenders will work out what affordable mortgage payments mean for you, based on your income and your monthly outgoings. These include outgoings you can't easily change, which are **committed costs**, such as debts, loans, credit card bills or child maintenance.

Fixed costs are ones you pay regularly such as utility bills, Council Tax (or Rates in Northern Ireland), insurance, petrol, and rail or bus fares. And there are more flexible **living costs**, such as entertainment and leisure, food and toiletries, holidays etc.

This will help you understand how to meet your payments if interest rates rise or your circumstances change.

Don't overstretch

When you take out a mortgage, borrow only on the basis of the income you can be sure of receiving. If possible, don't take irregular income such as bonuses, overtime or commission into account.

Weigh up whether increases in the cost of living and rising bills could move your mortgage from being affordable to difficult to manage.

If you're relying on two salaries, think through what would happen if one of you lost your job, stopped work or reduced your hours to concentrate on childcare.

Work out what affordable repayments mean to you, based on your income and outgoings, while leading the lifestyle you want at **moneyhelper.org.uk/how-much-can-you-afford-to-borrow**

If you don't borrow the maximum you can afford, you will have more financial flexibility, both now and later on.

Government-backed affordable housing schemes

If the sums don't add up and you're on a low income and trying to buy your first home, or you're a key worker, there are several schemes available that might help, including those that allow you to part-rent and part-buy a home – with a view to buying it outright gradually.

Find out more at **moneyhelper.org.uk/government-schemes-for-home-buyers**

If you're eligible and need help saving towards your mortgage deposit, then a Lifetime ISA offers a 25% bonus on your savings.

Find out more about Lifetime ISAs at **moneyhelper.org.uk/en/savings/types-of-savings/a-guide-to-lifetime-isas**

You can check how affordable buying and running your home will be if you work out a budget.

You need to think about:

- the extra costs of buying a property
- the new and ongoing costs and expenses.

Make sure you've got money in your budget for all the costs, bills and fees involved. It's important to think about how much you have left over each month to use if your circumstances change or your payments rise.

Use our **Budget Planner** to help you at **moneyhelper.org.uk/budget-planner**

Key point

It's important to work out how much money you'll have left over, after you have paid all your bills and other expenses before you speak to your lender. You might have to consider a cheaper property or see if you can find a better mortgage deal.
moneyhelper.org.uk/mortgage-affordability-calculator

Extra costs of buying a property

Additional costs can soon mount up. These include:

- mortgage arrangement, valuation and money transfer fees
- legal fees
- Stamp Duty Land Tax (Land and Buildings Transaction Tax in Scotland and Land Transaction Tax in Wales)
- removal costs.

If you add your mortgage fees on to the mortgage, this will add to the total cost of borrowing over the lifetime of the mortgage.

Find out more about mortgage fees and costs at **moneyhelper.org.uk/mortgage-fees**

Find out what your moving costs could be at **moneyhelper.org.uk/moving-costs**

New and ongoing costs and expenses

Your household bills may also change in your new property. If you're buying a leasehold property, for example a flat, there may be management or service fees or ground rent. These can be thousands of pounds each year. Find out what they will be before you buy.

Your heating and power bills may be higher if you move to a larger property. If you move to a different area, your Council Tax bill (or Rates in Northern Ireland) could be considerably more for a property in the same band.

Sort out legal arrangements if ownership is shared

Buying with a friend or partner can be an ideal way of making property more affordable – and for couples, the start of a new life together. But you need to consider what could happen in the future if you want to separate and go your own way.

If you move in with someone else, it may seem unromantic or unnecessary to work out what will happen if you split up or want to move on. But sorting out these arrangements when you buy means everyone knows where they stand and it can make dealing with a split much easier.

You need to sort out how the ownership of the property is shared. This may depend on:

- your relationship
- how much you're each putting in to financing the property, and
- what you want to happen to your share of the property if you die.

Legally, there are two types of joint ownership:

- joint tenancy
- tenants in common.

Joint tenancy (beneficial joint tenants)

Joint tenancy (joint ownership in Scotland) is where two people own the property together and don't have a particular share in it. If one of you dies, the other person becomes the sole owner of the property. If the property is sold while you are both still alive, the proceeds are usually divided equally, but this can be altered in divorce proceedings. This is usually how a married couple or those in a civil partnership would buy a property. This type of home ownership is generally not suitable for friends buying together.

Tenants in common

Owning property as tenants in common (common property in Scotland) means the property belongs to you jointly, but you also own a specific share of its value. You can give away, sell or mortgage your share. If you die, your share of the property passes to the beneficiary (the person or people you've left money to) in your will.

You decide between you what proportion each of you will own. This could be different amounts if, for example, one of you contributes more to the deposit or the monthly mortgage payments.

Having an agreement in place can help avoid disputes in the future.

