Financing Your Home and Credit Check Advice

Our guide explaining the various options you may have to finance your shared ownership purchase and credit check advice

This guide explains the various options available to finance the purchase of your shared ownership home. We recommend that you speak to an independent financial advisor about your options in more detail, however, this guide should give you an idea of the various ways you can get onto the property ladder via shared ownership.

If you are buying a property through the shared ownership scheme it is likely to be the first property you have bought and this may seem daunting. Don’t panic; 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 and your shared ownership purchase.

If you have applied for shared ownership and have not already spoken to an independent financial advisor, now is the right time to do this.

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 through shared ownership speak to an independent financial advisor who is familiar with shared ownership schemes and can point them in the right direction. If you are looking to purchase with a mortgage, there is information on credit checks and how lenders score your credit rating along with some useful links towards the bottom of this guide.

What are the possible routes for me?

You can...

Purchase using savings: You may have enough savings to buy a share in a property but, not enough to buy on the open market. If so, if you can sustain the monthly payments in the long term, you may be able to buy a shared ownership property. It's worth noting; if you are able to obtain a mortgage as well, you must do so. This is because Homes England, our funder, insist you maximise the share you purchase so long as it is affordable for you. If you are unable to obtain a mortgage but have enough cash to purchase at the minimum share, then you may be able to purchase your share solely with cash. 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!

Purchase using the sale proceeds from another property: You may currently be selling your house, from the sale you may come away with some capital but perhaps not enough to buy on the open market. If so, as long as we calculate that the monthly payments are sustainable, you may be able to buy using the proceeds of sale of that property. Again, if you are able to obtain a mortgage as well, you must do so.

Take out a mortgage: Taking out a mortgage is the most common option used when purchasing a home through shared ownership. 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. There are different types of mortgages provided by a variety of lenders. It is worth noting; not all mortgage providers lend on shared ownership schemes therefore it is important that the mortgage provider and your financial advisor are both aware you are buying through shared ownership.

What are the possible routes for me?

You cannot...

Purchase if you can afford to buy a home on the open market: You may have enough savings to buy a property which is suitable to your needs, outright on the open market. This may occur if you have saved up enough money over the years, you may have inherited a sum of money, a lottery win or perhaps a combination. If so, unfortunately you will be unable to buy through shared ownership. The reason for this is that to be eligible for shared ownership you must not be able to afford to buy on the open market as this goes against the purpose of the scheme.

Purchase if you are able to buy a home suitable for your needs on the open market: You may be currently be selling your house, in the sale you may come away with some capital. Although the amount you receive may mean that you are unable to buy a similar sized property, you may be able to purchase a smaller property on the open market which is still suitable to your needs. If this is the case you will not be able to purchase a home through shared ownership. Again, the reason for this is that to be eligible for shared ownership you must not be able to afford to buy a suitable home on the open market as this goes against the purpose of the scheme.

Purchase using an 'Interest Only Mortgage': We do not allow shared owners to take out interest only mortgages. 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. 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. 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. We do not accept mortgages from adverse credit mortgage companies.

What type of mortgages are available?

There are two types of mortgages – repayment mortgages and interest only mortgages. If you wish to buy one of our shared ownership properties using a mortgage you must choose a repayment mortgage.

