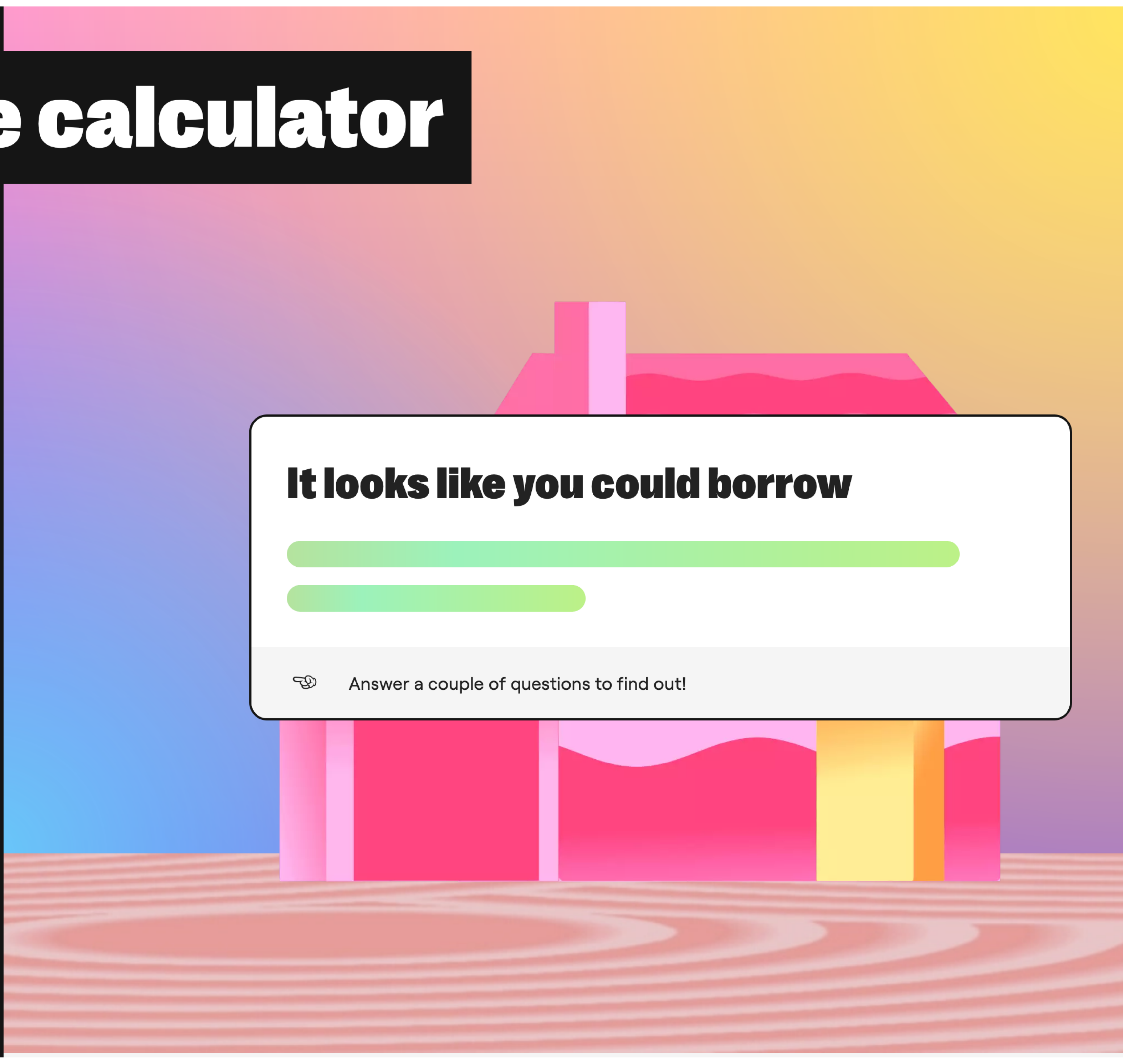
Mortgage calculator

Buying a home and want to know what you could borrow? Let's crunch some numbers together! See what you could afford and what you could be paying every month. Remortgaging? **We have a calculator for that too**



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What does this mortgage calculator show me?

