PK GROUP LONDON

Property

The home buying process

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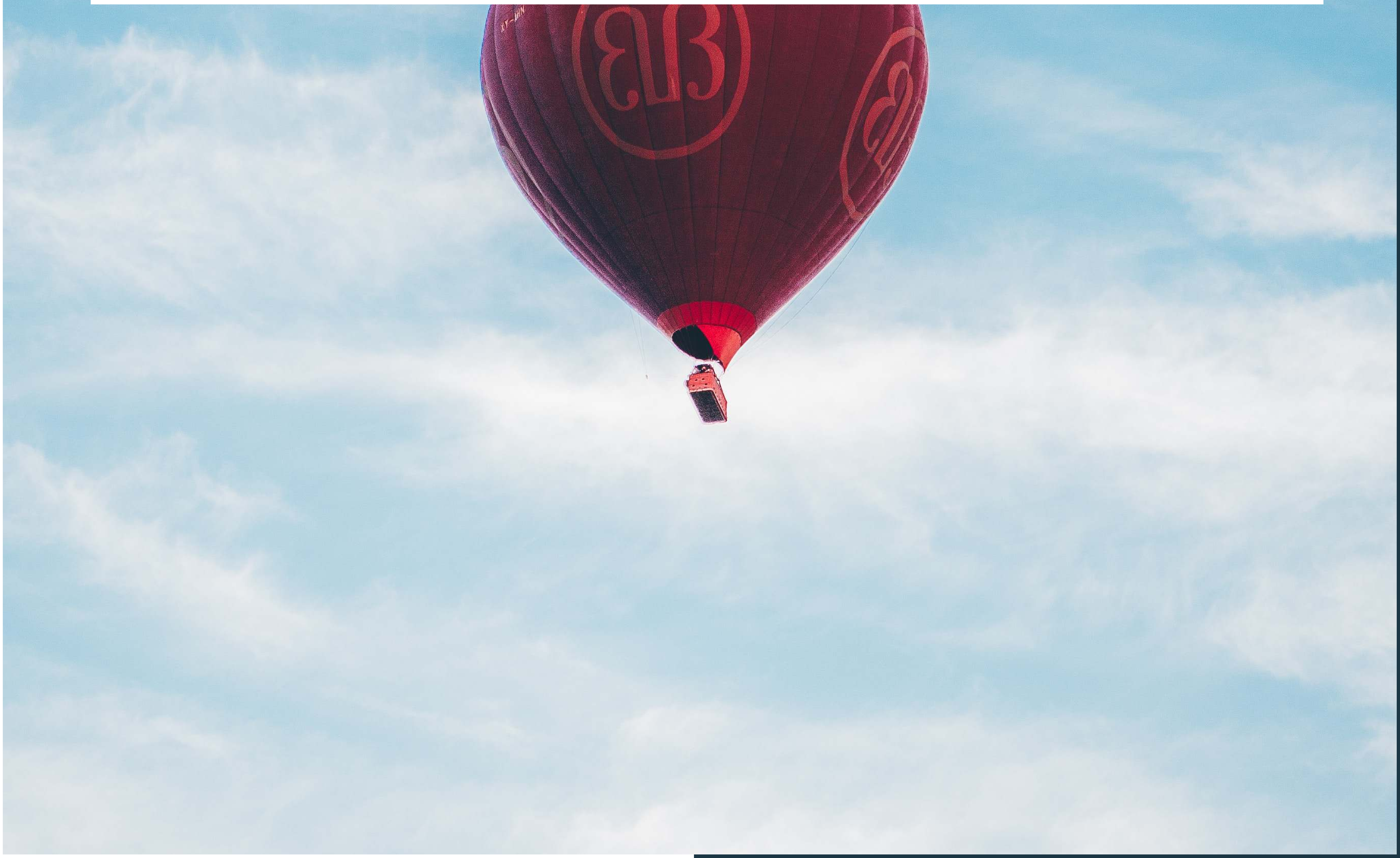
Buying a house

The home buying process is regularly listed as one of the most stressful life experiences. Purchasing a property takes an average of three months but can take much longer and whilst it may feel challenging, PK Group's advisers can help manage the process and guide you through to completion. Using a mortgage adviser is recommended - they have access to information not readily available such as lenders' credit and affordability criteria, and may also have access to a wider selection of mortgage products. This guide will help you understand the home buying process and our advisers will work with you to help reduce the potential stress of a move.



