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Understanding your Help To Buy Mortgage

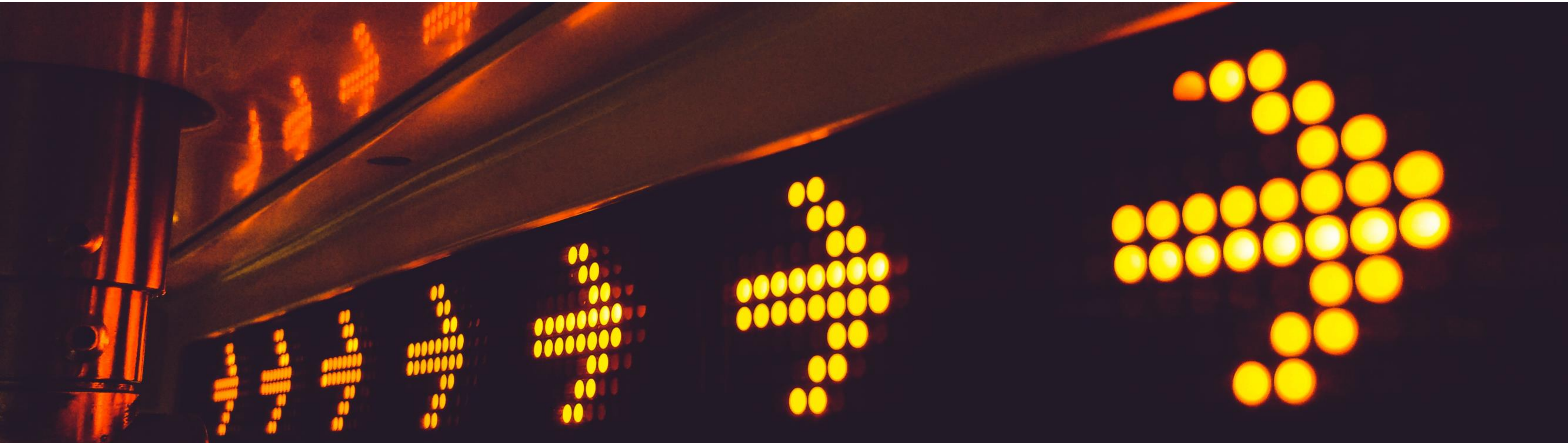
Our Guide to Help to Buy

The Government launched its flagship Help to Buy equity loan scheme to help thousands onto and up the property ladder.

Soon, the first wave of Help to Buy homeowners will start to owe interest on these loans, bumping up monthly payments by some margin. At the same time, those who bought and chose to fix their mortgage for a number of years are also facing the prospect of having to remortgage soon.

Higher monthly outgoings will have an impact on the mortgage you can afford.

Create Finance have produced this guide for customers with this type of mortgage product to provide support as you decide what to do next.



How does the Help to Buy equity loan scheme work?

The Help to Buy equity loan scheme was launched on 1 April 2013 in a bid to help struggling first-time buyers or people finding it hard to move up the rungs of the property ladder.

First-time buyers AND people looking to move are eligible, but it's only available on new-builds in England and Wales. The scheme remains open – it ends in 2021 – so you can still take a loan out.

In short it works like this...

5%

You provide a **5%** deposit.

20%

The Government then lends you up to 20% of the property price (or **40%** if you're buying in London). This part is called the **equity loan** and it's interest-free for the **first five years.**

75%

The remaining **75%** is then covered by a standard mortgage.

Let's Look at an Example:

Let's say you buy a home for £200,000 (outside London). Using this scheme, you put down a deposit of £10,000 (5%), and get a mortgage for £150,000 (75%). The Government will then plug the gap with an equity loan of £40,000 (20%).

In theory, this should give you access to competitive mortgage rates as mortgage providers will assess you based on a 25% deposit – instead of just 5%, where mortgage rates can be limited and expensive.

You don't pay a penny in interest on the loan for the first five years (although you have to pay a £12 management fee each year until the interest kicks in). This makes home ownership far more affordable for those who may struggle with monthly repayments.

You can use this money to buy a home worth up to £600,000 in England (or £300,000 in Wales).

