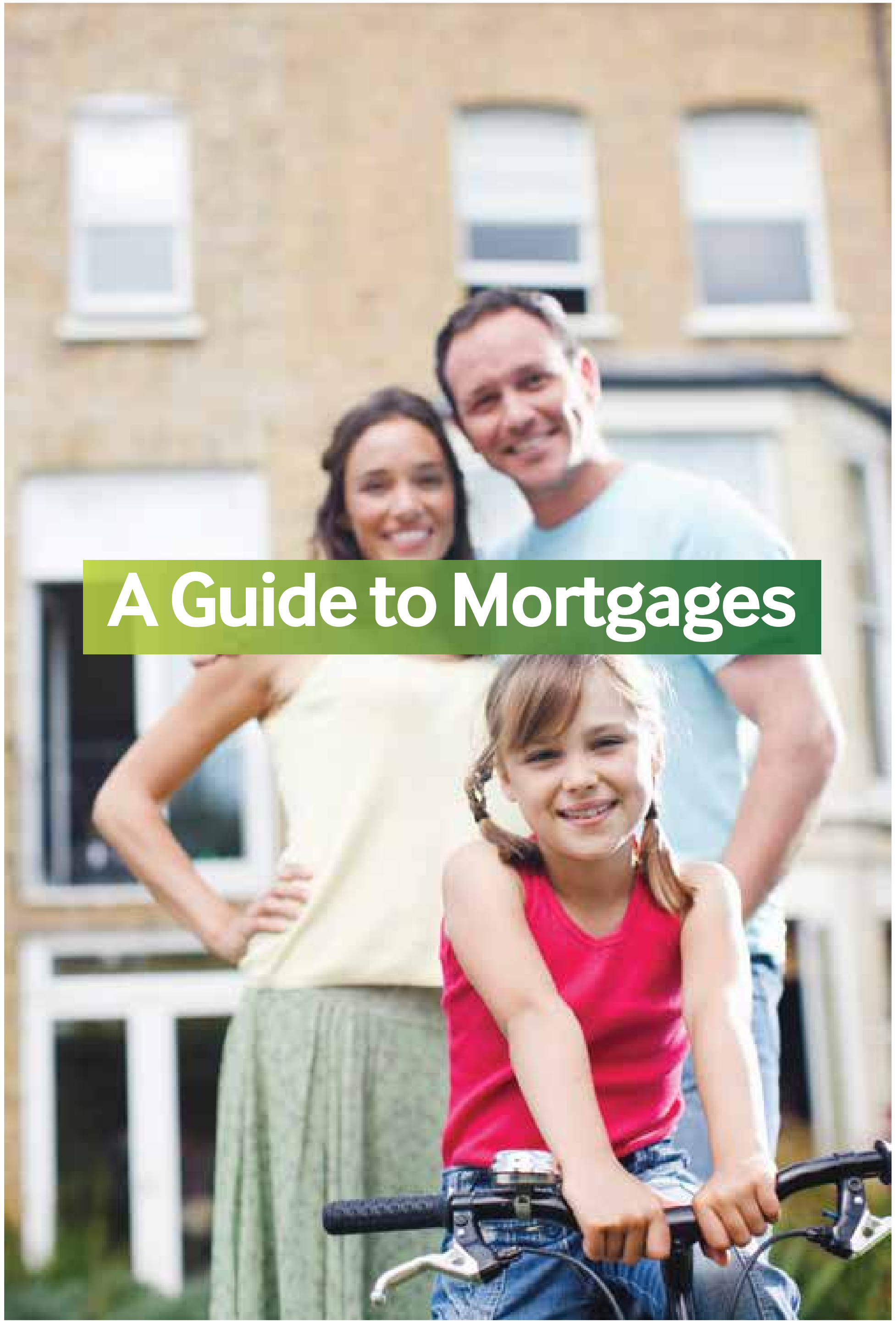
FINANCIAL BROKER
Financial Planning & Guidance

A Guide to Mortgages

Creating your success through Financial Planning



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What is a mortgage?

A mortgage is a loan required to finance the purchase of a property. A mortgage allows individuals to buy a property now and pay for it over a number of years.

When you are obtaining a mortgage you will need to put down a deposit. The amount of this deposit will depend on whether you are a first time buyer or non-first time buyer, and also on the lender's criteria for the amount they will lend compared to the value of the property.