The home buying process

- **Meet with mortgage adviser to discuss affordability, level of deposit, guidance on mortgage deals and ongoing assistance with the application process.**
- PK Group offers a comprehensive range of mortgages from across the market.
- After meeting adviser and if appropriate make an offer on a house.
- If the offer is accepted the mortgage application and conveyancing process continues:

Mortgage Application Process

A suitable lender is selected based on buyer's financial profile

Mortgage documents are completed, mortgage applied for

Lender conducts credit checks on buyer to assess suitability

Valuation/Survey conducted and results sent to lender

Underwriter assesses buyer risk and signs off mortgage

Mortgage Offer issued and sent to buyer and solicitor

Mortgage Rejected

Conveyancing Process

Written instruction to act received from buyer

Local Authority and other searches issued

Mortgage Offer received and any special conditions dealt with

Contract approved, additional enquiries raised and completed. This continues after receipt of mortgage offer.

Contract and mortgage deed sent to client and deposit requested

Buyer transfers the deposit monies to the solicitor

Exchange of contracts: completion date is set and deal is legally binding

Seek advice and take action on buildings insurance cover and consider life insurance too

Lender releases monies once they have received a Certificate of Title and final checks are made

Buyer's solicitor transfers monies to seller's solicitor. The sale is complete once the seller has received funds

COMPLETION: Pick up the keys and move into your new property. Solicitor registers property in your name at the Land Registry.

What deposit will you need?

- When applying for a mortgage, the key word is affordability. Lenders will look at your income compared to your outgoings and calculate how much you have left after bills and other debts each month. They will review your case and conduct 'stress tests' on a higher mortgage rate than required to see if you can still afford to repay the mortgage if rates increase. You can work with a mortgage adviser who will assess your affordability and select mortgages appropriate for your requirements.

- To get a mortgage you usually need a minimum deposit of at least 5% of the value of the purchase property. Generally speaking, the more deposit you have, the better the interest rate, the lower your monthly repayments and the cheaper the mortgage. Lenders view a larger deposit as lower risk with less chance of defaulting on your mortgage.

- When considering how much deposit you will need it is important to note the LTV (loan-to-value) ratio required by lenders. LTV is the percentage of the property value you are loaned as a mortgage and therefore the deposit required would be the remaining amount. Hence if you are looking to purchase an £400,000 home with a £100,000 deposit, that is a 25% deposit so the LTV is 75%.

- It is best to ensure you have the best credit score possible before starting the mortgage process as lenders will review your credit score and financial status for eligibility criteria. Lenders check a variety of data so the following steps may help in the application process: check your credit score / file, ensure you are on the electoral roll, ensure all addresses on file are correct, and avoid missing any bill payments.

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Leasehold or Freehold?

Leasehold: You own the property for the length of your lease agreement with the freeholder. Leases will vary from property to property and it may be challenging to gain approval for a mortgage on a property with a short lease. Most leasehold properties are flats although some, especially in houses converted into flats are sold as a 'share of freehold' where the freehold is shared with other owners in the same building. When the lease ends, property ownership returns to the freeholder and you may be able to extend the lease for an additional cost. When you purchase a leasehold property you will be responsible for paying ground rent to the owner of the freehold and potentially an annual service charge.

Freehold: The freeholder of a property owns it outright, including the land it is built on. Key benefits of freehold property are there are no ground rent, service charges or other landlord charges.