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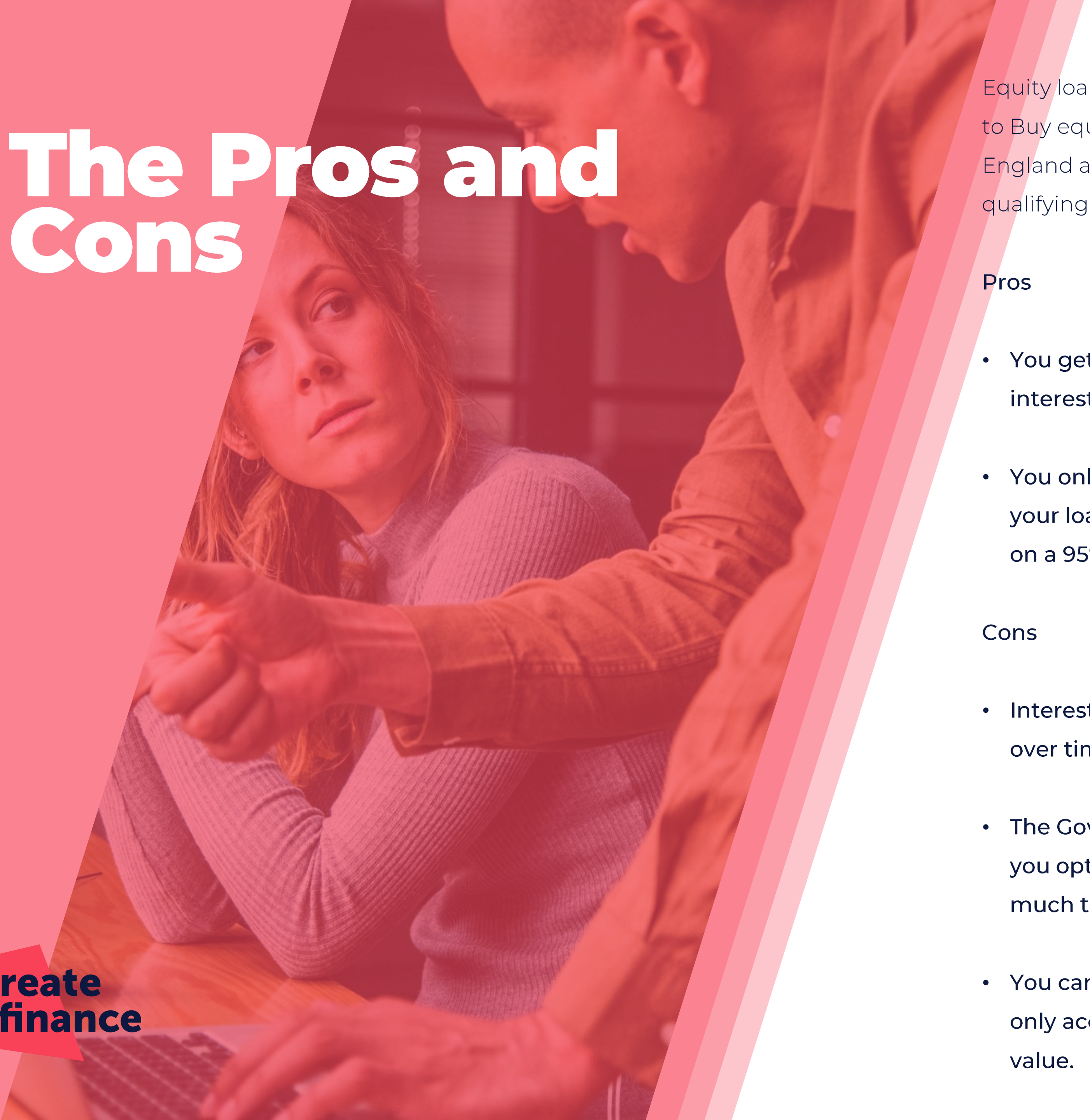
The Pros and Cons



Equity loans can be worth as much as £240,000 in London (London Help to Buy equity loans launched in February 2016), £120,000 across the rest of England and £60,000 in Wales. That's considering the maximum qualifying property value.

Pros

- You get a Government loan of up to 20% of the property's value, interest-free for the first five years.
- You only need to borrow 75% of the value from the lender, reducing your loan-to-value ratio and giving you access to cheaper rates than on a 95% mortgage.

Cons

- Interest kicks in after five years, and could amount to a chunky sum over time.
- The Government will take the same percentage of the sale price as you opted for when you took out your equity loan (regardless of how much the loan was originally for) when the property is sold.
- You can repay part or all of the loan early, but the Government will only accept this if it's a minimum of 10% of the property's current value.

