

## HOME BUYER'S GUIDE

**You have decided to buy a home – but what next? The maze of legal work, negotiations, dealing with surveyors and solicitors, finding a good mortgage deal and worrying about your deal falling through, on top of actually hunting down the home of your dreams, is enough to make anyone's hair stand on end.**

**After finding a home you like, which can take anything from a few days to many months, the process from having your offer accepted to completion of the sale takes about 12 weeks. It is important to have a good understanding of the process as it will help you avoid some of the most common hazards of home-buying.**

### **The Buying Process**

You have decided that you are buying a property, but exactly how much can you afford? On top of the cost of the house itself, there are many other, one-off expenses involved in moving house which need to be taken into consideration.

### **Calculating Your Price Range**

You need to work out:

1. The amount you will get from the sale of any current home
2. The amount you can borrow
3. The amount you have in savings or investments
4. Once you have done this, work out how much the other, one-off costs of buying and moving will add up to and deduct this from the total of the above three amounts.

Before looking at properties, you should consult a lender or mortgage adviser as to what your maximum possible loan would be. This will be based on the size of your deposit and how much you earn. A mortgage lender will rarely pay the whole price of the property - try to put down at least 5 per cent of the value of the home as a deposit.

Lenders will usually lend up to three times the size of your annual income, though some will lend up to four times your income. If you are buying as a couple, this increases to either three times the first income plus one year of the second income, or two-and-a-half times your joint income. Your lender will contact your employer to confirm your income, or if you are self-employed you will have to supply proof of your 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.

### **One Off Costs**

#### **Arrangement Fee**

A fee charged by lenders to cover the cost of setting up the mortgage. Some lenders waive this fee.

#### **Lender's Valuation (Basic Valuation)**

All lenders require a valuation of the property to check that it is worth the price being paid for it. The cost of the valuation depends on the value of the property but some lenders do not charge this fee, as an incentive for you to take out a mortgage with them.

#### **Survey**

It is strongly advised that you have your own independent, more detailed survey carried out to check for any defects. There are two types of survey, the Homebuyer's Report which costs between £250 and £500, and the more comprehensive Building Survey (Structural Survey) which can cost anything up to £1,000 plus VAT, depending on the value of the house. Allow extra if you need more specialist checks, for example on old properties.

#### **Legal/Conveyancing Fees**

You will need to hire a solicitor to deal with the legal aspects of buying a property. There is no standard fee so it is a good idea to shop around for the best rate. Some solicitors charge a flat rate while others charge a percentage of the property price, normally up to 1 per cent.

You will also have to pay for the legal work done by your lender's solicitor. Again, prices vary so ask your lender how much they charge. If you use the same solicitor as the lender to do your conveyancing this may save you money, but compare charges with other firms.

#### **Stamp Duty**

This is a government tax, charged for properties above £120,000.

#### **Land Registry Fee**

The Land Registry is a government department which looks after the registers of all registered properties in England and Wales. It charges a fee for transferring the register to the new owner. This fee is charged according to property price.

#### **Local Authority Search Fees**

Local searches will be carried out by your solicitor/conveyancer to ensure that there are no potential problems such as planning permission on neighbouring properties or plans for new roads nearby.

### **Other Search Fees and Disbursements**

These include index map, commons, the coal authority, land charge, company searches, bank transfer fees.

### **Estate Agent's Commission**

If you're selling your property as well as buying one, the sum charged by your estate agent has to be taken into account. Usually this is charged as a percentage of the property price, around 1.5 – 2 per cent on average.

### **House-hunting Expenses**

Allow money for eating out, travel and telephone calls, and hotels if you are buying in a different area. Consider whether you will need time off work.

### **Removal Fees**

Ask for quotes from at least 3 different removal firms, as prices vary. Remember you will need to give tips. You can do the removal yourself, but this is much more time-consuming and inconvenient.

### **MIG Fees (mortgage indemnity guarantee)**

This is an insurance premium charged by some lenders where your loan amount is more than 75% of the price of the property. This is charged in case you default on your mortgage repayments and the mortgage lender cannot recover its money. Note that this protects the lender, not you.

### **Other Costs** a few more to bear in mind:

- Buildings insurance premiums
- Contents insurance premiums
- Additional removal insurance
- Disconnection of services (water, gas, electricity, telephone)
- Reconnection of services
- Installation of new equipment
- Carpet laying
- Kennelling of pets
- Mail redirection
- Change of address notice

### **Contingency Fund**

Leave a decent-sized contingency fund for emergencies. You do not want to be left completely penniless in case you have unexpected extra costs.

### **Choosing your home**

Looking for a new home is a time-consuming process, and it is tempting just to rush into buying the first one you like the look

of. But watch out, as it will not be so easy to take back to the shop if you decide you don't like it after you have moved in. Once you have decided to buy a house and found out how much you can afford, it is worth sitting down and thinking hard about what you want from your new home and what your needs are.