Types of mortgage

Generally speaking there are two types of mortgage rate – Fixed and Variable. A selection of mortgage products with advantages and disadvantages are detailed below:

Fixed Rate

The mortgage rate is fixed for two, three, five years or even longer and will not change during the term of the mortgage agreement.

+ You know what the mortgage will cost
+ You are protected from sudden and potentially significant increases in monthly mortgage payments if the Bank of England base rate rises
- If interest rates fall, your mortgage payments will remain the same
- There may be penalties to exit the mortgage prior to a set date - usually the term of the fixed rate - 2, 3, 5 etc.

Variable Rate

There are three main types of variable rate mortgage:

- **Tracker**: the rate should track a fixed economic indicator like the Bank of England base rate. When the base rate goes up, your mortgage rate goes up and when the base rate goes down your mortgage rate should go down tracking this change.

+ More transparent and only economic changes can move the mortgage rate
+ If the base rate goes down your mortgage repayments should go down
- If rates rise, so will your mortgage repayments
- You may have to pay early repayment charges if you want to change your mortgage before the end of the term

- **Standard Variable Rate (SVR):** Each mortgage lender will have a rate that tends to follow the Bank of England base rate. However, lenders can increase or decrease their SVR at any time, not just after base rate changes. This is not usually available to new customers.

  + May be no early repayment charges therefore more flexibility to overpay and pay off mortgage early or remortgage
  + Arrangement fees for SVRs tend to be lower than for trackers or fixed rate mortgages
  + If interest rates go down then your mortgage repayments may go down
  - SVRs are often the most expensive mortgage rates available
  - If interest rates go up, so will your payments

- **Discount SVR:** These offers usually offer a discount to the SVR lasting for an introductory period, usually 2-3 years.

  + Your rate will stay below the lender's SVR for the duration of the deal
  - Your discount SVR tracks your lender's SVR and can change at any time meaning uncertainty on repayment amounts
  - Borrowers with a large discount SVR may face a large increase in interest rate when the introductory term has ended and the borrower is moved to the lender's SVR

Other mortgages are available including flexible and offset mortgages. Speak to one of our advisers for more information.

Legal Ownership: Joint Tenancy and Tenancy in Common

Buying a property with a friend or partner can make financial sense as you will be able to combine your savings for the deposit, have an opportunity to get a bigger mortgage and share monthly property-related costs such as mortgages and service charges. Up to four people can jointly be registered as legal co-owners of a property and there are two options when purchasing a property together: **Joint Tenancy** and **Tenancy in Common**. When making the decision to buy a home together, it is important to decide which legal ownership structure best suits your circumstances to avoid any potential legal issues in the future.

- **Joint Tenancy:** usually for married couples and common-law partners.

As joint tenants you have equal rights to the entire property, if one of the property owners dies then ownership automatically passes on to the surviving owner(s), and you cannot pass on ownership of the property in your will.

