Buying your first home, from start to finish

A guide from Mortgage and Property Centre (UK) Ltd

Introduction

This guide will give you a basic understanding of all that's involved in buying your first home, enabling you to confidently make the journey from first thoughts to picking up the keys and moving in. Like many a journey, lack of planning and preparation inevitably leads to mistakes, disappointment and all too often financial loss. It's essential therefore to understand the tasks ahead, plan each stage carefully and know who you can rely on to help achieve that ultimate goal of getting onto the first rung of the property ladder.

So, having finally made up your mind now is the time to buy, where do you start?
Let's first take a look at what lies ahead.

1. MORTGAGES: Most people don't have the cash to buy their first home, so a mortgage is usually required from a bank or building society. Lenders like this work on a risk assessment basis, they'll need to check out not only your ability to pay but the suitability of the property as security for the loan.

2. ESTATE AGENTS: You'll probably find your dream home in an estate agents window or on a property website. Strictly speaking, these people work for the vendor, the person selling the property, NOT YOU, so you need to be on your guard when dealing with these people.

3. SURVEYS: Just because you've agreed to pay £200,000 for a house doesn't mean it's worth that much and the lender will therefore need to check for themselves and carry out a basic property valuation/survey. Nowadays, this can be done online, via a drive-by or by a qualified surveyor who visits the property. The outcome could be straight forwards, or it could open up a whole can of worms.

4. SOLICITORS: You can't simply hand over the money in exchange for the keys. The Government operates a guarantee of title in the United Kingdom known as the Land Registry, which requires all property transactions to be registered. This process is known as conveyancing, and you'll need a solicitor to do this bit for you.

5. INSURANCES: Buying a property is a major financial commitment and as such consideration needs to be given to what will happen if things go wrong sometime in the future. You'll still need to meet your mortgage payments if you can't work due to illness or redundancy, otherwise you run the risk of having the property repossessed and thought needs to be given to what happens should you die before the end of the mortgage. A well thought out protection package tailored to your personal circumstances is essential. Likewise you'll need to insure your property against damage and loss with suitable house insurance and most lenders will check to see you have it in place. Luckily, in this country we are blessed with abundant insurance companies and the competition between them keeps the cost of these policies to a minimum.

Making a start and getting a decision

The absolute first step is to sit down with your mortgage broker and work through the basics. An experienced broker will be able to match you with the right lender and the best products quickly and efficiently saving you countless hours of toil and strife. In this country, mortgages are available to anyone aged 18 or over but whether a lender is prepared to offer you one, is a different matter altogether. The application procedure is known as underwriting and basically involves checking your ability to meet the mortgage payments, assessing any adverse risk history you may have and then assessing the suitability of the property you're looking to buy as security for the loan.
In years gone by a lender would decide on the maximum they would lend by taking your gross annual income and multiplying it by the appropriate income multiple, usually 4 times in the case of a single applicant or 2.5 times both incomes added together in the case of a joint application. Today it's not so simple. Complex algorithms, commonly referred to as affordability calculators, allow lenders to take into account a plethora of information, such as income sources, outgoings such as loans and credit card commitments, the costs associated with having children, your history of meeting regular credit commitments and the type of mortgage you are asking for and the term you want it over, to name but a few.

One of the biggest influences on any mortgage application, is the size of your deposit in relation to the cost of the house. This is known as loan-to-value or LTV for short. Put simply, if you're buying a property for £200,000 and you have £20,000 for a deposit then you'll need a £180,000 or 90% LTV mortgage. The more deposit you have, the less risk there is for the lender and the better the rate interest rate will be.

Currently the maximum LTV is 95%, whilst at the other end, deals seldom improve below 60% LTV i.e. there's nothing to be gained rate-wise by putting down more than a 40% deposit. If you have a 25% deposit there may be hundreds, possibly thousands of mortgages to choose from but if you only have a 5% deposit you may only have a handful of products available. Your broker will make short work of all this by utilising powerful mortgage sourcing software, which can take in any number of criteria pertinent to your application and match that information to the lenders criteria to see which mortgages are currently available for your particular situation.

