perception finance

# A guide to buying your first property

Buying your first home is an exciting prospect but in some ways also daunting in the number of considerations that need to be made before, during and after the process of buying. Here is our guide to try and make the purchase go smoothly.

## Before you look at properties

With a few exceptions, the timeline of buying your first home will have key stages. Before you venture out to the estate agents it makes sense to fully work out your purchase potential and this should be reached from a number of directions. Firstly, it is vital to work out how much of a deposit you have to put into the purchase once the other costs of buying have been factored in.

The costs of buying a home are covered in greater detail later on in this guide but comprise of:

- Valuation/Survey fee
- Lender fees
- Broker fee
- Legal fees and stamp duty
- Moving costs (i.e. removal firm)
- Furniture etc.

Once you have priced out the costs of the above, you will then know how much you have left which can be your deposit.

From here it will then be a case of finding out your borrowing potential. This is twofold as although most lenders will have their way of working out how much you can borrow, what is more important is what you feel you can afford as a monthly payment. In reality it makes no difference how much any lender says they can lend you if you cannot afford the payments on this amount.

Naturally every person we speak to has very different lives so a sensibly thought through budget planner is the best way to work out what your disposable income will be. Make sure you account for one off expenditure within any budget you set as we can never know what other financial costs are around the corner.

When lenders work out how much you can borrow from them, they now mostly work on the basis of an affordability model. This varies from lender to lender so each one will have a different interpretation and therefore may have very different figures. Affordability takes in a number of factors including:

- Term of the mortgage – the longer the term, the more you may be able to borrow
- Credit Commitments – bank and student loans, credit cards, hire purchase agreements
- Disposable income - the more disposable income, the greater the borrowing available
- Dependents – for every extra dependent an amount needs to be set aside for this

Most lenders now offer a facility called an Agreement in Principle. This is a free service that allows the lender to review the basic information needed to determine whether they will be happy to lend and if so, how much. This will involve a credit search and is likely to leave a record on your credit file with the main credit agencies (Experian or Equifax being the main two) but will also be an assessment of income and outgoings. An Agreement in Principle does not normally require any paperwork to be submitted to the lender so they rely on the information being provided being 100% accurate. They will tend to wait on the full application before asking for evidence of earnings etc.

**Looking for a property**

Once you have an Agreement in Principle in place, you will be better placed to start looking at properties. Some estate agents will want to know you have this prior to spending time showing you round places so they are comfortable that you can afford to go for the type of properties you are interested in.

If an estate agent asks to see evidence of an Agreement in Principle, be careful not to show anything that divulges your borrowing potential. This can undermine any negotiations you wish to have on the price you pay for a property but also mean the agent may wish to show you places that are outside of your budget. Always remember that the estate agent is only representing the seller and it is their job to get the best price they can for the properties they are selling.

When looking at a property, make sure you visit it at least twice and try to vary up the time of day/time of the week that you go and see it. It is also wise to take someone along who can give a subjective view as it is very easy to not see any faults in your first purchase as the excitement of buying takes over.

Once you have found somewhere you wish to buy, you will then need to negotiate via the estate agent on the price you are happy to pay. This is the point to try and stay calm and controlled. Discuss this with family and friends and ensure that if you have a price that you are happy to pay then you do your best to stick with that.

**Once you have an offer agreed**

When you have negotiated a price that you are happy with, it is then time to speak to us so that we can research the market again to see which lender is then best to use and make a final recommendation to you. We offer a full advice service so we will not just present you with a number of rates and ask you to pick one. We are here to guide you through and recommend both the lender and the rate based on the conversations we have had with you up until this point. The importance of advice is not just from a point of view of knowing you are doing the right thing but also the legal rights this gives you. If you apply for a mortgage without advice, you have less rights in the event that you are unhappy about anything down the line.

In order to give an advised service, we will need to fully complete a Factfind which we will have been working through with you throughout the whole process up until this point but will need to be finished off with the property details.