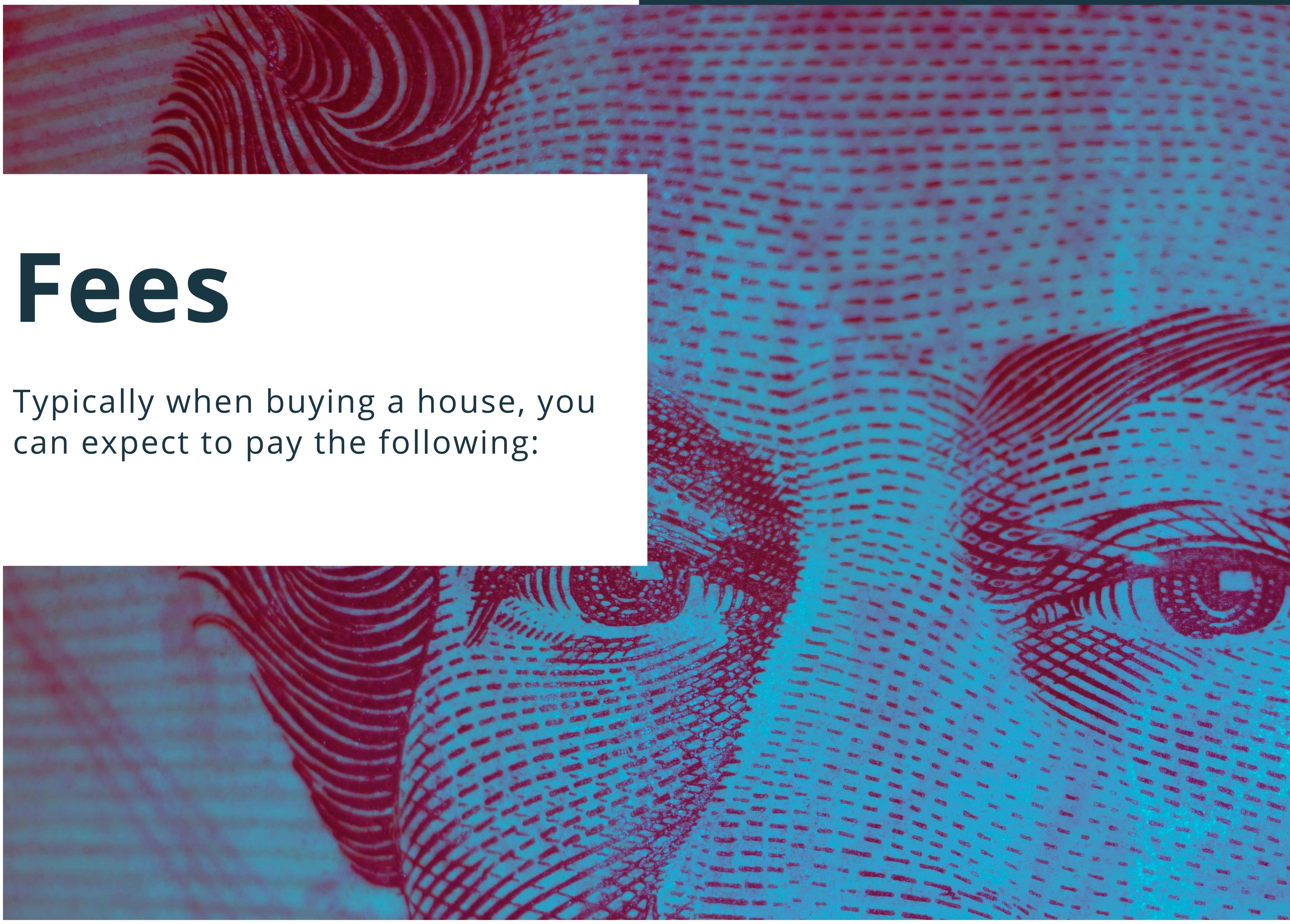
- **Tenancy in Common:** usually for groups of friends or relatives who are buying together, couples in a second marriage and also unmarried couples who are making unequal contributions to the deposit and/or the mortgage payments.

As tenants in common, you don't have to own equal shares of the property, the property does not automatically pass on to the other owner(s) if one of the property owners dies, and you can pass on your share of the property in your will.

There are advantages and disadvantages to both joint tenancy and tenancy in common. Joint ownership can be useful for tax planning purposes and it is important that you seek appropriate legal and financial advice when considering joint ownership of a property.

Alternative routes for first-time buyers

There are a variety of government schemes to help purchase your first house. These include Help to Buy ISAs, Lifetime ISAs and shared ownership schemes which need specialist mortgages. In addition, some lenders allow family/parents to act as a guarantor. In each case, your mortgage adviser can provide more detail on these schemes.



Fees

Typically when buying a house, you can expect to pay the following:

Arrangement fee:

This can vary significantly from lender to lender and it may be more appropriate to select a mortgage deal with a higher interest rate and lower arrangement fee. This fee can often be added to the mortgage by borrowing, although you will pay interest.

