

Guide for First Time Buyers (FTB)

A brief guide to help you start on this exciting journey

Buying a home is probably one of the biggest decisions you will make in your lifetime, especially as the average house price in England was valued at £276,755.*

Being a first-time buyer is exciting but can also be a little intimidating. With so much information out there, you may not know where to start. To make the process a little easier for you, we've put together this handy checklist.

Consider Professional Advice: As soon as you have your deposit together, and before you start looking for a home. Consult with a mortgage broker who can offer personalized advice and help you navigate the mortgage process. They will also hand hold you through the process from finding a home to completion.

Assess Your Financial Situation: Understand your current financial status, including income, expenses, savings, and credit score and then speak to a broker who will work out how much you can afford, based on deposit and what you want to spend each month on the mortgage payment. What you can afford might differ from what you want to pay each month, based on interest rates etc. So a broker will look at all the options for you.

Deposit: Aim to save at least 5-20% of the property's value as a deposit. The larger the deposit, the better mortgage deals you may access.

What is a Mortgage: A mortgage is a loan you borrow from the lender, the lender being a bank or building society. The lender will loan you the money by way of a mortgage, the mortgage will be secured against the house you are buying. They do this for security, so if you were unable to pay the mortgage back the lender can get the money they lent to you by repossessing (taking back the house) and selling the house. It is important to make sure you can afford the monthly mortgage payments, never stretch yourself too far.

Understand Mortgage Terms: Familiarize yourself with mortgage terms like interest rates, loan-to-value ratio, repayment options, and penalties for early repayment.

Understand repayment Terms: Capital repayment is where your monthly repayments pay back both the amount you borrowed, known as capital as well as the interest charged by the lender. This is a good method and most common because at the end of the mortgage term your mortgage will be paid off as long as you keep up repayments on your mortgage. The other method is interest only, this is where you only pay off the interest to the lender so at the end of your mortgage term, usually 25-30 years you would still owe the amount you borrowed as you have only paid back the interest.

If you are unsure of what mortgage you are looking for or have any unanswered questions.

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Understand Mortgage Types: Once you have chosen your method of repayment, you need to consider whether you want a fixed or variable rate of interest. A fixed rate means your rate is fixed at that % and your monthly repayments stay at that amount for the period of the fixed rate. The other types of interest rates are discounted or variable rates. This is where the rate could go up or down based on what the Bank of England or lender decides to do. This would mean your monthly repayments could go up or down. A lot of first-time buyers chose a fixed rate because they want to budget and know how much they are paying back each month and be certain that the mortgage payments do not increase.

Additional Charges and Fees: Lenders can charge arrangement fees: the size of these fees depends on the rate of interest, typically the lower the rate of interest charged the higher the fee. There are also other fees to pay when purchasing a property. These include solicitor, valuation fees and stamp duty. It is not just the fees the mortgage lender will charge you.

Residential properties Stamp duty charges

You usually pay Stamp Duty Land Tax (SDLT) on increasing portions of the property price when you buy residential property, for example a house or flat.

SDLT only applies to properties over £250,000.

- The amount you pay depends on:
- when you bought the property
- how much you paid for it
- whether you're eligible for relief or an exemption

If you're buying your first home

You can claim a discount (relief) if the property you buy is your first home.

This means you'll pay: no SDLT up to £425,000

5% SDLT on the portion from £425,001 to £625,000

You're eligible if you and anyone else you're buying with are first-time buyers.

If the price is over £625,000, you cannot claim the relief.

*Correct at the time of writing (10/2022) Source : www.gov.uk/stamp-duty-land-tax/residential-property-rates

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Mortgage Process Step by Step

- 1. How much can You Afford:** For many first-time buyers they can make the mistake of trying to borrow as much as they can and really stretch themselves. Leaving themselves exposed to interest rate increases, because when this increases, your mortgage payments may also increase. This would also leave you exposed to life's general uncertainties. The amount a lender will loan you in the way of a mortgage will often differ from lender to lender.

