

Mortgage Guide

The complete guide to
buying your first home



Mortgage Enquiries



020 3102 9545



CAENSTONE
MORTGAGE ADVISORS

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A complete guide to buying your first home

When you do anything for the first time, a little expert advice and guidance really helps. And buying a home is no exception.

Here at Caenstone, we know how exciting it is to be buying your first property.

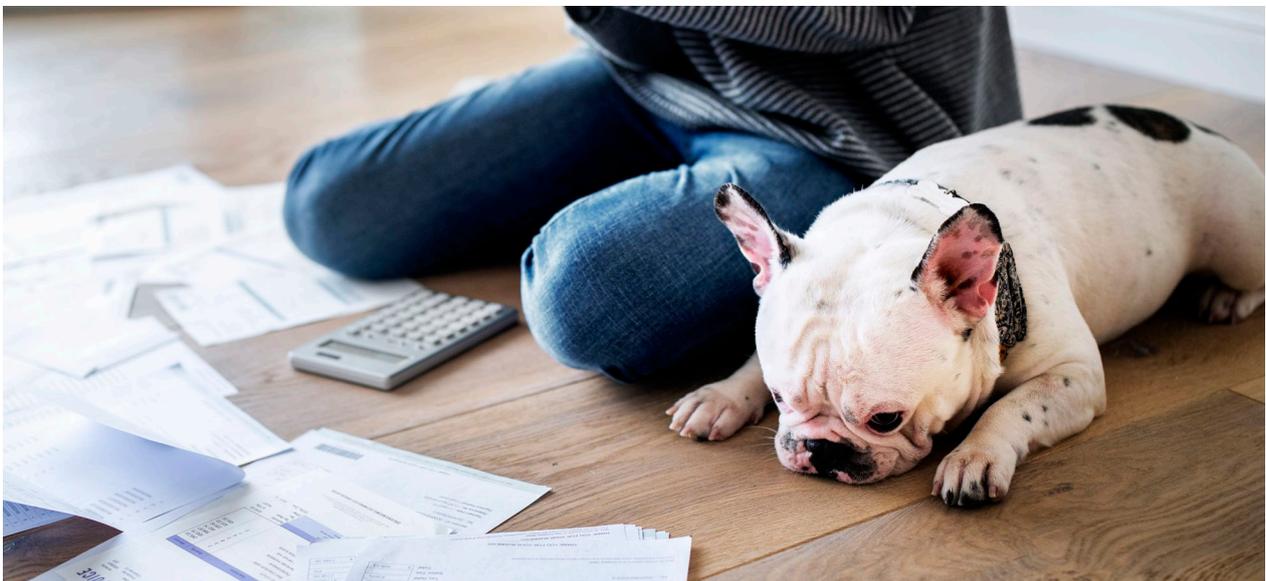
We also know just how overwhelming and stressful the process can be without help.

This is our guide for first time buyers, covering the core basics of finding and financing your first home. With this, you'll know what to expect as you prepare to make what is probably the most expensive purchase you've ever made. Depending on your circumstances, it's likely that a little more detail on some aspects would help; service that's a bit more personal – feel free to get in touch; it's what we're here for.

Budgeting

How much can you borrow?

That depends on what you can afford. And what you can afford depends on a review of your finances that takes into account your income, outgoings, outstanding commitments, and other expenses – all to ensure that once you have your new home, you can afford to keep it (by maintaining the mortgage payments).



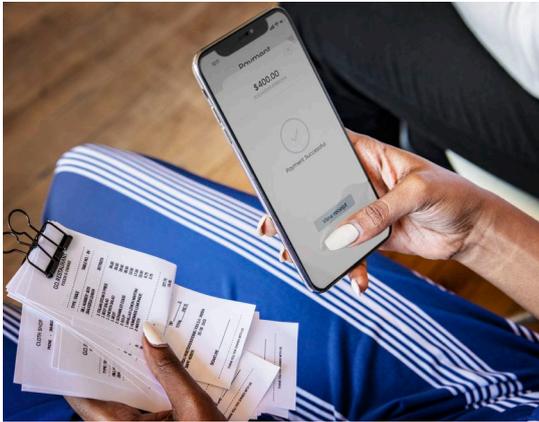
For an accurate estimate based on
your specific circumstances get in touch for a chat.

 **020 3102 9545**

Other costs of buying property

Part of the cost of buying your first home is all the extra associated services and fees.

These can include:



Lender's arrangement/product fee

Some mortgage lenders charge an upfront 'product fee' which may come with the option of adding it to the mortgage amount.

There may also be an administration charge for arranging your mortgage.

Legal fees

Conveyancing (the process of transferring the legal title of the property from the seller to you) is carried out by a solicitor/conveyancer. They deal with the contract, searches, raising enquiries, paying stamp duty, liaising with land registry, checking mortgage conditions and other documentation.