When making a recommendation to you we will provide you with a either a Key Facts Illustration (KFI) or European Standardised Information Sheet (ESIS). This document outlines all the salient points about the mortgage so that you are fully aware of the lender, rate, fees, monthly payment and clauses. Before agreeing to go ahead with the application you should fully read this document and ask any questions you have. Only when you are fully satisfied you can give the go ahead to proceed.

To support an application you will be asked for documentation both before the application and possibly during it as well. There are minimum requirements that will be needed and the lender may also ask for further paperwork if necessary. The minimum requirements will be:

- Identification – passport or driving licence are the common documents used but others are possible
- Proof of address – postal bank statement, credit card bill, utility bill (not mobile phone) or most recent council tax statement
- Proof of income – latest 3 months payslips and most recent P60 for employed or latest 3 years accounts/HMRC online documentation for self employed
- Latest 3 months bank statements – internet statements may be okay depending on the lender
- Proof of deposit – bank statement or account book to show the funds saved

You will also now have to make a decision on a firm of solicitors you wish to use to act for you in the purchase. Please be aware that some firms may not be acceptable to the lender so it is best to check this with us if you are not having a firm recommended by Perception Finance. It is very important to realise that this is the person/company you are relying on to act in your best interests and complete all the legal paperwork accurately and promptly and so going for the cheapest option is not always the wisest thing to do. **The Financial Conduct Authority does not regulate conveyancing.**

You will also need to make a decision on the level of survey you wish to have carried out on the property at this time. The choices are:

- Basic Mortgage Valuation – as the name suggests this is the most basic of reports and is primarily being carried out to satisfy the lender that the property is good enough security to lend on. The surveyor will not spend much time at the property and any report you receive will only have limited information
- Homebuyers Report – for most purchases this would be the sensible choice of report to go for. The surveyor will spend much longer at the property and you will receive much more information about the property you are buying and should be able to make an educated decision on whether to proceed. The surveyor will also give you an opinion on whether the price is fair for the property.
- Full Building Survey – the most in depth report you can go for but not normally needed for most types of property. If you are buying a house that has an unusual construction or is very old you may wish to go for this to get peace of mind. It is generally not worth taking this level of survey for a flat/apartment as the surveyor will not be able to access all areas of the building to give an opinion on the overall structure.

**Once the application has been submitted**

Having submitted the application to the lender you will then receive paperwork to sign from us and a request for any further paperwork the lender needs over and above the documents mentioned above.

The lender may decide to instruct the survey to go ahead prior to getting this paperwork in or they may hold off doing so until every document is in and checked. Whichever way they choose to operate, the sooner we can get all of the requirements in, the sooner we are likely to get the mortgage offer. As you can imagine, all lenders receive a considerable amount of paperwork a day and as such they will always handle this in strict order that it arrives. It is very difficult to get anything looked at with priority as this is unfair to those others that are applying at the same time.

We will, with your consent, liaise with the estate agent to ensure they are fully informed and also look to keep your solicitor up-to-date as well.

Once the lender has all the paperwork back and are in receipt of the valuation report, providing everything is satisfactory they can then proceed to full legal offer. Assuming there has been no delays on sending the required documentation in, this should take around 10-14 days maximum but may be much quicker. It is very important that you tell us if you need to get a mortgage offer much quicker as our advice of which lender to use may be influenced by this. There will be little point using a lender that we know will take 2 weeks to get an offer out if you need this in less than 7 days.

The full legal offer is the point where the lender has done most of their work. A copy of this offer will be sent to you, ourselves and your solicitor. Assuming nothing has changed since the application, the information in the offer should look very similar to the KFI/ESIS given to you before we submitted the application. Your solicitor will receive a much bigger version that includes all the necessary legal paperwork.

