

A MORTGAGE  OW.co.uk  
Mortgage Brokers 

# A MORTGAGE NOW - FIRST TIME BUYERS GUIDE

Contents	page
Introduction	3
Before you start	4
What to buy and how to buy	5
Types of property	6
The process	7
Mortgages	
Deposits	9
Types of Mortgages	10
Interest Rates and Interest Rate Types	11
Mortgage Fees	12
Stamp Duty	13
The Legal Process	14
Insurance	16
Moving into your new home	17
Paying your way	17
Buying in Scotland	18
Final thoughts	19

## **INTRODUCTION**

If you are thinking about buying a property for the first time, you will be treading new ground in a number of areas.

Here at A Mortgage Now we feel it is important for our Clients to understand what is going on at every stage.

We hope to take as much of the stress as possible out of the process.

We have designed this guide to outline some key facts for First Time Buyers to make it easier for you to buy your first home.

## BEFORE YOU START

One of the most important considerations when buying your first property is obviously cost.

Often First Time Buyers use the calculator facility on our website <http://www.amortgagenow.co.uk/amn.quickcalc.htm> to get an idea of what their mortgage repayments are likely to be on their first home.

You should also consider other costs which will come along with your new property. Council tax, water rates, utility bills, insurances and repairs and maintenance should all be considered. Ask a friend or relative for a guide as to cost on these items.

The costs involved in the purchasing process can also be a surprise to First Time Buyers. As well as fees to be paid to the Mortgage Lender, there are Solicitor's costs, Land Registry fees, Search Fees and Stamp Duty. These all need to be considered and budgeted for from the beginning.

Some time spent planning and budgeting initially can save much heartache down the road and is the simplest way to ensure that you buy a property you can afford.

Our recommended process is:

Work out your budget

Arrange A [Mortgage Offer In Principle](#)

Make a short list of your key requirements for your new home

Visit Estate Agents and view properties

Revisit your shortlist

Put in an offer

When an offer is accepted, engage a solicitor and complete the mortgage application process

Exchange contracts

Move in

## WHAT TO BUY AND HOW TO BUY?

What you decide to buy is of course ultimately up to you.

Here are a number of things it would be useful for you to know.

### Is the property freehold or leasehold?

Properties in the UK are typically held on a freehold or leasehold basis. The owner of a freehold property also owns the land on which it stands and once bought will hold the property and land for as long as they wish.

With a leasehold property, you are leasing (or renting) the land on which your property stands from the Freeholder. Typical lease periods are 99, 199 or 999 years. Flats are normally held under leasehold. The ground rent paid to the freeholder is nominal and usually well under £100 per year.

When a lease is running down it can be renewed by paying a fee to the Freeholder.

A Mortgage Lender will normally lend on a property provided there will be at least 25 years left on the lease at the end of the mortgage term. For example on a 25-year mortgage a Lender would like to see a lease with at least 50 years remaining. Since purchasers can sometimes be hesitant on buying properties with less than an 80-year lease you should bear this resale issue in mind at the time of purchase.

## Types of Property

Homebuyers have a range of preferences. From those who are looking for brand new property to those who are looking for old or even listed property - most homes will be able to find a buyer.

There are some properties on which it may be difficult to raise a mortgage and this should be a consideration for a first time buyer. Here are some examples:

### Studio Flats

Studio flats which have no separate bedroom are not acceptable to all Lenders. If you are considering one of these properties, please speak to us before you make an offer.

### Non Standard Construction

Properties made using non-standard methods such as concrete block walls, or thatched roofs may also provide difficulties with mortgage funding.

Ultimately it is a case of buyer beware and First Time Buyers are well advised to take the advice of professionals, and friends or relatives who have already been through the process.

## THE PROCESS

We always recommend as a first point our First Time Buyer clients allow us to arrange a mortgage offer in principle for them. The first time buyer market is very competitive and a potential purchaser with mortgage arranged, ready to proceed is a far more attractive prospect than one offering a slightly higher price but without funding on the table.

You will now visit local Estate Agents to establish what properties are available and at what prices. The growth of the internet means that a number of websites are now available where you can search for a property. Many Estate Agents also have their own websites. When our clients are quizzed by the Estate Agent about their mortgage position they can tell them their funding is in place and refer them to us for confirmation.

The first thing you will want to do is arrange viewings of properties. As with most things in life, it is probably not advisable to buy the first thing you see. Better to get a feel for the market.

We frequently hear from First Time Buyers who have been told by an Estate Agent that they cannot view a property until they have met the Estate Agent's Mortgage Broker. In our view this is shabby practice - you are at liberty to decide through whom you arrange your mortgage and this is simply a case of the Estate Agent trying to increase their revenue by getting the mortgage business as well as the property sale.