This mortgage calculator shows you:

- The largest amount you could borrow
- The value of the most expensive property you could afford

We work out the largest amount you could borrow based on your income only.

We work out the value of the most expensive property you could afford by adding your deposit to the largest amount you can borrow.

How much you can borrow depends on the size of your deposit. To qualify for a mortgage, you need a deposit of at least 5% of the property's value. So, to buy property worth £250,000, you'll need to pay at least £12,500 out of your own pocket.

If you have a bigger deposit, you may be able to afford a more expensive home (more on this in a minute).

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As a rule, most lenders will let you borrow 4.5 times your total annual income. So, if you earn £50,000 a year, you'll usually be able to borrow up to £225,000.

Your annual income isn't just your basic salary. It's all the income you earn in a given tax year. Most lenders have their own rules around what they'll accept as income. But, typically, the following count as income, as long as you have the documents to prove it:

- Any bonuses, commissions, overtime, and other allowances
- Income from a part-time job
- Government benefits, bursaries, and grants
- Pension income
- Any interest you earn on your investments
- Your cut of the profits from any limited company you own shares in
- Rental income from other properties
- Income from overseas

If your income changes from one year to another, enter your average income over the last two years. This should be enough to give you a rough idea of how much you could borrow.

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Are there other factors that affect how much I can borrow?

Yes. While your income is the single biggest factor affecting how much you can borrow, your expenses can also make a difference. Lenders want to make sure you'll be able to keep affording your mortgage, so they'll also want to know about:

- Any outstanding loans and credit card debt
- Your bills – Council Tax, utilities, mobile phone contracts, and insurance policies
- How much you spend on travel, including the cost of running your car
- Whether you have kids and how much it costs to care for them, including your share of childcare costs and school fees
- Whether you pay spousal maintenance (for example because you're separated or divorced) and how much you pay

If your expenses make up a very big chunk of your income – this is known as your debt-to-income ratio – lenders may decide to lend you a smaller amount than they otherwise would. This is because they may take the view that a larger repayment would put your finances under too much strain.

With this in mind, try paying off as much of your debt as possible before you apply for a mortgage.

As part of your mortgage application, lenders will also look at your credit history. This helps them understand how you've handled credit in the past and assess how likely you are to default. We'll talk about how your credit history affects your mortgage application in more detail below.

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Most standard mortgages are designed to end when you reach retirement age. The reason for this is that, once you retire, your income may become more limited and mortgage repayments could strain your finances.

Because of this, lenders will likely offer you shorter repayment terms as you get older. So if you want to borrow a large amount, you'll need to prove you can afford to make larger repayments in less time.

That said, while getting a mortgage into retirement is trickier, it's not impossible. The key is to prove you have enough income – from your pension, investments, or other sources – to comfortably afford the repayments.

If that's not an option, you could consider the following alternatives:

- A guarantor mortgage

  This is a mortgage where a trusted family member commits to taking over your repayments if you can no longer afford them

- An equity release scheme

  If you already own a property and you've repaid all or most of your mortgage, an equity release scheme can help you cash in on its value. You can do this in two main ways:

  - A lifetime mortgage

    Here, you'd take out a mortgage without having to make any repayments. Your lender makes their money back by selling your home when you go into long-term care or pass away.

  - A home reversion scheme

    Here, you sell all or part of your home to an equity release company. You can continue living in your home until you go into long-term care or pass away, at which point the company will sell it.

  Bear in mind that you won't be able to leave your home to your family when you pass away if you use an equity release scheme.

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The short answer is no. Lenders decide how much you can borrow based on your income and expenses, regardless of whether you're employed or self-employed.

That said, proving your income is a bit more fiddly when you're self-employed. This is because:

- Your income fluctuates from month to month and from one year to another
- Unlike employees, you don't have payslips and a P60 form that prove how much you've earned in a given tax year

So how do you prove you can afford a mortgage if you're self-employed?

For starters, you'll need to produce copies of your SA302 forms.

An SA302 form is a government form that shows your annual income based on your self assessment tax return. You can order SA302 forms from HMRC through your Government Gateway account or print them off from your accounting software.

Many lenders will want SA302 forms for at least the last two years you've been self-employed. This is so they can get a good sense of your business' financial health. There are lenders who accept just one year, but this will limit your options.

