Welcome
Mortgage Solutions Limited

FIRST TIME BUYER GUIDE 2014

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Introduction

This guide has been put together to help answer some of the most common questions when buying a property for the first time.

It gives general advice on areas such as :

- The advice process
- How mortgages work
- Different types of mortgage
- Help with viewing and offering on properties
- Protecting your mortgage

It also explains how Welcome Mortgage Solutions Ltd can help you to achieve your goal of buying your first home.

The Service We Offer

This is where Welcome Mortgage Solutions Ltd can help. We are mortgage brokers who search the whole of the market and have been successfully arranging mortgages for thousands of clients over the last 10 years.

How sure can you be that you are getting truly impartial advice about your mortgage ? Is it better to get advice from your bank or from a broker ?

The confusion stems from the fact that lenders have 2 routes available to attract new customers :

1. Branches/ telephony service/ internet
2. Mortgage Brokers/ Intermediaries

When you visit a branch of a Bank or Building Society, you will only be told about the deals that they have on offer. You will not be told what any other lender is offering or that there may be better deals by placing your business through a broker. Have you ever heard of a Bank advising that a better deal is available from someone else !?

Likewise, when you visit a Broker or IFA, normally they will compare the products available from some or all of the lenders but will not tell you if a better deal is available by going direct to a Bank or Building Society. If they do, they will not get paid by the Bank and so, as you can imagine, this does not happen very often.

So, you are not really being given the full picture of what is best for you from anybody.

Our approach is simple :

Our aim is to find you the best value deal from all those that are available. We work for YOU and not for the banks, building societies or estate agents that you come into contact with.

Some mortgage brokers, particularly those based in estate agents, will not look at the whole of the market for the best deal but just a panel of lenders. We look at ALL the lenders and all the deals.

We think this is the only fair way to do business. We think you should have all the information available to get the best possible mortgage deal to suit your circumstances – whether that is through a broker or direct from a lender.

As part of our commitment to Treating Customers Fairly, we will provide you with the full picture - the best deal available to you from any lender whether it is a direct deal or through a broker.

This means that just one person is needed to give you advice on ALL the mortgages available from the WHOLE marketplace.

Now you can be confident that any deal recommended is the best one for YOU and not for the person who you are sat in front of. You will receive impartial advice.

Unfortunately, in order to be able to provide this type of service, we have had to introduce a fee charging structure into our business.

We are very open and upfront about our fees and believe that they are very cost effective when weighed against the benefits provided to you.

I appreciate that there are many mortgage brokers available who do not charge a fee but this is because they may only be recommending products which pay them a commission. If there is a better deal direct from lenders you may not get to know about it and could end up paying more than you needed to.

Our fees are as follows :

£350 Fee payable on application if a direct to lender deal is recommended and chosen.

This covers the cost of us researching the whole of the marketplace – broker and direct deals – and reporting back these options to you.

If an intermediary product is recommended and chosen by you then no fee is charged at all.

Our fee includes the following as standard :

- Report detailing your mortgage requirements, summary of the deals available and a comparison of the best deals
- Confirmation in writing of why a product has been recommended to you
- Home visits and out of office appointments
- Mobile telephone number of your adviser so that you can contact them at any time
- Free assessment of your protection needs such as life assurance, critical illness, disability/ unemployment and income protection
- Automatic Mortgage Review Service when your deal comes to an end

In summary, this is how we can help :

- Get a mortgage agreed in principle for you before you start looking for a property
- Search the market for the best value mortgage deal
- Confirm the reasons for recommending one particular deal over another
- Help you submit an application to your chosen lender
- Track the progress of your application including liaising with the estate agent and solicitor

- Review your mortgage again 3 months before the original deal is due to expire

So you can be sure that Welcome are not just trying to help you now but will continue to support you and your changing needs for as long as you want us to.

For your personal illustration and consultation, call 0844 736 1920 now.

Mortgages Explained

How much can I borrow ?

This will depend on the following factors :

- Your age
- Your income
- Your existing financial commitments
- The size of your deposit
- Number of dependents
- Term of the mortgage

As it is impossible to cover all the different combinations within the scope of this guide, we suggest you arrange a meeting with Welcome Mortgage Solutions Ltd to discuss your requirements in more detail.

For your personal illustration and consultation, call 0844 736 1920 now.

