

BUYING A HOME: A GUIDE

INTRODUCTION

Buying a property or a home is a long-term investment involving huge amount of financial outlay, so a decision is made after weighing the several pros and cons of the investment, timings, savings, utility, mortgage amount, rate of interest, market conditions and savings renting versus monthly mortgage payments.

Buying a home, particularly for the first time can be challenging. At the end of the day, the decision of buying a house or a property could result in either saving for the buyer or a regretful decision incurring of heavy costs, which one had not thought about earlier. Why is it, is explained below.

BE INFORMED

If you are already a homeowner, decide whether you want to sell your house or flat before you buy. It can be dangerous in a rising market, but there are upsides. In particular, you will be able to pounce quickly when you do find the home of your dreams, and you won't be trapped in a housing chain

If you do not have the necessary funds to buy a home or a property probably you would need to think about borrowing money from a mortgage lender. The amount that you can borrow would depend upon your financial position, your annual income, amount already borrowed and your fixed and recurring monthly expenses.

Different mortgage lenders have different formula to work out the amount they would be willing to lend it to you. Some lenders may go up to five times of your annual salary however, the actual amount you can will depend upon the debt you already owe to other lenders, as the total amount the lenders would be willing to lend to you would actually stand reduced with the amount of debt you already owe to others.

For buying a home or a property, you need to pay an upfront deposit, which can range from 5-10% or higher depending upon your individual circumstances. Some mortgage providers accept different types of guarantor depending upon their individual financial strength. Higher the amount of upfront deposit pitched in by you, the lower will be the amount of your monthly instalment.

As a rule of thumb around 35% of your post-tax income should go on mortgage payments. Money used to pay rentals currently, if you are living on a rented property, will substitute against the mortgage repayments.

You do not just have to pay for the upfront deposit, or the monthly mortgage payments, as there are many other costs that you need to consider. Some of these are costs are directly related to the mortgage however there are other indirect costs that are associated with the new home or property, you need to consider in the beginning.

This suggests that paying for a new home has overwhelming direct costs, but there are many other indirect costs, that also needs to be budgeted. Stamp duty can be the highest amount towards the cost of buying a home. Following is a list of direct and indirect charges that you may incur as you go along buying a property.

DIRECT COSTS

Buying a new home can be even more expensive than you expect. Failure to consider all of the associated costs together, can be regretful. If you are in a vulnerable position, buying a property can be ruinous. If you lose your job and don't pay your mortgage, you could end up having your property repossessed, and lose your home.

There are lots of hidden direct costs that can add more than 10-15% to the total bill, which you need to budget for. If not properly prepared for such costs, the first few years of owning your own home can be a time of real hardship.

1. Stamp Duty

Following will be the rates of stamp duty on the purchase of additional properties like buy-to-lets and second homes applicable from April 2016.

Range of Price of property		Stamp duty Value	Stamp Duty Rate for	
From	To		1 st property	Extra properties
0	40,000	40,000	0%	0%
40,000	125,000	85,000	0%	3%
125,000	250,000	125,000	2%	5%
250,000	925,000	625,000	5%	8%
925,000	1,500,000	575,000	10%	13%
Over 1,500,000		Excess over £ 1.5 million	12%	15%

Example:

Property Purchase Price:-

£ 500,000

Stamp duty	Value	Rate	Stamp Duty
On 1 st	40,000	0%	0
On next	85,000	0%	0
On next	125,000	2%	2,500
On next	<u>250,000</u>	5%	<u>12,500</u>
Property value	<u>500,000</u>	Stamp duty	<u>15,000</u>

- Stamp duty does NOT apply to removable fixtures
- Homes registered to companies costing above £500K have a rate of 15%
- Land and property bought for charitable purposes by charities are exempt
- Right to Buy transactions may qualify for stamp duty discounts
- Zero-carbon homes, including flats under £500K are exempt from stamp duty.

- Zero-carbon homes over £500K have their stamp duty bill reduced by £15,000

Please refer to HMRC website for full list of stamp duty exemptions and reliefs

2. Solicitors Fee / Conveyancing

Conveyancing includes various search fees and registering with the Land Registry, though solicitors tend to be more expensive. How much it costs would depend on the value of the home bought as well as type of searches requested. An online conveyancer can roughly range from £700 for a £250,000 property to £1500 for a £1.3 million property.