Once you have found the property you want, you will want to put in an offer.

### Estate Agents

Estate Agents are contacted by the vendor (seller) of the property to market and sell the property on their behalf.

They are paid commission on the sale and therefore in most cases will earn more money for a higher price. Whilst it is in their interest to get a property sold, they will obviously try and obtain the highest price for their Client. They have no contract with or duty to you as the purchaser other than a legal obligation not to misrepresent the property.

One of our key tips is don't be afraid to put in a low offer as a starting point. If an Estate Agent tells you the vendor will not accept the offer, ask them to put the offer to the vendor in any case – it is not up to the Estate Agent to decide what the vendor's minimum price is.

## **THE PROCESS (continued)**

Once a price is agreed you should insist that the vendor takes the property off of the market with the Estate Agent arranging no further viewings.

## MORTGAGES

At any one time there are several thousand mortgage products on the market. For this reason a prospective first time buyer is always advised to deal with a Mortgage Broker that has access to the whole of the market, such as [www.amortgagenow.co.uk](http://www.amortgagenow.co.uk).

Depending on your situation, you may have many or very few mortgages available to you. In nearly all cases we find a deal can be arranged.

## Deposits

Not all First Time Buyers have money for a deposit and one of the first things to understand about the market is that deposits are not always necessary. In fact mortgages of up to 130% of the property price are available. Having said this a deposit is advisable if available as this will increase the range of mortgages open to you and therefore your chance of finding a lower pay rate.

If your deposit is coming from a source other than your own funds (for example a gift from a parent, a loan, or a deposit paid by a builder) you should speak to your Mortgage Broker in the first instance. This is not acceptable to all Lenders.

## TYPES OF MORTGAGES

The first thing to understand when arranging your mortgage is that there are two basic repayment types on mortgages in the UK. These are capital repayment (sometimes called repayment) and interest only.

### Repayment Mortgage

With a repayment mortgage you enter in to the contract with a view to repaying both the interest on the loan and a proportion of the capital borrowed each month. In this way, you target to repay the entire interest and the original loan over a period of up to 40 years (typically 25 years). At the end of the mortgage term you do not owe the Lender any further money and the property is yours outright.

### Interest Only

During the 1980's it was fashionable to take an interest only mortgage where you pay just the interest on the mortgage and pay no capital back at all. Under this type of arrangement, at the end of your mortgage term, you would still owe the Mortgage Lender the same figure that you initially borrowed. During the 1980's property purchasers invested in specialised policies in order to build up sufficient capital to pay off their mortgage at the end of the term. These were known as endowments. During the 1990's other "repayment vehicles" as they are known became available including PEPS and ISAs.

Due to the decrease in returns on equity-based investments since the 1980's and 1990's, it is increasingly risky to depend on a repayment vehicle of this type producing enough capital to repay your mortgage in full. For this reason most professional Mortgage Brokers will suggest that you take your mortgage on a repayment basis.

Some Lenders will allow you to take your mortgage interest only. If you do this they will make it very clear in their paperwork that you will still owe your full mortgage at the end of the term. If you take this route, you should review your mortgage regularly and set up some kind of arrangement to repay the capital as soon as possible.

## Interest Rates and Interest Rate types

We frequently hear on the news that the Bank of England has held a meeting to discuss interest rates. This is key in the mortgage market as interest rates (in other words the premium you pay for borrowing the money from the Lender) are linked directly to the Bank of England rate. Other rates are independent of the Bank of England rate and are fixed by other variables. An outline of the main types of rate is given below:

### Standard Variable Rate

This is the rate the Lender charges when not offering a specialised deal and it normally varies up and down in line with Bank of England base rates. Standard variable rates will typically be 1% to 3% above bank base rate depending on the Lender.

### Discounted Rates

These are rates where the Lender applies a discount to their standard variable rate for a period of time. For example a discount of 1% for 2 years. At the end of that period the borrower reverts to the Lender's standard variable rate.

### Tracker Rates

Tracker rates are commonly linked to the Bank of England base rate and therefore rise and fall in line with that rate. For example a tracker rate may track the Bank of England base rate by 0.5% or 1% above the base rate.

### Fixed Rates

Fixed rates as the name suggests are arrangements where the rate you pay is fixed for a period of time regardless of the prevailing Bank of England base rate.

### Capped Rates

Capped rates will rise and fall in line with the Bank of England base rate but will not exceed a pre-agreed level.