How Mortgages Work

Once you have decided how much you can borrow and how much you can afford, there are 2 more main decisions you need to make :

- What type of interest rate deal do I want ?
- Which repayment method should I have ?

The main types of mortgage product are :

1. Tracker
2. Fixed
3. Discount
4. Capped
5. Offset

There are variations on these themes and see the mortgage glossary for detailed explanations of these and other terms.

There are two types of repayment method for paying back the monies you have borrowed :

1. Capital and Interest (repayment)
2. Interest Only

The next few pages will look at giving you an idea of how these work but are no substitute for actual advice.

Types of interest rate deals

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 at the lender's discretion. The lender may not reduce, or may delay reducing their variable rate even if the Bank of England rate goes down.	Not usually, but check and see.	• Usually you can leave your lender without any penalties or problems. • You're in control. You can usually pay back extra amounts (and cut your interest costs) without a penalty. • It moves with interest rates. So if the lender decides to increase the rate your monthly payments will increase. • It may be expensive compared to other deals. • The lender may not reduce, or may delay reducing, their variable rate even if the Bank of England rate goes down.
Tracker rate	A variable rate loan with an interest rate that's equal to or a set amount above or below the Bank of England or some other base rate. It tracks (moves up or down with) that rate.	Sometimes during any special deal period and maybe even after the period too.	• 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. • It's not a good choice if your budget won't stretch to higher monthly payments.
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 full standard variable rate.	During the special deal: yes, almost always. They can apply even after the end of the special deal period as well.	• 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. • The discount period is limited, so don't get used to those early low repayments.

			• You may not be able to make overpayments and pay off the loan early without penalties • The lender may not reduce, or may delay reducing their variable rate even if the Bank of England rate goes down.
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.	• Your payments will stay the same in that period, even if interest rates go up. • This gives you the security of knowing that you can afford your payments and will make it easier for you to budget. • If rates go down, you won't benefit. Your payments will stay at the higher rate. • You may not be able to make overpayments and pay off the loan early without penalties.
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.

Mortgage features

Cashback mortgage

This may be offered with an interest-rate deal. The lender pays you a substantial sum (for example 3-5% of the amount you borrow) shortly after you take up the loan. If you move to another lender in the early years you'll have to repay some or all of the cashback received.

Is it right for you?

Possibly yes, if you need a large cash sum – for example, to buy furniture, or you expect the sum to more than compensate for any higher interest rate you may have to pay during the penalty period.

Possibly not, if you can manage without the cashback now and can get a better overall deal elsewhere.

Flexible mortgage

A flexible mortgage gives you some scope to change your monthly payments to suit your ability to pay. It's also useful if you want to pay off your loan more quickly. Several flexible features are becoming common and they aren't limited to mortgages with 'flexible' in their name. Here are some flexible features:

- **Overpayments** – you can pay more than your normal monthly mortgage payment or pay off a lump sum, or both.
- **Underpayments and payment holidays** – you pay less than the normal monthly payment for a limited period (say six or twelve months). You may even be able to stop making payments altogether (a payment holiday). This could be useful if, say, you lose your job or take time off to care for a child.
- **Borrow extra (loan drawdown)** – you can borrow extra without further approval from your lender, provided the total loan does not go above an overall limit. Alternatively you may be able to 'borrow back' against earlier overpayments.

Is a flexible mortgage right for you?

Possibly, yes, if you are likely to use these features, for example if you're self-employed and have a variable income.

Possibly not, if you are unlikely to use these features. A less flexible mortgage may be cheaper or more suitable for you.

Offset mortgage

With an offset mortgage, your main current account or savings account (or both) are linked to your mortgage and are usually, but not always, held with the mortgage lender. Each month, the amount you owe on your mortgage is reduced by the amount in these accounts before working out the interest due on the loan.

So as your current account and savings balances go up, you pay less on your mortgage. As they go down, you pay more.

Current account mortgage

A current account mortgage is similar to an offset mortgage in that it **offsets** the balance of your savings against your mortgage. However, in this case, rather than your mortgage and current account being separate pots of money, they are usually combined into one account. This means that the account acts like one big overdraft.

Look at Section 4 of the keyfacts about this mortgage document to see whether it is a current account or offset mortgage and whether you have to take a current account offered by the lender as a condition of the mortgage.