**<u>Once the offer has been issued</u>**

Now that the lender has fully agreed the finance to allow you to buy the property, the process of the purchase entirely switches to your solicitor. By this time they are likely to have already carried out some of the required searches that are needed but now they have to work more with the sellers solicitors to get any further information they need and move towards agreeing a date for you to move in.

As you can imagine, there is no set timescale for this and every purchase is different. Your solicitor will try and set some expectations but can only do so if they are getting good information from the other solicitors involved.

There are two legal stages that they will be working towards which are:

- Exchange of Contracts – you do not get the keys to the property at this stage but after this has happened it will be very costly to withdraw from the purchase
- Completion – this is the point when you can move in and the mortgage will start

At exchange of contracts, if you are buying a freehold property you become legally responsible for buildings insurance. If we are arranging this for you, it will be important that we are made aware of this happening so that we can advise the insurance company to start the policy.

**<u>Once you have completed</u>**

Having now got the keys to the property, you become responsible for the mortgage payments. Your bank details will have been provided to the lender at application stage so they will have already set up the direct debit to start collecting payments. No payment will be taken from your bank account for at least 14 days and the lender will write to you to advise of when the first payment and subsequent payments will come out.

Depending on the lender they may take payments in one of two ways. These are:

- In advance – meaning the payment you are making is for the month that is just about to happen
- In arrears – where the payment you make is for the month just gone

If the lender writes to you to tell you of a payment coming out very soon after the mortgage starts then your mortgage will be being paid in advance whereas if there is quite some time before the payment is due to go out, it is more likely you will be paying in arrears. We can find this out for you if you ask us to do so.

It is common for the first payment you make to a lender to be greater than the normal payment due. The reason for this is to cover the timeframe until the first normal payment is due. An example of this is if you complete on $16^{th}$ of a month with a normal payment date of $1^{st}$, the lender will be likely to take a payment very early in the following month but this has to cover the interest charged from $16^{th}$ through to the end of the following month to ensure the debt does not rise.

It is important to know that once your mortgage starts, we are unlikely to have ongoing access to information from that point. Having said that we will still be happy to answer any questions you have to the best of our ability even if the lender will not be able to divulge any details.

Once you have completed, your solicitor will also then register you as the legal owners with the Land Registry. Most lenders no longer hold title deeds so you may also then receive these through the post as well. It is very important that these are kept secure and preferably in a fireproof lockable container. Your solicitor may be able to store them for you at a cost.

You are now in the property and can start to make it your own!

**Costs involved in buying**

As mentioned earlier in this guide, there are a number of costs to factor in when buying a property.

Valuation/Survey fee

The price for this will depend on how much work you wish the surveyor to do (see page 4). Some lenders will not charge for the basic valuation meaning you can appoint a private firm to carry out a more in depth report. With other lenders you would organise all of this through the lender. The cost of any report will be determined by the purchase price. Once you have advised us of the price range you are looking at, we will be able to give an indication of the cost of all levels of survey.

Lender fees

When applying for a mortgage it is likely that there will be fees charged by the lender over and above any valuation report. Most of the time if there is an arrangement fee this can be added to the mortgage balance but if you do decide to do this, it will incur interest.

We will look at the fee charged by the lender to ensure that it is justified in the rate we are advising you about. If we have two lenders where one charges a £500 fee and the other has an £1,000 fee, if the rate of interest on the higher fee option saves more than the difference in the fees then it is likely we will advise you to take the lower rate with the higher fee. We will explain the reasoning behind this advice though.

There is likely to also be an administration fee applied. If so, this fee can also be added to the mortgage but will not incur interest.

All lender fees will be outlined on the KFI/ESIS issued to you prior to submission of the application.

Broker fee

There will be a fee for our service which will be payable when we proceed to full application. This will be outlined to you during our initial contact and will also be included in the KFI/ESIS.