### Stepped Rates

Stepped rates are a variation of discounted, tracker and fixed rates and are arrangements whereby the terms of your deal change (typically annually) over the initial period of your mortgage.

You should speak to your Mortgage Broker to determine the most suitable type of rate for your circumstances.

## MORTGAGE FEES

For First Time Buyers there will be fees involved in arranging your mortgage. The main ones are outlined below.

### Valuation Fee

The cost of inspecting your property to establish its true value and whether it is a suitable case for lending. There are three main types of valuation done in the UK market and these are outlined elsewhere in our guide. Valuation fees can be sometimes free or can be several hundred pounds. Your Mortgage Broker will advise the rate for the deal he or she recommends.

### Booking Fees and Arrangement Fees

Lenders will often charge a booking fee or arrangement fee which is a one-off charge to obtain the mortgage rate you require. These will range from £100 to £800 depending on the type of deal. Booking fees are typically paid at application stage and are non-refundable. Arrangement fees are typically charged at completion stage and can be often be added to the loan.

### Higher Lending Charge

First Time Buyers will often be asked by the Lender to pay a Higher Lending Charge. This charge can be particularly expensive (for example a typical charge on a £95,000 mortgage for £100,000 would be £1,400. This fee goes towards the cost of the Lender insuring themselves against you defaulting on the mortgage payments. In the event of you being unable to meet your mortgage payments (more details on these types of problems are covered elsewhere in the guide) and the Lender making a loss they would claim on their insurance policy to re-coup their loss. Not all Lenders will charge a higher lending charge and as a general policy here at A Mortgage Now wherever possible we will always use Lenders who do not charge higher lending fees.

### Broker's Fees

Mortgage Brokers will charge their own fee to cover the cost of providing the advice and making the arrangements on your mortgage. These will vary depending on the broker you deal with and here are a few points to note.

Some brokers will seek to charge half a percent or more of the loan, this is not necessary and you should not use a broker in these circumstances.

## Broker's Fees (continued)

Some brokers will ask you to pay a fee at the start of the process. This again is not necessary and you should not deal with a Mortgage Broker in these circumstances. Some Mortgage Brokers will state that they do not charge a fee. In these cases you should read your mortgage illustration carefully as often additional costs are built in elsewhere in the deal.

Here at A Mortgage Now, we charge a flat fee for advising on and arranging your mortgage. The level of this fee will depend on the complexity and the work involved in assisting you. Your A Mortgage Now adviser will confirm this fee to you in your initial discussion. We only ever ask you to pay a fee once you have moved into your new property. We will never request that you pay a fee in advance nor will you owe us any fee if your sale does not go through for any reason.

## Stamp Duty

Stamp duty is a tax paid by the purchaser of a property against a purchase price.

Current rates for residential property are

Purchase price	Tax (as percentage of price)
Up to £125,000*	zero
£125,001 to £250,000	1%
£250,001 to £500,000	3%
Over £500,000	4%

This threshold is up to £150,000 in 'disadvantaged areas'. To establish if your intended purchase is in a 'disadvantaged area' please go to:

<http://www.hmrc.gov.uk/so/qualareas.htm>

## THE LEGAL PROCESS

Once you have had an offer on a property accepted you are ready to start the Legal process.

In the first instance, you will need to have a Solicitor or Conveyancer to handle the legal side of the purchase. Most legal practices handle conveyancing (the legal process involved in buying or selling a property) and there are many specialist conveyancing only firms.

In selecting someone to handle your legal work you should seek a recommendation. Here at A Mortgage Now we have a panel of Solicitors across the country that we use regularly and we know to be reliable. The service that they provide includes an instant on line quotation ([click here](#)) of your legal costs and a 24 hours a day, 7 days a week on line tracking system where you can monitor the progress of your purchase.

One of the key issues will be to have the property assessed to make sure it is a suitable case for lending. This is arranged through your Mortgage Broker with your Mortgage Lender.

Your Mortgage Broker will provide full details of the terms of your mortgage deal and help you complete paperwork. You will need to provide identification, proof of residency, and proof of income in most cases. It is therefore worth getting the following documents to hand:-

- ❖ current passport
- ❖ current photocard driving licence
- ❖ utility bill dated within the last three months
- ❖ wage slips
- ❖ latest P60

Unless your mortgage deal offers a free valuation, you will need to pay the cost of your property valuation when you put in your mortgage application. This is normally done by cheque, credit card or debit card.

The Estate Agent will ask you to confirm details of your Solicitor and you should make the Solicitor aware of the Estate Agent's details and also details of the property you intend to purchase.