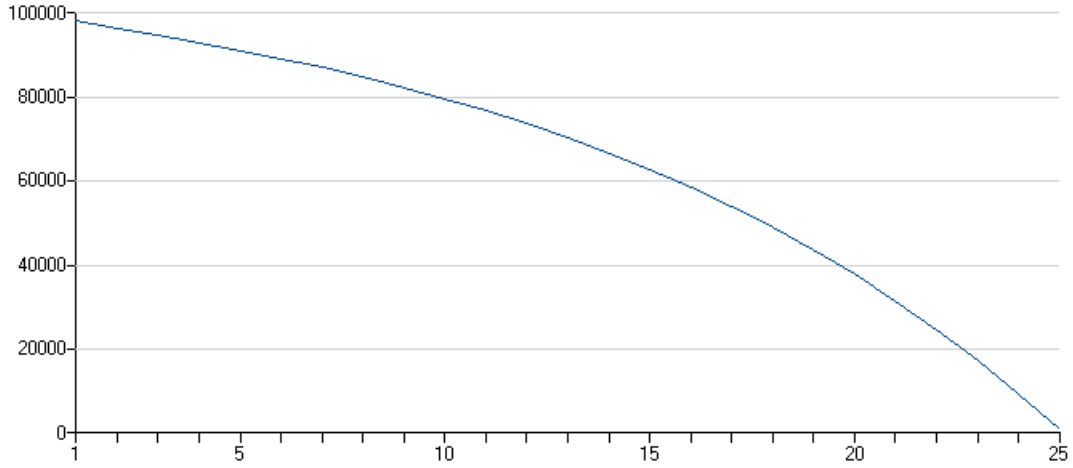
Is an offset or current account mortgage right for you?

Possibly, yes, - if you are a higher rate taxpayer, have substantial savings to offset and like the idea of built-in flexibility to make overpayments and underpayments.

Possibly not, if after paying your deposit you don't have much left in savings and if other mortgages have a lower interest rate or other features that are more important to you

Then you need to decide on your repayment method :

Capital & Interest (Repayment) Mortgage

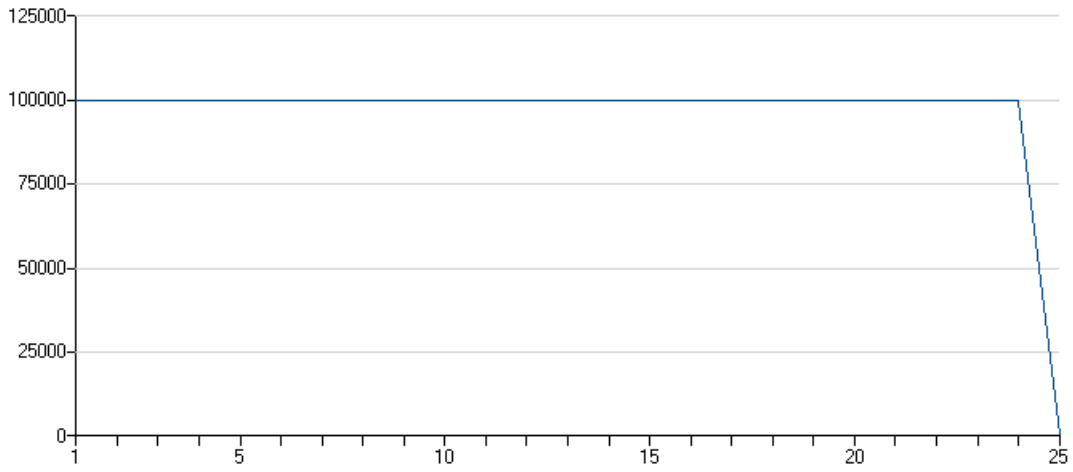


Every month, your payments to the lender go towards reducing the amount you owe as well as paying the interest they charge. So each month you're paying off a small part of your mortgage.

The pros: It's a simple, clear approach - you can see your loan getting smaller. The loan is certain to be paid off if you meet the monthly payments over the term of the mortgage.

The cons: 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'll find that the amount you owe won't have gone down by very much.

Interest Only Mortgage



As the name suggests, your monthly payment only pays the interest charges on your loan - you're not actually reducing the loan itself. This is why it's 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.