Unmarried couples

If you are an unmarried couple you should think about protecting your interests if you split up. Make sure you understand your situation. The rights you have are very different from those of married couples who split up. If a property is in only your partner's name, you are not automatically entitled to anything, even if you paid towards the mortgage or left work to raise children.

A solicitor can help you by drawing up a Declaration of Trust, which sets out how a property is to be divided if you split up. A Cohabitation Agreement is far more extensive and can include bank accounts, pensions, and things that you each bring to the home and those that you buy together.

Find out more about living arrangements when an unmarried couple splits up at **moneyhelper.org.uk/en/family-and-care/divorce-and-separation/protecting-your-home-ownership-rights-during-separation**

Protecting a third-party

With high property prices, you may get help from a parent towards the deposit either as a loan or a gift. They might want to make sure that this is recognised if the property is sold. Your solicitor should be able to give you advice on how to do this.

Key point

Talk to your solicitor, who can explain in detail the different types of ownership and what you can do to protect your financial interest in the property.

Start saving to create an emergency fund

Make sure you have some money put by for a rainy day.

We recommend that you have three months' worth of essential outgoings available in an instant-access savings account. So, if you spend £1,000 a month on mortgage or rent, food, heating bills and other things you can't live without, you should aim for £3,000 in emergency savings.

This will give you a financial cushion if you face an expensive emergency in your home, such as a boiler breaking down. It also means you'll have some cash to tide you over if you face a drop in income.

Start saving for your emergency fund as soon as possible, and make sure you save regularly.

Check how much money you need to put aside for unexpected expenses at **moneyhelper.org.uk/emergency-savings**

Find out tips on how to get into the habit of successful savings at **moneyhelper.org.uk/savings-goal**

See what type of account is right for you at **moneyhelper.org.uk/savings-accounts**

Work out what insurance you need

Insurance can protect you, your dependants, your income, your payments and your property against a variety of risks such as ill health or unemployment and help keep your home safe.

There are many types of insurance available so it's important to understand what the different policies cover so you can work out if you need it and can afford it.

Home insurance

There are two types of home insurance – buildings and contents cover.

Buildings insurance covers the cost of repairing or rebuilding your home if it's damaged, for example by storm, floods, fire, lightning or subsidence.

Contents insurance covers you for loss, theft or damage to things in your home, such as your furniture, electrical goods and personal possessions.

Your mortgage lender will normally insist that you have buildings cover – but you don't have to buy it from them. Levels of cover and prices vary widely so shop around to make sure you get the right deal.

Make sure you get the right cover and get tips for shopping around at **moneyhelper.org.uk/home-insurance**

Life insurance

Life insurance pays your dependants a lump sum or regular payments if you die. You need it if your children or partner depend on your income to cover the mortgage or other living expenses. It usually only covers death. However, many policies include terminal illness cover, which can pay out early where life expectancy is less than 12 months.

Life insurance can be very good value. Often just a few pence a day is all you need to provide your family with plenty of financial protection.

Even if you have an employee package that includes life insurance, it's a good idea to buy a policy to cover your mortgage.

The cost of life insurance varies, so shop around to get the best deal. Find out more at **moneyhelper.org.uk/en/everyday-money/insurance/what-is-life-insurance**

Critical illness insurance

This pays out a lump sum or a regular payment if you suffer from one of the illnesses or injuries listed in your policy, for example heart attack, stroke and certain types of cancer.

It can help if you couldn't support yourself or your dependants because you were too ill to work. For example, the payment can cover mortgage costs or other expenses that you may find difficult to meet.

There are different types of critical illness insurance policies available, so it's important to know exactly what's covered.

Find out more at **moneyhelper.org.uk/en/everyday-money/insurance/what-is-critical-illness-cover**

Income protection insurance

Income protection insurance covers a wider range of illness and disabilities than critical illness cover. It pays a percentage of your take-home pay regularly until you are able to return to work, retire or reach the end of the policy payment term.

You should consider it if you can't rely on savings or employee benefits to see you through an illness. It can cover most illnesses that leave you unable to work, but usually doesn't cover you for unemployment.

Find out more at **moneyhelper.org.uk/en/everyday-money/insurance/what-is-income-protection-insurance**

Payment protection insurance and mortgage protection insurance

These policies are designed to cover your monthly mortgage, loan and credit card repayments if you:

- have an accident
- become ill and can't work, or
- become unemployed.

It can ease your money problems if you get made redundant and are likely to be out of work for a long time, or you have little or no savings.

If you have enough savings, work out whether you want to protect them by taking out insurance, or whether you could get by on your sick pay, or your partner could cover the mortgage and other loan repayments.

You might have to wait between one and three months to be paid out and some policies will only pay for up to a year, even if your unemployment lasts longer, or you are still too ill to return to work.

Payment protection policies tend to have very strict criteria on when they will pay out, so make sure a policy fits your needs before you buy.

Key point

Income protection, payment protection and critical illness insurance can be complicated. Consider using an independent financial adviser to help you.

