The co-operative bank
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A step-by-step guide for First Time Buyers

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This guide
is interactive

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A step-by-step guide to your first mortgage

So, you're thinking about buying your first home?

That's great. It's a really exciting time, and we know it can seem a little daunting too. That's why we've put together this guide to take you through the whole journey, step by step. Along the way we've included lots of hints and tips on how to find your perfect property and arrange your mortgage deal.

What is a mortgage?

A mortgage is a loan to help you buy a property. Your lender will charge you a rate of interest on the amount you borrow, and you'll need to contribute towards the purchase price with a deposit. A mortgage is secured against your property, so your lender has a legal right to repossess your home if you don't keep up with your mortgage repayments.

How do I find the right mortgage deal?

Once you've selected a mortgage broker, they'll ask you about your current financial and personal circumstances, and if you expect them to change in the future. Once they've got all the information they need, they'll be able to source a range of suitable mortgages for you.

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Understanding the different types of mortgage

There are many different types of mortgage to consider. Your mortgage broker will guide you through all the options available.

Some of the types of mortgage you can choose from are listed below. However, products can change frequently.

Fixed rate mortgages

With a fixed rate mortgage your interest rate stays the same for a fixed period, for example, 3 years. This can make it easier to manage your budget because your monthly payment will stay the same. Once your deal period has ended, many lenders will transfer you to their Standard Variable Rate (SVR). You should check what happens at the end of your fixed rate deal with your mortgage lender.

Variable rate mortgages

With a variable rate mortgage, the amount you pay each month may go up and down, depending on the interest rate. There are a range of options to choose from, including:

Tracker
A variable rate mortgage where the rate of interest tracks the Bank of England's Base Rate or a rate indicated by your mortgage lender. Once your Tracker Rate deal is over, many lenders will transfer you to their Standard Variable Rate (SVR). You should check what happens at the end of your Tracker Rate deal with your mortgage lender.

Capped
Even though the interest rate is variable, your lender caps the maximum level it could rise to and agrees it won't go above this for the duration of your deal.

Offset
You only pay interest on the difference between the balance of your mortgage and your savings. When 'offsetting' you don't earn interest on your savings, but you will reduce the amount of interest you pay on your mortgage instead. This may be a fixed or variable rate.

Discount
A discount rate applied by the lender to their SVR for a set period of time. Make a note of your lender's SVR before you take out the mortgage though, as this is what you'll pay once the discount ends.

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What happens to my rate at the end of my deal?

Your mortgage will come to an end or "mature" at the end date, depending on the duration you have chosen. At the end of the product term, it's time to choose another one.

Standard Variable Rate (SVR)

This is the rate set by the lender and you will often be switched onto SVR automatically at the end of your current deal if you haven't switched.
This is often more expensive, which means your monthly payments could increase.

Repayment types

There are two different ways in which a mortgage can be repaid:

Capital and interest

Also known as a Repayment mortgage, this is where the monthly payments you make go towards paying off both the amount you borrowed, as well as the interest on the loan.

Interest only

With this option, your monthly payments will be smaller as you're only paying the interest charged on your mortgage. If this is the repayment type you decide to go for, it is important to plan how you will repay the outstanding balance, as it is your responsibility to have enough funds available to pay your mortgage at the end of its term.

When it's time to choose a new deal, have a chat with your broker or lender in plenty of time to go through your options step by step.

This list is not exhaustive and other information may be required dependent upon your individual circumstances.