If you choose this option you will need to check that your investment or savings plan grows accordingly, so that at the end of the term you'll have enough money to pay off the loan. If it doesn't grow as planned, you will have a shortfall and you'll need to think about ways of making this up.

The pros: Because you're only paying off the interest, and not the loan itself, your monthly payments will be lower.

The cons: That debt is not going to go away. Throughout the life of the mortgage, you'll need to check your investment or savings plan is on track to repay your loan at the end of the term. If you can't repay it at the end of the term you could lose your home.

Deposit Required

In today's financial climate when lenders are being very cautious in their lending, a minimum deposit of 5% of the property's purchase price is required if you are buying through a special scheme such as the government introduced "Help to Buy Scheme". It is worth mentioning that not every lender has signed up to take part in this scheme and so there is limited availability.

The normal deposit needed by most lenders is 10% of the property price. A deposit of this size will mean that most lenders will be available to you.

Many lenders are not offering the flexibility that they used to at the higher loan to values and as they perceive that the risk is higher with a smaller deposit, the interest rates charged tend to be much higher and the lending more cautious at this level.

Better rates are offered with a 15% deposit and better still with either a 20% or 25% deposit. However, this is not always realistic !

At present, therefore, the more deposit that is available the better.

For an idea of the difference in interest rates that the bigger deposits can make, please visit our "Best Buy" tables where you will see a scale of rates based on the deposit available.

Click HERE to open a link to the best buy tables.

The Costs of Buying

Until you have actually found a property that you wish to buy, these can only be a guide and are approximate only. When we have a purchase price, we will be able to give you more precise figures.

Fee Type	Cost	When Payable	Notes
Stamp Duty	£	At Completion	1% on purchases over £125,000
Solicitors	£1,100	At Completion	Nominal amount upfront usually £250
Lenders Arrangement Fee	£995	Added to Mortgage	Will vary according to lender/ deal
Valuation Fee	£400	Upfront	Approx but depends on purchase price of property
Miscellaneous	£500		To cover any surplus
Total to be Paid Out	**£**		

This table should only be used as a rough guide and the total to be paid out figure should not include those costs paid upfront or added to the mortgage.

You will also need your deposit monies to be IN ADDITION to the figures mentioned above.

For a personalised breakdown of the costs that you would face in buying a property, please call Welcome Mortgage Solutions Ltd on **0844 736 1920**.

Finding A Property

You may have decided by now which type of mortgage is for you and the type of interest rate deal you would prefer. You have saved your deposit and are searching for a suitable property to live in.

It is important to see a few different properties so that you get a feel for what your money can buy you and so that you can decide features that you do and don't like.

The main question to ask yourself if whether you can see yourself living in the property in the future. If the answer is YES then you may have found the one. If it is NO, then keep looking.

Please use the section below as a handy guide of questions to consider when you are out and about viewing different properties.

10 Questions to ask an Estate Agent when VIEWING a property

1. How long has the property been on the market ?
2. How many viewings has the property had ?
3. What has been the general feedback from those viewings ?
4. Has the price changed at all ?
5. How much would you pay for the property ?
6. What is the situation of the seller ?
7. How quickly is the seller looking to move ?
8. Why would you say it has not sold already ?
9. What improvements would you make to the property ?
10. How would those affect its value ?

IMPORTANT : If the property is a flat, you MUST ask how long is left on the lease as this could affect the mortgage-ability and value of the property. Great care should be taken when buying a property with less than 70 years left on the lease.

Use this information to :

- Judge how keen the seller is to find a buyer as this could be useful if you like the property and wish to put an offer forward.
- Assess whether the property is reasonably priced and whether there is much scope to put in a low offer.

Once you have seen a property that you like and are interested in buying, you are ready to move to the next stage.

