

Financial Capability Episode 5 – The Move to Independent Living



LLOYDS BANK

Arun:

Hello, my name is Arun Aggarwal and welcome to my future finances. In this series of six episodes, we'll be drawing on your experiences of managing money and exploring the key issues that affect your money and your futures. Now, these episodes are all British Sign Language enabled, and will have captions and transcripts.

Arun:

Making the move for independence:

The options when buying and renting and the products and services that can help us achieve our goals.

Arun:

In this episode we're going to be talking about a topic that we all love, housing. A lot of people, especially now, find housing and all the issues that go along with it to be nothing but stress. But, it's okay. We're going to have an explore with our resident expert, Iona Bain around our motivations for buying and renting and talk about which products or services can help us achieve our goals. So, if you're ready to make the move for independence, keep listening. Iona, welcome. Let's dive straight in.

Why live independently? I mean, I know why I want to but what questions should we be asking ourselves to help us decide if that's the right option for us?

Iona:

Well, I think all young people want to move to that point where they can live independently because, sure, living at home with family or care givers can save us money. It can give us a bit of a safety net in a very uncertain world, let's face it. But most of us want to reach that point where we can make our own decisions where we can take ownership of our lives and when we reach adulthood we want to be free to run our lives as we see fit and living independently is a really big part of that.

But I also think you've got to be ready to make that move and you can't force yourself to do it too soon, and it's important to understand the costs and responsibilities involved. So obviously there are lots of pros to living independently, apart from the obviously good stuff, like being able to follow your own timetable, go where you want, see who you want without your parents or care givers watching you, that's all good. But, of course, it's also about living in the real world and there is no substitute for managing your own household budget and understanding what things really cost and how you pay for them. So, it's about learning those lessons yourself and living independently is a really crucial aspect of growing up and becoming financially aware. But the downside of course, is that it will cost more compared to living at home. So, you're going to have to think about how to pay the upfront cost, your rent, your household bills. If you're trying to buy a place, how much is that going to set you back? Will you be earning enough money and so on, because you will probably need a steady job or at least steady earnings if you want to rent a place because landlords will want to know, you'll keep paying the rent. So, you need to do your research and figure out what the likely costs of moving out will be so you can be sure you can afford them. But there are also practical and emotional issues to consider. You know, it's a big change in your life that can be quite daunting, and you might miss having your family and care givers around to give you that extra support when you have any problems. So, it's about doing what's right for you. It's not a competition, you know, there is no fixed stage

when you should move out. It's about doing what's right for you and concentrating purely on your own situation and your own needs.

Arun:

Yeah, perfect. Some really good practical advice there, I guess for me, you know, I need to think a little bit about why I want to make that move and weigh up the pros and cons of buying or renting and just talk to people I guess who've already made that jump.

Iona:

Yes, it's a big question and there really is no right or wrong answer. It totally depends on what your personal situation is. The truth is that most of us will have to rent at some point in our lives because it's very difficult, especially these days, to just buy a home straight away, as soon as we've reached adulthood. And buying a home is not a sign that you're a better person or that you're more grown up or more financially mature. Whilst we have this very strong emphasis on home ownership in this country. That doesn't mean it's right for everyone all the time. So that's really important to stress. Now, the pros of buying, are obviously greater security. Once you own that home, it's yours. You can do whatever you want with it. You don't have a landlord to worry about. You can pay down your housing costs over time. So, your housing costs will get cheaper and hopefully your home will, at least, maintain its value but possibly grow in value. So, you can sell it one day and make a profit, and then hopefully move up the housing ladder, maybe move to somewhere with more space, which is good if you're starting a family for instance, but you need to find a pretty big deposit at least five or ten percent of the property's value and you need to be able to pay various admin and legal fees. And then you have a mortgage, which is a big responsibility that you need to keep paying, and you will also need to take care of insurance and maintenance and having a mortgage is not very flexible if you want to keep moving to different places. Whereas renting is much more flexible in so far as you can move to different places once your tenancy is up and that can be useful if you're needing to be somewhere, located in a specific place for work, but the downside is that you have to abide by the rules of your landlord. You'll have to compromise with flatmates. There's the risk that your rent could go up in the future. So, you just don't have that same opportunity to reduce your housing costs over time, as you would with a mortgage and you need to keep paying the rent, come what may, but whether you buy or rent you still have to pay household bills, your mobile contract, your broadband travel costs, all of that can add up. So, when you live at home, you might take it for granted that things seem quite cheap and you've got enough money to go out and enjoy yourself. Once you move out, you might have to start making some difficult decisions so you can pay the bills and keep living independently. And finally, if you do live at home, you need to have a clear financial plan with the people that you live with about how you're going to contribute to the running of the household. So, for instance, a lot of young people pay a nominal rent to stay at home, but perhaps they'll pay less if they do their own laundry or do the washing up. And I've heard of cases where families take rent and if they don't need it, they give it back to young people when they're about to move out. So, they can use it as a deposit to rent or even use it to buy their first place. So, it might be worth coming up with that kind of arrangement as well, if you're still living at home.