3. Surveys and valuation

These can range from £ 400 to well over £ 1000, depending on the value of the property and type of survey.

4. Mortgage arrangement fees

These are charged by mortgage companies, sometimes upfront and sometimes added to the mortgage, and can also range from a few hundred pounds to 1% of the mortgage.

5. Mortgage indemnity fees

The mortgager may charge a fee to cover insurance in case you cannot repay your loan, in case of a high loan-to-value ratio.

6. Mortgage broker fees

Some mortgage brokers charge no fee, while others may charge between a few hundred pounds up to 1% of your mortgage, if you use a mortgage broker.

7. Real estate agent fees

Normally the seller rather than buyer pays the estate agent fees but be careful as sometimes the estate agent tries to get the both the buyer and the seller to pay fees. If however one is selling his house at the same time as the purchase, fees will be payable to the estate agent.

8. Movers

Hiring a professional removals firm can cost from £350 to many thousands of pounds, depending on the size of your house and how far you are moving.

9. Furniture and redecoration

You might need some furniture for the new house. Most homes need some redecoration or other minor building works.

INDIRECT COSTS

Once you have moved into a property, it obviously isn't only the direct costs that you have already incurred that you have to worry about, but there's a whole lot of other indirect costs that may put a strain on your financial position.

These include expenses such as utilities including Water, gas and electricity bills which can add a substantial monthly cost by a few hundred pounds for larger properties than what you were previously paying. Council tax is another item that could increase your cash outflows and can range from a few hundred pounds a year, for a small property in low cost local authorities to several thousand for bigger houses in expensive councils.

Your insurance cost can also go up by a few hundred and thousands of pounds a year, depending upon the contents you intend to insure, worth of your house, make, year of construction, your job, etc. Besides annual ground rent and service charge can be payable to the freeholder, if living in a leasehold property. Besides the new house may require contribution on areas such as structure of the building or a new roof.

If you have acquired a serviced apartment, it may require a regular service charge to pay. Many towns and cities, may require payment of an annual fee for parking your car. Additionally you will have to pay for the maintenance and building work and other works such as repairing of the roof, boiler, wiring, or fixing subsidence all add major costs.

LOCATION & PROPERTY

Once you have good insight as to the direct and the indirect costs, the next step is deciding the location where you want to live. Sometimes buying a new home involves moving to a different part of town, or a different city or town, then deciding the area might involve consideration of several variables such as distance to the office, shopping areas, school catchment area, locality and may require more time and consideration.

Whatever the case you must do your research thoroughly. Buying the new home right is a very important decision as you could end being frustrated with the decision or face the costs of moving again.

Once the location and the area is decided, the next step is the start of research of the available properties, what other options are available in the market and the expected prices. The type and nature of property that you wish to acquire would depend upon your and your family requirements.

You need to contact real estate agents to get to know the local market thoroughly who will arrange viewings for various properties. You can view properties online using photographs, floorplans, virtual tours, online brochures and local information that is

available with most descriptions and call or email the advertising agent to check any missing information.

Based on your selection, you need to make as much visits as possible in order to find the ideal and the most suitable property that you have in mind and also know the various features, positives and negatives of each property, that would enable you to make a final choice.

BUDGET & FINANCES

Once you have an idea of both the direct and indirect costs, you have a fair bit of an idea of the total amount you would require to spend based on the property value. Based on the property value you can determine the amount required upfront for the deposit, the amount of mortgage required and the cash you would require to close the transaction and estimated timings of cash outflows when they will occur.

The next stage is the determination how and when you will bring your finances in place to conclude the various activities as when they fall due. At this stage you might also need to know what type of mortgage you would be looking at. Getting in-principle approval is necessary before you can buy the property and it will put you in a strong position. You therefore need to explore the mortgage market also to find out the terms and conditions of various companies and in deciding which would suit you the best.

ARRANGING A MORTGAGE

Mortgage is the biggest cost for buying a property, which is a loan secured against the property that you intend to buy. This means that you cannot sell the property without paying off the mortgage first. It also means that if you do not make the repayment of the monthly instalment on due dates the lender has the right to repossess the property.

You need to finalize the terms and conditions of the required financing from your mortgage company with the agreed offer and complete the process and get the lender to make you a formal mortgage offer before the contracts will be exchanged.