Legal fees:

Paid to your solicitor, this covers the cost of the legal work associated with buying a house including conveyancing and government data checks. Some legal fees may be covered by your lender as part of the deal.

Valuation fee:

This covers the cost of an inspection of your home to assess the property and ensure the current valuation is accurate. The cost will depend on the property's value and your lender, and should not be confused with a survey, which is optional but advisable, and discussed later in this guide.

Booking or Reservation fee:

Some lenders may charge a separate fee to secure a fixed rate, tracker or discount deal which is payable upfront and non-refundable.

Stamp duty:

This tax on home buyers is a major cost to factor into the purchase of a new property. Stamp duty is a levy paid by the buyer to HMRC and the amount will depend on where the property is, how much you are paying for it, and whether it is your only property. There are certain exemptions for first-time buyers and the rate varies depending on the value of the property.

Insurance Insights: Your health matters

To manage the risk that in the future you are no longer able to cover the cost of mortgage payments through illness or accident, you may want to consider specific insurance. There are a variety of insurance policies available to manage this risk including Critical Illness Cover and Income Protection. Life insurance should also be considered so that in the event of your death during the mortgage term, your family or estate will receive a lump sum payment that can be used to repay or partially repay the outstanding mortgage.

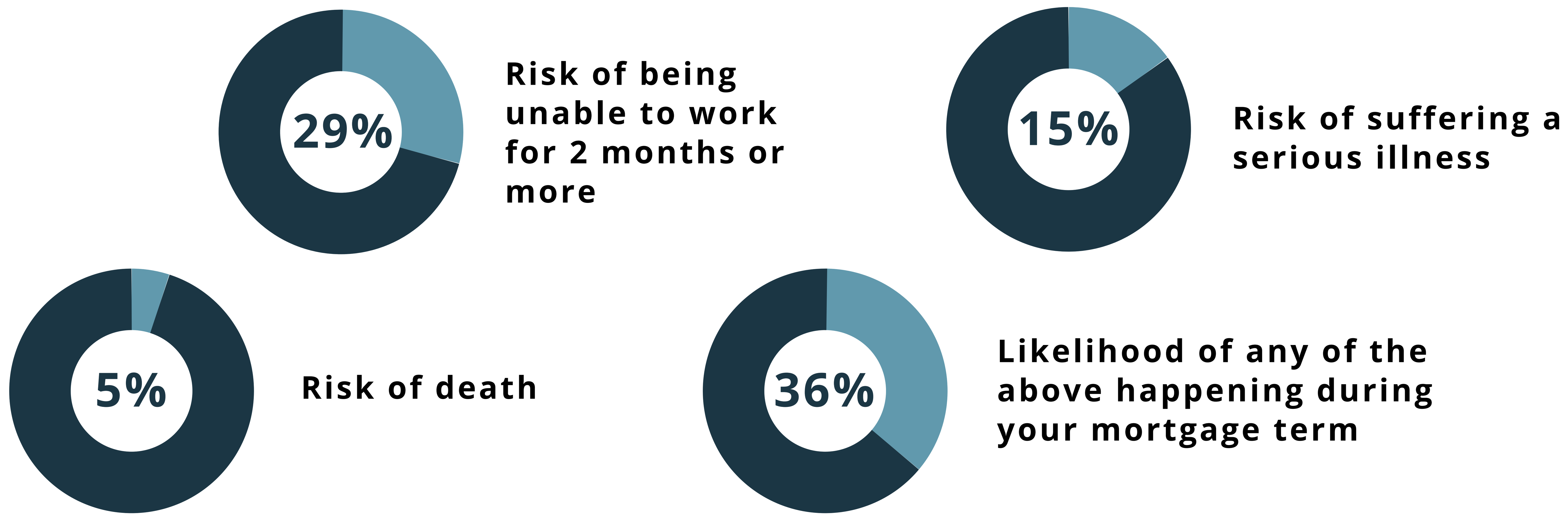
- **Critical Illness Cover** will pay a lump sum in the event that you are diagnosed with or suffer from a defined critical illness such as cancer, a stroke or a heart attack. The funds can be used as you please but are often used to repay or reduce the mortgage balance.