How to Put An OFFER Forward when you have found a property you like

1. Review your feedback to the 10 questions you asked the estate agent when viewing the property to remind yourself of the sellers situation
2. Go to www.zoopla.co.uk/house-values , click on “home values” and enter the address and postcode to obtain an approximate valuation on the property you are interested in and a guide to what else has sold nearby
3. Go to www.houseprices.co.uk to see what the property was originally purchased for
4. Check on here to see if there are any neighbouring similar properties that have been sold recently as this will give you a good indication of the value now
5. Make a note of the price and the date the property you are interested in was purchased

6. Enter this data and the postcode into the following website which will calculate its approximate value now based on an average increase/ decrease for that postcode to give you an rough guide to the approximate value now:

   http://www.nationwide.co.uk/hpi/calculator.asp

7. Use the information below to work out the maximum price you are prepared to pay for the property

   a. How does the value you have worked out above (in stages 4-6) compare to the asking price advertised by the estate agent ?

   b. How does Zoopla's valuation compare ?

   c. How quickly are the seller's looking to move ?

   d. How long has the property been on the market ?

   e. How much do I want to buy this property ?

8. Your first offer should be on average 5% lower than the price you are willing to pay

9. Phone the estate agent with your first offer but remember that this will nearly always be rejected

10. If and when this is rejected, ask the estate agent what is the lowest price the sellers are willing to accept for guideline purposes to gauge where to place your next offer

11. Your second offer should be half-way between your first offer and the maximum amount you are prepared to pay but take heed of the lowest price as if your second offer is below this, it is likely to be rejected again but is still worth a gamble

12. Phone the estate agent again with your second offer

13. If this is again rejected, increase your offer to the maximum amount you are prepared to pay for the property. Make sure that you say to the estate agent that this is your "full and final" offer, you will not be increasing any further than this and will walk away from the property if it is not accepted.

14. The process we have gone through so far may well have taken several days - going backwards and forwards via the estate agent. If so far you have not been successful, then be prepared for another day or two of "cooling off".

15. During this "cooling off" time, re-assess the following :

    a. How much you really want the property ?

    b. Are you are prepared to increase the maximum price you are prepared to pay for the property ?

    c. Is the property still affordable ?

16. If you are satisfied that the answers to ALL of the above are positive, then put in your last offer to the estate agent at a price you know is going to be acceptable to the sellers.

17. Open the champagne and phone Welcome Mortgage Solutions Ltd to arrange a meeting

Now you have found a property and had an offer accepted, it is time to finalise your mortgage arrangements.

- Call Welcome Mortgage Solutions on 0844 736 1920 to arrange a meeting

You will need the following information to hand :

- Purchase Price of the property
- Estate agent you are buying through
- Address of the property you are buying

We will then start researching the whole of the market to find you the best mortgage deal possible for what you are looking to achieve.

The House Buying Process

The following table gives you a guide as to the steps you would go through to buy a property

DEPOSIT SAVED

↓

MORTGAGE AGREED IN PRINCIPLE

↓

FIND A PROPERTY YOU WISH TO BUY

↓

MAKE AN OFFER ON THE PROPERTY

↓

OFFER ACCEPTED

↓

DISCUSS MORTGAGE RESEARCH AND RECOMMENDATIONS WITH WELCOME

↓

MORTGAGE APPLICATION MADE & SOLICITOR INSTRUCTED

VALUATION/ SURVEY REQUESTED AND LENDER CHECKS CARRIED OUT
This will involve confirmation of income, credit check and other status enquiries

MORTGAGE OFFER PRODUCED
This is the promise of the money subject to legal checks

SOLICITOR COMPLETES LEGAL ENQUIRIES
Ensures the contract of sale is to your satisfaction

EXCHANGE OF CONTRACTS
You are now legally obligated to buy the property

COMPLETION = OBTAIN KEYS MOVE IN WHEN YOU ARE READY !!!
Your new mortgage has begun - you will receive confirmation of your first payment within 2 weeks

Help with Finding a Solicitor

At Welcome Mortgage Solutions Ltd, we aim to support you in every aspect of buying a property and this includes finding a solicitor who can help you with the legal work involved.

We can search through a list of solicitors who will not only offer very competitive fees but which also includes some protection for you so that if certain things go wrong, you can claim back some costs that you have spent out.

For example, if the vendor pulls out through no fault of your own, accepts another offer from someone else or if the property is down-valued by more than 10%, then you can claim back monies you have paid out : up to £500 in mortgage arrangement fees, £750 in valuation fees and £600 in solicitors disbursement fees.

So if something goes wrong, apart from being disappointed, you need not lose out financially.

Through our partnership with Easier2move, you can obtain a full quote and instruct a solicitor through our website at :

http://www.trackyourconveyancing.co.uk/index.aspx?id=3429

If you have any questions on this, please do not hesitate to give me a call on 0844 736 1920.