Your Solicitor will then confirm his or her terms of business to you, and you will engage them to act on your behalf. The initial tasks for the Solicitor include making enquiries to confirm a number of details regarding the property. These will include:-

- ❖ confirmation of current ownership of the property
- ❖ confirmation that any alterations to the property which require planning permission are all in order
- ❖ confirmation of details of any upcoming developments in the local area which may affect the property

## The Legal Process (continued)

Your Solicitor will also write to the Solicitor of the vendor and the two parties will begin to draw up a Contract of Sale.

The valuation of your property will normally be back to the Lender within 10-15 working days and the Lender will check that the valuer considers the property to be suitable for lending. Whilst this has been happening, your Mortgage Broker will have helped you provide all the details that the Lender needs to make a final lending decision. The Lender will then issue a formal Mortgage Offer.

A copy of your offer will go to yourself, your Solicitor and your Mortgage Broker. Your broker will check that the terms of the offer are correct as will your Solicitor. You should also read through the Offer and make sure you are comfortable with the detail and should you have any queries, refer to your Mortgage Broker in the first instance.

Once the Solicitor has made all his checks and the Mortgage Offer is through, you will be ready to set a date for Exchange and Completion.

Exchange is the point at which Contracts are signed and you make a commitment to purchase the property, the vendor making a commitment to sell the property. At this point there will be a date for Completion, in other words the day you actually buy the property and are given the keys to your new home. Since there is a little preparation work to do after Exchange, your Completion date will typically be one to four weeks after Exchange. Three to five days prior to your Completion date, your Solicitor will request funds from the Mortgage Lender to complete the purchase. Since your Solicitor needs all the funds available to buy the property on the day of completion he will have asked you to transfer to his client account your deposit money if applicable and also other monies to cover items such as legal costs and Stamp Duty.

## INSURANCE

There are a number of insurances you should consider when purchasing for the first time. These include:-

### Buildings Insurance

Insures your property against damage and is a requirement of all Mortgage Lenders before they will transfer money.

Often when purchasing flats this insurance is held on a group and covered within your service charge.

### Contents Insurance

Not a Lender's requirement but taken out by nearly every householder and a 'must have'. Insures the contents of your property from damage or loss.

### Life Insurance

Pays out on death and typically used to provide cash to pay off the mortgage should a mortgagee die during the term of the mortgage.

### Critical Illness Insurance

Pays if the policyholder is diagnosed with any one of a series of critical illnesses such as cancer, heart attack, or stroke.

Provides cash to pay off your mortgage at the time you need it most. Highly valuable to single people and couples with families.

### Mortgage Payment Protection Insurance

Sometimes called Accident, Sickness and Unemployment benefit (ASU). Designed to cover the cost of your mortgage outgoings for a short period (up to 24 months) in the event of your being unable to work due to accident, sickness, or redundancy.

Here at A Mortgage Now we recommended all our clients consider the above arrangements as part of the mortgage process.

## MOVING INTO YOUR NEW HOME

One of your first important tasks when moving into your new home is to take readings of your gas and electricity meters and notify the utility company of change of ownership and the meter readings. You should also ensure that you are registered on the Electoral Register via your Local Authority and make arrangements to set up your Council Tax account.

Please make sure that the following parties are informed of your new address and the date you intend to move:-

- ❖ your GP
- ❖ your dentist
- ❖ your mobile phone company
- ❖ your bank
- ❖ companies with which you have any other lending
- ❖ your employer

and, of course, your family and friends.

## PAYING YOUR WAY

It is sensible to be extra prudent in the first few weeks in your new property until you have a chance to adjust to your new budgeting.

One point to note is that your first mortgage payment may be higher than your usual monthly figure. This is due to the fact that you are likely to complete your purchase midway through a month and therefore your first payment will include one month's interest plus up to four weeks' additional interest.

## **BUYING IN SCOTLAND**

The main text of our First Time Buyers' Guide is applicable to purchases in England, Wales and Northern Ireland. Due to differences in the legal system in Scotland, whilst many points are common there are a few distinct changes to the process.

Under Scottish law once you have had an offer on a property accepted you are committed to the purchase. Therefore property valuations will be complete before that stage and are not arranged via the Mortgage Lender.

Since placing an offer on a property in Scotland carries such weight, it is advisable to arrange a Mortgage Offer in Principle as the first part of your buying process.

## FINAL THOUGHTS

In reading our Guide, the purchasing process may seem a little daunting.

If First Time Buyers select the right professionals to guide them through the process it need not be so.

Here at A Mortgage Now we specialise in assisting First Time Buyers and are always happy to guide you through the process and answer any questions you might have.

We look forward to helping you buy your first home.

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