Been trading for less than a year? It may be very difficult to get a mortgage, though not impossible.

If you're:

- A contractor – that is, you work on one project at a time for a fixed period and then move on to the next project
- A freelancer who works on a retainer basis – that is, your clients pay a fixed monthly fee in exchange for your services

you could try a lender that does contract-based underwriting. Here, the lender will look at your contracts and use your day rate (or your retainer fees) to work out your annual income.

Unfortunately, this won't be a good option if you sell products or services to clients on an as-needed basis.

What other documents you'll need for your mortgage application will depend on how your business is set up.

If you're a sole trader, lenders may ask to see your annual accounts.

If you're in business with others, lenders will want to know exactly what your share of the profits is. So you should make sure this comes out clearly in your accounts.

If you're a limited company, lenders will want to see your company accounts.

Different lenders will look at different figures. Some will only consider your salary and dividends as income. Others may also include your company's retained profits – profits which you haven't withdrawn from the company's bank account.

Needless to say, if a lender takes retained profits into account, your income will be bigger and you may be able to borrow more.

If you're self-employed and looking for a mortgage, **we can help**

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This might have something to do with the size of your deposit.

Most lenders will only lend you up to 95% of your property's value. So if you have £5,000 saved up, you'll only be able to borrow £100,000, even if you earn much more.

Try entering a larger deposit amount in the calculator and see what happens to the numbers.

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Lenders work out how much you can borrow based on your income and expenses, not on the size of your deposit.

That said, a bigger deposit could make you able to afford a more expensive home.

Lenders expect you to have a deposit of at least 5% of the property's value. If you have more than 5% saved up, you can use it to make up the difference.

> **Example**
>
> Imagine your lender said they can lend you £170,000 based on your income and expenses.
>
> Since you must pay a deposit of at least 5%, you can afford a home worth £178,950 (the £170,000 you'll borrow plus a 5% deposit of £8,950).
>
> Luckily, you've saved £50,000.
>
> This means you could afford a home worth £220,000 (the £170,000 you can borrow plus the £50,000 you've saved).
>
> Paying a bigger deposit can also get you a cheaper mortgage.

> **Example**
>
> Imagine that, instead of buying a more expensive home, you bought one worth £178,950, paid the full £50,000 you've saved as a deposit, and borrowed £128,950.
>
> Because you've borrowed less compared to what your home is worth – that is, you have a lower loan-to-value – your lender may give you a better interest rate.
>
> Your monthly repayments will also be smaller.

We'll talk about loan-to-value in more detail next.

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What is loan-to-value and why is it important?

Loan-to-value is how much you've borrowed compared to what your home is worth.

The number is expressed as a percentage. So, if you pay a 5% deposit and borrow the rest, your loan-to-value is 95%. And if you pay a 25% deposit and borrow the rest, your loan-to-value is 75%.

Loan-to-value is important because it tells lenders how much risk they're taking when they lend you money. The higher your loan-to-value, the greater the risk to your lender. By contrast, the lower the loan-to-value, the lower the risk.

> **Example**
>
> Imagine your home was worth £250,000.
>
> Unfortunately, you lose your job and can no longer afford your mortgage repayments.
>
> If your loan-to-value is 95%, the bank will have to sell your home for at least £237,500 to make back what they've lent you.
>
> If they're unable to sell your home for that much, they could lose money. And if you take the cost of managing your mortgage into account – the time mortgage advisors have spent working on your application, for instance – the lender may lose money even if they sell your home for £237,500.
>
> By contrast, if your loan-to-value is 75%, it's less likely that the lender will lose money. They only need to sell for £187,500 to make back your loan.

Because mortgages with high loan-to-value are riskier for your lender, fees and interest are usually higher to offset the risk. You can lower your loan-to-value and get a better interest rate and lower fees by paying a larger deposit.

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This depends on your circumstances. But, in general, borrowing at the top of your budget is risky.

Remember that what you can afford doesn't just depend on how much a lender will let you borrow and the size of your deposit. There are also other costs to consider.

Firstly, you have to pay your solicitor, any fees your lender charges for processing the mortgage, and other upfront costs (more on this in a minute). These additional and often unforeseen costs can increase the cost of buying a home by 10% or more.