The Different Types of Valuation / Survey

1. **The Basic Valuation.**

This is the minimum the lender will accept in order to lend on any property. The valuation covers 3 main areas. Is the property suitable to lend on ? Is it worth what you are paying for it ? Does it have any major problems ? You will receive a copy of this but it is mainly tick boxes and very little text. It is done for the lender but you will receive a copy.

2. **The Homebuyers Report**

This is a much more detailed report that covers the condition of the property and possible future likely expenditure in far more depth. It will cost roughly double the basic valuation and is often cheaper for you to get the lender's surveyor to carry out this report at the same time as they do the basic valuation. This survey is done for you and provides a direct contract between you and the surveyor.

A Structural Survey is also available but you would need to arrange this yourself and pay the lender to carry out a basic valuation.

Protection Explained

Finding the right home is important. So is being able to stay there no matter what life throws at you.

Ask yourself the following questions :

- How would you pay the mortgage if you were seriously ill ?
- What would happen if you were made redundant ?
- Could you pay the mortgage on just one/ no income ?
- What other bills would you still have to pay ?
- How would you pay them ?
- How would this affect your lifestyle ?
- What would you want to happen ?
- How important is this to you ?

It is therefore vital to consider what may go wrong and what you can do about it. This section looks at the different types of insurance available to you and explains them all.

Summary

Once you take out any kind of loan, it's very important that you make all the repayments in full, and on time. If you fail to do so you could lose your home if it's a mortgage or your loan is secured on it. It could also affect your credit rating.

Sometimes, however, the unexpected happens. For example, you might lose your job through redundancy, or find yourself unable to work due to long–term sickness. By law, an employer must pay most employees statutory sick pay for up to 28 weeks though this will probably be a lot less than full earnings. After that, you would probably have to fall back on State benefits. These are limited and means-tested which may mean you won't qualify. If you are self-employed, you have no employer to help, so you would have to turn to the State.

This is when insurance to protect you or your family's income or borrowing can be useful. Listed below are some examples of products and why you might find them useful:

Type of insurance	What's it for	What do you need to know?
Critical illness (CI)	Pays out a lump sum if you're diagnosed with a critical illness, such as cancer, a stroke, MS, a major organ transplant, coronary artery bypass, heart attack and kidney failure. You can use the payout to pay for medical treatment, pay off your mortgage or anything else.	You need to read your insurer's terms carefully, not just for the range of illnesses they cover but also their type. For example, while a heart attack may be covered, a cardiac condition such as angina may not, also not all types and stages of cancer are covered. For a claim to be successful, you normally have to survive a month following the diagnosis.
Mortgage payment protection (MPPI) – also called accident, sickness and unemployment insurance	A typical policy will start to pay your mortgage repayments one month after your income stops due to redundancy, accident or illness, and continues to pay for 12 months.	You don't have to have this type of cover at all (unless it's a condition of your loan) and you certainly don't have to buy it from your own lender, so shop around for the best deal for you. Check if any medical problems you may have had in the past would be excluded if they cropped up again.
Payment protection insurance (PPI) – also called accident, sickness and unemployment insurance	To help you keep up your loan repayments, for example on a loan or credit card, in the event you can't work because of redundancy, accident or illness. A typical policy will start to pay an agreed amount one month after your income stops due to redundancy, accident or illness, and continue to pay for a set time – usually 12 or 24 months.	You don't have to have this type of cover at all (unless it's a condition of your loan) and you usually don't have to buy it from your own lender, so shop around for the best deal for you. Look at the conditions carefully. For example, what if you wanted to cancel the cover after a few months? And if a medical problem you've had before crops up again, will they still pay out?

Life insurance	Pays out a lump sum if you die.	With some types of cover, called Pension Term Assurance (PTA), you used to get tax relief on the premiums paid into it. This may no longer be available on policies taken out after December 2006.
Mortgage protection life cover (term insurance)	Pays off the mortgage loan if you die.	Endowment mortgages automatically include life cover. If you have a repayment mortgage (so the amount you owe gets smaller over the years), you can buy cover that reduces as the debt reduces.
Income protection (or Permanent Health Insurance – PHI)	Replaces part of your income if you are unable to work for a long period of time because of illness or disability.	It continues to pay out until you can return to some kind of paid work or reach retirement, whichever is sooner. PHI products have a waiting period before they will start to pay out. The longer you agree you'll wait, the lower your premiums so it is important you find out what income you can get from your employer, and other insurance (such as mortgage payment protection) you can get in the event of illness or disability. This cover might not be available to you if you have existing health problems or a dangerous job.

