



Financing the Purchase of your Home

A guide to the different finance options available to those wishing to buy a property through the Right to Buy or Right to Acquire schemes

This guide explains the various options available to finance the purchase of your home through the Right to Buy and Right to Acquire schemes. We recommend that you speak to an independent financial advisor about your options in more depth, however this guide should give you an idea of the various ways you can get onto the property ladder and their possible advantages and disadvantages.

If you are buying a property through the Right to Buy or Right to Acquire schemes it is more than likely the first property you have bought and may seem slightly daunting. This guide will help you identify the different options available to you and with the help of your independent financial advisor you will be able to choose the right product for you to buy your new home.

If you have applied to buy your home through either the Right to Buy or Right to Acquire schemes and have attended an interview with a member of the Home Ownership Team, if you have not already spoken to an independent financial advisor it is now the right time to be thinking about how you are going to buy your home.

Most people will need to take out a mortgage, however some people may have enough capital to buy their initial share outright. Either way we recommend that all people looking to buy their home speak to an independent financial advisor who is familiar with these schemes and can point them in the right direction.

What options do I have?

•Option 1 - Take out a mortgage

Taking out a mortgage is the most common option used when purchasing a home through either the Right to Buy or Right to Acquire schemes.

A mortgage is a special type of loan secured against your property. This loan covers the sale price of the property you have bought plus interest. Mortgages are usually spread over 25 years and paid by monthly instalments.

There are different types of mortgages available provided by a variety of lenders.

What types of mortgages are available?

There are 2 different types of mortgage available:

- Repayment
- Interest only

You will need to decide which option is best for you.

Repayment mortgage

When you have a repayment mortgage your monthly payments to the lender go towards reducing the amount you owe as well as paying the interest they charge. So each month you are paying off a small part of your mortgage.

The advantage of this type of mortgage is that it is a simple, clear approach and you can see your loan getting smaller.

The disadvantage of a repayment mortgage is that in the early years your payments will be mainly interest, so if you want to repay the mortgage or move house in the early years, you will find that the amount you owe will not have gone down by very much.

Interest Only Mortgage

The second option is an interest only mortgage. As the name suggests, an interest only mortgage means that your monthly payment only pays the interest charges on your loan and you are not actually reducing the loan itself. This is why it is very important you arrange some other way to repay the loan at the end of the term; for example, through an investment or savings plan.

When choosing an interest only mortgage you need to check that your investment or savings plan grows accordingly, so that at the end of the term you will have enough money to pay off the loan. If it does not grow as planned, you will have a shortfall and you will need to think about ways of making this up.

The advantage of taking out an interest only mortgage is that as you are only paying off the interest and not the loan itself, therefore your monthly payments will be lower.

This disadvantage of taking out an interest only mortgage is that the debt is not going to go away. Throughout the life of the mortgage, you will need to check your investment or savings plan is on track to repay your loan at the end of the term. If you cannot repay it at the end of the term you could lose your home.

What Next?

Once you have chosen whether to go for a repayment mortgage or an interest only mortgage, the next thing to decide is what interest rate deal to go for.

There are various types of interest rate deals available to you. Your independent financial advisor will be able to discuss the different types with you, however the following table will help to explain the different options, highlighting the advantages and disadvantages of each product.

Type of interest rate deals	How does it work?	Early repayment charges	What does it mean for you?
Standard variable rate	Your payments move up or down with the lender's own mortgage rate, which is usually driven by the Bank of England's base rate.	Not usually, but check and see.	<p>Usually you can leave your lender without any penalties or problems.</p> <p>You're in control. You can usually pay back extra amounts (and cut your interest costs without a penalty.</p> <p>It moves with interest rates. So if interest rates go up, so will your monthly payment.</p> <p>It will almost certainly be expensive compared to other deals.</p> <p>The lender may not reduce, or may delay reducing, their variable rate even if the Bank</p>
Tracker rate	A variable rate loan with an interest rate that's at a set amount above or below the Bank of England or some other base rate, set independently from the lender. It tracks (moves up or down with) that rate.	Sometimes during any special deal period and maybe even after the period too.	<p>It can pay to go for a tracker if you can afford to pay more when interest rates go up, in exchange for benefiting when they go down.</p> <p>It's not a good choice if your budget won't stretch to higher monthly payments.</p>