Secondly, think about your new home's running costs.

A bigger home will usually sit in a higher Council Tax band and cost more to light and heat, which means bigger bills. Repairs and maintenance may also be more expensive.

Lastly, do you have big plans in the pipeline, like getting married or quitting your job to start a business?

Any of these three issues could affect your ability to keep up with your mortgage repayments, so think carefully before you decide how much to spend and make sure you borrow responsibly.

Experts suggest that your mortgage repayment shouldn't be more than 30% of your monthly income.

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Alongside your deposit, there are a number of fees you may have to pay when you buy a home.

- Fees charged by your lender

  Lenders charge a series of fees to cover the cost of processing your application and setting up your mortgage. These may include:

  - Booking fees – a one-off fee of around £99 to £250 which you have to pay to file your application. This is non-refundable, so it's due even if the mortgage falls through
  - Arrangement fees – a fee for setting up your mortgage, usually around £999. You only pay this if you go ahead with the mortgage
  - Valuation fees – the cost of a valuation survey, usually £150 and up, though it can reach up to £1,500. The valuation survey only checks if you're paying a fair price for the property. If you want to make sure there are no problems with the building itself, you'll need to commission an independent property survey for yourself (more on this below)
  - Mortgage account fees – a fee for maintaining and, eventually, closing your mortgage account, in the region of £300. Some lenders call it an exit fee

- Legal fees

  This is mainly the cost of hiring a solicitor to do legal work, such as checking the property deeds, setting up your mortgage security, and transferring the ownership title of the property from the seller to you.

  Fees vary greatly between solicitors and a lot will depend on how much work needs to be done, the location of your property, and how much it is worth. You can typically expect to pay £1,000 to £1,500.

- Survey fees

  While a property survey is optional, it's usually a good idea to get one done. The survey will make sure there are no serious issues that could result in huge repair bills. You can also use the results as leverage to negotiate the price down.

  Home surveys start at £400 and up, but they can save you thousands of pounds and grief down the line.

- Bank charges

  Your lender may bill you for the cost of transferring the mortgage money to your solicitor. Similarly, your solicitor may bill you for the cost of transferring the money to the seller. You can typically expect to pay around £25 to £50.

- Other fees

  Most lenders will require you to take out buildings insurance as a condition of your mortgage. On average, this costs £100 and up a year. Depending on your circumstances, you might also have to pay:

  - Broker's fees. Some mortgage brokers charge you a fee for their services. They should tell you about this upfront
  - Agency fees. These apply if you're selling a property at the same time as buying a new one

Overwhelmed by all the moving parts buying a property involves? **Habito will sort everything out for you for one straightforward, transparent fee.**

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Stamp duty is a tax you have to pay when you buy your main residential property.

The rate depends on the price of your property and where you live in the UK.

In England and Northern Ireland, you don't pay stamp duty on the first £125,000. Stamp duty is then due as follows:

- 2% on £125,001 to £250,000
- 5% on £250,001 to £925,000
- 10% on £925,001 to £1,500,000
- 12% on anything over £1,500,000

In Scotland, stamp duty is called land and buildings transaction tax. You pay:

- 0% on the first £145,000
- 2% on £145,001 to £250,000
- 5% on £250,001 to £325,000
- 10% on £325,001 to £750,000
- 12% on £750,001 and up

In Wales, stamp duty is called land transaction tax. You pay:

- 0% on the first £180,000
- 3.5% on £180,001 to £250,000
- 5% on £250,001 to £400,000
- 7.5% on £400,001 to £750,000
- 10% on £750,001 to £1,500,000
- 12% on £1,500,001 and up

If you're a first time buyer, and you're buying in England or Northern Ireland, you don't pay stamp duty on the first £300,000, as long as your home doesn't cost more than £500,000. If your home costs more than that, it's the same stamp duty rules as people who've bought a home before.

Bear in mind, that if you're buying with someone else, both of you have to be first time buyers. Otherwise, you'll have to pay stamp duty at the usual rates.

The threshold for first time buyers is also lower in Scotland. Here, you don't pay stamp duty on the first £175,000.

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You can't get a mortgage unless you have a deposit of at least 5% of the property's value.