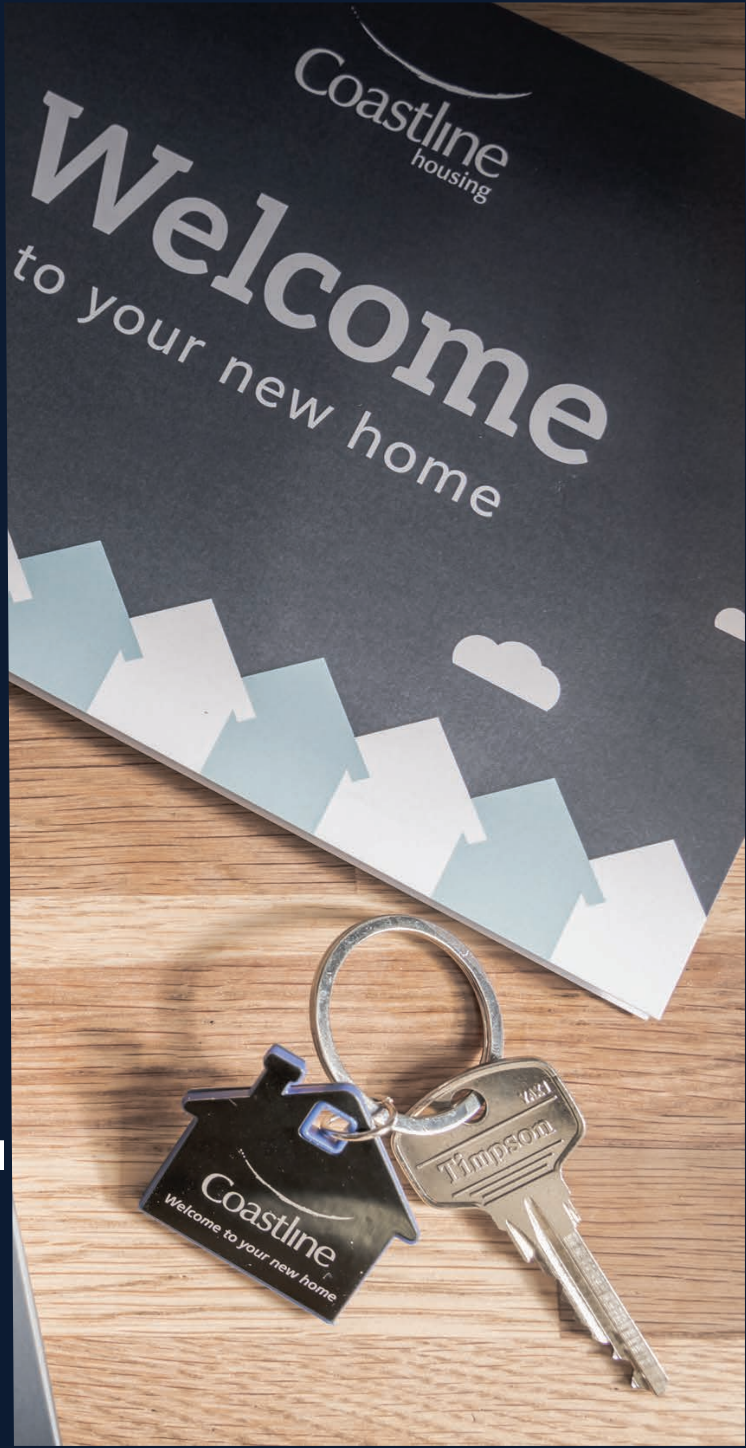
When you have a repayment mortgage your monthly payments to the lender go towards reducing the amount you owe as well as paying the interest they charge. So each month you are paying off a small part of your mortgage as well as the interest the lender is charging.

An advantage of a repayment mortgage is that it is a simple, clear approach and you can see your loan getting smaller as you pay your monthly payments. The main advantage with a repayment mortgage is that you know that at the end of your mortgage term, the mortgage debt will be fully repaid and you will own your equity of the property outright.

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 shortly after your purchase, you will find that the amount you owe will not have gone down by very much.

There are various types of interest rate deals available to you when choosing a repayment mortgage. Your independent financial advisor will be able to discuss the different types of mortgages in more detail with you.

At the bottom of this guide you'll find a 'useful links' section where you can visit web-pages offering a detailed explanation of the various mortgage types.



Credit Checks

When you apply to buy a shared ownership property, we will ask to check your credit history as part of the application process and so will any mortgage lender too.

A poor credit history can mean that your application is turned down by us or your mortgage lender. You may also find yourself paying a higher rate of interest on your mortgage and other loans you apply for.

How we check your credit history

As part of the application process, TMP (The Mortgage People – more information on TMP can be found within our FAQ's guide) will ask you to apply for your own credit report from your chosen credit reporter (there are lots of companies that offer credit reporting services, links can be found below). This is because when someone else does a credit check on you (for example, when you apply for credit, such as a loan or hire purchase) it will appear on your credit history, and we need to know about any loans and borrowing that you have as part of our assessment. It is worth noting that a lot of credit checks on your history in a short space of time can make prospective lenders suspicious.

IMPORTANT: you must provide TMP with all page of the report.