Arun:

So, we've had questions from quite a few people were asking if there are different ways to buy and rent, what would you say to that?

Iona:

Yeah, there are lots of different ways to rent them by so it's a very good question. Firstly, there's a difference between private and social rent. So social renting is when councils provide homes and subsidise the rent for anyone who's on a low income and qualifies for housing benefits, but you'll have to go through a process where the council will assess your eligibility and you'll probably be put on a waiting list. So even if you qualify for this option it might not be immediately available to you. So, the alternative is private renting from a landlord at market rates, and you can either rent a whole property or room in a multi occupation household, which is obviously cheaper. And you can either rent directly from a landlord or more typically go through a

letting's agency, which handles the whole process.

When it comes to buying, you can either buy your own place outright, with a deposit if you can't afford the total upfront costs, or you can use a variety of schemes that will give you part or shared ownership of the property and these schemes essentially allow you to buy a portion of the property upfront, then pay rent on the rest and often the idea is that over time you buy out more and more of the property, so your rent gets less and less. And finally, these days, a lot of young people buy their own home with the help of their parents, their care givers, for instance, with a guarantor mortgage where people can borrow a lot more, but the mortgage is charged against the guarantor's house. So, if you don't pay your mortgage, then the guarantor's home would be at risk. So, that's an overview of the different renting and buying options that are available to young people today.

Arun:

Well, cool. Okay. And now you've touched on renting quite a lot there, and I kind of have experienced that myself, but buying a house is a complete mystery to me. So, what is actually involved if I go down that route?

Iona:

Yeah. Good question. So, the answer, is quite a lot is involved if you want to buy your own home. Firstly, it really helps to have a secure job or at least steady earnings and to be financially stable because mortgage lenders will conduct an affordability assessment to try and weigh up if you're going to be able to pay the mortgage. So, if you spend too much money on things, then you might struggle to get a mortgage. So, you've got to get yourself mortgage ready. That's the first thing. You'll also need to save up for a deposit, or maybe you'll need to reach an agreement with your parents or care givers that they will act as a guarantor, so you can get the guarantor mortgage. Remember the bigger the deposit that you can raise the cheaper your mortgage will be. So even a ten percent deposit makes a big difference compared to five percent. You may need to improve your credit score. This is something that we have talked about in a previous conversation because your credit score will really affect the kind of mortgage that you can get and how much interest you'll pay on that mortgage. You also need to pay for a solicitor and a survey. Plus, you might need a budget for renovations and moving costs. If you're buying with someone else, especially if you're not married to that person, you need to be very clear about who's contributing what and what will happen if one of the parties wants to move out. So, you need a cohabitation agreement that's overseen and double-checked by a lawyer. And finally make sure that if you do open a bank account or take out a mortgage with someone else that they are a reliable borrower, that they themselves have got a good credit score, and that they are going to keep up any repayments because if they don't, then that's going to harm your credit score. For both buying and renting, like you said, there's lots of different options and products available to us to help us make those good decisions when it comes to living independently.

Arun:

I'm going to put you on the spot now, Iona. So, I apologise for that, but what do you think are the top three most important things that we need to keep in mind when we're planning to live independently?

Iona:

Well, if I had to sum it up, I would say you need to understand the costs involved, because it is going to be more expensive than living at home. So, you might have to make some difficult decisions. So, the next point is, be ready to change some of your spending habits in order to make living independently viable and get in the savings zone because we all need money for emergencies, all sorts of things can happen. And if we're living out on our own for the first time and something bad happens it's far better to have some money in an easy access account that we can use rather than get into debt and struggle alone. So, having those savings is absolutely crucial.

Arun:

Sweet. Yeah. That makes sense. Now, you know how practical I am. So what tools are actually out there that can help me?

Iona:

Yeah. There are various avenues that you can go down if you're looking for some more help and information. So firstly, there are banks and building societies. You can get advice in branch and sometimes online and over the phone as well. This will be not independent financial advice, it will be restricted to the products sold by that bank or building society. So, if you want broader financial advice that will cover products right across the market, then you could consult an Independent Financial Advisor. There are also insurance and mortgage brokers, and they can be good people to consult. If you are thinking about taking out insurance and mortgage products. And there's also the Citizens Advice Bureau and that can offer advice on financial products and benefits as well. So those are some of the sources that you can use to really help you weigh up your options. And it's important to know the difference between regulated and unregulated advice. So always check whenever you are getting advice from anyone, whether they are regulated by the Financial Conduct Authority, that is the financial regulator that oversees companies in the UK, and make sure that they are giving responsible advice to people because. If you use a regulated advisor that way, if anything goes wrong, you can potentially get compensation further down the line. So, it's very important to check if the advice that you're getting is regulated or unregulated.

Arun:

Perfect. Okay. So just so that I'm sure I have this right. Your three tips were understanding costs, getting ready to change your spending habits, if you need to, and save, save, save. And there are loads of tools and organisations who are out there to help me.

Iona:

You've got it spot on Arun.

Arun:

Well, thanks again for talking Iona. and please join Iona and myself for more conversations on money management.