It is always vital to secure a mortgage with a lender before starting the searching process. This will put you in a much stronger negotiating position and if there is another buyer for the same property, you will be in a better position to ward off any such threat.

Generally, the best mortgage deals are available to people who put in at least 15% of the property's value, leaving the mortgage company to lend the other 85%. Putting in less than 10% of deposit money would expose you to pay a higher lending fee also called a Mortgage indemnity or a Mortgage guarantee charge which will add to the cost of your mortgage.

As a rough guide, providing the amount you are borrowing is at least 85% of the property value, budget to add 1.75% onto the Bank of England base rate, which will give you a ball park figure of the likely annual interest rate.

MAKING AN OFFER

After you have decided you like the property you need to make a decision as to the price you are willing to pay for it and make an offer to the seller. Before making the offer you should ensure that you are in the strongest possible position as a buyer as far as possible. You should decide how much you want to pay for the house, including the amount for the fixtures and fittings.

If you have made the decision to buy the property, you need to make the offer to the estate agent to seal the deal. The real estate agent may ask you to pay a small holding deposit of £500 or £1000 to show you are serious in making the offer. This amount will be repaid back to you if the sale falls through. If the sale goes through the amount of holding deposit will be adjusted in the purchase price.

ENGAGING THE SOLICITOR / CONVEYANCER

You need to engage the services of a solicitor or conveyancer to handle the legal work to transfer ownership of the property to you once you have agreed an offer on your house. If you are arranging a mortgage, your mortgage company might require you to select a solicitor who is on their panel, which might make the decision for you.

If there is no such compulsion you do not need to select the solicitor suggested by your real estate agent and you can select one after doing your own research. If you are feeling confident, it is sometimes possible to save money by doing the conveyancing yourself, however doing so is not only challenging but risky.

The solicitor or conveyancer will do the searches for you, such as with the local authority and environment agency, to ensure there are not any major problems with the property.

PROPERTY SURVEYS

A property survey should tell you everything you need to know about the property, and alert you to any potential problems you will face once you move in. Your mortgage lender will require a valuation by a surveyor, to ensure that the property is a good enough to lend against, which is not a proper survey but can be upgraded to a full survey, as this looks at the features of the property very superficially. Alternatively you can commission a separate survey also.

EXCHANGING CONTRACTS

You need to arrange the required and specified amount of deposit of the sale price of the property, and give it to your solicitor or conveyancer before you can exchange contracts.

When you exchange contracts with the seller you become legally committed to buying the property and the seller becomes legally committed to sell it to you. As a matter of policy contracts should only be exchanged after receipt of the surveyors report and examine it as to its contents.

Exchange of contracts takes place after the solicitor/conveyancer is satisfied with the searches, a formal mortgage offer has been received, and arrangements is in place for the payment of the required amount of deposit. You also need to ensure that buildings insurance for the property is in place from the date of exchange, as you would be responsible for it

Before you exchange contracts, you need to agree a completion date with the seller, which is approximately about four weeks after the exchange.

FINAL ARRANGEMENTS

You need to make arrangements for the supply of electricity, gas, water and telephone service, and that the seller has got readings made and as exchanged them with you. Often, it is easiest simply to change the account name for the existing suppliers to the property, rather than change suppliers, which can be done at a later date.

The solicitor/conveyancer will inform the land registry that they are in the process of transferring ownership of your property and liaise with the mortgage company to ensure the money will be ready for completion.

You need to ensure that your deposit is also ready, and normally you will pay that to your conveyancer before completion

COMPLETING THE SALE /TAKING POSSESSION

Completion occurs when you pay for the property and take ownership of it. This process concludes at a certain time of day – often midday. On the day of completion, the money is transferred and the deeds of the property are transferred between each side's conveyancer/solicitors. The real estate agent hands over the keys of the house.

The seller is required to leave the property by the time of completion, and you are now free to move in, or if you are doing any building work before hand, the workmen can now start

SETTLING THE CONVEYANCER/SOLICITOR

Your solicitor or conveyancer will normally pay the stamp duty for you, and ensure that the change of ownership is registered with the land registry. After completion, your

solicitor or conveyancer will send you an account, covering all their costs and disbursements, as well as the purchase price of the house and stamp duty.