Understand the limits of State help

Many people think that if they get into financial difficulty, government benefits will help them out. But most people over-estimate how much State support they would receive.

Benefits are designed to be a safety net and it's unlikely they would cover your mortgage payments, utility bills and living expenses if you fall ill, or lose your job.

Support for Mortgage Interest

If you're a homeowner getting certain income-related benefits, you might be able to get help towards your mortgage.

This is called Support for Mortgage Interest (SMI) and is offered as a loan. SMI is normally paid directly to your lender, but only covers your interest payments, and not the amount you borrowed.

The loan must be repaid when you sell the property, or when you die. If you die and the home passes to your spouse or civil partner, the loan can be paid back when they die or sell the property instead.

You'll have to wait three months before the loan will start, so you'll need to think about how you pay your mortgage while you are waiting.

You can find further information, options for repaying your loan and to find out if you qualify at **moneyhelper.org.uk/smi**

Help for pensioners

If you or your partner have reached State Pension age, you might qualify for an SMI loan to cover your mortgage interest payments if you are getting Pension Credit.

An SMI loan can start to be paid straightaway.

See if you could be entitled to Pension Credit at **gov.uk/pension-credit-calculator**

Universal Credit

Universal Credit has replaced a number of means-tested benefits you would have previously been able to claim, including Tax Credits, income-based Jobseeker's Allowance, income-related Employment and Support Allowance (ESA) and Income Support.

You can find more information about Universal Credit at **moneyhelper.org.uk/universal-credit-introduction**

Benefits if you're unemployed

If you've lost your job, you might be able to claim State benefits. The main benefit you can claim is still Jobseeker's Allowance (JSA), if you have paid enough National Insurance Contributions (NICs).

If you need help with other costs, such as bringing up children, you might need to claim Universal Credit instead.

Find out more about the unemployment benefits you can claim at **moneyhelper.org.uk/benefits-when-youve-lost-your-job**

Benefits if you're ill or disabled

If you've made enough NICs, you might be able to claim new-style ESA along with Universal Credit if you need help with other costs.

If you don't qualify for new-style ESA, you might be able to claim Universal Credit instead.

If you're already getting ESA and are receiving the severe disability premium, you will not be asked to claim Universal Credit yet.

You can find out more about benefits if you're ill or disabled at **moneyhelper.org.uk/universal-credit-for-disabled-people**

If you need extra help with the costs of getting about or daily living, such as help with washing or dressing, you might be able to claim Personal Independence Payment (PIP).

Find out more about PIP, how to claim it and if you're eligible at **moneyhelper.org.uk/pip**

Benefits if you're a carer

If you're caring for someone who is getting certain disability benefits, such as PIP, Attendance Allowance or Disability Living Allowance, you might be entitled to Carer's Allowance if you spend at least 35 hours a week caring for them.

If you're getting Carer's Allowance you are only allowed to earn £139 a week for the 2023/24 tax year.

Discover more about these benefits at **moneyhelper.org.uk/getting-the-right-entitlements**

Useful contacts

MoneyHelper

MoneyHelper is independent and set up by government to help people make the most of their money by giving free, impartial money and pensions guidance to everyone across the UK – online and over the phone.

For free and impartial guidance on any money or pension queries you can contact us by calling on:

Money guidance
0800 138 3944
Mon - Fri 8am–6pm
+44 20 3733 3495
if you're outside the UK

Pensions guidance
0800 011 3797
Mon - Fri 9am to 5pm
+44 20 7932 5780
if you're outside the UK

Or visit **moneyhelper.org.uk**

Webchat:

moneyhelper.org.uk/moneychat

moneyhelper.org.uk/pensionschat

WhatsApp:

+44 7701 342744
(money guidance)

Join our **online communities** for support: **moneyhelper.org.uk/en/blog/everyday-money/come-and-join-our-online-communities**

Financial Conduct Authority

To check if your adviser is registered with the Financial Conduct Authority (FCA), check the FCA Financial Services Register.
fca.org.uk/register

Finding a financial adviser

This website can help you find financial advisers in your area.

The Personal Finance Society

thepfs.org

Organisations that give free and confidential help if you have money problems

StepChange debt charity

0800 138 1111
stepchange.org

National Debtline

0808 808 4000
nationaldebtline.org

Citizens Advice

England 03444 111 444
Wales 03444 77 20 20
Scotland 0808 800 9060
citizensadvice.org.uk

Debt Action NI

0800 915 4604
adviceni.net/advice/debt

Use this page to record your notes

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MoneyHelper*

Money guidance **0800 138 7777**
Mon – Fri 8am–6pm

Pensions guidance **0800 011 3797**
Mon – Fri 9am to 5pm

Typetalk **18001 0800 915 4622**
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Money Helper Homes

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*Calls are free. To help us maintain and improve our service, we may record or monitor calls.

Ref: YCAYM_Apr23_Ed1_Eng