

# Understanding the Exchange of Contracts - A Guide for Home Buyers

## 1. Exchange of Contracts - What Happens Next?

**Exchange of Contracts** is a key legal milestone in the UK property buying process. At this stage:

- **Both you and the seller have signed identical contracts** agreeing to the sale.
- These contracts are then *formally swapped* between your solicitor and the seller's solicitor.
- Once exchanged, the agreement becomes **legally binding** — neither party can pull out without legal consequences.

This is different from earlier in the process (offer accepted, searches and surveys underway, mortgage being arranged), where **either side can still withdraw** without penalty.

## 2. What Happens Before Exchange?

Before we can exchange contracts, the following must be completed:

- **All searches and surveys** have been received and reviewed.
- **Mortgage offer (if applicable) is issued in writing** and any conditions are satisfied.
- **Contract terms agreed**, including fixtures and fittings.
- **Funding arrangements are in place**, including deposit and mortgage funds.
- **Buildings insurance is arranged** (see Risk section below).

Once all parties and solicitors are ready, a date and time for exchange are agreed.

## 3. The Deposit – What You Need to Know

At exchange, you will be asked to **provide a deposit**, traditionally:

- **10% of the purchase price** - This is paid to your solicitor and usually held until completion.

### Important points about the deposit:

- The deposit shows your firm commitment to buy.
- If you *withdraw after exchange*, you will **lose this deposit** and may face further legal costs.
- In certain situations, the seller **may agree a lower deposit** (e.g., 5%), but the full 10% becomes due if you fail to complete.

*Example:* If the purchase price is **£300,000**, a 10% deposit would be **£30,000**

## 4. Why We Ask for Your Authority to Exchange

Before exchange can happen, we must have your **clear authority and confirmation** that:

- You understand the contract terms
- You have paid the deposit funds to us
- You agree to proceed with the completion date set in the contract
- You can provide us with any remaining funds required to complete, within 2-3 days of the proposed completion date

This authority is essential because, *once exchanged*, we cannot reverse the process without significant consequences.

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## 5. When Contracts Are Exchanged

Once we confirm authority:

- Your solicitor and the seller's solicitor agree the contracts are identical.
- Contracts are exchanged — usually by recorded telephone call between solicitors.
- The **completion date is set** — this is when you will legally take ownership.

At this point, both you and the seller are legally committed to complete the transaction as outlined in the contract.

## 6. Risks After Exchange

Once contracts are exchanged, there are **serious legal and financial risks** if you or the seller do not complete:

### For the Buyer

- **You lose your deposit** if you fail to complete
- You may be sued for *additional costs* incurred by the seller.
- You are usually legally responsible for the property from this point, including damage risks (so *buildings insurance must be in place*).

### For the Seller

- If the seller withdraws after exchange, they may have to **return your deposit and pay your costs**.
- They may also be liable for other financial damages incurred.

## 7. Why This Stage Matters

Before exchange, **neither party is locked in**. That's why surveys, searches, mortgage offers, and clear communication are vital — so when you agree to proceed, it's with confidence.

After exchange:

- Your **move date is set**.
- You can start making firm arrangements (e.g., removals, utilities).
- The risk of the sale falling through is significantly reduced.

## 8. Summary – Key Takeaways

Stage	Contract Status	Penalty for Withdrawing
Before Exchange	Not legally binding	No penalty (you can withdraw)
After Exchange	Legally binding	Forfeit deposit + legal consequences

If you have any questions about this process or how it affects your transaction, please **contact us before confirming authority to exchange**.