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Work out your deposit

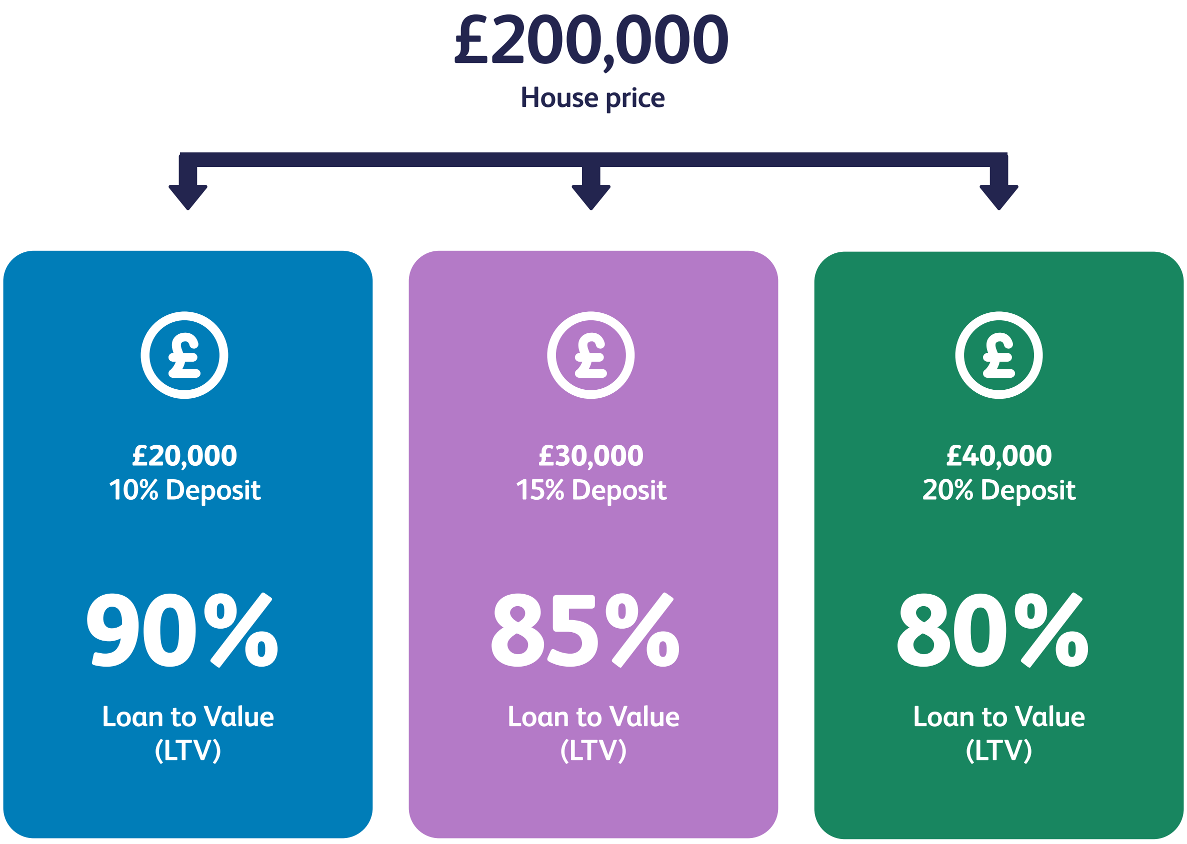
How much deposit you have, may affect which mortgage deals you will be eligible for.

When looking at how much you can borrow, your mortgage lender views your deposit as a percentage of the value of the property you want to buy. For example, if a lender is advertising a 90% LTV deal, you will need to pay a 10% deposit of the purchase price and borrow the remaining 90% using a mortgage. The minimum deposit you are required to put down can vary from one mortgage lender to another.

LTV

LTV means "Loan to Value", so the amount of mortgage you require vs the value of the house.

Deposit examples:



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Work out what you can afford

How much you can afford depends on:

- ✓ Your mortgage term
- ✓ How much you earn
- ✓ How much you spend each month
- ✓ Your committed monthly expenditure (credit cards, loans, etc.)

Be honest about your outgoings and earnings and don't forget any bonuses or allowances you may get.

Your credit rating

Your lender will use information from your credit file to assess if you will be able to afford your mortgage. All mortgage applications are subject to an affordability assessment.

Find out your credit rating by visiting **experian.co.uk***

*There may be a charge by the providers for this service.

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Are there any extra costs?

There are also some extra costs you'll need to think about:

- Product fee – if you choose a product that has a fee, you can pay for it on application or add it to your mortgage. If you add the fee to your mortgage, you won't need to pay it upfront. However, remember that you'll pay interest on your fee over the full term of your mortgage.
- Valuation of your property^
- Legal and conveyancing fees
- Stamp duty - to check if the property qualifies, visit gov.uk/stamp-duty-land-tax/residential-property-rates
- Land Registry fees - visit landregistry.gov.uk for more information
- Local authority search fees*
- Other search fees and disbursements*
- Removal fees – contact removal companies for quotations
- Higher Lending Charge (HLC) – some lenders may charge a HLC if you are borrowing above a certain Loan to Value (LTV).