That said if you don't have a deposit right now – or saving for one isn't possible – there are other options you can look into.

- Ask your family for help

  Could your family help you with the money for your deposit?

  This is becoming increasingly common, especially amongst first time buyers. In 2020, one in four home buyers had financial help from their parents.

  Do be aware, though, that your lender may have rules around this. For example, some lenders will only allow a certain amount of your deposit to come from your family. Some lenders also have rules around which family members can gift you money – for example, immediate family only.

  Needless to say, because it's family, you should also think about setting some ground rules. Is the money a gift or a loan? And how will you repay it if it's a loan?

  It's good to have clear terms upfront, or things could get awkward.

- Consider a guarantor mortgage

  Some lenders will let you borrow without a deposit if you have a guarantor. A guarantor is a family member or trusted friend who commits to making your mortgage repayments if you can no longer afford them.

  A guarantor becomes legally responsible for your mortgage if you can't pay it. They'll also need to use their own home or savings as security for your mortgage, so things could get awkward if you do start having trouble keeping up with repayments.

  For this reason, you should make doubly sure you borrow only as much as you can afford.

  It's also worth noting that having a guarantor doesn't guarantee you'll be able to get a mortgage without a deposit. Some lenders will still require one.

- Look into government schemes

  The government has three schemes to help you save for a property deposit:

  - Lifetime ISA

    A lifetime ISA is a savings account designed to help you start saving for retirement or for a property deposit. You can save up to £4,000 a year tax-free. The government will kick in £25 for every £100 you save, up to a limit of £1,000 a year.

    The catch is that you must be under 40 to open one. And you can only use it to pay a property deposit if you're a first time buyer.

  - Shared ownership

    This is a scheme that lets you buy a share of your property and pay rent on the rest. To qualify, you must:

    - Have a household income of £80,000 or less (or £90,000 or less if you live in London)
    - Show you can't afford to buy a suitable home
    - Be a first time buyer. Or, if you aren't, you must show you need to move, for example because you've separated from your partner, but can't afford to

    The shared ownership scheme has its pros and cons, and you should think carefully before considering it.

    Things to watch out for include expensive maintenance charges, rising rents, and restrictions on what you can do with the property. Some shared ownership schemes won't allow you to buy up to 100% of the property, either – so make sure you check with the housing provider before you agree to buy.

  - Help to buy

    If you're a first time buyer, you just need to provide a 5% deposit, and the government will provide the rest, up to 20% (up to 40% in London). The government provides this as a loan that's interest free for 5 years. The catch is that the property must be a new build from a registered home builder.

    New builds can be hit or miss. Some buyers of new builds report that their properties came with more problems than they expected. Other buyers have noticed that their new build homes are overpriced, compared to similar properties in the area they bought.

    Your lender may carry out a valuation survey to make sure you're paying a fair price for the property. But it's also worth booking a home survey. This will confirm whether there are any serious defects or other issues with the building.

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Most mortgages last for 25 years, but it's possible to take out a mortgage for either a shorter or longer period. 10 and 15-year terms are common for shorter mortgages, while longer mortgages can have 30 or 35-year terms.

Both have their pros and cons.

A shorter mortgage means you'll own your home outright sooner.

The flipside is that you'll have to make bigger monthly repayments. And if lenders think your monthly repayments are too big compared to your income and expenses, they may lend you less than you were hoping to borrow.

Mortgages with longer terms have lower monthly repayments, but you'll pay more interest overall. The Money Advice Service reckons borrowing £175,000 at 3% interest over 35 years costs £34,000 more than borrowing it over 25 years.

A good compromise could be to get a mortgage that has a longer term but allows you to make overpayments. This way, you can benefit from lower monthly repayments but have the flexibility to pay your mortgage off sooner if your financial situation improves.

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What's a good interest rate?

In a nutshell, a good interest rate is the lowest rate you can get on the best possible terms.

The terms are as important as the rate itself.

3% interest over 25 years works out cheaper than 2.7% over 35 years, for instance. This is because of compounding – lenders add the interest on your mortgage to the principal, so it collects further interest. So, the longer you take to pay off your mortgage, the more interest you pay.

Similarly, whether your interest rate is fixed or variable makes a difference.