The mortgage amount will be the purchase price of the home, less the amount of your deposit (which can be made up of savings and any financial gifts from e.g. parents). As with all loans, mortgages must be repaid by the borrower with interest. Your interest rate can be fixed or variable.

Regular payments must be made over the term of the mortgage to repay the mortgage loan. These payments are usually made monthly and are made up of two parts - the first part is the principal amount borrowed (also called capital), and the other part is the interest. The interest is the fee the lender charges for borrowing the money.

The larger the deposit that you can put down, the less money you will have to borrow, hence the less interest you will have to pay over the term of the mortgage.

How do I start the process of obtaining a mortgage?

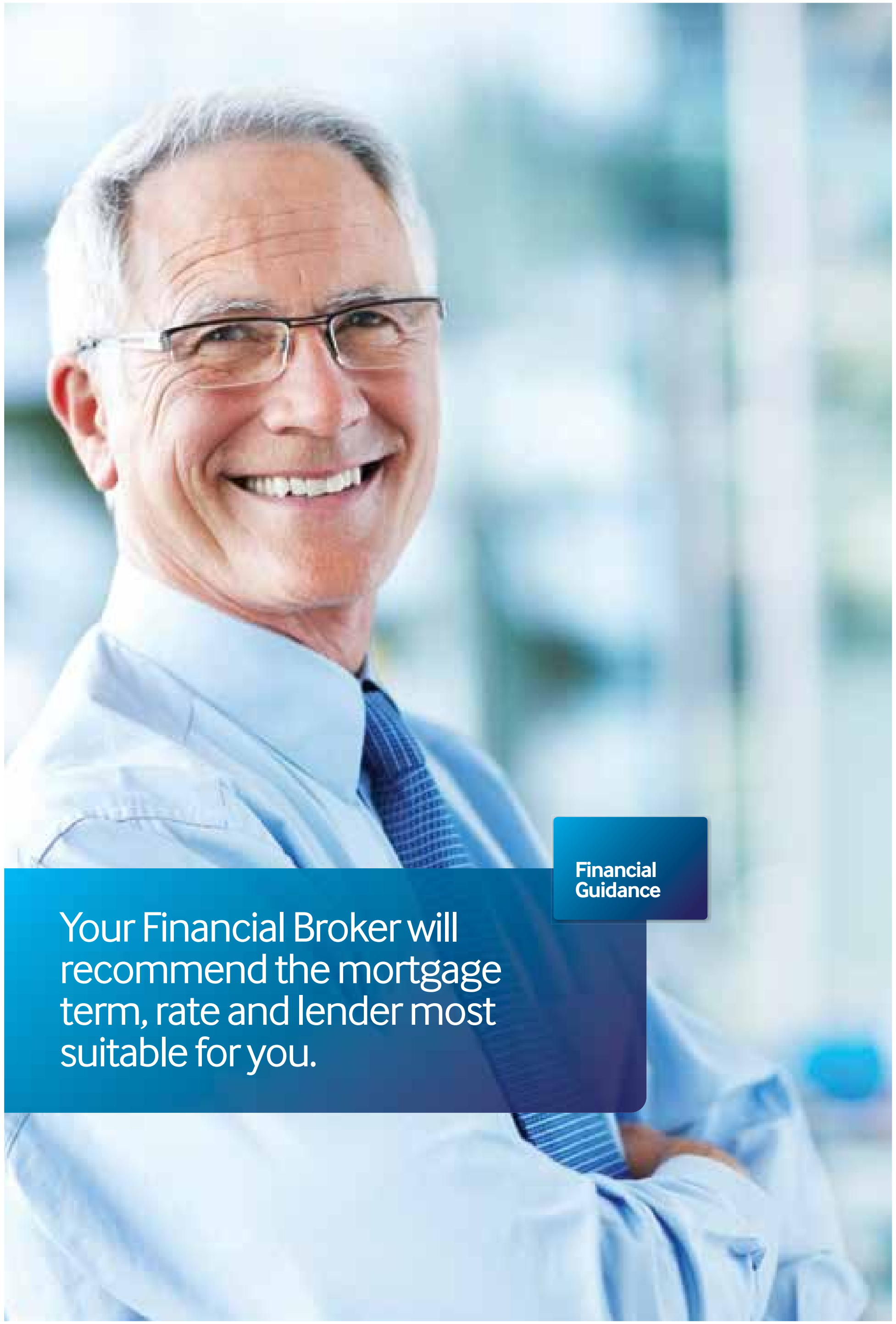
When applying for a mortgage there is a large amount of documentation that is required. When making an appointment with a Financial Broker to commence the process of applying for a mortgage you should ask what documents you need to bring with you, such as the last six months' bank statements, loan statements and payslips. Prior to applying for a mortgage you can also run your own credit check by logging on to http://www.icb.ie/ and paying a small fee.