- **Income Protection** is often overlooked but arguably the most important insurance. If you are unable to work due to accident or ill health, then income protection will replace some of your monthly income. Many employees only offer a limited amount of sick pay and statutory sick pay and beyond this state benefits are at a low level. Every working adult should consider income protection.

- **Life insurance** is insurance that can pay a lump sum in the event of your death and can be used by your partner or dependents to repay the mortgage.

Costs will depend on your age, general health, occupation and lifestyle and a protection adviser will be able to provide addition clarity and ensure you can make an informed insurance decision.

Potential risks

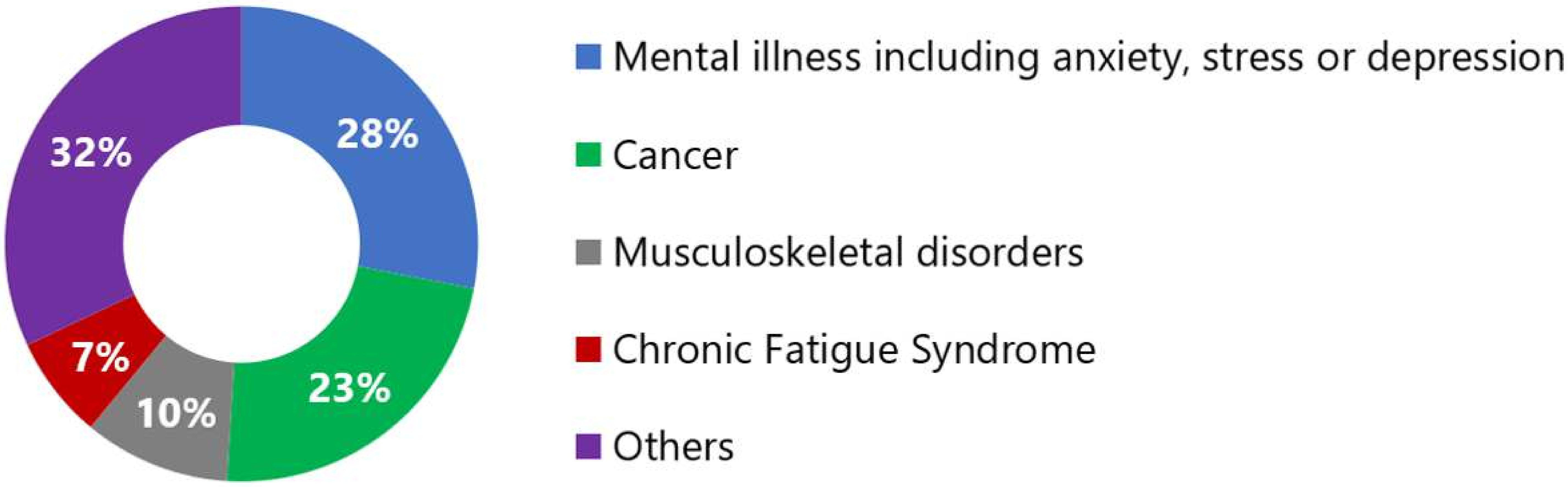


Source: LV Risk Reality Calculator based on 42 year old male non-smoker, with a 25-year mortgage, retiring at 67

Insurance insights

Income Protection: Reasons for claims

Each year, one million workers find themselves unable to work due to prolonged sickness or injury (ABI, 2019). Income protection can provide you with a tax-free income and regular payments until you are able to return to work. There are different types and levels of cover and each policy is designed to help you continue to pay your bills and maintain your standard of living while you are unable to work. Last year, mental illness and cancer accounted for over 50% of income protection claims.