From a first-time buyer's point of view, what you really need to know more than anything is what's it going to cost each month and will it be within your budget, not forgetting to take into account the cost of house insurance and any mortgage protection insurance. At this early stage, buying a house has to be affordable, you have to be able to meet your mortgage commitments and live, now and in the years ahead, so this is where your broker's expertise really comes into play. The one big variable that no one can be a 100% sure of is interest rates. Having said that, your broker will have knowledge of what's happening in the economy both nationally and globally and will have a good idea of which way interest rates are likely to move in the first few years of your mortgage. Armed with this information you can then make the next big decision, whether to have a fixed rate or a variable rate.
Whichever you choose, the task of finding the best of what's available is not as simple as picking the lender with the lowest rate. You may have narrowed down the choice to fixed rate deals but there's still a lot more to consider; over what period do you want to fix, what amount of flexibility do you need, are the arrangement fees reasonable, what fees are payable upfront and are there any incentives like free valuations or cash backs. Again your broker's mortgage sourcing software will enable all this information to be taken into consideration to filter out what doesn't meet your criteria to leave you with a more reasonable range of products to choose from and hopefully a clear front runner.

You should now know which lender you need to approach for the next stage, the affordability check. Your broker will put your basic income, expenditure and proposed mortgage requirements into the lender's affordability calculator to see what the lender's potential maximum loan might be. If the resulting max loan figure is greater than the mortgage amount you're looking to borrow, it should be OK to proceed to the next stage, getting an agreement in principle or AIP. When you apply for an AIP the lender will check the information, as entered into the affordability calculator, and carry out a credit search on all applicants with one or more of the credit reference agencies. Naturally, it goes without saying that information on your credit file needs to be accurate, if not it could adversely affect you your mortgage application. All the agencies have an obligation to keep your information up to date and accurate but if you've had instances in the past where your record has been less than perfect, it would be a good idea to get a copy for yourself to check for any errors and get them put right before applying for a decision. Time spent here will pay considerable dividends later and could make the difference between success and failure.

In today's world of digital underwriting, all this information is processed in seconds to build a credit score for the case, which the lender compares to the score required for the mortgage product being applied for. This score should not be confused with the score you can get from credit reference agencies in return for a fee, which, in reality, is just a guide. To complicate matters a little further at this point, not all lenders treat the information gathered in the same way, what scores well with one lender may do the opposite with another. The term minefield often comes to mind at this stage.

If your score is adequate, the decision request should return an ACCEPT but it's not uncommon to receive one of two other outcomes, a REFER or a straight DECLINE. A refer means the case may be marginal or more complex than normal so needs to be looked at by an underwriter before an outcome can be reached. This should take no more than 24-48 hrs depending on the lender. A decline is not the end of the world either. Many declines are the result of errors or the miss-interpretation of data by the lender's scoring software.

Your broker will be able to contact the lender concerned to look into the decision and double check the information submitted to see if there's anything obviously incorrect.

The two main reasons for a decline are; firstly a low credit score, i.e. after taking into account all the aspects of your application, the lender does not consider you suitable for a mortgage.

Secondly, what's referred to as 'outside lending criteria'. This often relates to adverse credit history found in the credit search but could also be due to insufficient deposit for the score you achieved or debt-to-income ratios. That minefield just got bigger and if you were going it alone, this is probably where you give up and turn back!

On the other hand, this is where using a broker pays dividends again, as he or she will have back up from within the lender's organisation, someone whose job it is to help sort problems like this. Often a decline due to lending criteria can be turned into an accept by tweaking the application somewhere, for example stretching the term by a few years, increasing the deposit a little or reducing the loan amount.

A decline due to adverse credit history is more serious and time consuming to deal with, which may prove terminal if you're up against a deadline such as when buying a new property. Due to the Data Protection Act, the lender cannot disclose to your broker what it can see on your credit history so you will need to obtain a copy yourself and pass it to your broker at which point it usually becomes clear what the problem is. Assuming there's not an error in the report; your broker will be able to re-source your case taking this new information into account and start all over again. Needless to say, this time your choice of schemes is likely to be significantly reduced and the interest rates on offer will probably be much higher. If all has gone well, you should now have your agreement in principle certificate and be in a position to start seriously looking at properties.