You should also have a look around the area in which you wish to purchase a property and gauge how much a property would cost.

To obtain a mortgage you must be in permanent full-time employment for at least six months, or be self-employed and have audited accounts and supporting documentation for the previous three years.

You must have your deposit saved or gifted and you must be able to show that you have the ability to repay a loan. Most lenders like to see a high proportion of the deposit saved by the client.

It is important to remember that for first time buyers (FTBs) you will only be allowed a 90% loan to the value of the property up to a maximum property value of €220,000. For properties above €220,000 you will only be allowed to borrow 80% for the remaining amount.



Loan to Value (LTV)

If you are a non-first time buyer (NFTB) you will only be allowed to borrow 80% of the property price.

For those looking to purchase a buy-to-let (BTL) property, you will only be allowed to borrow 70% of the property amount.

If you currently have a mortgage and are in negative equity, these LTV rules do not apply. If you are in negative equity and wish to change property you should discuss your options with a Financial Broker.

Also, when applying for a mortgage the maximum loan amount a lender can grant is 3.5 times gross income.
Exemptions may be sought for either loan to income (LTI) or LTV limits, and these are granted by lenders on a case by case basis. .

What is a Financial Broker?

A Financial Broker is an expert in financial matters, and some specialise in mortgage sourcing. A Financial Broker will work with you to understand your requirements in relation to obtaining a mortgage and guide you through the mortgage application process.

Financial Brokers will assess a number of lenders in the market, providing you with a broad choice.

Your Financial Broker will recommend the mortgage term, rate and lender most suitable for you. They will also recommend other products such as mortgage protection and in some cases home insurance.

Why would I need to use a Financial Broker?

There are a number of decisions you will need to make when applying for/obtaining a mortgage:

- How much should I borrow?
- Which lender should I borrow from?
- How long should I borrow for?
- Should I request a fixed or variable rate mortgage?
- Which type of mortgage protection cover is best suited to my needs?

Your Financial Broker will be able to explain the choices available to you in simple language, allowing you to make an informed decision. They can guide you on the decisions you need to make, based on your personal and financial circumstances.

They will then help you through the process of applying for a mortgage. Ultimately, your Financial Broker will ensure that you choose the best mortgage to suit your needs and circumstances.

Terms and Rates

Terms

The term of a mortgage is the length of time you will be repaying the mortgage to the lender. The duration of this differs from lender to lender but can be up to retirement age. At the end of the term, you will hopefully have the entire mortgage paid; however if you get into difficulty repaying the mortgage or you are repaying interest only on the loan, you may have a balance owing at the end of the mortgage term that you will need to repay.

Rates

An interest rate is the amount of interest charged on a monthly loan repayment. Interest rates are expressed as a percentage. Rates vary among lenders, and may change from time to time.

Fixed Rate Mortgage

A fixed rate mortgage means that your interest rate will not change throughout the specified fixed term of your mortgage. This means that your monthly repayments will be the same for the fixed term. In Ireland the maximum fixed term that you can currently receive from a lender is ten years.

Variable Rate Mortgage

A variable interest rate can be acquired for the term of the mortgage. If however you want to avail of a fixed term during the term of the mortgage then you can apply for one. Variable interest rates will fluctuate during the term of the mortgage and lenders may change the rate any time they wish with notice.

In some cases it may be possible to obtain a split rate mortgage from a lender. This means that a percentage of the mortgage would be on a fixed rate and the rest would be on a variable rate.

If you are unsure about which rate option you should take, consider getting advice from a Financial Broker regarding which rate would best suit your needs.

What are the other costs associated with a mortgage?

Deposit
All borrowers will be required to put a deposit towards the cost of the property. This will not be less than 10% for FTBs and 20% for NFTBs unless an exemption is granted.