1. Life Insurance

Life insurance is about providing some financial security for people who depend on you if you died. (So if you don't have a partner, spouse or civil partner, children, or other dependants, you may not need life cover.)

To make sure you buy the right amount of cover, with the right terms and conditions, you should consider getting some advice. The adviser assesses what your family would need, and shops around for the cover that suits you best.

Term insurance is the simplest and cheapest type of life insurance, and is known as term insurance because you choose how long you're covered for, say, 10, 15, or 20 years (the term).

Term insurance only pays out if you die within the term you've agreed. If you live longer than the term, you get nothing. As a couple, you can also take out term cover in both your names, with the policy paying out if either of you die during the term.

Premiums shown are usually fixed for the whole term. There are also contracts where premiums are reviewable after a certain period, usually five years.

By paying extra, you can usually include a waiver of premium. It pays the premiums if you can't work because of a long-term illness so that your cover is not interrupted.

If you want to change insurer, check the level of premiums for the new contract before switching (premiums may have gone up because of older age or because you have developed medical conditions). Also check the new level of cover compared to the previous one. Different benefits may be available, and different exclusions may be applied – for example you may not be covered for medical conditions that have developed before the switch even if these were covered under the previous contract. If you do decide to change, make sure you do not cancel your original cover until you are fully covered by the new contract.

2. Critical Illness

Critical illness cover (CIC) is a long-term insurance policy designed to pay a lump sum on the diagnosis of certain life-threatening or debilitating (but not necessarily fatal) conditions such as a heart attack, stroke, cancer, multiple sclerosis and loss of limbs.

The illnesses covered will be specified in the policy along with any exclusions and limitations – these differ between insurers. CIC policies usually only pay out once, so are not a replacement for income.

Many people buy CIC when they take on a major commitment such as a mortgage.

- Critical illness cover pays you a lump sum if you are diagnosed as suffering from one of the specified illnesses.
- Policy summaries will often set out a list of illnesses covered, but this is only a guide and full details will be in the policy document. This will also set out the criteria that have to be met before the insurer will pay a claim, including defining the level of severity of the illness.
- As an example, in the case of cancer, not all cancers or stages of cancer are covered. And for heart attacks, the insurer will need to have medical evidence of the severity of the condition before paying a claim. So make sure you check which illnesses are covered.
- CIC does not cover simply any sickness that affects your ability to work – it is specific about which illnesses are covered.
- Some insurers exclude all pre-existing conditions but others will decide on the basis of your personal medical history.
- CIC differs to other types of protection insurance such as income protection or payment protection, so make sure you understand what it does and whether it is right for you.

3. Income Protection

If you are an employee and you fall ill, your employer might pay you your full pay for a few weeks or months. By law, an employer must pay most employees statutory sick pay for up to 28 weeks, though this will probably be a lot less than your full earnings. After that, you would probably have to rely on state benefits.

However, some employers arrange group income protection insurance for their employees as a perk of their job, which can pay out an income after the statutory sick period. So check what you are entitled to.
If you are self-employed, you won't have this option.

State benefits are not generous. You would probably see a substantial drop in your income if you were out of work for more than a few months because of illness or disability.

Insurance aims to put you back to the position you were in before you suffered a loss. But it does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost less an adjustment for State benefits you can claim. This usually translates into a maximum of, say 50% to 65% of your before-tax earnings.

If you can't work because of illness or disability, income protection insurance (also called **permanent health insurance**) pays out a tax-free income.

Example of working out how much cover you need:
Sue is single and earns £26,000 a year before tax and other deductions. She estimates that, if she was ill for a long time, her budget would be affected as shown in the table below.

