<u>Your guide to saving for a mortgage deposit</u>

Let's get you ready to start saving for your deposit.

Buying a house is expensive, especially if you're a first-time buyer. 60% say the cost of raising a deposit is one of the biggest barriers to home ownership, second only to the cost of repayments.

First-time buyers are being squeezed by creeping house prices, the rising cost-of-living and historically high mortgage rates. Saving for a deposit is a significant challenge, especially when you factor in the other costs associated with buying a home.

We'll cover the basics to help you understand how much you need for a deposit and give you some essential tips for maximising your savings.

How much do you need to save for a mortgage deposit**?**

In 2024, the average home in England was worth £290,000. The minimum deposit accepted by most lenders is 5% of a property's value so, for the average English home, that comes to £14,500.

But a 5% deposit is likely to limit your options, and you probably won't be eligible for any good deals. A 10% deposit is better (£29,000 for our average home), whilst a 25% deposit of £72,500 will help you secure some of the best deals.

In general, the bigger your deposit, the better the mortgage deals available to you because you present less of a risk to lenders. They'll be more comfortable offering you lower interest rates and more flexible terms.

How can you start saving for a mortgage deposit?

The first thing to do is set a savings goal which you can break down into smaller, more manageable amounts. You could research the average house price in the area you want to buy and work out the amount you'd need for a deposit.

Let's say you aim to save up £29,000 for a 10% deposit on our average English home over the next five years. You'd need to save £5,800 a year, or £483 every month, to meet that goal. £483 might be a lot to save on a monthly basis, but it's an easier number to think about than £29,000.

The next important thing to consider is where to put your savings to maximise their growth. A great option for many people is a lifetime ISA (LISA). If you're a first-time buyer under the age of 40, you get a 25% bonus from the government if you use the money as a mortgage deposit. You can save up to £4,000 a year, and any interest you earn is tax-free, but you must use the money to buy a residential UK property worth £450,000 or less. You can find out more on the government website.

Let's go back to our £29,000 deposit over the next five years and say you're saving into a LISA with an annual interest rate of 3%. If you saved £333 every month, you'd reach the maximum annual contribution of £4,000 and receive the maximum government bonus of £5,000. You'd also earn 3% interest on this amount, which brings your total savings to £5,150.

Next year, let's say you save another £4,000, receive another £1,000 bonus and earn 3% interest. Except this time, you're getting 3% on £10,150 (two years of maximising your saving allowance, plus the government bonus plus 3% interest from the first year), so you earn an extra £304. If you continued this pattern, saving the maximum £4,000 every year, receiving the maximum annual bonus of £1,000 and earning 3% interest, you'd have £27,342 after five years. That puts you just over £1,600 away from your savings goal, but remember you'd have five whole years to scrape that together from gifts, work bonuses, side hustles or other forms of income.

This example shows how the right savings account can make a huge difference to the affordability of saving for a deposit. How exactly you get to your savings goal depends on how much you need to save, how long you have to save it and how much you can afford to set aside. Our advisers can help you draw up a budget, maximise your savings and set realistic goals that give you a clear path towards saving for a deposit.

Quick fire tips to help you build your savings:

- **Pick the right savings account.** Look at easy access, fixed rates and especially lifetime ISAs. Make sure you shop around for the best rates and keep an eye on exit fees.
- **Create (and stick to) a budget.** Make it realistic so it's easier to keep to, and consider setting up standing orders so that money is automatically allocated to savings before you have a chance to spend it.
- **Adjust your spending habits.** Can you afford to cut back on that daily flat white? Maybe you're paying for a streaming service you haven't used in months. Identify unnecessary spending and reallocate it towards savings.
- **Look for better deals on your essential outgoings.** Review your utility providers to see if you can find a cheaper deal on energy or broadband, buy own-brand groceries or even shop at a cheaper supermarket to keep costs down.
- **Explore other income streams.** You could sell unwanted items or monetise a skill to make some extra cash. Be mindful of your personal allowances though so you can keep on top of any changes to your tax bill (and consider talking to an adviser if you're unsure).
- **Use discounts, vouchers and deals.** Even small savings like free postage or two-for-one offers can add up over the long term.
- **Try 'no spend' months or weekends.** Cover your essentials, see how low you can keep discretionary spending and save the excess at the end of the month or weekend. Keep it fun by making it a competition with your partner or friends.
- **Ask for help.** You might have friends or relatives who can help you save towards your goal, whether that's with a financial gift or a friendly piece of advice.

Saving for a deposit can be daunting, but there are lots of small, practical steps you can take today that all add up to make a big difference over the long term.

From budgeting and setting goals to finding the right savings product, our advisers are ready to help you conquer deposits and buy your first home.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

A stocks and shares Lifetime ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested.

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