This fee, once paid, covers you for your whole first purchase no matter how long it should take. This means that if for any reason you do not proceed with the first property you go for then it will be carried forward to the subsequent purchase. Ultimately we will continue to carry this forward until such time as you have the keys to a property. Due to this, this fee is not refundable.

Legal fees and stamp duty

You will need to appoint a solicitor to act for your interests in the purchase and the cost of this varies from firm to firm. As mentioned previously, it is not always sensible to just go for the cheapest quote as it is like anything in life; you get what you pay for.

The solicitor's costs will be made up of their professional fees, disbursements and possibly stamp duty. We will provide you with a quote if needed that will give an idea of the total cost for the type of property and price you are looking at.

Stamp Duty may not be payable depending on the price you are paying for the property. The Government review Stamp Duty within the Budget each year and we will be able to tell you if we feel this will be due depending on your circumstances and current Inland Revenue guidelines.

Moving costs

It is possible you do not have many possessions to move as yet so you could be considering just hiring a van for this but if not you should contact a few local removal firms to price this out so that you can keep enough back.

Furniture

Unless you have a fair amount of furniture already or the current owners of the property are including some within the price (which your solicitor will be made aware of) then you will need to allow for this as well.

## Types of rate

One of the biggest considerations when looking for a new mortgage is the type of rate you will want to take out. At any given time there are many different styles of mortgage you can arrange and we have summarised these below.

Fixed rate

As the name suggests this is a rate of interest that is fixed for a period of time. You can opt to fix for any number of years with the norm of between 2, 3 and 5. From time to time there are lenders that will allow you to fix for longer than this however it is worth noting that these rates normally mean you are tied to the lender for the length of the fixed rate. If you wish to redeem the mortgage early then an Early Repayment Charge (ERC) becomes payable. The ERC will normally be calculated as a percentage of the original loan.

Most of the time the longer the fixed rate, the higher the interest is but it does then last for more time.

Tracker rate

This is a style of variable rate that is normally linked to moves in the Bank of England rate. Therefore if you take a tracker rate, the monthly payment will move up and down with changes in the Bank of England Base Rate.

The Bank of England meet once a month with the decision of their deliberations announced on the first Thursday of the first full week of the month.

Tracker rates may or may not have an Early Repayment Charge. This will be outlined on the KFI/ESIS.

Discount rate

This is another style of variable rate but with this one it is a discount off of the lenders standard variable rate. Therefore with this type of rate it will move up and down with any decision of the lender. This does make this a bit more unpredictable as the lender will not be required to move their variable in line with the Bank of England rate and therefore it is important to realise that the rate can rise faster and more frequently.

Discount rates may or may not have an Early Repayment Charge. This will be outlined on the KFI/ESIS.

Capped rate

With a capped rate it is variable but has a ceiling so it gives a level of certainty in that the monthly payment will have a maximum for the period of the cap.

These rates are less popular with lenders so are not available all the time.

Capped rates may or may not have an Early Repayment Charge. This will be outlined on the KFI/ESIS.

Libor rate

This is also a variable rate mortgage but it tracks the London Interbank Offered Rate (Libor). As with capped rates these are not as popular with lenders and historically have been used more for clients with past credit issues.

Libor rates may or may not have an Early Repayment Charge. This will be outlined on the KFI/ESIS.

Standard Variable rate (SVR)

All lenders will have a SVR which is the rate the mortgage moves onto once the initial incentive rate comes to an end.

It most circumstances the SVR will not carry any Early Repayment Charges.

**Structuring your mortgage**

When we arrange your mortgage the majority of the conversation will centre around how to structure the loan to suit your needs. Naturally we will have to work with what the lenders are happy to do at the time but we will advise you on what is possible.

Some of the considerations are:

Repayment versus Interest Only

In most cases the best way to organise a mortgage is on a Repayment (sometimes called Capital & Interest) basis as this means the monthly payment comprises interest and an amount that comes off the capital balance. Providing you make all the payments due on time and in full, this guarantees that the mortgage will be fully repaid within the term.