How to apply for your credit report

To apply for a free credit report, please click on one of the 'Credit Report' links below and continue to follow the steps given by the provider to acquire your full report.

If you have trouble obtaining your full credit report, please get in touch with our Sales Team or TMP.

What to check on your file?

Everything! First the obvious – Are all your debts correctly listed? Are there any inaccuracies on your repayment history? Other details are important too. Check your present and past address details. Errors here can lead to you being judged on someone else's credit history. Also your finances may be incorrectly linked with someone else's.

What to do if there is an error?

If you disagree with anything on your file, you can raise a dispute with a credit agency and request it is changed. If the agency refuses to change the file, you are entitled to add your own comments as a 'notice of correction'. This will often mean your credit applications take longer, but it may help you to obtain better deals.

What can I do if Court information has been registered incorrectly?

If you believe a county court Judgment has been registered incorrectly, you should contact the relevant court directly. You will need to provide the court with the judgment case number shown on your credit file.

If you are in financial difficulties, the clichéd 'contact your lender' is good advice. Hopefully the lender will try and help a little. Changing your repayment schedule is preferable to you defaulting – and though it will hit your credit score, it's better than a County Court Judgment (CCJ) against you.

What affects your credit file?

When lenders look into your mortgage application, they will pull three credit reports, one each from: Experian, Equifax and TransUnion. All three reports have slightly different scoring models but you are still evaluated on the same core factors:

- **Your credit limit.** A higher credit limit can indicate to lenders that you're lower risk as a borrower. It can also be an indicator of your ability to manage unexpected expenses, and so it can help improve your credit score.
- **Payment history.** Lenders want to know that you make your payments on time to know that you honour your financial commitments. Lenders commonly offer higher interest rates to offset the risk of lending to you if you've missed any payments in the past. For each missed payment, it takes 16 months of on-time payments for your score to recover.
- **Credit usage.** Lenders prefer to see that you're not using too much of your credit limit, as this can suggest you're relying on credit too much. A lower credit utilisation shows them that you're able to manage credit well. Having some unused credit is also important because it means you have a bit of extra credit to use as an emergency buffer in case you have some unexpected expenses.
- **Time on electoral roll.** To lenders, your time on the electoral roll helps prove your presence at the address on your application and suggests responsible behaviour that is less likely to result in non-payment.
- **New accounts.** Lenders prefer to see that you haven't opened any new accounts in the last six months. Too many new accounts increases your obligations, making you potentially less likely to meet new commitments.
- **Age of credit.** Lenders like to see how long you've been managing active credit for. The more financial history you have, the more chances to prove that you can meet your obligations and organise your finances responsibly.
- **Bankruptcies.** A bankruptcy will appear on your credit report for six years or until you're discharged if this takes longer. Lenders look at your credit profile when you apply for credit, so you'll probably struggle to borrow money while bankrupt.
- **County Court Judgments (CCJs).** A creditor may apply for a CCJ against you if they think you won't repay money you owe them. If the courts agree with the creditor, they'll issue the judgment and tell you to pay the money back. If your CCJ isn't recorded on the Register (e.g. because you paid it off immediately) it won't appear on your credit report – although any defaults that may have led to your CCJ will be visible. If your CCJ is recorded on the register, it will be added to your credit report. Having a CCJ on your report will significantly lower your credit score.

When viewing your credit score, Credit Karma, Experian, Equifax and other providers will often suggest ways you can improve your credit rating, it would be a good idea to follow their recommendations to the best of your ability before applying for a mortgage.

USEFUL LINKS

Here you can find various links to web-pages offering further guidance on; applying for a mortgage, checking your credit score, how to improve your credit score and how lenders score your credit.