### Location

It is important to research a particular area before viewing homes there - if you decide it is not the kind of neighbourhood you would enjoy living in, then you could save yourself a lot of time and effort by doing so early on in the process. Even if you can get a bigger home for your money in an area which isn't so nice, make sure you really are doing the right thing. Remember that you can always make changes to a house but not to the neighbourhood.

What is the neighbourhood like? Is it the kind of place you can imagine yourself feeling comfortable in? Who lives there?  
What kind of amenities are there locally? Check out the leisure facilities, activities for kids, shops, public transport and so on.  
If you have children, look at the local schools. Do they have a good reputation? Where do they stand in the league tables?  
What is the level of crime in the neighbourhood? Ask at the local police station  
How easy is it to reach your workplace?  
What council tax band will you be in?  
Will you have enough car parking space?

What kind of condition are the other houses in your street in? If they are in a state of disrepair, or look as if they are falling into one, it could bring down the value of your property.

Simply touring the area can give you a good idea of what it is like. There are also some good sites on the internet where you can research different areas and what is available there.

### Style of House

Do you want a new or an older house? If you are buying a very old one make sure you have looked into what this can entail. Old houses can look lovely but cost a lot to keep up in terms of maintenance and heating bills. Newly-built homes can also have drawbacks, such as higher prices than 'secondhand' ones, and the requirement to buy before they are fully built, but advantages include less maintenance and decoration costs, and often complimentary extras thrown in by the builders such as carpets, curtains and fitted kitchens (though you will not necessarily get to choose your own decorations).

Do you want a terraced, semi-detached or detached house, or a flat? If you want a flat, do you want a purpose-built one or a conversion? All have their advantages and disadvantages: consider space, privacy, noise, parking and character. How much does each one matter to you?

How much decorating or improvement do you wish to make to a property?

Do you want a leasehold or freehold property?

## Key Tips

Once you have found a property you feel you like, make sure you learn as much as possible about it. Even if it seems perfect at first glance, try to think about it from all angles. And write everything down - the best house-hunters take notes on each property they view which they can compare later.

Make at least 2 visits. View the house in the daylight and at night. Come at rush hour, as you could get a nasty surprise - is the road used as a short-cut by motorists?

## General Condition

Check what fixtures and fittings will be included.

Consider the layout of the house – are there any unusual shaped rooms that it would be difficult to fit furniture or appliances into? Are there enough power points?

Don't be put off by the seller's choice of décor – try to imagine the house with your own furniture and style

## State of Repair

**Insulation:** is the roof well-insulated? Go into the loft and turn off the light – you shouldn't be able to see any patches of daylight. Is there wall-cavity insulation?

**Central Heating:** is the central heating system efficient? How old is it? Is it gas or electricity-powered? Ask to see a winter heating bill as this can help give an idea about the quality of insulation

**Plumbing:** Are the pipes and the boiler lagged? How old is the piping? Lead piping will need replacing

**Plug sockets:** How old are they? If they are the old-fashioned, round-pin type, re-wiring will probably be required

**Structural Problems:** Inside

**Subsidence:** look for cracks in ceilings and walls, doors that stick or don't hang correctly

**Damp:** You can smell damp, so use your nose. Mould, walls which are damp to the touch, flaking paintwork or wallpaper which is peeling off are also signs of damp. Be wary of new paint or wallpaper which could be hiding problems underneath

**Condensation problems:** rotting window frames can be a sign of this. If they are very soft to the touch this means they are rotten. Make sure the bathrooms and kitchen are well ventilated

**Woodworm:** indicates by holes in woodwork

**Structural Problems:** Outside

**Subsidence:** look for big cracks in the walls, a bent chimney stack, or an uneven roofline

**Damp:** examine for missing roof tiles, and check the brickwork and mortar as cracks can let in damp

**Root damage to foundations:** if there are any big trees nearby this could cause problems

NB: Inspecting the property yourself does NOT avoid the need for a professional survey

### Freehold or Leasehold

All properties in England and Wales are either freehold or leasehold.

**Freehold** - This means that you fully own the property. As a freeholder you will have full responsibility for the maintenance and repairs of the property.

**Leasehold** - This means that you own the property for as long as is specified in the lease; you are granted the right to live there by the freeholder. At the end of the lease the property again becomes the possession of the freeholder. Many leases are originally granted for up to 999 years, but existing leases on properties are usually shorter. The majority of leasehold properties are flats, although some houses are leasehold.

### Registered or Unregistered

In England and Wales, property can either be 'registered' or 'unregistered'.

If property is registered, the title to the property is registered at the Land Registry and is guaranteed by the state. The owner has a 'Land Certificate' instead of the usual title deeds. Buying registered property is more straightforward than buying unregistered property.

If property is unregistered, ownership is not guaranteed by the state. The title can only be proved by a copy of the title deeds, and your solicitor will check back the property's documentation over at least 15 years to certify it. With unregistered property, disputes over title are not uncommon.