Type of interest rate deals	How does it work?	Early repayment charges	What does it mean for you?
Discounted interest rate	Your monthly payments can go up or down, but you get a discount on the lender's standard variable rate for a set period of time. At the end of the deal, you usually change over to the standard variable rate.	During the special deal: yes, almost always. They can apply even after the end of the special deal period as well.	<p>It gives you a gentler start to your mortgage, at a time when money may well be tight. But you must be confident you can afford the payments when the discount ends.</p> <p>The discount period is limited, so don't get used to those early low repayments.</p> <p>You may not be able to make overpayments and pay off the loan early without penalties</p> <p>The lender may not reduce, or may delay reducing their variable rate even if the Bank of England rate goes down.</p>
Fixed interest rate	Your payments are set at a certain level for an agreed period. At the end of that period, they'll usually switch you to the standard variable rate.	During the special deal period: yes, almost always. They can apply even after the special deal period, too.	<p>Your payments will stay the same in that period, even if interest rates go up.</p> <p>This gives you the security of knowing that you can afford your payments and will make it easier for you to budget.</p> <p>If rates go down, you won't benefit. Your payments will stay at the higher rate.</p> <p>You may not be able to make overpayments and pay off the loan early without penalties.</p>

Type of interest rate deals	How does it work?	Early repayment charges	What does it mean for you?
Capped rate	Your payments are variable and often linked to a base rate, but fixed not to go above a set level (the 'ceiling' or 'cap') during the period of the deal. At the end of the period, you are usually charged the lender's standard variable rate.	During the special deal: yes, almost always. They can apply even after the end of the special deal period as well.	You know the maximum you will pay for a set period of time. Useful if you want the security of knowing that your payments can't rise above the set level, but still benefit if rates fall.
Collared rate	May be used in conjunction with a capped rate or a tracker (or both). Your payments are variable but will not fall below a set level (the 'collar').	Not usually, unless it is used in conjunction with a capped rate or a special-deal tracker rate (or both). But check and see.	It may be part of another interest-rate deal which otherwise appears attractive. But note that if the rate payable is only just above the 'collar' and you think rates will fall, you may not get the full benefit of a reduced payment.

*Table taken from the Financial Services Authority website - The UK's financial watchdog

What might I need to look out for?

It is always best to see an independent financial advisor when deciding what mortgage to take out rather than going to a lender direct yourself. A mortgage company may even approach you, but please be cautious if this happens to you.

You may be approached by Companies seeking to exploit these schemes for their own financial gain. Along with providing a mortgage, often with high interest rates, they may try to charge for services such as providing application forms, help to fill them in and advice – all things that we at Coastline Housing will do free of charge!

These Companies often ‘cold call’ customers to generate interest and promote their services. Although this is not illegal, the Government is concerned that tenants do not always receive good advice when they ask private companies or individuals for help in buying their homes.

There are also Companies who may offer you money to exercise your Right to Buy as part of a deal under which the company ends up owning your home. Deals like this are good for the company as they can charge a higher rent than the council or housing association could when it let the property, but this is not always good for you. The money you get may not be enough to prevent you from becoming homeless.

Not only can you lose out financially when companies abuse the schemes in this way but it can also mean longer waiting lists for homeless families as there are fewer affordable homes left to rent.

If you have been approached by a company like this and are unsure whether to take out a mortgage with them, please speak to a member of the Home Ownership Team before you sign up to any deal.

•Option 2 - Purchase using Savings

The second option to buy your home through the Right to Buy or Right to Acquire schemes is to purchase using savings.

You may have enough savings to buy your home without a mortgage. You will need to have saved a lot of your own money to be able to do this. Alternatively you may have inherited a sum of money or you may have even had a small lottery win!

If you are looking to buy your home using savings please make sure that you have enough regular income to afford the ongoing costs of being a home owner.

•Option 3 - Purchase using money given to you by a family member or friend

The third option to buy your home through the Right to Buy or Right to Acquire schemes is to purchase using money given to you by a family member or a friend.

A family member or friend may wish to buy your home for you. They will not be able to buy with you unless they are a tenant of the property or are a family member who has lived with you for at least the last 12 months, however they may wish to give to you the money so you can afford to purchase without a mortgage.

There have been concerns with this method of purchasing your home especially if you are elderly and younger family members have helped you to fund the purchase and later you agree to transfer the ownership of your home to them. There have been cases where younger family members help to buy the home at a discount and later move into the property leaving the elderly person with nowhere to live. This person will then often need to be re-housed.

Please make sure that if you choose this option that you have a home for as long as you want it.

How to contact us

If you would like more information about anything in this leaflet or would like it in another format please contact the Home Ownership Team by:

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