Sue's budget calculations in the event that she couldn't work	Her estimates
Income she would lose Her take-home pay	**£18,000**
***Deduct* income she would gain** Approximate long-term incapacity benefit	**£4,000**
***Deduct* expenses Sue would save** Work-related costs, mortgage interest payments if covered by mortgage payment protection insurance	**£3,000**
***Add* extra expenses she would pay** Allowance for, say, cost of special equipment or treatment, cost of heating her home for more time	**£2,000**
EXTRA INCOME NEEDED	**£13,000**

Sue reckons she would need around £13,000 a year to maintain her lifestyle. This is half her before-tax pay of £26,000.

Sue also works out that as a perk of her job, her employer will pay her half a salary for 52 weeks after the statutory sick pay period of 28 weeks. She therefore arranges for her policy to pay out after 80 weeks of incapacity (see **waiting period** below).

You pay a monthly premium throughout the term of the policy. Cost depends mainly on:

- **Your age** – at the time you start the policy. Older people are more likely to suffer an illness, so pay more.
- **Your sex** – gender can have an affect on the premium you pay.
- **Your health** – at the time you start the policy. If you have existing health problems you might be refused cover or have to pay more.
- **Your job** – some jobs are more likely than others to contribute towards illness. For example, a bank clerk is deemed to have a very safe job but a deep sea diver runs high risks and so would have to pay more.
- **Hobbies and lifestyle** – for example, smoking makes you more likely to become ill, so you'll pay more.
- **Waiting period** – once you claim, there is a delay before payments start. You can choose how long this is - for example, from 4 weeks up to 104 weeks. The longer the waiting period, the less you pay.

If your health is poor or your lifestyle is considered risky, you may be refused cover or have to pay more than normal.

Check whether you already have protection in place in case you get incapacitated, and for how long that protection would last. For example your employer may have an income protection scheme in place you can benefit from, or you may have a payment protection insurance that covers your mortgage.

Check whether the policy reduces what it pays out if you receive state benefits or claim money under any other insurance policy.

Some policies only pay out if you can't do any work, but you would have to be seriously incapacitated for you not to be able to work at all. Others cover being unable to do any work for which you are suited. The best pay out simply if you can't do your normal job, but premiums tend to be more expensive.

Some advisers suggest that critical illness cover (CIC) – which pays out a tax-free lump sum if you are diagnosed with a life-threatening condition listed in the policy – is a cheaper and simpler alternative to income protection insurance. But there are lots of common situations when CIC would not pay out – for example, if you had back problems or a stress-related illness. Additionally, not all occurrences of the critical illnesses listed are covered, for example some early stages of cancer are not covered.

4. Payment Protection Insurance

Payment protection insurance, or PPI, is insurance that will pay out a sum of money to help you cover your monthly repayments on mortgages, loans, credit/store cards or catalogue payments if you are unable to work. This could be because you have an accident or sickness, or become unemployed through no fault of your own.

This means that the insurance company will pay the monthly repayments (or a percentage of them) on your behalf for a fixed period of time if you become unable to work. It is sometimes known as ASU (accident, sickness and unemployment) insurance, Account Cover or Payment Cover.

- PPI only pays out for a set period of time, generally either 12 or 24 months.
- To claim on the unemployment part of the policy typically you must have been employed continuously by the same company for the last 12 months on a permanent contract.
- Check carefully if you are self employed and require cover – the policy may not cover you.
- You may not be able to make a claim for an illness you already have or have had before. Make sure you check this before you take out the policy. This will be called a **pre-existing medical condition** and can include any medical conditions you have, even if they haven't troubled you for a while.
- Stress or back complaints, and possibly other conditions, may not be covered, even if you can't work because of them. Again, it's worth checking before you take out the policy.

If you wish to discuss this in more detail or get personalised advice and illustrations on these valuable covers, then please call Welcome Mortgage Solutions Ltd on 0844 736 1920.

Next Steps

By reading this guide, you should be building up your knowledge of how mortgages work. What happens next though ?

- Arrange meeting to discuss your personal borrowing requirements
- Obtain agreement in principle
- Find a property you would like to buy
- Phone me on 0844 736 1920 to get help with putting your offer forward
- Offer accepted
- Arrange meeting to discuss mortgage options
- Complete paperwork
- Application submitted to lender
- Lender instructs valuation and does any references it sees fit
- Mortgage offer issued
- Exchange of contracts
- Completion

If you have any questions or queries, please do not hesitate to contact David Warboys of Welcome Mortgage Solutions Ltd on 0844 736 1920.

YOUR PROPERTY IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE