Considerations when buying a home

What would Dr Mo Lar do? Part 3

By 4dentists, UK

Over the course of this 11-part series, the 4dentists group will explore ways to tackle a number of personal and professional challenges by providing advice and guidance to fictional character Dr Mo Lar. In this article, the third in the series, the different options available to dentists looking to purchase property are explored.

Lar has been working as an associate for several years now, which means he finally has the capital to purchase his first home—the next step in his life plan. Currently, he is in rented accommodation, but by buying a home, Lar will get himself on the property ladder, which, in turn, will help assure financial security for the future.

Altogether, embarking on the adventure of home ownership is extremely stressful. It is, after all, one of the greatest financial commitments he will ever make. As Lar will need to take out a mortgage on the property—which is the case for the majority of buyers—he will need to decide which type to choose. Seeking expert advice on the kinds of mortgages available and weighing-up the options beforehand can be hugely beneficial when purchasing a home.

One of the main types that Lar should be aware of is a repayment mortgage, for which the borrower is required to make a monthly payment to the lender, repaying both the interest and some of the capital. There are a number of advantages to choosing the repayment option, including it limiting the risk linked to taking out a mortgage, it being simple to understand and follow payments, and as long as you keep up with the repayments, the mortgage being repaid by the end of the term. Potential disadvantages are that there is no possibility of additional investment returns, there is a limited chance of repaying the loan early without increasing the monthly payments, and if you move house frequently, it is very difficult to build up equity in the property in the initial stages, as repayments mostly consist of interest.

Another option to consider is the interest-only mortgage, for which the borrower only repays the interest on the loan each month and the amount that is owed remains the same throughout the duration of the mortgage repayments. When the mortgage term reaches its end, the borrower is required to pay back the principal amount. In order to do so, the borrower must make sure that he or she has saved enough money to be able to repay the loan. Again, there are a number of advantages and disadvantages to taking out this kind of mortgage on a property. For instance, it provides the opportunity to make a return on the investment, there is the option to repay the loan early and it is easy to transfer the mortgage without disrupting the payment plan.

Another factor that Lar is making a huge commitment buying his first home, but with concise and well-informed professional advice, he can achieve his goal in a relatively stress-free and uncomplicated way.

Next issue: How Lar can legally reduce his tax bill.