Finding a property and preparing to make an offer

Most buyers start by browsing online property portals, here you can get a good feel for what's available and what you're likely to get for your money before getting involved in arranging viewings. Once you've seen what's in your price bracket and what areas are likely to be fruitful you can do a little more in-depth research including checking sold prices on sites like nethouseprices.com. Here you will be able to see what properties have sold, when they sold and for how much, simply by entering a postcode. You may even come across a previous transaction of a property you're currently interested in which may provide useful information if you decided to make an offer at a later stage.

Of course, there's no substitute for visiting the area and taking a look round and if you're serious about an area, do it at several times of the day and on different days. What appears as a peaceful residential street on a Sunday may be a traffic nightmare at school closing times! Once you've found a property you're keen on, try not to get over-excited. Call the selling agent and arrange a viewing, preferably at a time chosen by you (remember the previous paragraph). When viewing, try to go with someone else and take a pen and a print-out of the property details. One person should do the talking whilst the other makes notes, taking on the role of surveyor/valuer! Check each room for radiators, power points, windows, etc. Most property details come with a floor plan but if not, it may help to draw a quick sketch of the floor plan for the most important rooms, noting the position of doors, alcoves, stairs, etc. The more information you gather the easier your decision making will be later. Of course, sometimes you just get a feel for a place and know it's for you. If so, try not to let this show and do not appear too keen as it will give the vendor signals, which may work against you when trying to make an offer below the asking price!

Making an offer, negotiating the price and dealing with estate agents

Having found the property you really like, you now have to make an offer. This is probably the scariest, most nerve-racking part of the house buying process; however, it needn't be if you understand the principles by which it's done. Firstly, the purchase price is ALWAYS negotiable regardless of what it says on the agent's blurb, and remember, a sale is a mutually beneficial arrangement between two or more parties. The vendor wants the maximum he can get and you want to pay as little as possible, so here's how it's done.

First make a low offer which you expect to have turned down. Many people are somewhat apprehensive about offering too little but they needn't be. There may be clues in the asking price to help you decide just how much to offer. Try to put yourself in the vendor's shoes; if you were selling a property worth around £200,000 you might put it on the market at £204,950 expecting to be haggled down during negotiations to a figure nearer the £200,000 mark. If you can find similar properties on nethouseprices.com that have sold recently, you might be able to use these figures to give you an idea of where to start bidding.

When you make your offer, the agent has an obligation to pass it offer onto the vendor, however, under instruction from the vendor, a certain amount of pre-vetting is permissible, primarily to check that you are a genuine purchaser. This is where many first time buyers come unstuck as not knowing what's right or wrong, they are often lured into a false sense of security by the agent and end up giving over information about themselves, which would be best kept private. The agent has good cause to check to see if you're buying with a mortgage and if you've already been granted one. If you've followed the recommendations in this guide you will have your agreement in principle to show them and that should be sufficient (along with proof of deposit if appropriate). If you haven't got an agreement in principle then you're likely to be passed over to the agent's in-house mortgage adviser who will attempt to assess your 'suitability' and in doing so will gather information about

your income and the amount of deposit you have. Once you do this, your negotiating position will be compromised as the agent will be aware of exactly how much you could afford to offer and will be able to advise the vendor whether to accept or refuse your offer!
Assuming you've kept out of trouble at this stage, the agent will pass on your offer to the vendor and the pair of them will have a discussion about accepting or rejecting it and more importantly about what the minimum acceptable offer would be. When the agent calls you back, presumably to say your offer wasn't good enough, he or she will know the precise amount the vendor is prepared to accept to secure the sale; all you have to do is get them to tell you. Simple! Now, as this article is freely available for all estate agents to read, and fore-armed would be fore-warned, we can't really describe right here the next few steps. Instead we'll tell you what to do at this stage, as well as giving you some alternative suggestions when you sit down with us to discuss your case.

Submitting a mortgage application.

Eventually, a purchase price will be agreed and matters can then move on to the next stage, arranging your mortgage, house insurance and mortgage protection package. If you already have a decision in principle, most of the mortgage application will be in place with just details of the property, your solicitors and confirmation of the purchase needing to be added. Your broker will be able to source a solicitor for you and you will need to pass their details onto the selling agent for them to issue the Memoranda of Sale. This is a document, passed to all parties involved in the transaction, confirming who everyone is, the vendor, their solicitors, your details and your solicitor's details.
Now that the mortgage amount is known along with the postcode of the property your broker will be able to source and apply for suitable house insurance as well as arranging any mortgage life cover and payment protection cover, if required. Again, sophisticated sourcing software will make short work of finding the most cost-effective policies.