A few things that influence your affordability are:

- Credit score
- Income
- Employment status
- Liabilities/Debts
- Deposit amount

- 2. Completing a Fact Find:** Once you know how much you can afford, your mortgage adviser will get to work. They will review deals from different lenders to find one that is the best fit for you. You will need to complete a Fact Find with the adviser and collate some paperwork e.g payslips to prove income, bank statements and identification. The estate agent will ask for most of this paperwork too once an offer is accepted so always best to keep it to hand during the process. Once you have come to an agreement with them, they will go to the lender for you to get a mortgage agreement in principle. The lender will then run a credit check. So its always best to know your credit report is clean at this stage!

- 3. Choosing Your Home:** Now for the exciting part, choosing a place to call home. Once you know how much you can afford. You can go house hunting. Knowing what your limits are. At this stage it's hard to not get giddy and you may see something you love but it's just that little bit more than you wanted to spend. Give your broker a call back and get them to run the figures. It may not be as bad as you think, but if it gets you the house you love. It's worth a quick call. Or use this for your negotiation with the estate agent! Many, people start their search online through property sites or through local estate agents. Factors to consider when choosing a home.

- Location
- Transport links
- Schools (if appropriate)
- Commute times
- Outside space
- Traffic congestion

It's also a good idea to take a trip to the area and get a feel for the place. It's good to know what the area holds, what's close by, and if it feels right – all of this helps you to make the right move.

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4. Making an Offer: Now you've found your perfect home, you can make an offer to the estate agent. If you don't feel ready to put in an offer straight away, don't do it. It can be really useful to view the property more than once just to put your mind at rest and to visualise yourself living in it. Once you're sure you feel at home, you can put in your offer. Going too low could be risky if others have viewed the property, but you can always increase your offer if it isn't accepted.

Tips for putting in an offer.

- Check out our 'Listing history' information to see how long the home's been on the market and if its price has been dropped.
- Keep an eye out for our 'Back to market' label to spot sellers who are serious about moving.
- Ask the estate agent how much interest the sellers are getting and their reason for selling.
- Search house prices to see what the property previously sold for and compare it to others nearby.

5. Finding a solicitor: Now it's time for all the legal stuff. Finding the right solicitor to deal with all that is needed when buying a house is super important. You can find loads of solicitors online, but you can often find local ones that know the area better too. Most importantly, you need to find one you are comfortable with. It's worth shopping around though and making sure your solicitor specialises in buying homes. Here at Identityfs, we can source solicitors that we work with on a daily basis.

What does your solicitor do?

- Communicate with the seller's solicitor
- Carry out searches with local authorities
- Check the land registry
- Draw up contracts and check legal titles

6. Apply for your full mortgage: Once your offer has been accepted, you'll need to go back to your Mortgage Adviser with your offer to process the full mortgage application and secure the rate.

7. Survey: Surveys are very useful as they can bring to light any work that might need to be done on your property both now and in the future. A survey should always be done by a professional as they will see things that others may not. You might also want to consider getting a home buyers report too, as it looks at the current property condition and will include recommendations for repairs needed.

Types of house survey

There are three main types of survey. The type of survey you choose will mostly depend on how much detail you want about the property you are buying and its age.

The most popular type of survey to get done is a home buyer's report, but you may decide a different one would be better for your situation.