When you buy unregistered property, it must now be registered for the first time with the Land Registry. This will take some time so the buying process will take longer than if you are buying registered property. Your solicitor/conveyancer's fees will probably also be higher.

Conveyancing - refers to all the legal and administrative work associated with transferring the ownership of land or buildings from one owner to another. The conveyancing process starts after an offer has been made and accepted for a property, and solicitors' details have been exchanged by the two parties.

Most people hire a solicitor or licensed conveyancer to undertake the legal side of buying their home. It is possible to do the conveyancing yourself, but this is a time-consuming business and also risky if you lack the necessary expertise. Although professional services are expensive, they have become cheaper in recent years and it is well worth the cost to successfully complete the purchase and to resolve any possible problems. This part of the process is crucial.

### **The Conveyancing Process at a Glance**

Buying or selling a home is a complex business, both legally and administratively. There are three main stages to the process:

#### **Stage One: Before the Exchange of Contracts**

Once the sellers have accepted your offer, you exchange solicitors' details with them. Your solicitor will then contact the seller's solicitor and receive and negotiate the draft contract.

It is a good idea to check through the draft contract yourself in case anything has been missed out, such as any agreements you had made with the seller, so ask your solicitor for a copy if you have not been sent one.

Your solicitor applies to local council for local searches, checks the title, contract and papers, and raises queries with the seller's solicitor.

Before exchanging contracts, check that all is in order:

- You have received and are satisfied with the survey report
- You have received your formal mortgage offer, and are happy with it
- The deposit sum has been agreed and you have the money available
- You have arranged life and property insurance and they are ready to begin on completion
- The completion date has been agreed with all parties
- The terms of the contract have been checked and finalised by all involved

#### **Stage Two: Exchange of Contracts**

The contract is signed and you hand over a deposit. Final accounts are prepared and the mortgage deed requested for you to sign. Final searches are made.

#### **Stage Three: Completion**

You obtain the keys to your new home and receive the title deeds. Stamp duty is paid and the transfer is arranged at the Land Registry

#### **Insurance**

When buying a home, make sure that you have arranged for insurance cover on your new home to start on the day you exchange contracts. If you are not a first-time buyer, arrange for the insurance on your previous property to continue right up until the day you exchange, in case the deal falls through.

Household Insurance: Household insurance has two parts – buildings insurance and contents insurance. They can be bought separately, though some insurance companies offer a single policy covering both which can save you money.

Buildings Insurance provides cover for the property itself, including basic essentials such as kitchens and bathroom fittings (sink, toilet, bath etc) and running water. It also provides cover for events such as fire, flood or even subsidence.

Contents Insurance insures all your possessions inside your home. You may be surprised how much your possessions are worth – even if you are not a big spender, they can be worth tens of thousands of pounds. 'Contents' refers to everything from furniture and carpets to jewellery, cameras and clothes. It's up to you exactly what your insurance policy covers and the price depends on how much it covers.

To work out how much cover you need, make a list of everything in each room and how much it is worth or would cost to replace. Remember to include furnishings, carpets and other fittings, and clothes and food, as well as more obvious items like TVs and jewellery. Insurance for items which you take outside your home such as bicycles, musical instruments, sports equipment and so on may also be included in your contents insurance.

If you already have contents insurance on your previous home, make sure the cover is transferred from your previous home to your new one on the day you move in.

### **Mortgage Payment Protection Insurance (MPPI)**

*"Your home is at risk if you do not keep up the repayments on a mortgage or other loan secured on it"* - this is a familiar phrase to home-buyers. You may think it will not apply to you, but the future is unknown, and if the worst does happen you could suddenly face a crisis in paying your monthly mortgage repayments.

Make sure your policy covers as many circumstances as possible, and your particular work situation. Many policies do not insure part-time or temporary work. Also check the exclusion clauses – for example, many insurers will not cover unemployment which is due to medical conditions which you had before taking out the policy, or due to pregnancy, stress or back pain. Unemployment which is voluntary, caused by misconduct or is seasonal are among other circumstances generally excluded.

### **Life Insurance**

For those buying homes and taking out mortgages, life insurance is an important purchase to make as it will provide enough protection to cover outstanding mortgage repayments should you die before you have finished paying it off. This is particularly crucial if you have a family or other dependants, as it would make sure they could keep a roof over their heads in the event of your death.

### **Removals Insurance**

Some household contents insurance policies will insure your possessions for the period of the move, but if yours does not you should take out extra insurance cover for any mishaps that might occur during the move.

### **Legal Protection Insurance**

It is possible to take out insurance cover on all the legal aspects of buying a house. This will cover any legal action that you need to take related to buying your home. It can be used against builders and developers, sellers, removal firms, utilities (water, gas, electricity companies), surveyors, solicitors and conveyancers.