

# HELP TO BUY GUIDE



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## INTRODUCTION

**The UK government launched the Help to Buy scheme in April 2013, initially to help first-time buyers and home movers get a leg-up on the property ladder.**

With soaring property prices and near frozen wages, many were stuck in a cycle of renting which ate away at any chance of saving a 20%+ deposit, leaving them with little to no prospect of buying a home.

Help to Buy offered an interest-free (for five years) equity loan up to 20% of the value of the property, or (since 2016) up to 40% for homes in London.

The Help to Buy scheme is bigger than any previous government housing initiative and has shone a spotlight on affordable housing. More than 211,000 homes have been bought using the scheme, with over a third (37%) of people saying they could not have bought a new property without it, and around 80% saying it allowed them to buy more quickly<sup>1</sup>.

The scheme's end date is March 2023, by which time Homes England expects to have loaned around £29 billion, supporting the purchase of 462,000 properties<sup>2</sup>. An earlier change will see the scheme exclusively available to first-time buyers from 2021. There are also regional differences in the availability and costs of Help to Buy around the country which are covered in this guide.



<sup>1</sup> <https://www.politicshome.com/news/uk/economy/construction-industry/press-release/national-federation-builders/104559/we-should>

<sup>2</sup> <https://www.belfasttelegraph.co.uk/news/uk/what-is-the-help-to-buy-scheme-and-why-is-it-controversial-38215151.htm>

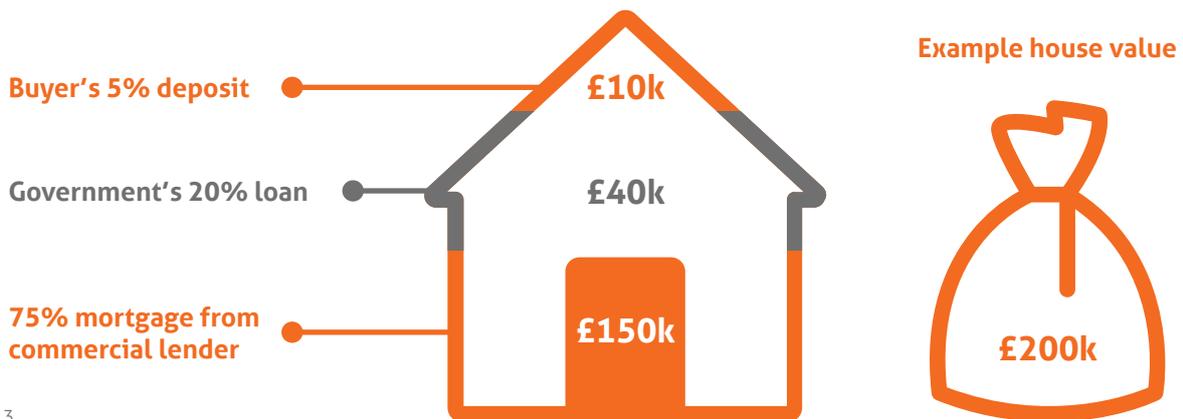


## HOW HELP TO BUY: EQUITY LOAN WORKS

With Help to Buy: Equity Loan, first-time buyers as well as existing homeowners receive an equity loan from the government in order to buy a new build property worth up to £600,000. Buyers will receive assistance from the **Homes and Communities Agency (HCA)** who use a firm called **Target** to run all administrative duties.

These homes cannot be sublet, your old home cannot be part exchanged and you cannot own any other property when purchasing your new home.

The loan itself has to be repaid by the end of the mortgage term - 35 years being the longest term you can borrow for under the scheme. The loan can be paid off either in a lump sum, by incremental payments known as 'staircasing', or when selling the home.



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## HOW INTEREST RATES ARE APPLIED

Home buyers under the scheme will not pay any interest or fees on the government's equity loan for the first five years. In the sixth year, the interest rate is set at 1.75%, after which the fee rises with inflation based on the Retail Price Index (RPI) plus 1% each year.

### Example:

Let's say you buy a home for £200,000 with an equity loan of £40,000 (20%), here's what the repayments might look like (the figures include a £1 monthly management fee to be paid from the start of the loan repayments until the interest begins).

<sup>3</sup> <https://hoa.org.uk/advice/guides-for-homeowners/i-am-buying/help-to-buy/>



## HOW INTEREST RATES ARE APPLIED

### CONTINUED

YEAR	ESTIMATED RPI +1% (1)	INTEREST FEE PERCENTAGE	ANNUAL INTEREST FEE + MANAGEMENT FEE
1-5	n/a	0%	£12/year
6	n/a	1.75%	£700
7	6%	1.86%	£744
8	6%	1.97%	£788
9	6%	2.08%	£832
10	6%	2.21%	£840

Remember these are annual payments which only cover the interest on the equity loan on top of the monthly repayments for the 80% mortgage.



