What would Dr Mo Lar do? Part 3

Considerations when buying a home

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 very exciting, but Lar will do well to remember that it can also be 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 the pros and cons will help ensure Lar makes the right choice.

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For the actual acquisition process, it is essential that the buyer employs either a solicitor or a licensed conveyancer to deal with the legal aspects of the transaction. There are a number of different options available from Internet-based companies to traditional high-street or local commercial firms, and costs can vary significantly from one to the other. Ultimately, buying a house is one of the most expensive purchases that Lar will ever make, so it is important that he choose the right team to represent him in the purchase. Further to that, it can pay to use a company like the 4dentists group that offers accountancy, legal and financial services all under one roof.

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 this repayment option, including it limiting the risk linked to taking out a mortgage, 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. However, the borrower’s ability to repay the loan is dependent upon the investment performance of the savings vehicle that has been chosen, so the risk is considerably higher than for a repayment mortgage. In addition, there are two separate payments to keep track of, one to the lender and the other to the investment company, and this can be confusing and stressful. The other option available to Lar would be a mix-and-match mortgage, which is exactly what it sounds like: you choose a combination of mortgage types to spread the risk.

Whatever type Lar chooses, it is crucial that he take into consideration exactly how much he can afford, both now and in the future. If he is looking to become a practice principal or start a practice group, for instance, this might affect his finances and how much he can pay. Lar would also need to think about how his plans to start a family would affect his mortgage affordability.

Another factor that Lar will need to give thought to is how being an associate will affect his securing a mortgage. When dealing with self-employed dentists, most lenders will request a minimum of two years’ accounts because the affordability assessment is based on net pre-tax profit and not turnover. As such, accurate record-keeping is essential, and it is for that reason that it can pay to utilise the services of a specialist accountant.

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.