# Things you need to know about buying a house:

## Types of Mortgage

There are a wide variety of mortgages available offering various financial incentives. They generally fall into one of the following categories, each of which has its advantages and disadvantages.

**Standard Variable Rate Mortgage**

Most lenders have a set rate of interest known as the standard variable rate. Lenders adjust their standard variable rates as the Bank of England increases or lowers interest rates. Although with this type of mortgage your repayments are unprotected from any sudden increases in interest rates you will benefit from any reductions.

**Fixed Rate Mortgages**

The biggest advantage of a fixed rate mortgage is that, irrespective of fluctuations in interest rates, your monthly repayments remain the same throughout the period of the fixed rate. A fixed rate mortgage is suitable if your monthly mortgage repayments take up a large proportion of your income as it protects you from any sudden and unexpected rises in interest rates. However, you do not benefit from any reduction in the lender's standard variable rate.

**Discounted Mortgages**

With a discounted mortgage lenders offer a discount off their standard variable rate for a specified term - say 3 years. The savings from discounted mortgages can be considerable although you have no protection against increases in interest rates and may find that an increase takes you over your budget. This is because when the Bank of England raises or lowers interest rates, lenders adjust their mortgage rates accordingly. It is probably more suited to you if you do not mind this uncertainty and your budget can absorb an increase in interest rates or if you think rates will go down during the discounted period.

**Tracker Mortgages**

A tracker mortgage follows the Bank of England base rate - it tracks the base rate - with a differential added. For instance you may be offered a base rate plus 3% mortgage for 3 years. This means if the base rate is 0.5% you will pay 3.5%. However if the base rate rises the rate you will pay rises and also if the base rate goes down your pay rate will go down.

**Capped Mortgages**

A 'cap' means that there will be a limit to any increases in the variable rate, for a selected term. The mortgage rate charged on your account cannot exceed this rate. However, if the variable rate drops below your capped rate, you will benefit as your repayments will be calculated using the lower variable rate. Sometimes capped mortgages have a level below which interest rates cannot fall. This is called a 'collar'. This limits potential benefits as variable rates may fall below the collar. Capped mortgages enable you to place a limit on your monthly mortgage commitment and still benefit from falls in interest rates.

The above types of mortgage (except the standard variable rate) are usually offered for an initial period of say 2, 3, or 5 years and then in most cases the mortgage reverts to the lenders standard variable rate.

During the special introductory rate the lender will usually charge you a fee if you wish to pay off your mortgage or change lenders, but there is usually a facility to enable you to pay additional monthly amounts of the capital during this period ( Usually up to 10% of your total mortgage debt) without a penalty fee being paid.

**Flexible Mortgages**

A flexible mortgage enables the borrower to pay off all or part of their mortgage without paying a penalty. The rate payable is usually slightly less than the lenders standard variable rate. Other advantages of flexible mortgages are that payment holidays can be taken during the year and extra funds are normally available via a drawdown facility. As with a standard variable or discounted variable mortgage the interest rate can fluctuate and is not fixed at the initial rate of interest. With this type of mortgage interest may be charged on a daily or weekly basis and this can reduce the length of time taken to repay the mortgage if additional payments are made.

**Offset Mortgages**

Some lenders offer a mortgage loan linked to a savings account and/or a current account, whereby if you elect not to receive interest on your current account or deposit accounts the capital in these accounts will be offset against the outstanding mortgage balance for the purposes of calculating the interest due. You continue to make your agreed monthly mortgage payment, but as less interest is due you are paying off the capital of your mortgage quicker than normal. This type of mortgage only really works with capital and interest repayment mortgages.

# Types of Survey

Before you buy a property it is usual to arrange a survey. If you are applying for a mortgage the survey is compulsory and will be carried out by the lender. If you are a cash buyer who does not need a mortgage then a survey is optional. In either case a survey will give you peace of mind and details of any problems with or work that needs to be carried out on the property.

Before entering into any mortgage contract, the lender will ensure that a valuation is carried out to assess the adequacy of the property for lending purposes. It is not a warranty as to the structural condition of the property. There are 3 types of survey that a potential borrower can apply for. They are a Basic Valuation, a Homebuyers Report and a Full Structural Survey. The basic valuation is the cheapest with the full structural being the most expensive.

## Basic Valuation Report

The valuer surveys the property for mortgage purposes only. The valuer completes a report to the lender and recommends whether the property is acceptable as security for the mortgage advance requested. The report should also highlight any essential repairs. Based on this report the lender decides whether to lend and if so how much to lend. The lender may request that the potential borrower carries out the essential repairs within a given period or may hold back (known as the retention) some of the advance monies until such repairs are carried out.

## Homebuyers Report

The Homebuyers Report is a ‘middle of the road’ report where a potential buyer wants more than a Basic Valuation Report but cannot afford a full structural survey. Again the report is limited in focus but normally identifies more faults with the property than a Basic Valuation Report.

## Full Structural Survey

A Full Structural Survey is a thorough and complete inspection of the property. The survey is the most expensive option and is carried out by a professionally qualified person. If the property is defective this should be discovered by a full survey. If it is not then the buyer may have legal redress against the surveyor if later it is proved that there was a defect with the property at the time of purchase. This type of survey is carried out by a RICS member.

## Specialist Reports

When a survey has been carried out it is sometime necessary for there to be specialist reports to identify specific problems such as damp or the condition of the electrical installation.

## New Build Homes

Most new homes have a National House Building Council (NHBC) Certificate which covers any major defects in new properties which ensure that it is fit to live in and structurally sound.  This covers problems such as collapse or serious distortion of floor joists or the roof.  This Certificate usually lasts for 10 years.

