

## FIRST TIME BUYER'S GUIDE

**If you are a first time buyer, finding a suitable new home and financing the purchase may seem like an impossible task. The complexities of legal documents, large amounts of money and all the bureaucracy that surrounds anything to do with buying a house can be very daunting.**

Study all the options for yourself so that you really understand what is involved.

### **Raising The Funds**

The fact that more than half of Britain's working population cannot afford to buy a home underlines the difficulties faced by first-time buyers trying to get on the property ladder. But there are some pluses to being a first-time buyer - interest rates are relatively low, lenders are competing strongly for your custom, and you won't be part of a chain which will make you more appealing to home sellers.

### **How Much Can I Borrow?**

Before you start visiting estate agents, you need to know how large a mortgage you can get - there's no point searching for the house of your dreams if it's out of your price range. Start by approaching several lenders and ask how much they will let you borrow, which will normally be based on the size of your deposit and how much you earn. Lenders are usually prepared to lend you around three times your annual earnings, or if you are buying as a couple, this rises to three times the first income plus the second income, or two and a half times your joint income.

### **Other costs involved with buying a property**

If the price of the property you plan to buy is more than £120,000, then you have to pay a government tax called Stamp Duty. The lender will need to carry out a valuation of your prospective home to check it is worth the money it is lending you. This will cost you from around £150. Lenders may also charge an arrangement or completion fee. Legal fees are a major expense. Your solicitor or conveyancer will charge a fee for its services, starting at £400. The land registry costs, a local search (usually between £80 and £150) and other disbursements are also on the solicitor's bill on which you have to pay VAT. You'll also need to set aside money for insurance, moving costs and furnishing costs.

### **New build option**

Many home-buyers are choosing newly built properties because of the quality, sustainability and choice they offer. The property will usually come with a new bathroom and fitted kitchen and be low on maintenance. Many building companies offer generous deals to first-time buyers.

If you are thinking of buying a newly built home here is the National House-Building Council's (NHBC) checklist of things to look out for.

## Checklist

Make sure that the property is protected by a good warranty provided by a reputable company. Most new homes are protected by the (NHBC) 10-year Buildmark warranty and insurance but some developers use other warranty providers and can give you full details of the warranty in place. With a new property not covered by a NHBC warranty or equivalent, ensure that the final building control certificate is available.

Check whether your builder is NHBC registered. You can do this by calling NHBC's helpdesk on 0845 845 6422 or visiting the Register on the NHBC's site. If your builder is not registered with NHBC check that you will be offered cover from another reputable company.

Check that the builder has a good national or local reputation.

Ask to look around homes the builder has built before and chat to previous customers if possible.

Visit the site - is it tidy and well managed? This will give another clue about the attitude of the builder and his commitment to quality. If you need a mortgage ask your lender at an early stage. Employ a solicitor (or licensed conveyancer) and seek professional advice if you are in doubt.

Take time to understand the Buildmark Cover.

Once you have exchanged contracts get the Buildmark documents from your solicitor and read them carefully.

Before taking possession of your home make sure you inspect it carefully.

Always wait until the home is fully completed before you move in. Once you have moved in check your new home again thoroughly.

Report any defect in writing to your builder and make sure you keep a copy.

If in dispute with your builder write to the appropriate NHBC office.

You should always consider getting a structural survey done, especially if your home is more than a couple of years old and outside of the initial two year period of the Buildmark Cover.

## Buying Costs

Buying a property will probably be your biggest single investment. So it's important to work out the total cost – not just the mortgage – and how much you can really afford. You also need to plan for increases in your future outgoings, like a rise in interest rates.

## Deposit

If you're a first time buyer, most lenders insist on a deposit of five or ten per cent of the purchase price. Some will lend 100 per cent of the price, but they'll usually lend less and will charge a higher interest rate or 'higher lending charge'.

## Surveyor's fees

You'll usually need to pay for the lender's basic valuation survey – the cost varies by lender and property value but is usually a few hundred pounds. To check the property's condition you'll need a more detailed survey for which you'll need to compare quotes.

## Stamp Duty

If the purchase price is over £125,000 you pay Stamp Duty Land Tax of between one and four per cent of the property value. However, if the property's in a designated 'disadvantaged' area, you may not have to pay any Stamp Duty Land Tax at all. With some new builds the developer will pay your Stamp Duty Land Tax for you.

## Solicitor's or conveyancer's fees

These cover searches and legal paperwork. Costs vary by area and/or the property value (or loan amount if it's remortgage) and include:

- legal fees
- land registry fees (use the calculator below)
- local authority searches
- drainage and environmental searches
- administration costs

Your solicitor will confirm the cost of the above fees.

## Lender's arrangement fees

These vary by lender, but may include:

- booking fee (limited offer mortgages only)
- arrangement or completion fee (can often be added to the loan)

## Lender's insurance premium

If you have a high percentage loan you may need to pay a one-off fee called a 'higher lending charge'. This protects the lender if you can't repay your mortgage. It's worked out as a percentage of what you borrow above the lender's higher lending charge limit, which is usually 80 or 90 per cent of the property value. The premium can be high; ask your lender or mortgage adviser. You can usually add it to the mortgage if it doesn't take you above the lender's maximum loan for the property value, but this will increase your interest charges.

## Removals/moving in expenses

These vary according to:

- where you live
- the size of your property
- how much furniture you've got
- how far you're moving
- how much packing you'll do yourself

It's best to get several quotes, and always check that your remover's properly insured.

## Ongoing monthly costs

### Mortgage repayments

You'll need to budget for your monthly mortgage repayments - and take into account what effect a future change of interest rates would have on these.

If you have an 'interest only' mortgage, you'll usually also need to budget for monthly payments into an investment to pay off the loan at the end of the term.

### Life insurance / mortgage protection cover

You might need to take out a life assurance policy such as 'term insurance' or a 'mortgage protection policy'. The monthly payments can be relatively low and the insurance pays off what you owe if you die before you've finished repaying the loan. Ask your mortgage adviser for more details. (If you have a mortgage endowment policy, this includes life cover).

You can also take out insurance that pays your monthly repayments if you're ill or out of work – but this can be expensive.

### Buildings and contents insurance

Once you exchange contracts for your property you're responsible for insuring it. Your lender can insist that you have buildings insurance - but they can't make you buy their own. But in some cases, lenders insist that you take out their insurance on completion.

Council Tax, utility and other regular bills

*Don't forget that when you move, your monthly bills will probably go up.*

**For a lot more information, take a look at our Buyers Guide which explains the buying process in more depth.**