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Your options if you've got a Help to Buy equity loan

There are three options available for homeowners reaching the end of the interest-free period on their equity loan. You can try to remortgage, stay put and pay off the loan (or just the interest), or sell up and move somewhere else.

In all instances, this guide is a useful resource if you’re planning your next steps.

Remortgage

You could remortgage your current mortgage (the traditional mortgage you took out alongside the equity loan) – this is likely to be one of the most popular options.

Stay put and pay off the interest or the loan

Another option is simply to stay put and start paying the interest or to see if you can get enough money together to pay off the equity loan (you're allowed to repay the loan early without selling your home).

Sell and move

A final option is to sell up, particularly if the property's price has soared – and bank any profits after the loan is repaid from sale proceeds.

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Remortgaging

This could be done in two different ways:

- Remortgage your standard mortgage and keep the equity loan.
- Remortgage to wipe out some or all of the equity loan, meaning you'll likely end up with a bigger standard mortgage.

Whether or not the remortgaging options above are doable or the best options for you will depend on a number of factors:

- Payments will need to be manageable for you
- Can you remortgage your current deal or are you currently within your mortgages fixed rate or introductory rate period?
- Be warned, not all lenders accept customers with a Help to Buy mortgage
- Is it worth paying off some or all of the equity loan with a new mortgage?

If you decide to go ahead and remortgage, you'll have to pay an admin fee to the administrators of the Help to Buy equity loan scheme. That's on top of any other fees you may face (such as mortgage fees).

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Staying Put

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Another option is simply to stay put and start paying the interest or to see if you can get enough money together to pay off the equity loan (you're allowed to repay the loan early without selling your home).

The latter is worth doing if you can afford it, as you'll avoid interest charges – and get full ownership of your property. Otherwise, the Government takes a slice on sale.

It's particularly worth considering if you think house prices are likely to go up a lot as it means you'll pay less to the Government as they'll take the same percentage of the sale price as you opted for when you took out your equity loan.

You don't have to pay off the whole lot in one go. But rules mean you can only repay a minimum of 10% of the property's current value – or the whole loan amount.

Whether paying off the loan in part or in full, you'll need to have the outstanding loan amount assessed. This must be done by a RICS surveyor (RICS stands for Royal Institution of Chartered Surveyors).

It'll cost about £200 for a valuation, but charges vary. You'll also pay an admin fee to pay off the loan. That's on top of any other fees you face.

Selling and Moving

A final option is to sell up, particularly if the property's price has soared – and bank any profits after the loan is repaid from sale proceeds.

This way you'll avoid paying any interest on the equity loan and you might want to take the next step on the housing ladder, or you might be ready for a change.

When you sell, you'll have to pay back the Government loan in full, worth up to 20% of the sale price (whether its value has risen or fallen).

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What if my property value has fallen?

Seeing the value of your home fall only really becomes an issue if you want to sell and move or if you need to remortgage.

The Government made a commitment to share in any change in the value of your property through Help to Buy, meaning if you see a 10% drop in the value of your property then you'll owe the Government the original loan minus a 20% share of that drop.

If for example your house was worth £200,000, a 10% drop would mean that your property was now worth £180,000.

A 20% share of the drop in value would equate to £8,000 of the £40,000 Help to Buy equity loan. This means if you wanted to repay the loan, you'll owe the Government £32,000.

Note however, this value is only realised when you sell the property or repay the equity loan. If you're remortgaging and keeping Help to Buy, you'll still have a loan of £40,000.

What are your plans?

The great news is Create Finance can look to support you whatever you chose to do with your home.

In all instances it's well worth reading through [this helpful guide.]

Produced to support buyers who are looking to pay off their loan, it will walk you through the steps you need to take, as well as providing the forms that will need to be completed.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up the mortgage repayments.

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I want to Remortgage

Create Finance has specialist brokers who can handle even the most complex case, and will walk you through each step if you're looking to borrow additional funds and clear your loan.

I want to stay put

Staying put will mean your expenditure may increase and potentially mean your current mortgage stretches your affordability. Create Finance can look at the best deal for you and advise accordingly.

I want to sell up and move

Create Finance can help with the purchase of your new property, as well as providing referrals for solicitors to support your sale if necessary.


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