^The cost of the valuation on the property for mortgage purposes may be payable by the applicant depending on the mortgage provider and the product selected. Or we just put it down as a potential cost.

*Your solicitor will usually take care of these for you and roll them into the final payment.

The mortgage application

Once you're ready to start looking for a property, it's time to arrange your Mortgage in Principle (MIP).

Remember though – getting a Mortgage in Principle isn't the same as getting a Mortgage Offer and doesn't guarantee you a Mortgage Offer. For that, you will need to make a full application.

Mortgage in Principle

A Mortgage in Principle (MIP) can also be known as a Decision in Principle (DIP) or an Agreement in Principle (AIP).

This is your lender saying that based on their initial checks, they will lend you the money to buy your property.

What do I need for my mortgage advice appointment?

In order to make the most of your mortgage advice appointment, you'll need to make sure you have the following information to hand[†]

- ✓ Your latest pay slip, including any guaranteed bonuses, overtime or commission
- ✓ If you are self employed, please have your last two years' accounts confirming net profits, salary and dividends
- ✓ Any other relevant income details e.g. pensions/rental income
- ✓ Details of any outstanding credit commitments (secured and unsecured), for example loans, credit cards, car finance etc. This should include monthly payments, outstanding balance, term remaining and name of your provider
- ✓ Other monthly commitments e.g. childcare/child maintenance/school fees/ student loan payments/service charges/ ground rent/second property running costs.

[†]This list is not exhaustive and other information may be required dependent upon your individual circumstances.

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How to find an estate agent

Research the local area that you're looking to buy in and add your name and contact details to mailing lists. You can then be advised when new properties are coming onto the market.

You can do a lot of searching on the internet, but registering with local estate agents will help you get more personal assistance and will support you in refining your search. Estate agents will also be able to liaise with sellers on your behalf.

It's worth remembering that the time of day and the weather can affect your first impression, both positively and negatively. So don't be afraid to ask for a second viewing – and you may find it handy to take pictures and bring a tape measure with you.

If you've had an offer accepted on the property and have received the surveyors report, a second visit is an ideal opportunity to check any areas of concern that the report may have identified.

You can also search for estate agents on the Property Mark website.

Visit:
propertymark.co.uk
rightmove.co.uk
zoopla.co.uk

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What to look for when you view a property

Here are some immediate things you may like to consider, but you'll probably have plenty more of your own.

Screenshot or print this checklist so you can refer back to it later

- [ ] Is the property leasehold or freehold?
- [ ] What type of property would suit your needs (house, apartment, bungalow)?
- [ ] Do you want to live in the city or the countryside?
- [ ] How big does the house and/or garden need to be?
- [ ] How close are public transport networks/local schools/shopping centres /local pubs?
- [ ] How far away is your job and can you get there easily?
- [ ] Do you want a bustling neighbourhood or a peaceful one?
- [ ] Are there, or could there be, developments nearby?
- [ ] What are the local amenities like?
- [ ] Are the local schools good?
- [ ] What's the condition of neighbourhood properties?
- [ ] What's the crime level like in the area?
- [ ] What are the neighbours like?
- [ ] Which council tax band is the property in?
- [ ] What are your non-negotiables and what are you willing to compromise on?

This list is not exhaustive and may differ dependent upon individual circumstances.

The house inside:

- [ ] What are the average costs for bills (for example gas, water and electricity)?
- [ ] Does the house have full central heating? If so, how old is it?
- [ ] How is the water heated? Combination boiler or immersion tank?
- [ ] When was it last serviced by a Gas Safe registered engineer?
- [ ] Has the loft been insulated? If so, how long ago?
- [ ] Does the property have cavity wall insulation?
- [ ] Are there any signs of water damage to the floor?
- [ ] Is there any obvious mould?

The house outside:

- [ ] Is there off-road parking? If not, can you park outside the house?
- [ ] Do you need a permit to park?
- [ ] Is there a burglar alarm fitted?
- [ ] Does the property have good door and window locks?
- [ ] Are there any slates missing from the roof?
- [ ] What state is the chimney in?
- [ ] Does the roof sag? (This could be a sign of subsidence)
- [ ] Is there any guttering missing?
- [ ] Are there any cracks in the walls?
- [ ] Can you see damp above soil level?
- [ ] Is the house double glazed?
- [ ] Are there environmental issues in the area?