Source: Zurich 2018 Income Protection claims

For the home: buildings and contents insurance

If you own a freehold home, you'll need to have buildings insurance in case your home is damaged and needs a repair. It is usually a condition of your mortgage and covers the bricks and mortar of your property. Policies vary across provider but in general, buildings insurance allows you to claim against collision damage, falling trees, fire, natural events such as floods and storms, smoke, subsidence, vandalism and water damage from leaking pipes. If you own a leasehold flat, the building may be insured by the landlord who owns the freehold so you will need to clarify if this is the case. There are two types of buildings insurance: sum-insured (you calculate the cost of rebuilding your home) and bedroom-rated (the insurance company estimates the rebuild cost based on the number of bedrooms in your home). There are a number of things to check when comparing policies and your adviser can provide additional guidance. In addition, if your property is not of 'non-standard construction' (for example a listed building or house with a flat or thatched roof) you will need a specific buildings insurance policy. Contents insurance is also highly recommended whether you rent or own your property.

The importance of a survey

If you have found a property you like, it is vital to look beyond aesthetics to ensure the overall condition is sound to avoid the risk of any hidden structural issues. Surveys are conducted by chartered surveyors who will visit the property, carry out an inspection and highlight any issues such as unstable walls or subsidence. You should generally have a survey conducted after an offer has been accepted.

It is important to note the difference between a valuation and a survey – a valuation is required by your mortgage lender to ascertain whether the property is sufficient security for their loan to you. Costs vary and may be included as part of the mortgage deal. A valuation may uncover obvious, visible defects but is very limited in scope and you should consider obtaining a separate survey.

A survey can provide insight on any problems that may impact the value of a property and allows you to make an informed decision about how much you are willing to pay and potentially budget for any necessary repair work.

Property surveys should be carried out by qualified surveyors – the two main bodies are RICS (Royal Institution of Chartered Surveyors) and RPSA (Residential Property Surveyors Association). A local surveyor is recommended as they are likely to have a good knowledge of property values in the area. Survey costs vary from company to company and the size and location of the property, and can take between an hour and a day depending on the level of detail in the survey. RICS surveys provide three levels of survey providing different levels of detail depending on the size, age and characteristics of your property.

A quick summary of each survey is below:

RICS Level 1 Condition Report: The most basic survey with overview of property condition covering any significant issues.

RICS Level 2 Homebuyer Report: More detail than a Condition Report, highlighting potential issues such as damp and subsidence.

RPSA Home Condition Survey: More detail than a Condition Report, highlighting potential issues such as damp and subsidence.

RICS Level 3 Building Survey: Full structural survey – comprehensive analysis of structure and condition of property.

RPSA Building Survey: Full structural survey – comprehensive analysis of structure and condition of property.

RPSA Mi Buy To Let Survey: Survey focused on construction and condition of home and how this may affect the way tenants live in the property.

If you have made an offer on a new build property, there are unlikely to be any structural issues however a professional snagging survey is recommended. This will identify defects or problems which need to be resolved before you move in. Whilst there is currently no official snagging qualification, some surveying companies specialise in working with new-build homes.

After your purchase

After you have collected your keys, remember to change your address! It is important to update your details for entities including your bank, utility companies, your new council borough, doctor, the electoral roll and the DVLA. It is also a good idea to ensure you have the legal documents for your property, including:

Title Deeds: Land Registry records are all digital but you should receive confirmation from your solicitor that they have registered you as the owner of the property. It is worth noting that it can take anywhere from 2 to 6 months for the Land Registry to register the property.

If your property is leasehold your solicitor should provide you with a **copy of the lease**.

Report on title: Produced by your solicitor, this provides details of the status of the property.

Stamp duty receipt: If applicable, within 30 days of completion you should receive confirmation that stamp duty has been paid.

Energy Performance Certificate (EPC): This is a legal document showing how energy efficient your property is. You should see this document as part of the purchase process and it is good practice to keep on file.

Get In Touch

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