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MAKING YOUR MORTGAGE DEPOSIT WORK HARDER - 3 ESSENTIAL STEPS FOR FIRST TIME BUYERS

According to housing charity Shelter, most families in England cannot afford to buy a newly built home in their local area[1]. And the picture doesn't look much better for first time buyers, with research predicting that by 2020, they will need to earn £64,000 to afford monthly mortgage repayments (and a deposit of £46,000[2]).

So when it comes to saving a mortgage deposit, it's more important than ever that first time buyers make sure their money works as hard as possible, especially in light of the fact that:

- savings interest rates are at an all time low[3], meaning cash savings are seeing little return from fixed-interest accounts
- the average UK worker has seen their income reduce by almost 10%[4] in real terms (income adjusted to take account of inflation), since the financial downturn began in 2008
- property prices in the UK continue to rise (increasing by 7.2%[5] in the year to December 2016).

Here we outline three ways that first time buyers can make their mortgage deposit work harder, to get moving faster.

This guide does not constitute financial advice. Your mortgage is secured on your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

1. Give your mortgage deposit savings a tax-free boost

If you're saving in cash towards a mortgage deposit, it's wise to make sure that you maximise the benefits of tax-free ISAs.

There are two ISAs designed specifically to support first time buyers:

- **Help to Buy ISA:** Available until December 2019, the government will give a 25% bonus to any savings held in a Help to Buy ISA. To benefit from the bonus you'll need at least £1,600 in your account, and the maximum you can save is £2,400 (£200 per month). The bonus is capped at savings of £12,000, giving you a maximum government bonus of £3,000.
- **Lifetime ISA:** From 6 April 2017, the Lifetime ISA will be available to those aged between 18 and 40. Up to £4,000 per year can be saved towards a first home (or retirement), and account holders will benefit from a 25% government bonus. The savings and bonus can be used towards a deposit on a first home up to the value of £450,000.

However, both the Help to Buy and Lifetime ISA have significantly lower savings limits than their standard cash / stocks and shares equivalents. So you may want to explore how you can also use standard ISAs alongside these to shelter further savings from tax* (up to an overall maximum of £15,240 in 2016/17, increasing to £20,000 in the 2017/18 tax year).

Any interest on cash you save outside of an ISA may be subject to tax. The amount of interest you can earn on savings, before tax, depends on your Personal Savings Allowance (PSA). Your PSA is linked to your income and whether you're a basic, higher or additional rate tax payer:

1. BBC, March 2017
2. The Independent, April 2016
3. The Telegraph, July 2016
4. London School of Economics, March 2015
5. Official Statistics - UK House Price Index summary: December 2016

*You can't save into a Help to Buy ISA (which is a type of cash ISA), or a Cash Lifetime ISA, and a standard Cash ISA in the same tax year.

Highest rate of income tax you pay	Personal Savings Allowance
Basic	£1,000
Higher	£500
Additional	No entitlement

If your total taxable income is less than £17,000 you don't pay tax on any income earned from savings.

2. Make sure your mortgage deposit savings outperform inflation

You might think that keeping your mortgage deposit in cash savings (rather than other asset types such as stocks and shares) is low risk. But low risk, doesn't mean no risk.

With the average UK house price standing at £219,544[5] (December 2016), first time buyers seeking a 95% mortgage will need a 5% deposit of £10,977 - which can take some time to save.

But someone saving £10,000 towards a mortgage deposit over a five year period could see it's 'real' value eroded to just £9,131.82 due to the impact of inflation.

Simply put, inflation is the increase in the general level of prices of goods and services. It's a measure of what your money is 'worth' in real terms (£1 today for example, buys you less than it would have 20 years ago).

For the purposes of the illustration below, let's assume that the rate of inflation is 1.8% (as at January 2017). If you put £10,000 into a bank account with 0% interest, in real terms it would be worth:

- £9,820 in one years time
- £9,131.82 in five years time
- £8,339.02 in ten years time.

So, unless you put your mortgage deposit into a savings account or investment where the return outperforms inflation, its value could actually decrease in real terms, over time. Therefore you may wish to consider investing in other asset types. Investing is generally considered suitable for growth over the medium to long term (at least 5 years).

It's important to remember that the value of investments and any income can go down as well as up and you may get back less than you invest.

3. Avoid paying unnecessary charges

When it comes to moving house, there can be a number of associated costs and fees to pay - some of which a first time buyer may not be expecting (arrangement fees, solicitors fees, searches and valuation fees, and so on).

Luckily there is one fee that is easy to avoid. Wesleyan doesn't charge a fee for our mortgage advice. We get paid by the lender once the mortgage completes (and this doesn't affect the rate you are offered as a customer).

This means that you can benefit from:

- a dedicated and experienced Wesleyan Financial Consultant who is trained to understand your pay, career progression, sick pay entitlements, pension contributions, and so on – meaning they can relay this directly to mortgage providers so they truly understand what you can afford to borrow (which could be up to 95% of the purchase price)
- access to 1,000s of mortgage deals, many of which are not available on the high street
- advice on guarantor mortgages if you have family members who are able to help to get you on the housing ladder
- step-by-step guidance throughout the mortgage application process (we will liaise with the lender directly and deal with both the application and the associated paperwork to support it, freeing up your time to focus on other things).

In many cases we may also able to provide you with a 'decision in principle' quickly - giving you an indication of how likely a mortgage provider is to approve your application. This demonstrates to estate agents that you are serious about a purchase and you have the ability to afford the mortgage. This can lead to the property you have set your sights on being removed from further marketing.

As well as supporting you to find the right mortgage, your Wesleyan Financial Consultant will also be able to help you with your home insurance and protection needs – saving you time and hassle in helping to protect what you have worked for.

Start to make your mortgage deposit work harder today by **contacting us**

financialreview@wesleyan.co.uk

Please quote reference **80765**

This information is based on our current understanding of legislation.
Legislation and tax treatment can change in the future.

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