# Legal Bits (What does my Solicitor do?)

## Appointing a Solicitor

The legal term for buying and selling property is conveyancing and or solicitor or conveyancer will need to be appointed by you to do this work for you.

The solicitor will carry out all the legal work required and this includes checking the Contract and dealing with the Land Registry and the local authority.

The solicitor will carry out a search of the local area which gives them details of any Planning consents, new roads, etc which could affect the value of the property.

They will also ask the sellers questions about the property to determine whether any alterations have been made to the property and if planning consent was required and obtained for those alterations, what fixtures and fittings are included in the price and who is responsible for maintenance of the boundary walls, fences etc and any other relevant information required.

## Exchanging Contracts

When the contract terms have been agreed and your solicitor has received satisfactory replies to their questions the contracts can be exchanged.

The signed contract will include a Completion Date - this is the date when the property will become yours.

Once contracts have been exchanged the buyer is legally bound to purchase the property and the seller is legally bound to sell the property to the buyer.

If you are selling a property as well as buying your solicitor will usually co-ordinate things so that the completion of your sale and purchase happen on the same day.

Your deposit has to be paid to the seller through your solicitor at the point of exchange.

you also need to have building insurance and any life cover to protect your family from the point that contracts are exchanged.

## Completion

This is the day when you pay for the property and are given the keys to the property and you can move in.

Your solicitor will have previously prepared a Transfer Deed which is used to record you as the new legal owner of the property at the Land Registry.  When your solicitor has completed the Transfer deed it will be sent to the vendors solicitor and on the day of completion it will be produced along with the Land Registry Certificate.

Your solicitor will arrange for the Transfer deed to be stamped.  The price you paid for the property will determine how much stamp duty is payable - this is a government tax - and this will be collected by your solicitor as part of the total legal fees.

The Transfer deed is sent to the Land Registry to record you as the legal owner and to register any lender's interest as a 'mortgagee'. (You are the 'mortgagor').

## Helpful Hints for Moving Day:

## Don't Forget

### Removals

You will need to arrange a removal firm for the day of completion as if you have sold a property at the same time as buying a property you will have to remove all your belonging from the property you have sold on the day of completion.

Most professional removal firms are members of the British Association of Removers and are protected by the associations code of practice. Before you decide on which removal firm you will use it is a good idea to get a number of quotes from different firms as charges can vary. Always ask for a quote in writing and check what the firms insurance will cover in the event of damages to or loss of your property during the move.

Try to arrange the removal firm a far in advance as possible so you are sure you have them in place for the day of completion.

**Before you move**

Arrange for your existing telephone line to be disconnected on the day of completion and if possible arrange for your telephone number transferred to your new property. Ask for this to take place at a certain time on the day if possible.

Tell your local authority the date of your move so you can settle any outstanding council tax due - this applies to both your old and new properties.

Contact your energy providers to arrange for the supply of Gas and Electricity to your new home.

Ask your existing Satellite/Cable TV company if they can provide the service at your new address.

Inform the TV Licensing Authority the date of your move and arrange to transfer your existing license to your new address - you don't want to have to pay a fine for not having a TV license at your new home.

Redirect your post to your new address - this can be arranged through the Royal Mail for a small charge.

Pay any outstanding bills such as for newspapers and milk and stop any further supplies to your old address from the day of completion.

**Removal Day**

Read the electricity, gas and water meters at both your old and new address.

Keep things handy which you may need on the day such as your kettle, mug, tea & coffee.

Have a supply of items such as bin bags and light bulbs in case you need them.

Keep your vacuum cleaner handy to make sure you leave your old home in a clean condition once all your belonging have been removed and you can clean the new house if necessary.

**Keep in Touch**

Don't forget to let everyone know your new address including:

Family & Friends
Banks & Building Societies etc
Catalogue companies
Credit & store cards
Doctor, Dentist, Optician, Vet
DVLA - driving licence
Motor Insurance company
Employer
Inland Revenue
Insurance & pension companies
Schools
Mobile telephone company
Internet Provider

**<u>How Much Will it Cost?</u>**

**Find out how much it will cost you to buy a property by completing the costs below**

| | |
|---|---|
| Deposit | £ |
| Solicitors Fees | £ |

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|---|---|
| Stamp Duty (this may or may not be applicable) | £ |
| Surveyors/Valuation Fees | £ |
| Mortgage Fees (if applicable) | £ |
| Removal Costs | £ |
| Total Cost of Buying | £ |

**If you are selling a property the following cost may also apply**

| | |
|---|---|
| Estate Agents Fees | £ |
| Legal Fees (additional fees to buying costs) | £ |

**Costs to consider before buying a property - Monthly Payments**

| | |
|---|---|
| Mortgage Payment | £ |
| Loans & HP | £ |
| Building & Contents Insurance | £ |
| Life Insurance/Income Protection Policies | £ |

| | |
|---|---|
| Council Tax | £ |
| Gas & Electricity | £ |
| Water | £ |
| Telephone | £ |
| TV Licence | £ |
| Motor Expenses | £ |
| Travel Costs (Bus & Train Fares) | £ |
| Food | £ |
| Entertainment | £ |
| School & Nursery Fees | £ |
| Pension Provision | £ |
| Holidays | £ |
| Emergency Fund | £ |
| Other | £ |
| Total Living Costs | £ |

To check if you have sufficient income to fund your lifestyle deduct your monthly payments from your monthly net income.