Legal Fees
You must use a solicitor to carry out conveyancing work when purchasing a property. Conveyancing is the transfer of legal title of property from one person to another, or the granting of an encumbrance such as a mortgage or a lien.
You should discuss with your solicitor how much they will charge for (a) their professional services and (b) the other ancillary costs in the conveyance.

Valuation
All lenders require that a valuation is carried out on the property prior to granting a mortgage. In most cases the valuation is instructed by the lender but is paid by the borrower.

Mortgage Protection Insurance
If you have a mortgage on your family home, you are legally required (with some exceptions) to have life insurance cover to pay off the mortgage should you die before the end of the mortgage term. This is called mortgage protection cover.

Your Financial Broker can advise on the best options for mortgage protection to suit your circumstances.

Home insurance
Most lenders will require that you take out home insurance to protect your home in the event of fire or other damage. The valuation report completed in relation to your property will detail the minimum level of cover required. You are not obliged to purchase home insurance from your lender – you can source this insurance from any regulated insurer of your choice.

Stamp Duty
When purchasing a property you are required to pay stamp duty to the Revenue Commissioners; the amount is based on the value of the property transaction as per the table below.

Property value	Rate
Up to €1,000,000	1%
Balance	2%

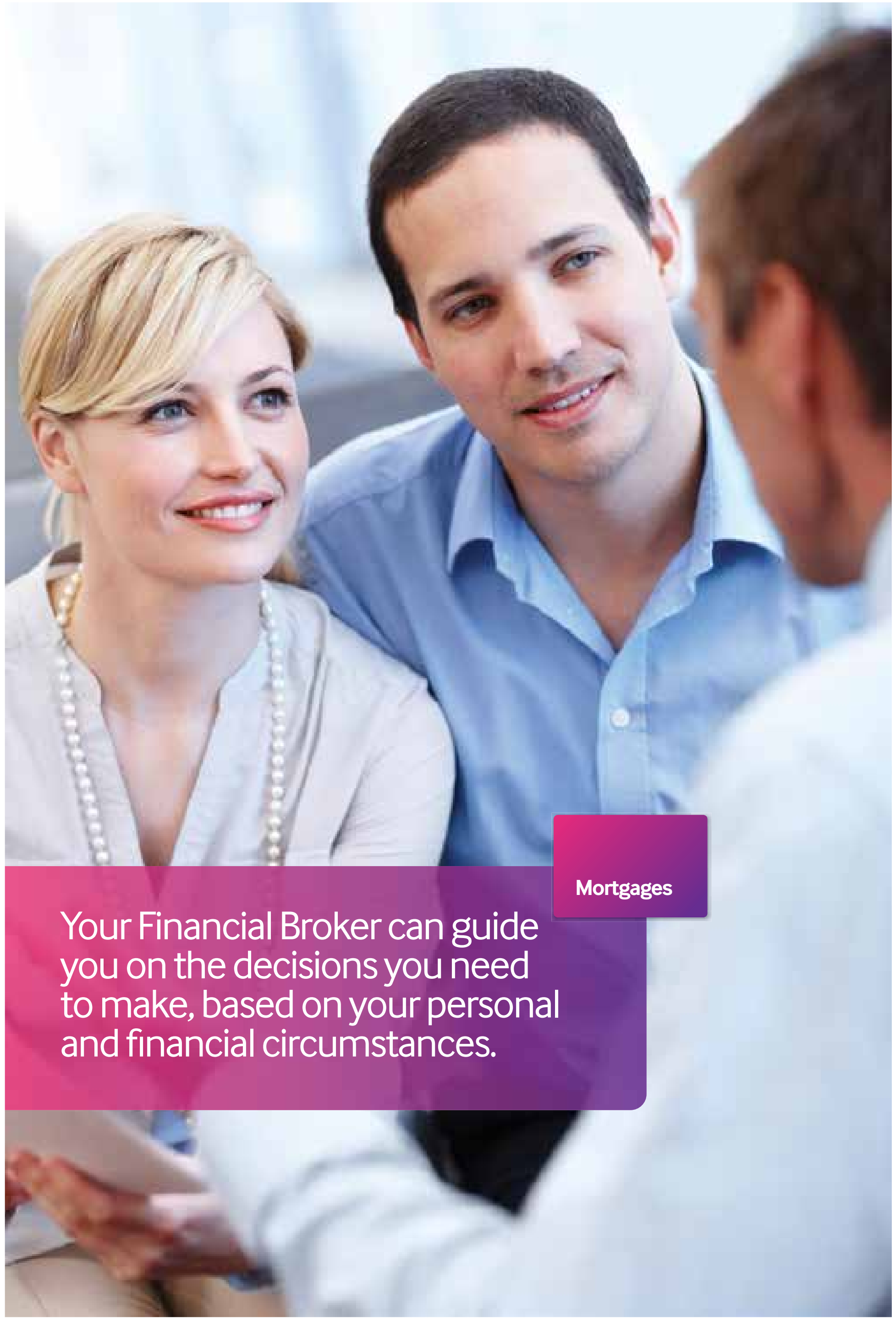
If you paid VAT on your house, you only have to pay stamp duty on the base price of the house – before the VAT was added.