The other option is Interest Only whereby you only pay the interest each month so the mortgage balance remains the same. This will mean there will need to be another way you intend on paying back the balance in the future. It is possible the lender will have strict rules on how they are happy for this to happen and evidence may be necessary. If you do wish your mortgage to be arranged this way, it is important we are made fully aware of how the debt will be repaid so we can check if this is okay with the lender chosen.

With Interest Only, as the debt is not dropping, the amount of interest you pay to the lender will be higher than that of a Repayment mortgage. If the debt is being covered by an investment plan (i.e. ISA, Pension etc.) you will need to monitor the performance of the investment regularly to ensure it is on target to pay back the balance of the mortgage. Perception Finance are not regulated to give investment advice.

It is sometimes possible to arrange some of the mortgage on Repayment and some on Interest Only. As with the notes above, the Interest Only portion needs to be paid off in the future but the Repayment element will be decreasing.

Term of the mortgage

When it comes to a Repayment mortgage, the longer the term the lower the monthly payment as it allows for a longer timeframe for the debt to be repaid.

Where possible you should not take a term that will extend beyond your expected retirement age unless you have adequate pension provision to continue the payments beyond this age or you have the intention to reduce the term.

An Interest Only mortgage will have the same monthly payment irrespective of the term although it is possible that the term chosen will have an effect on the amount of mortgage available.

Offset

Some lenders offer this style of mortgage where you have a savings/current account running alongside your mortgage. Any monies you place into this account will remain instantly available but will accrue no interest. At the same time, the identical amount of your mortgage will also not accrue interest.

If used correctly this type of mortgage can be very beneficial in that the debt can decrease at a much faster pace than would otherwise be possible as the monthly payment the lender takes is still based on the actual amount of the debt. That said, there are some lenders that will allow you to make a monthly payment based on the actual amount of interest to be charged taking into consideration the amount being offset.

Flexibility

Most mortgages allow for a certain amount of flexibility in that you may be allowed to overpay up to a certain percentage of the mortgage without incurring an Early Repayment Charge within the initial incentive rate. If you feel this will be important to you, we will advise you on a rate that will allow this to happen.

Other flexible features are available with some mortgages. These include underpayments, payment holidays and unlimited overpayments. Some tracker rates also allow you to switch to a fixed rate at any time without penalty.

**Other considerations when buying**

The other main considerations when buying a property are insurances, protection and arranging a Will.

Perception Finance will advise you on what you should have as part of the home buying process and will include:

- Life Insurance – a lump sum in the event of death
- Critical Illness Cover – a lump sum in the event of a defined critical illness
- Income Protection – a regular income for long term sickness
- Private Medical Insurance – a policy to allow you to use private healthcare in the event of illness
- Buildings/Contents Insurance – a policy to insure the home and contents. Buildings Insurance is compulsory when arranging a mortgage although there will be some types of property where you will not need to organise this yourself

Perception Finance do not arrange Wills but do have contacts in this area if needed. It is strongly advised that you have a Will in place and review it regularly to ensure that it still distributes your assets in the way you would like.

**Summary**

We hope that this guide has provided you with the knowledge and understanding of the process and considerations when buying a property. Naturally not all elements of this guide will be of interest and your adviser will cover a number of these points verbally and will tailor the service to suit your needs.

We welcome your questions and comments about this document as we would like to keep improving it to help future first time buyers if you feel there is something you would like to have seen.

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

There will be a fee for our service of £499 which is payable when you apply, and we will retain the commission from the lender. Some clients however now prefer to pay a fee for their mortgage advice and the lender commission is passed on to you, the client. The fee will be 0.75% of the loan amount. For example, for a mortgage of £100,000, a fee of £750 will be payable.

The information in this guide is of a general nature and should not be taken as advice. You should seek whole of market advice tailored to your needs and circumstances before making any decisions.

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