Making the offer

What's the process for making an offer?

Before you make an offer you need to judge how much you can comfortably afford. Many estate agents will require evidence that you have obtained a MIP prior to putting in an offer. You might want to consider the following:

- ✓ What's the maximum price you'd be willing to pay for this property?
- ✓ Is this kind of property at this price selling fast or slowly?
- ✓ Is it a fair price – is the seller being greedy or realistic?

To get a price you're happy with you may need to exercise some negotiation skills.

What is the estate agent's role?

The estate agent's role is to negotiate between the seller and the buyer.

Should the estate agent or seller take the property off the market?

You can't actually make the estate agent or the vendor stop advertising once your offer has been accepted, but some agents may do so as a goodwill gesture.

What is gazumping?

Sometimes, a seller can decide to go back on an agreement with the buyer by accepting a higher offer from someone else.

In home-buying terms, you've been gazumped.

This is perfectly legal in England, Wales and Northern Ireland, even after your offer has been accepted.

In contrast, an offer in Scotland is considered legally binding from the moment of acceptance. See our Buying in Scotland section for the key differences between systems.

What is gazundering?

Gazundering happens when the buyer forces the seller into accepting a lower offer just before the contracts are about to be exchanged by threatening to pull out unless the seller accepts the lower price.

The survey

You'll always need a valuation to be carried out on the property you want to buy. There are three different types of valuation and the cost depends on the purchase price of the property you want to buy and the type of valuation you choose.

Who's qualified to do my survey?

Look for the letters MRICS (Member of the Royal Institute of Chartered Surveyors) or FRICS (Fellow of the Royal Institution of Chartered Surveyors) after a person's name to be sure you are getting a properly qualified surveyor.

Your mortgage provider should be able to recommend a surveyor.

How much can I expect to pay?

The price of your survey will depend on the type of survey you request, the size of the property and also the value.

Common types of survey

Mortgage valuation survey:

This type of survey advises the lender of the value of the property and any characteristics of the property which might affect its value as security for the mortgage. This is for the benefit of the lender, not you as the purchaser. This type of survey provides minimal information so you should not rely on this survey alone.

HomeBuyers report:

A survey suitable for conventional properties in reasonable condition. This type of survey will help you find out if there are any structural problems such as subsidence or damp as well as any other issues inside and outside the house.

Building or full structural survey:

The most comprehensive survey and is suitable for all residential properties. Particularly good for older homes or homes that might need repairs.

The HomeBuyers report and the Building or full structural survey will provide you with more detailed information on the property and its condition.

For more information on Homebuyer surveys and costs, please visit **moneyhelper.org.uk.**

Choosing a solicitor

You'll also need to appoint a solicitor or conveyancer to take care of all the legal issues. You might want to choose one recommended by friends or family, but you can also look on the following websites:

lawsociety.org.uk

clc-uk.org

Some lenders ask that you use a solicitor from their panel. It could cost you more to use one they don't work with. It's always a good idea to check with your lender first.

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What should my solicitor do?

1 Phase one: pre-contract

- ✓ Agree the basis of the work to be carried out and the costs
- ✓ Ask you to sign a contract
- ✓ Satisfy all requirements under Money Laundering Regulations
- ✓ They may ask you for money up-front in order to carry out searches
- ✓ Provide you with a report on title**
- ✓ A solicitor may ask you for a deposit for the work they complete at the pre-contract stage
- ✓ Receive draft contract and title documents for the property from the seller's solicitor, investigate the title to the property and raise enquiries
- ✓ Submit local authority and water authority searches and (if applicable) coal mining search and valuation report.

2 Phase two: exchange contracts

- ✓ Liaise with seller's solicitor to agree completion date
- ✓ Arrange exchange of contracts and forward contract and deposit to the seller's solicitor
- ✓ Prepare transfer and mortgage deed and arrange for you to sign them
- ✓ Submit a Land Registry search to ensure nothing's changed on the file
- ✓ Submit a Land Charges** search to make sure neither you or the seller is subject to bankruptcy proceedings
- ✓ Prepare final accounts and request any outstanding money from you.

