



**MONEY
SMART**

An education programme from

Danske Bank

Welcome to

Money Smart

By Danske Bank

Mortgages and rentals

What we will discuss today

- Differences between buying and renting a property
- What is a mortgage
- How do mortgages work
- The advantages and disadvantages of buying and renting
- How much does a house in NI actually cost



Before we start...

While we are talking to you about credit today, it is important to remember that credit facilities are only available to persons over 18 years of age





Introduction

- Unless you plan to live at home forever, at some stage you'll want to move into a place of your own.
- This could be a shared flat or house with friends or flatmates, or maybe it's where you'll live when you settle down with a partner or start your own family.
- Many people spend a large proportion of their monthly earnings on accommodation. And because we are spending quite a lot of our hard-earned money on where we live, it is important to make the right financial decision based on:
 - What we earn
 - What we can afford
 - What sort of home we are looking for
 - Whether we prefer to rent or buy

If you rent...

You become a **tenant** and the person you rent from becomes your **landlord**



You will sign a **rental agreement** setting out **how long** you can rent that particular property for and **how much rent** you have to pay each month.

Throughout your rental agreement, the house or flat **remains the property of the landlord**, and you must **leave** the property at the end of the rental period unless the agreement is renewed.

You may **not be able to make any changes** to the property, and you may **not be able to let others share it** with you without your landlord's permission. You may not be allowed to keep pets and you will be expected to leave the property as you found it.

If you buy...

When you own your property, **it is yours** to live in and use and share as you see fit.

You can – subject to planning permission and so on – build extensions/ carry out improvements. And of course, you can sell it if you wish.

If the property is worth more when you sell it, you might make a profit – but if or when you sell it, it is worth less than you paid for it, you might make a loss.

We'll discuss house prices and fluctuations in value shortly.

What is a mortgage?

Has everyone heard of a mortgage? Can anyone have a go explaining it?

What is a mortgage?

A large, stylized purple letter 'A' is positioned on the left side of the slide, partially overlapping the purple header bar.

- A mortgage is a loan from a bank or building society to help you buy a property.
- You then repay the loan to the bank or building society over a number of years with interest. This means that you'll end up repaying more than you borrowed, but at the end of the mortgage period, you'll own your property outright.



What is a mortgage?

A large, stylized purple letter 'A' is positioned on the left side of the slide, partially overlapping the text area.

- A mortgage is a **'secured' loan*** – the lender has agreed to lend you the money based on the value of your property. They have the security of knowing that until you've paid off your mortgage in full, they have an interest in the house. If you don't meet your repayments, or fall behind on your payments, they could repossess it.
- **A secured loan is a loan that is secured against the item being bought. In essence, this means that the lender is entitled to repossess the item purchases (car or house or similar) if you don't keep up your repayments.*
- Repossession is to take back possession of property for failure to make payments due.



What about a deposit?



What about a deposit?

Depending on how much you want to borrow, how much you earn, and the value the bank or building society places on the property you wish to buy, you may be offered a mortgage generally between 60% to 95% of the purchase price.

You will be expected therefore to have a deposit - generally between 5% to 40% of the purchase price of the property.



What about a deposit?

So, if you want to buy a house for £100,000, and the bank is willing to offer you a mortgage of £85,000, you will need to have saved up a deposit of £15,000.

If you are already paying rent for accommodation, it can be very hard to save up a deposit, so sometimes people move back in with family for a year or so before they buy, so they can save up a deposit.

How is a mortgage calculated?



How is a mortgage calculated?

A lender will start with your **financial standing**:

- How much do you earn each month?
- If you are buying with another person, how much do they earn?
- Is your employment secure – how long have you had this job?
- Do you have any other loans or debts?
- Other fixed cost expenditure What is your credit rating?
- Can you afford the repayments based on the above?



How is a mortgage calculated?

- Because the mortgage is secured against the value of the property you are buying, the lender will also require a **survey of the property**.
- The survey gives you and the lender information about the **value of the property**.
- The results of the survey may mean that the lender decides the property is not a good investment for them for various reasons – for example if the price you are being asked to pay is too high, or if there is a structural problem with the property such as damp or subsidence.
- For this reason, it is usually best to talk to a mortgage adviser first to see what sort of mortgage you might be able to obtain, and then start looking for properties when you have a budget in mind.



Interest rates

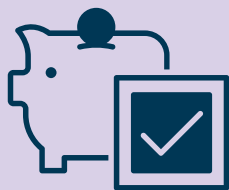
- When you borrow money, you will agree to repay it with interest over a period of time.
- There are two elements to the interest rates you pay on a mortgage.
 - There is the Bank of England Base Rate and then;
 - The lender's interest rate on top of that.
- The lender's rate will depend on your circumstances and which type of mortgage you choose.