Fixed rates stay unchanged for a set term, usually two, five, or ten years. But once that term expires, your lender will put you on their standard variable rate, which is much higher.

Fixed-rate mortgages also tend to be less flexible. You'll get charged an early repayment fee if you decide to pay off your mortgage during the fixed-rate term.

Variable rates – and, in turn, your monthly repayment amount – can change unexpectedly from one month to another. But your monthly repayment won't necessarily become more expensive. It could also get cheaper, because variable rates can go down as well as up.

Most lenders advertise their 'typical' or 'representative' APR (annual percentage rate). To advertise a rate as 'typical' or 'representative', at least 51% of the lender's customers must get that rate or lower. This means comparing different lenders' APRs is a good way to find out what rate you can reasonably expect to get.

That said, lenders ultimately decide based on your individual circumstances, and the single biggest factor in their decision is risk.

If your mortgage has high loan-to-value – that is, you've borrowed a big percentage of your home's value – the lender is more likely to lose money if you default. So your interest rate will be higher than average.

Similarly, if you've struggled to pay your debts in the past, the lender will give you a higher rate to offset the risk.

By contrast, if you have a big deposit and a good credit history, you're likely to be offered a better rate.

At Habito, we've created Habito One: the UK's first ever mortgage that guarantees your interest rate and monthly repayment for the whole term. **Discover how it works and whether you qualify here.**

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Yes, but it probably won't be a very good deal. Lenders may ask you to put down more than 5% as a deposit. And your interest rate will likely be above average as well.

Lenders look at your credit history to understand how you've handled credit in the past. A bad credit score makes you look more risky. So, lenders will ask for a bigger deposit and charge higher interest to offset this risk.

Bear in mind that your credit score may be 'bad' even if you've never struggled with debt.

If you've never had a credit card, loan, or contract phone, you're new to the UK, or you've just returned after living abroad for a long time, you'll have little or no credit history. Lenders won't be able to check how you've handled credit in the past, so they'll think you're risky even if you aren't.

Every lender has their own expectations when it comes to credit scoring.

That said, if your score is less than ideal, there's a greater chance they'll reject your application. So you should talk to us about your situation before you apply. This will help you avoid getting rejected by multiple lenders, which could make your situation worse.

If possible, try waiting before applying for a mortgage, and work on improving your credit score in the meantime. You'll be more likely to get approved and on better terms.

Here's what you can do to improve your credit score:

- Check your Experian, Equifax, and TransUnion (formerly CallCredit) credit reports regularly to make sure there are no mistakes. If you find any mistakes, ask for them to be fixed.
- Pay your debts in full and on time. This seems incredibly obvious, but it's the single most powerful step you can take to improve your credit score. If you struggle to keep track of payment dates, set up direct debits wherever possible.
- If you have a limited credit history, get a credit builder card. Use it to make small payments and pay them in full every month. It will help you improve your score.
- Avoid making several credit applications too close to each other. As a rule you should leave around three months between applications. If you just want to see if you're eligible, use an eligibility checker. These don't leave a mark on your credit report and won't affect your score.

Get more tips on improving your credit score here.

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No – but we do have a **buy-to-let mortgage calculator** you can use instead! This calculator only shows you how much you could borrow to buy a property you'll live in yourself. Buy-to-let mortgages are different.

In a **buy-to-let mortgage**, the lender won't work out how much you can afford to borrow based on your income and expenses. They'll look at how much you could earn by renting out the property. This means you can usually borrow more.

The flipside is that the lending criteria are much stricter. This is because owning a rental property is risky. For example, you might have to evict the tenant for bad behaviour and have trouble finding another one. This would leave you on the hook for the mortgage repayments, plus the rental property's expenses and your own living expenses.

To qualify for a buy-to-let mortgage, you must:

- Be 21 or older
- Earn at least £25,000 a year
- Have a deposit of at least 25% of the property's value
- Show the lender you could rent the property for around 25% to 30% more than your mortgage repayment

You should also bear in mind that buy-to-let mortgages are likely to be interest only, which means your monthly repayments will only cover the interest on your mortgage. Once the mortgage term expires, you'll have to either pay off the amount you've borrowed or sell the property to cover the cost.