Stamp duty

Stamp duty (full name, "stamp duty land tax" or SDLT) is a tax collected by the government on sales of property over a specific threshold value. Stamp duty is payable in England and the current rates can be found on the <https://www.gov.uk/stamp-duty-land-tax/residential-property-rates> website (in Scotland, the equivalent to stamp duty is Land and Buildings Transaction Tax and Wales, the equivalent to stamp duty is Land Transaction Tax).

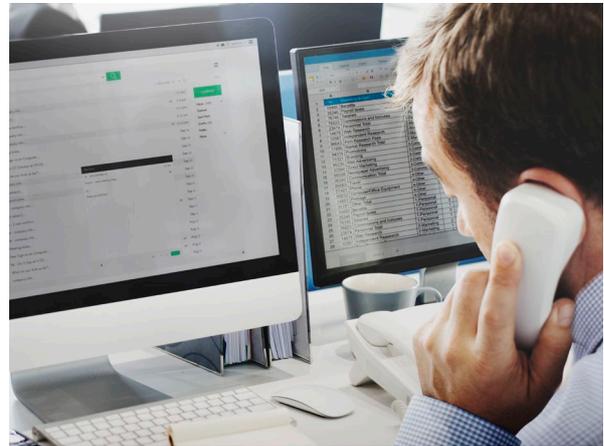


Surveyor valuation fees

Most home purchases involve at least a basic survey or valuation to ensure you are paying (and the mortgage company is lending) a reasonable price. Depending on the condition of the property, more in-depth options may be appropriate, such as a full structural survey.

Insurance

If you're buying a freehold property, insurance against property damage (through fire, flooding, etc.) is required. If you're buying a leasehold property, it's possible that the freeholder is responsible for the insurance. Your solicitor will be able to advise. Many homeowners also choose to take out contents insurance to cover their belongings.



Removal costs

Depending on the number of possessions and other personal circumstances, some people choose to engage a professional removals service when it comes to 'moving day'.



Deposits

The deposit is the sum of money that you put towards buying your property. The balance of the property price is covered by your mortgage. The larger the deposit you pay, the less you need to borrow and the better the mortgage interest rate you are likely to get.

Most lenders ask for a minimum of 5% of the purchase price as a deposit. This 'minimum deposit' tends to change depending on the current state of the housing market (i.e. the amount of risk that mortgage lenders associate with lending you money to buy your home).

The 'Agreement in Principle'

Sellers are often reluctant to take an offer to buy a property seriously if it's not backed up by the finance. Getting an agreement in principle (also known as a 'mortgage in principle' or 'decision in principle') from your mortgage lender tells the seller and their estate agent that you are serious about buying and can do so quickly.

An agreement in principle is based on your basic financial details, not the full picture of your fiscal situation. In other words, it's an indicator that the lender will probably give you a mortgage but it is not a guarantee.

The mortgage offer is based on an application with a much fuller declaration of your financial income and outgoings, review of your paperwork and satisfactory valuation of the property.



The art of house hunting

The art of house-hunting could probably fill a book (!)
but the two main principles are:



Know what you're looking for

Write down your wish list of features; this should be your own individual list of personal requirements. It might include number of rooms, size of garden (if any), proximity to schools, transport/commuting links, and so on – everybody's list is different.

Maybe you'll have to compromise on something (a lot depends on whether your available budget will cover your wish list) but you should always start by aiming for what you want.



Know where to look

Whatever the state of housing market, there's no shortage of places to search for your ideal first home, including online (e.g. Rightmove, Zoopla, OnTheMarket, individual agents' websites, etc.), property developers, auctions, property shows and of course, listings from local estate agents.

Once you've found the home of your dreams – or the home that best matches your wish list and is within your price range – you can make an offer.

When considering how much to offer, think about the following:

What's the market like in that area? What are similar homes going for?

How long has the property been on the market? If it's been for sale a while, the seller may be ready to drop the price; or perhaps there's something off-putting that you don't know about yet...?

Your advantage as a first time buyer; namely, you have no property of your own to sell, no chain that might delay the purchase. As long as the finances are solidly in place, a first time buyer is often the most attractive buyer.

Appoint a Solicitor

As soon as your offer has been accepted, the next thing to do is to instruct your solicitor so they can start preparing their file early. When making offers with estate agents if you have already decided on who you will be using this shows you are committed to the transaction.

What does a solicitor do for you?



Negotiation

Negotiate the sale contract with the seller's solicitor.



Searches

Carry out the mandatory and other searches to ensure you know exactly what you're buying.



'Exchange Contracts'

Usually a couple of weeks before the sale is finalised (called 'completion') the exchanging of contracts legally commits you (and the seller) to the sale.



Completion

The day on which the money is transferred, along with ownership, stamp duty is paid... and you finally get the keys to your new home.

Put simply, a solicitor that specialises in conveyancing is an expert who can guide you through the process. They know the questions to ask to ensure that you're not buying a problem property (boundary disputes, ownership of access roads, legal liabilities...)

Ask around for recommendations. Anyone you know who has bought a home in the last few years is sure to have an opinion, and maybe a recommendation.

