Year 13 | How to prepare for your financial future
FAQs

Flic Financial Literacy & Inclusion Campaign
Supported by the Financial Times

How much do I need to earn to get a mortgage?
The general advice is the following. Firstly, calculate the deposit you'd like to put down, generally about 10% of the house price. Take this away from the house price - this gives you your mortgage amount. Providing you don't have any outstanding debts, most lenders will give you around 4.5 times the salary, so divide the mortgage amount by 4.5. And that's the approximate annual salary you'd need to earn! (Of course this depends on personal circumstances and other outstanding debts)

Can I get a mortgage if I'm self- employed?
Yes, you have access to the same range of mortgages as everybody else and you'll need to pass the lender's affordability tests (in the same way as other borrowers).

- If you're a sole trader, in most cases lenders will look at your net profit over the past two to three years. They then take an average from those figures.
- If you have a limited company, lenders will look at your share of net profit or your salary and dividends.
- If you're a contractor, lenders will take the average of your income over the last few years. If your earnings vary dramatically, they may take your lowest earning year as a baseline for what you can afford to borrow. Some lenders may be willing to take an annualised figure from your day rate.

What red flags are lenders looking out for?

- Poor credit history - this could stem from missed credit card payments
- High debt-to-income ratio - if existing debts are too high compared to your income, it may affect eligibility
- Income levels - you will need to meet the lender's minimum income requirements
- Unstable employment - lack of stable work or lots of job changes
- Fraudulent information - providing false information on the application

What should you be aware of when choosing a lender?

- It should be a warning sign if the lender rushes you through the process.
- You should expect them to request a credit check from you. There are cases people can be lent money without this but they are unusual and may involve higher interest rates
- You should expect lenders to offer roughly similar interest rates. If one lender offers very different interest rates to other lenders, this should serve as a warning.

It's important to carry out research about a lender before you put your trust in them and before you sign any contracts.

What is meant by the term interest?
Interest is the money you are paid by the bank for money you've given them, or the amount a bank charges you for money you've borrowed. It's expressed as a percentage of the original amount.

How often will a person receive a credit card bill?
The actual bill comes every month (either online or by post, whichever you select). You can see your spending in your online account in real time.

Is credit card interest fixed or variable?
They can be both, however the majority will be variable. A bit about fixed vs. variable credit card rates. Fixed credit card interest rates remain constant, so monthly payments are predictable. However, they are typically higher initially. Variable rates change with benchmark interest rates, sometimes offering lower initial rates but with the risk of increasing payments over time based on economic conditions.

Can anyone have a credit card/ what would prevent a person from being able to have a credit card?
To get a UK credit card, you need to be over 18 years old and living in the UK. You'll also usually need some kind of income (which you can prove). This helps a service provider to establish your ability to repay what you borrow. If you have a record of overdue or unpaid bills, that can result in a bad credit score which can make it harder to get a traditional credit card. But it's not over - there are credit cards marketed to people like this (more here) to help them build their credit scores back up. These cards typically have higher interest rates and lower spending limits. The idea is to use them for a short time, until you can get a regular credit card.

How can having a credit card affect a person's credit score?
If you pay your credit card in full and on time every month, that will be a great help to your credit score. Paying off the minimum amount every month (rather than everything) will build your credit score as well, just not as quickly. If you don't pay the minimum amount, that will damage your credit score.

How can you improve your credit score?
You can do this by having your salary paid into your current account. Make sure you pay any credit or store card back on time. Have direct debits set up on your current account and make sure there is always enough money in your account to pay these amounts.

What other benefits are available with a credit card?
Benefits may include: air miles, cashback, exclusive discounts/rewards, travel insurance, airport lounge access, online purchase protection.

What is a credit limit?
A credit limit is the maximum amount that you're allowed to borrow with your credit card.

What are the costs of borrowing money?
You agree to pay interest when you borrow the money. You'll pay extra fees (sometimes called penalties) if you miss a payment.

What are ISAs?
An ISA stands for an Individual Savings Account. They are special savings or investment accounts that allow you to save or invest money without paying income tax or capital gains tax on the money made in the account. There are several types of ISAs available, including Cash ISAs for savings accounts and Stocks and Shares ISAs for investments. You can put up to £20,000 in ISA accounts.

Some young people may have a Junior ISA that their parents set up and pay money into. When the young person reaches 18, that money becomes theirs to use e.g. for education, or the money can be transferred to an adult ISA.

How does a pension work?
A pension is a type of retirement plan that you and your employer can pay into, which is treated favourably by the tax system. This provides monthly income on your retirement. A percentage of your pay is put into the pension scheme automatically every payday by you and your employer. Currently, you can access your pension at 55 years old although this is changing to 57 years old from April 2028 (and may increase again). When you pay into a pension, you are giving up current income in exchange for money in the future (in the form of pension income). This is something to be considered when budgeting as it will come out of your pay cheque. There are three types of pension: state pension, workplace pensions and personal pensions.

Why should I care about my pension now?
Pensions provide the cash to live off when you retire. The more money you put away into a pension and the sooner you start, the more money you will have to live off when you leave the world of work.

How do I know my boss is saving my pension money?
It is the law that your employer pays any pension deductions from your pay, plus their own contribution, into a pension scheme on your behalf. Most employees will receive evidence of this from their pension scheme provider. If you suspect that an employer is not doing this, you can contact the Pensions Regulator.