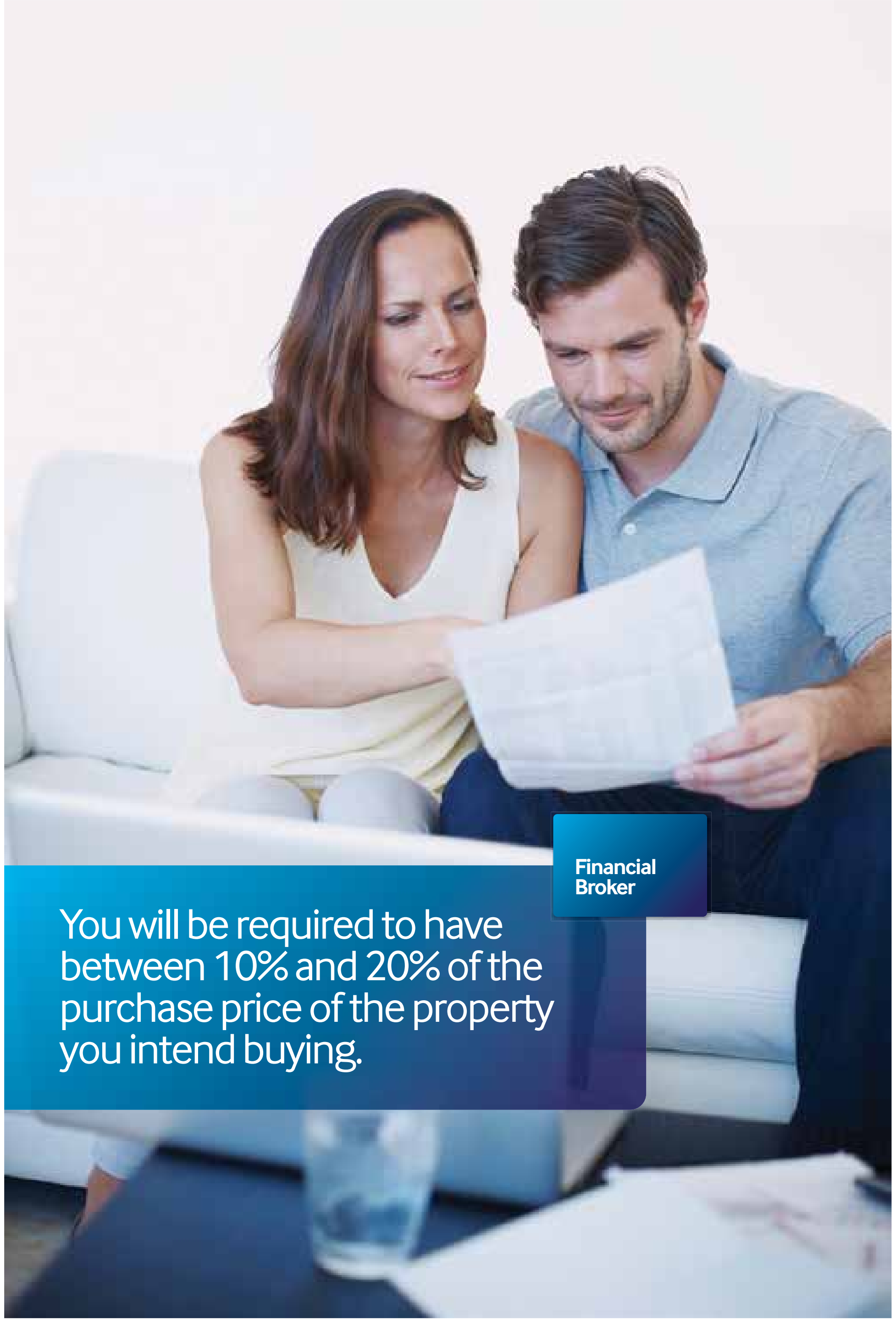
Since 7 December 2011 there is a single VAT rate of 2% on all non-residential property.