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Different types of house surveys

| Survey Type | What Does it include? | When is it Suitable? |
|-------------------|--|---|
| Condition Report | <ul style="list-style-type: none"> ▶ The most basic survey you can get ▶ Will give you an overview of the property's condition and highlight significant issues, but won't go into detail ▶ Will give traffic ratings for the condition of different parts of the property | <p>A condition report is useful for a modern house in good condition..</p> <p>It will provide you with reassurance if you just want to double-check everything is ok.</p> |
| Homebuyers report | <ul style="list-style-type: none"> ▶ More detailed than a condition report ▶ Will highlight problems with the property, such as damp or subsidence ▶ Includes advice on necessary repairs as well as ongoing maintenance advice ▶ Will point out anything that doesn't meet current building regulations ▶ The survey will be non-intrusive - the surveyor will not look behind furniture or under floor boards, so they'll only be able to identify 'surface-level' problems ▶ It will take about two to four hours to complete | <p>A homebuyer's report is suitable for most modern properties as well as older properties, provided they're in a reasonable condition.</p> <p>It's a good option if you have some concerns about a property.</p> |
| Building survey | <ul style="list-style-type: none"> ▶ The most thorough survey you can get ▶ Provides a comprehensive breakdown of the structure and condition of the property ▶ Will list defects and advise on repairs and maintenance ▶ The surveyor will be 'hands on' and will do things like checking in the attic and looking under floorboards ▶ You can ask for the report to include projected costs and timings for any repair work ▶ Depending on the size of the property it may take a day to complete | <p>Building surveys are particularly useful if you're buying an older or unusual property, or one that's in a poor condition.</p> <p>If you're planning to do significant work or have major concerns about a property you should get this kind of survey done.</p> |

8. Exchange contracts: Exchange is when you and the seller exchange your signed agreements which legally bind you to commit to the sale. You'll then pay the deposit via your solicitor. If you change your mind after this stage, you could lose your deposit. You'll also need to agree to a completion date which is when you'll take possession (usually up to a month after exchanging).

9. Insurance: One of the conditions you'll normally find in a mortgage contract is insurance. They often state that you need to have buildings insurance on your property as it protects your new home should anything happen to it. Contents insurance will protect all of your stuff once it's in the house, and although rarely stipulated as a requirement, it is a good idea to have it.

Other insurance you should consider:

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- Life insurance
- Critical Illness insurance
- Income protection
- Family Protection

10. Completion and moving in: When you are ready to complete, your solicitor will transfer the remaining funds to the sellers, and once the money has gone, you should be able to pick up your keys and start an exciting new chapter in your life.

Congratulations! You're now a homeowner.

Glossary of Terms

Building insurance You'd take out this cover to make sure that if your property is damaged by fire or the elements, you can have your home rebuilt. This cover is a must, and a lot of lenders might ask you for this information as they are giving you the mortgage. Once you exchange contracts, you should have this insurance in place, as you will be liable for the building.

Contents insurance You'd need this cover to protect all of your possessions against accidental damage or theft. Buy-to-let If you plan to buy a property to rent out, then you will need a buy-to-let mortgage. You will still need buildings and contents cover.

Completion date The completion date is when you finally own your new home. All the funds will have been transferred, and contracts exchanged. **Deposit** The sum of money initially put down by a buyer when purchasing a property.

Energy Performance Certificate (EPC) An EPC provides an energy performance rating for your home. They can range from an A rating, which is the most efficient, to a G rating, the least efficient. The certificate could also give you recommendations on how to improve your rating and save you money. It's a legal requirement, when selling your home, to provide this to the buyer.

Exchange of contracts Once you exchange contracts, both the buyer and seller are legally bound to complete the deal. Changing your mind at this point could end with you having financial repercussions.

Mortgage offer Stamp duty This is the amount of tax paid to the government when you buy a house. The amount can change depending on how much the house is worth. You pay this when you complete the buying process.

Council tax Council tax refers to the amount you have to pay to your local council. It covers local amenities such as police, fire service and general repairs to highways etc. Each home has a specific council tax band which will determine the amount you are to pay.

Survey A survey is a property inspection that will provide a valuation of the property. You can choose to have a more in-depth survey which can give you an idea of any potential repairs or damages that will need to be looked at or cause problems in the future. You can arrange your own surveys too. This is a formal written offer from your bank or building society that shows their intention to lend you the approved amount against a property.

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