



FERBRACHE &
FARRELL

FIRST-TIME HOME
BUYER'S GUIDE

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We hope this guide will serve as a useful insight for any first-time buyer wondering about the process of buying a house or a flat in Guernsey, including saving for a deposit and applying for a mortgage.

1. Deposit

Before looking at properties, you will need to save for a deposit. Generally, you need to try to save at least 10% to 20% of the cost of the home you would like.

For example, if you want to buy a home costing £350,000, you'll need to save at least £35,000 (10%). The more you can save up by way of a deposit the better.

2. Budget

As a first-time home buyer, the most important thing to bear in mind is whether you can really afford to take this step. It's wise to put together a budget for all the costs of buying a home before you start looking for a property.

You will need to work out how much Document duty you will pay when buying your property. It is often quite a large sum of money. Document duty is payable on prescribed documents that are presented to the court. The level of Document duty will usually vary depending on the value of the transaction involved. Your Advocate will be able to advise you on the rates of document duty that are payable.

There are also other costs you should be mindful of when buying a home and these include:

- Survey costs (consider survey types i.e. home buyer or full structural, as costs vary)
- Advocate's fee
- Court and registration fees
- Immunity Certificate application fee (to protect you from earlier breaches of planning law)
- Removal costs
- Buildings insurance premium
- Initial furnishing and decorating costs
- Mortgage arrangement and valuation fees (Bank's fees), and the fees of the Bank's Advocates



3. Mortgage

The mortgage application process is subject to very strict checks. Lenders will check you can afford the mortgage and also 'stress test' your ability to make your payments if interest rates were to rise or if your circumstances changed, such as a planned retirement date or if you started a family.

As part of the mortgage application process you'll need to show the lender evidence of any outgoings you have and prove your income. Whichever mortgage you apply for, your lender will want to know you can continue to make your repayments. You'll need to provide evidence of your income, and provide information of your outgoings, including debts, household bills, and other costs, such as clothing, childcare and travel. To prove your income, you might have to produce payslips and bank statements.

4. Types of Mortgage

Choosing the right mortgage for you may prove tricky, so it is a good idea to do some research and talk to financial experts such as mortgage brokers. It is crucial to understand different types of mortgages.

Type of mortgage	Advantages	Disadvantages
Fixed rate mortgage	<ul style="list-style-type: none"> The interest rate you pay will stay the same throughout the length of the deal no matter what happens to interest rates. Peace of mind that your monthly payments will stay the same, helping you to budget. 	<ul style="list-style-type: none"> Fixed rate deals are usually slightly higher than variable rate mortgages If interest rates fall, you won't benefit
Standard variable rate (SVR)	<ul style="list-style-type: none"> Freedom – you can overpay or leave at any time 	<ul style="list-style-type: none"> Your rate can be changed at any time during the loan Freedom – you can overpay or leave at any time
Discount mortgage	<ul style="list-style-type: none"> Cost – the rate starts off cheaper which will keep monthly repayments lower If the lender cuts its SVR, you'll pay less each month. This is a discount off the lender's standard variable rate (SVR) and only applies for a certain length of time, typically two or three years 	<ul style="list-style-type: none"> Budgeting – the lender is free to raise its SVR at any time If Bank of England base rates rise, you'll probably see the discount rate increase too.
Tracker mortgages	<ul style="list-style-type: none"> If the rate it is tracking falls, so will your mortgage payments Tracker mortgages move directly in line with another interest rate – normally the Bank of England's base rate plus a few percent 	<ul style="list-style-type: none"> If the rate it is tracking increases, so will your mortgage payments You might have to pay an early repayment charge if you want to switch before the deal ends.
Capped rate mortgages	<ul style="list-style-type: none"> Cheaper - your rate will fall if the SVR comes down. Certainty - your rate moves in line normally with the lender's SVR. But the cap means the rate can't rise above a certain level. But make sure you could afford repayments if it rises to the level of the cap. 	<ul style="list-style-type: none"> The cap tends to be set quite high and the rate is generally higher than other variable and fixed rates; Your lender can change the rate at any time up to the level of the cap.
Offset mortgages	<ul style="list-style-type: none"> These work by linking your savings and current account to your mortgage so that you only pay interest on the difference. You still repay your mortgage every month as usual, but your savings act as an overpayment which helps to clear your mortgage early. 	<ul style="list-style-type: none"> Monies tied up in savings.

NB: When comparing these mortgages, don't forget to look at the fees for taking them out, as well as the exit penalties.

5. Types of real estate ownership in Guernsey

The Cadastre administers and maintains the Register of Property Ownership (as well as the Tax on Real Property (TRP) system of property taxation).

If you want to buy a house, it's likely you will buy the property and land it sits on.

If you're buying a flat, it is likely you will buy only the non-structural parts of the flat and a share of the building itself.

Type of ownership	Advantages	Disadvantages
House	<p>You own the property outright, including the land it's built on.</p> <p>You don't have to:</p> <ul style="list-style-type: none">• Worry about a lease running out;• Deal with the freeholder (often known as the landlord);• Pay ground rent, services charges or any other landlord charges.	<ul style="list-style-type: none">• If you buy this way, you're responsible for maintaining and insuring your entire property and land, so you'll need to budget for these costs.• You may need to pay a sum of money for shared driveways
Flat or Apartment	<ul style="list-style-type: none">• Good starter home;• You won't be responsible for maintaining and running of the entire building. The building owner (comprising the flat owners together) will do this or appoint a managing agent to do so for them. However, the flat owners share the costs of this by paying a service charge to the building owner;• Easy lifestyle (lock up & go);	<ul style="list-style-type: none">• You have no stake in the building or land;• You cannot usually undertake any major works on the property without the permission of the freeholder;• You are subject to other restrictions on how you can use your property, such as subletting rooms or pet ownership etc.

6. Are there any other options available to first-time buyers to enable them to get onto the property ladder?

Affordable home-buyer scheme

This is known as partial ownership scheme for buyers who cannot afford to buy a property in the normal housing market but could afford to buy part of the cost of a property. This scheme works really well as only a portion of the property is purchased and you only need to borrow a lesser more affordable amount from the bank and pay a discounted rent on the part still owned by the Guernsey Housing Association.

You only purchase the maximum you can afford i.e. between 40% and 80% of the property values. At a later date you can buy more of the property. This is usually done in multiples of 10%. There is also no duty payable and there are no court fees.

Guarantor mortgage

If you are struggling to obtain a mortgage to buy your first home, you might want to consider a guarantor mortgage. This means that someone else can guarantee your mortgage i.e. a parent, guardian or close relative agrees to be responsible for paying the mortgage if you can't.

Guarantor mortgages shouldn't be entered into lightly. They are legally binding arrangements. Your guarantor needs to be able to afford to pay your mortgage if you get into financial difficulty and they will need to seek independent legal advice before entering into a guarantee document.

7. Where do we go from here?

So far, we have seen the highest transaction levels in the marketplace for several years, with unprecedented levels of demand from both the lower and the higher property price end.

Whilst the confidence of those who intend to make the first step onto the property ladder has not abated, those buyers hoping for a house-price bargain sale may want to temper their expectations as the house prices currently display no signs of falling.

With interest rates already set to a historic low, bank savings rates have also taken a hit. This is another hurdle for first-time buyers trying to save for a deposit. And there are few indicators that the Bank of England plans to increase rates any time soon.

In conclusion, whilst taking your first step on the property ladder is not a cheap and risk free option, with guidance and advice from your legal representatives the process should be smooth.



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