Property valuation and surveys

The mortgage lender will process whatever paperwork they require and organise a valuation of the property. In the majority of cases, a basic valuation for mortgage purpose will suffice and should anything require further investigation, the valuer will normally request additional reports be carried out, such as for damp, timber infestation, wiring issues, etc. You could of course elect to have a Homebuyers Report, which provides a little more in-depth information about the property, or you could go for a Full Building Survey, which would be well worth the extra cost, especially if you were purchasing a property of considerable age or one that was run down or had undergone substantial structural alterations.
If the basic survey does throw up some issues, the valuer will make recommendations to the lender as to what additional reports should be done and they will in turn contact you, usually via your broker, in order to get them sorted. The most common issue is damp, usually combined with timber infestation. Usually a contractor will provide a report on the problem for free, in the hope of securing the job at a later date. Once you have the report, it has to be passed back to the valuer for his consideration and recommendations, which could simply be that the work be done within 3 months of completion or, if the job is likely to cost a substantial amount, he may recommend a retention be applied to the mortgage. That is to say, an amount of money equivalent to the cost of the work required will be kept back by the lender until the work has been done and inspected, again, usually within a given time frame. If this situation occurs, you'll not only need to find the money to cover the retention but also for the work itself until the retained funds are released and this may simply not be feasible. Reluctantly, it may be better to look for a different property. In all cases, if remedial work does need doing then you should immediately refer the cost back to the vendor via their agent, with a view to reducing the purchase price accordingly. Usually, the vendor will

accommodate the cost, not wanting to put matters right themselves, and they would be well advised to do so, as now you've made the agent aware of the issue they would have to pass the information on to any interested parties as it would be considered a 'material fact' which may influence a buyers decision to purchase.

The legal stuff – exchange, completion & picking up the keys

Once the survey stage is out of the way and all the necessary paperwork has been processed, your mortgage offer will be issued; to you, your broker and the solicitor, who receives a set of instructions which need to be complied with before the lender will release the funds. Generally, the solicitor has to send a report back to the lender about the condition of the title to the property, ensuring that any covenants or easements are reasonable and acceptable and that nothing un-towards was found in the various searches, such as with the local authority. Any issues here could restrict the saleability of the property in the future and hence affect its value. Apart from this, the solicitor prepares your contract of purchase and examines the vendor's contract of sale and not until both parties are happy to proceed can these contracts be exchanged. This the point of no return, where you are committed to buying the property and the vendor is similarly committed to selling it to you. Because of the binding nature of this commitment, your solicitor will need to have in his or her possession not only your mortgage offer but your deposit funds to enable exchange to go ahead. When contracts have been exchanged, a completion date, the day you collect the keys, will be set and is usually 7-10 days down the road. The property will be your responsibility from the day of exchange so it's essential your house insurance is put into force at exchange. On completion day, your solicitor will transfer the purchase funds to the vendor's solicitor and register the title of the property in your name at the Land Registry. Once the vendors solicitor has received cleared funds, they will call the estate agent to release the keys to you. Job done!

Over to you – time to get in touch

If you feel you need to know more about any aspect of buying a property, then please feel free to make contact with us and we'll do our best to help. We would welcome the opportunity to apply our knowledge and experience to helping arrange your mortgage. First time buyers particularly, are easy prey for the less scrupulous parties you may come across during the house buying journey, and it's for your protection that we made this guide.

It costs nothing to talk to us, you can pick our brains all day long, so why not give us a call or drop us an email to enquires@mpcuk.com.

We look forward to being of assistance.

Disclaimer.

This document is intended as a guide only, for information purposes and does not constitute advise of any kind. No part should be treated as fact or law. Mortgage lending criteria & procedures are constantly changing and any statements made within should only be treated as accurate at the time of writing.
This guide through the house buying journey has been written with the benefit of over 30 years' experience in the property buying arena and we hope that just a little will rub off on you such that the many pitfalls that exist out there don't collect you as their next victim. House buying can be hell but with the help of a good broker it needn't be anything other than another day at the office.