



# What does 'exchange of contracts' mean, and what happens afterwards?

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Once the buyer's and seller's solicitors are ready to exchange contracts, they will each seek authority to carry out the exchange from their respective clients. In the case of a buyer, this will be once the buyer's finance is in place, and all due diligence on the property has been satisfactorily completed.

The exchange of contracts is exactly that: the dating and physical exchange of an identical contract signed by each party. This creates a legally binding contractual obligation on each party to proceed to completion of the sale/purchase on the nominated completion date, which is inserted into the contract.

Put simply, the exchange of contracts is the point of no return for both parties.

## Exchanging contracts and buildings insurance

If you are purchasing a freehold property, you should arrange for buildings insurance to commence as soon as the exchange of contracts has taken place. This is because you are legally bound to purchase the property from this point, even if the worst were to happen to the property in the period between exchange and completion.

If you are purchasing a leasehold property, the buildings insurance will normally already be arranged by the landlord. The developer normally insures new build properties (including freeholds) up until completion, but this will be specified in the contract.

You should additionally consider putting contents insurance in place from completion, whether leasehold or freehold, as the buildings insurance policies referred to above will not cover this.

If you are selling a freehold property, you should continue your own insurance until completion, notwithstanding that a brief period of double insurance will arise with your buyer.

## Transfer of funds to your solicitor

If you are purchasing a property, your solicitor will send you a completion statement either shortly before

exchange or in the period between exchange and completion. This will confirm the total amount you should transfer to them to enable completion to take place and will include any Stamp Duty Land Tax payment, your solicitor's fees, and any other costs incurred during the process, as well as the purchase price for the property you are buying.

Your solicitor will usually require you to send the funds at least one working day before completion is due to take place to enable the completion to go as smoothly as possible, and so as not to incur any unnecessary delays.

If you are raising a mortgage, the lender will send the mortgage funds directly to your solicitor, who will have given the lender a report on the property and requested the funds in time for completion.

If you are selling a property, your solicitor will send you a completion statement confirming the net amount due to you on completion and will make arrangements with any lender for repayment of the sum due to clear your mortgage.

## **What happens on the day of completion?**

If you are purchasing a property, your solicitor will arrange to transfer the purchase funds to the seller's solicitor as early as possible on the day of completion. Once the seller's solicitor has confirmed safe receipt of the funds, completion will be agreed to have taken place. The seller will move out, and you will be able to collect the keys to your new property.

If you are selling a property, your solicitor will wait until they have received the funds from the buyer's solicitor. Once received, you will be notified and will need to vacate the property, and the new owner will be able to move in.

## **What happens if completion does not take place on the agreed completion date?**

There will be a clause in the contract which will cover the implications of either party failing to complete on the agreed date. Usually, the solicitor for the non-defaulting party will serve a Notice to Complete on the solicitor for the defaulting party. This will normally require completion to take place on or before the date falling ten working days later. The defaulting party will be liable to pay compensation to the other party at the contract rate specified in the contract. A further failure to complete within time will allow the non-defaulting party to terminate the contract, and the defaulting party may suffer other enforcement and financial consequences.

## **After completion**

Once completion of a property purchase has successfully taken place, your solicitor will submit any Stamp Duty Land Tax payable on your behalf and will apply to register your new ownership and any mortgage at the Land

Registry. If you have purchased a leasehold property, your solicitor will also deal with any post-completion requirements of the landlord, such as notifying them of your new ownership of the property.

If you have any questions about buying or selling a property, please email Rebecca Shaw in our [Property](#) team at [rebecca.shaw@LA-law.com](mailto:rebecca.shaw@LA-law.com) or call her on 01202 702692.