Can I claim mortgage interest tax relief?

Mortgage interest relief is a tax relief based on the amount of qualifying mortgage interest that you pay in a given tax year for your principal private residence (your home). A tax year means the period from 1 January to 31 December.

Mortgages taken out after 31 December 2012 do not qualify for mortgage interest relief and all existing mortgage interest relief will be abolished entirely after 31 December 2017.





Tips for getting mortgage ready!

Does your job provide you with a steady income?
Lenders are now looking closely at basic income; bonuses and overtime cannot be guaranteed to be taken into account when a lender is assessing your application. Make sure you have six months of payslips, last year's P60 and a salary cert completed by your employer (you can obtain a salary cert from your Financial Broker).

How long have you been in permanent employment?
To obtain a mortgage you must have completed your probationary period and you should have at least six months (but preferably twelve months) in continuous employment.

Do you plan on remaining in the same geographical area for a few years?
If you are planning to move location within the next few years then perhaps purchasing is not ideal for you. House prices can rise as well as fall, as we've witnessed within the last number of years, and therefore if you are only purchasing for the short term, the risk of negative equity increases. Negative equity is when the outstanding mortgage on your home is more than the market value of your home. This means that even when you sell the house you will be left with debt.

Do you have enough money set aside for the deposit, valuation and legal fees, and for furnishing the property?
You will be required to have between 10% and 20% of the purchase price of the property you intend buying. You must show the lender evidence on paper – e.g. bank statements and gift confirmation (if any) of this deposit prior to the loan offer being issued.

You should also consider the additional costs incurred in taking a mortgage, including the cost of the valuation and the cost of the solicitor. Shop around and find out what the average cost will be: it may vary a little due to location etc. You should never instruct a valuation or solicitor until you get advice from your Financial Broker, as the valuation and solicitor have to be on your lender's valuer and solicitor panel. Your Financial Broker will have details regarding this.

Showing regular savings?

Lenders will require evidence of savings. Not only is this showing that you can live within your means, it also demonstrates good financial planning and an ability to make repayments.

Do you have six months' payslips, current and saving bank statements? When you go to your Financial Broker you should bring with you:

- six months' payslips
- six months' current account statements
- six months' saving bank statements
- six months' loan account statements
- Last year's P60.

Check that you have not had any unpaid direct debits or standing orders on your statements (these are sometimes denoted by referral fees). If there are unpaid direct debits or standing orders, check why this occurred and explain this to your Financial Broker. Doing this can save a lot of time later in the process.

Can you show ability to repay i.e. paying rent?

You can demonstrate an ability to repay by showing a strong savings history and strong payment history, i.e. ability to pay a specified rent each month. It is important that the rent and savings transactions can be seen on your bank account statements.

Do you live within your means, avoiding overdrafts?

If you have an overdraft, check your six months bank statements and ensure you are not continually falling into the overdraft. If you do not have an overdraft, ensure that you have never overspent and initiated an unauthorised overdraft.

Check also that you have not been "living from one pay cheque to another". If this is the case, very strong savings records may help.

How is your credit history?

Don't forget – if you are unsure about your credit history or if you missed payments in the past, log on to http://www.icb.ie/ and pay a small fee to get your credit report sent directly to you. You should show this to your Financial Broker when applying for a loan.

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Contact your Financial Broker for more information on the following products:

- A guide to Approved Retirement Funds
- A guide to Annuities
- A guide to Buy Out Bonds
- A guide to Personal Savings Plans
- A guide to Executive Pensions
- A guide to Personal Retirement Savings Accounts (PRSAs)
- A guide to Life Assurance
- A guide to Income Protection
- A guide to Serious Illness Cover
- A guide to Savings & Investments

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