Interest rates

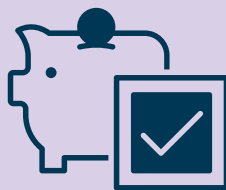
- The Bank of England Base Rate may change, and/or your lender's interest rate may change over the course of your mortgage period. A **small increase in interest rates** can have a **big impact** on your mortgage repayments. But it depends on what type of mortgage you have.
- Some mortgages offer you **fixed rates** of interest – you might pay a little bit more back each month, but you are guaranteed that the amount won't change.
- Or you may have a **variable rate** mortgage – this means your repayments will go up if interest rates rise, but also that they will reduce if the interest rate drops.
- Whatever type of mortgage you choose, you need to make sure you can comfortably afford your repayments, and have a plan in your budget in case your mortgage increases. You'll also need to budget for a few other expenses too.





Other expenses and costs

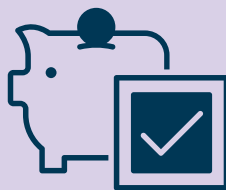
- Both buying or renting will involve **initial costs** and ongoing **monthly costs**.
- Whether you buy, or whether you rent, you can probably expect to pay about one quarter to one third of your monthly income for your accommodation each month, so you need to know how much you have to set aside for your rent or for your mortgage, as well as some of the other costs associated with living in your own place.



If you buy a property, you can expect to pay...

- Stamp Duty (Stamp Duty Land Tax)*
- Fees to solicitors, surveyors and estate agents.
- You may also have to carry out repairs to your new home, or re-decorate it before you can move in.
- You'll need to furnish it, and buy any appliances – oven, fridge, freezer, washing machine, dish washer etc.

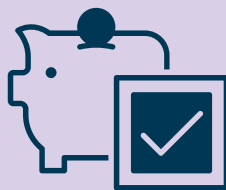
**Stamp Duty is a Government tax charged at different rates depending on the portion of the purchase price that falls into each band.*



And once you've moved in...

You'll need to budget for the following annual or monthly expenses:

- **Insurance** - for your property, to cover the building itself and the contents in your home e.g personal belongings.
- **Running costs** - electricity, heating.
- **Rates** to your local council for services such as street lighting & refuse collection.
- **Repairs & maintenance** - you'll need to keep your home in good condition in order to maintain or enhance its value.



If you rent...

- You'll usually have to pay a deposit when you move in. This might be the equivalent of one month's rent, and will be returned to you by your landlord as long as the property is in good condition when you vacate it at the end of your tenancy.
- You'll also have to budget for:
 - **Insurance** - for your personal contents
 - **Running costs** - electricity, heating
 - **Appliances** - your landlord will probably provide basic cooking appliances (fridge/cooker) but you may want your own appliances such as kettle, toaster etc.
 - **Repairs and replacements** - if you damage your rented accommodation, or break any of the contents, you will have pay the landlord to repair or replace them.

Activity

Let's think about what the advantages and disadvantages of renting might be?



Renting

Advantages

- Renting is often cheaper and the rent may not vary as much as a mortgage varies.
- If you rent a furnished property, you can expect your landlord to provide all the furniture, crockery and most of the appliances you need.
- Renting is usually for shorter periods – sometimes a year or less – which is useful if you know you need to move.
- Usually, you don't have to pay for repairs or maintenance. The landlord is responsible for plumbing, electrical and heating.

Disadvantages

- Your lease will expire and you will have to find alternative accommodation if it is not renewed
- You may have no say over improvements, décor or furnishings
- You may have to share with people you don't know or don't get on with
- You won't own the property, so many people see renting as throwing money away that could be going towards owning your own home

Activity

Let's think about what the advantages and disadvantages of buying might be?



Buying

Advantages

- You own the property, so you can make improvements or build extensions.
- Improvements you make can sometimes increase the value of the property.
- Selling the house for more than you paid for it can make you a profit.
- The pride and self-satisfaction that comes from being a home owner.

Disadvantages

- Houses are expensive to buy
- Houses can be expensive to maintain and run, if you have leak or problem, you'll have to cover the cost.
- Unless you've been able to buy the property outright, you'll need a mortgage - this means you'll have to pay interest, so you'll repay more than you borrowed.
- The value of the house could decrease meaning you would lose money if it were sold.
- Your home may be repossessed if you do not keep up with your mortgage repayments.

How much does a house in NI cost?

Figures come from the Q2 2023 NI House Price Index

Detached

£273,537



Semi-Detached

£172,281



Terrace

£122,712



Apartment

£130,839



Average house price in NI: £177,611



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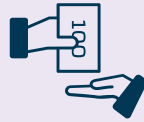
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Top Takeaways



Differences between buying and renting

When getting your own place, we've looked over the differences in buying and renting



Mortgages - and how they work

We've looked what a mortgage is, how it's calculated, how deposits work and interest rates



Things you need once you move in

With buying or renting, there are lots of extra costs when you move in, and they are important to consider



Average house prices in NI

We've looked over roughly how much the average house prices are in NI, and their deposits