TMP have published a guide to help you get prepared for an application, the link to this is below.

https://tmpmortgages.co.uk/how-to-get-prepared/

For a detailed explanation of each mortgage type available please search the link below.

https://www.which.co.uk/money/mortgages-and-property/mortgages/types-of-mortgage/mortgage-types-explained-af1319h2cmck

For further details to better your understand on credit checks and how you are scored please visit Experian's web-page;

https://www.experian.com/blogs/ask-experian/credit-education/score-basics/understanding-credit-scores/

The three credit reference agencies online are:

Callcredit: http://www.callcredit.co.uk

Equifax: http://www.equifax.co.uk

Experian: http://www.experian.co.uk

We are continually monitoring and reviewing the services we provide. If you have any comments regarding this leaflet or still have unanswered questions, please e-mail us at: home.ownership@coastlinehousing.co.uk

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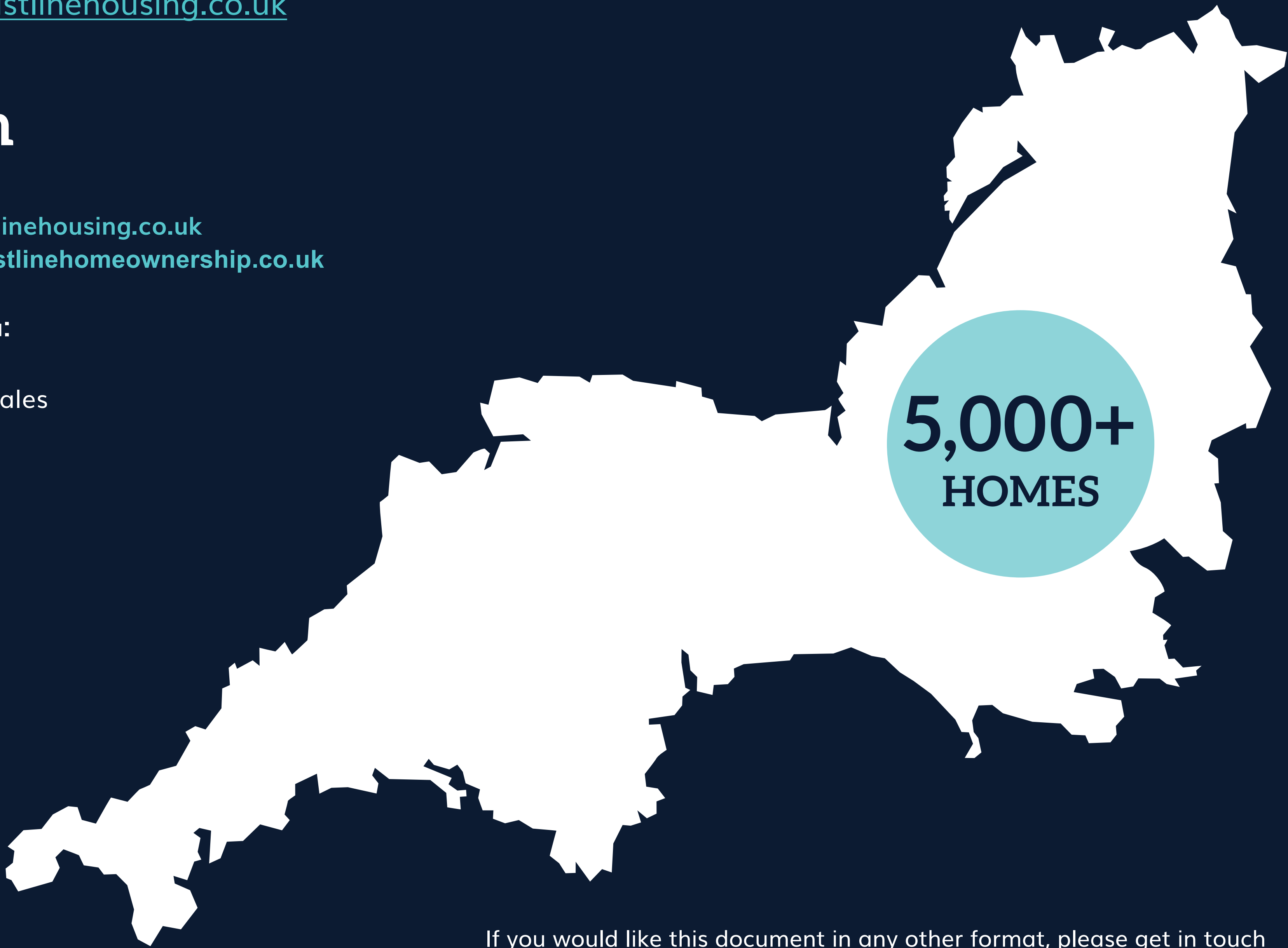

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