We work closely with a number of highly regarded solicitors we can put you in touch with.

Apply for a mortgage

Once your offer is accepted (congratulations!) get back in touch with your mortgage broker to make your detailed mortgage application.

You'll need to provide details of income and outgoings (usually in the form of income proof and bank statements), your deposit, and ID and an address.

There is nothing to say you have to stick with the lender with whom you have an agreement in principle. It's possible that since then a better deal is now available.

What's more, many lenders offer extra incentives to first time buyers, such as cashback or no arrangement fees, we will review the market to ensure you access the best deal for you.

Basic types of mortgage



Fixed-rate

The rate of interest is fixed for a period of 2 to 15 years. While this means you won't benefit from lower repayments if interest rates fall, the advantage is that you know exactly how much you'll be paying each month.



Variable-rate

With this type of mortgage, the interest rate follows market indices, meaning your repayments may change from month to month.

This includes 'tracker' mortgages that follow the Bank of England rate.



Discounted variable rate

Here the rate changes in line with the lender's standard variable rate, but with an agreed discount for a set period of time (usually from 2 to 5 years).

Such mortgages often have the lowest interest rates and monthly payments but still, come with the uncertainty of a variable rate mortgage.

Options to help you buy or raise the finance

While a mortgage is the most common, and main, method of financing your first home, there are supplementary options to help you save up or otherwise cover the purchase price:



Government Help to Buy scheme

For new build properties (or resales via a housing association) you may be able to take advantage of the Help To Buy scheme, in which the government lends you up to 20% of the property price (40% in London) and you take out a mortgage for the balance. From April 2021, the Help To Buy scheme is restricted to first-time buyers.

Lifetime ISA

Another option is to use a lifetime ISA to save up a deposit. You can put aside up to £4,000 per year and the government will add 25% (up to a maximum of £1,000).



Shared Ownership

Shared ownership refers to housing association schemes in which you buy 25% to 75% of the property, with the remainder owned by the association. You pay regular mortgage payments plus an agreed rent to the housing association. The benefit for first-time buyers is a step on the property ladder with a reduced deposit.

Valuation

In addition to checking out your financial circumstances, the mortgage lender will also carry out an independent valuation of the property, including comparison to similar properties that have sold on the local market, to ensure it is worth the money they are lending on it.

Mortgage/basic survey

This valuation is purely for lending purposes and does not cover all aspects of your new home, such as necessary repairs or maintenance. Usually, you can choose to have a more in-depth survey carried out which, at extra cost, provide you with your own surveyor's report. Options include:



Homebuyer report

While this survey doesn't delve too deeply in the sense of checking beneath floorboards or behind walls, it will flag up potential long-term issues like damp or subsidence.



Building survey

This option is much more rigorous and gives you a detailed insight into the condition of the property, noting any works that need to be carried out in the long term. It may also offer advice on issues, necessary repairs and essential maintenance.

Usually, which type of valuation or survey is right for you depends on the current state of your intended purchase. You're much more likely to need a full building survey if the house is old and in obvious need of attention as opposed to a new build.



The mortgage offer

Following the lender's credit check, examination of your financial details, and valuation of the property – and assuming everything is okay in that it falls within their lending terms and conditions – they will offer you a mortgage.

The majority of mortgage offers are valid for between 3-6 months to give you enough time to complete the legal work and finalise chains. Offers can be extended but it is likely that a new rate will need to be selected from the lenders current range and refreshed documentation supplied.

Exchanging contracts & completion

This isn't an actual exchange of physical contract documents, though it used to be.

These days, 'exchanging contracts' is a process by which your solicitor notifies the seller's solicitor that they have a signed contract, the deposit funds, a mortgage offer, and a buildings insurance policy; i.e. that you are completely (and legally) ready to buy your home. Exchanging contracts also includes agreeing to a date for completion.

This is usually 5 days after the exchange although it can be possible to exchange and complete on the same day, depending on the complexity of the sale (and the chain of associated sales) and the readiness of the parties.

After contracts have been exchanged, there are penalties for any party pulling out of the sale.



Moving day!

For most people, completion day is also moving day. They can collect the keys from the seller (more likely, the seller's estate agent) and move in – after all, why wait, it's your property now!

Conclusion

As we said at the beginning, buying your first home is an exciting experience but it's rarely stress-free. At Caenstone, we have the expertise and experience to help steer you through the process. We hope that this guide has answered all the basic questions that as a first time buyer, you might have.

But we're sure that it's also raised a lot of other, more in-depth questions. Or it will do once you've started house-hunting. This is where we can help some more. Not being tied to any particular lender means that for each specific client, we research the mortgage market and can advise on which deal is the best for you and your individual house-buying needs and ambitions.

We'll complete the application and paperwork for you, and liaise with all parties involved in the purchase, including lenders, estate agents, surveyors and solicitors.

It's all about taking away as much of the stress as possible and getting you into your first home.

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