3 Phase three: completion

- ✓ Send the balance for the cost of the property to the seller's solicitor
- ✓ Receive transfer and any relevant pre-registration deeds
- ✓ Prepare and submit Stamp Duty Land Tax Return
- ✓ Submit application to the Land Registry to register your title
- ✓ Receive the completed application from the Land Registry and send the title confirmation to your lender
- ✓ Send any pre-registration deeds to you
- ✓ If your mortgage deal includes cashback, arrange how this money is to be used / sent to you
- ✓ Keep in touch with you throughout the process
- ✓ Explain any legal jargon to you, so you are happy with what's happening.

**Report on title is a document produced by the purchasers solicitor once all legal checks and searches have been done on the property. It shows the purchaser the registered address on a map, the boundaries and if the land is registered or unregistered. It also confirms all the previous owners, any registered charges, where drainage is. It is to make the purchaser aware of any issues past or present **A Land Charge search shows information held by the council / government on the property

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Exchange and completion

Before you exchange contracts, check with your solicitor that:

- ✓ You have a valid mortgage offer
- ✓ Any issues with the property identified by the valuer or solicitor have been satisfied
- ✓ There are no unresolved issues in the contract.

When your offer's been accepted and all the conveyancing done, your solicitor will send you the contract. This is when you agree a day that the property actually becomes yours – a completion date.

You can normally pick up your keys around lunchtime on the day you complete.

You'll also pay your deposit through your solicitor now (remember – if you pull out after you've exchanged contracts you will lose your deposit). Your solicitor will also deal with the payment of stamp duty that the purchase of your property is subject to.

How long will it take?

There's no exact answer to this question, as information needs to be shared between many different parties who all have their own processes. If the person selling to you is using the sale to buy a new property, and their sellers are doing the same, any backlog up the 'chain' can slow things down.

Do I need insurance?

You'll need to have buildings insurance in place before you can exchange contracts. Buildings insurance protects your home against damage. You should also consider insuring your possessions by taking out contents insurance as well. Many insurers offer deals when you take contents and buildings insurance at the same time.

Life insurance

You should consider how you would maintain your payments should something unexpected happen and look at mortgage related protection products such as life insurance.

Buying in Scotland

Buying a property in Scotland has some differences:

- ✓ You should find a solicitor before you start looking for a property as the process can move quickly. Once you find a property you like, tell your solicitor to 'note interest'. This means informing the seller's solicitor that you're potentially interested in buying it.
- ✓ You'll be told the asking price and invited to make a secret bid in writing above this amount – a verbal offer isn't enough. This is called the 'offers over' system. The highest bidder will be legally obliged to buy the property.
- ✓ You must apply for a mortgage before making a bid so you know exactly how much you can afford. You should also have a survey of the property carried out before you make a bid as the result of this may affect the amount you offer.
- ✓ A closing date for bids will be announced once the selling agent has been notified of all interested parties. Your solicitor will formally submit your offer and a proposed date of entry (the date by which the money will be transferred and the keys received).
- ✓ If your bid is successful, you 'conclude the missives'. This is when both parties' solicitors exchange letters agreeing the date of entry and so on. Once the seller's solicitor sends you a letter of acceptance, you should insure the property.
- ✓ You then sign the title deed and receive the 'disposition document' and the keys.

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Moving in!

Getting ready for the big day

Tips for moving house

- ☐ Label your boxes with the contents and which room you want to put them in
- ☐ Maintain a file of everything relevant to your house purchase
- ☐ If you're leaving a property you'll need to remember to arrange final readings for gas, electricity, telephone and council tax
- ☐ Pack valuable items and important paperwork separately and take them with you
- ☐ To make sure you don't miss anything important, you may want to arrange for any mail to be re-directed - you can do this with the Post Office
- ☐ The night before you move, pack a bag with things like tea, coffee, snacks, toilet paper, soap, towels – to help you through the first day in your new home.

Who to contact when you move

As well as your friends and family you'll also need to remember to let some other companies know you've moved. For example:

- ☐ Bank(s)
- ☐ Building society
- ☐ Credit card providers
- ☐ Insurance companies
- ☐ Utility suppliers
- ☐ Your local council
- ☐ TV licensing
- ☐ DVLA

✓ Screenshot or print this checklist so you can refer back to it later

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YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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