## WHAT HAPPENS WHEN YOU SELL YOUR HOME?

You can sell your home at any time, both the Equity Loan and mortgage will need to be repaid upon completion of the sale. You'll need to contact the **National Post Sales Agency** who will appoint an independent valuer to decide the value of your property. Your property should be sold on the open market at the prevailing market valuation.

If you do sell your property for more than the prevailing market value then the amount due to Homes England under the equity loan will be their percentage value of the actual sale price. Homes England will not agree to release

its charge over the property for sales at less than market value. If there are any fees or interest outstanding, for example, interest arrears at the time of selling, these must be paid before the sale is completed.

Remember there is plenty of assistance available - let Target know once you have a valuation and they will advise on what happens next.

When you sell your home, or the mortgage is paid off, you will have to repay the equity loan plus a share of the home's increase in value.

### For example:

HOME BOUGHT FOR £200,000, SOLD FOR £250,000	
Increase in value	25%
Equity loan repayment	£50,000 (£40,000 loan + 25% increase in home's value)
Mortgage	£150,000 (minus capital repayments)

- The remaining £50,000 (or more) can be used as a deposit on your next home.
- The exact amount depends on how much you've paid off your mortgage.
- You can also pay back part or all of your loan at any time.
- The minimum percentage you can pay back is 10% of the market value of your home.
- The amount you pay will depend on the market value at the time.



## WHAT IF THE VALUE OF THE PROPERTY FALLS?

When you sell your home, if you haven't already repaid the Help to Buy equity loan, you will only repay a percentage of the market value equal to the percentage of assistance received.

You will therefore pay back less than the amount you borrowed. This also means that if your property increases in value, you'll pay back a larger sum than you borrowed.

## WHAT IS A HELP TO BUY AGENT?

Help to Buy agents are appointed by Homes England and are available to guide you through the scheme's options; they'll explain how the eligibility and affordability criteria affect your specific circumstances.

While they administer the Help to Buy: Equity Loan scheme, they do not cover the mortgage guarantee scheme. They therefore have the authority to authorise your purchase of a home under the equity loan scheme.





## WHAT TYPES OF HELP TO BUY SCHEMES ARE AVAILABLE?

### Help to Buy (Scotland) Affordable New Build

Help to Buy in Scotland, administered by the Scottish Government, gives first-time buyers and home movers the opportunity to purchase a new build property priced up to £200,000. A maximum equity loan of 15% is interest free for the full term, and the scheme is set to come to an end in March 2021.

### Help to Buy: Equity Loan Wales

Help to Buy in Wales, administered by the Welsh Government, offers a 20% equity loan to first-time buyers and home movers for new build properties, in line with England. However, there are a couple differences:

- The maximum property price limit is set at £300,000
- Documented evidence of eligibility to the scheme is required by applicants
- Not all lenders accept the Wales Help to Buy

### Co-Ownership in Northern Ireland

Northern Ireland runs a shared ownership scheme where you can buy part of a property while a housing association owns the other part and rents it out to you. You can own between 50% and 90% of a property valued at no more than £165,000. Find out more information on eligibility on the [Housing Advice NI website](#).

### Help to Buy: Shared Ownership

Shared Ownership is available to those who cannot afford a mortgage on 100% of a home. Instead, they buy a share of a home (between 25% and 75% of the home's value) and pay rent on the remaining share to a housing association (usually at 3% per year). You have the opportunity to buy more shares in your home, known as 'staircasing'.

You could buy a home through Help to Buy: Shared Ownership in England if:

- your household earns £80,000 a year or less outside London, or your household earns £90,000 a year or less in London
- you are a first-time buyer, you used to own a home but can't afford to buy one now or are an existing shared owner looking to move.

### Forces HTB

Forces Help to Buy allows Armed Forces personnel to borrow up to 50% of their salaries interest free to fund the deposit for a house. The maximum loan is £25,000 to be repaid over 10 years. The scheme comes to an end in December 2019, at which point it'll be reviewed.



## THE HELP TO BUY ISA EXPLAINED

The Help to Buy ISA is a savings pot designed to help first-time buyers save a deposit for their home. The government adds 25% to your savings, up to a maximum of £3,000 on savings of £12,000.

To qualify for a Help to Buy ISA, you must:

- be 16 or over
- have a valid National Insurance number
- be a UK resident
- be a first time buyer and not own a property anywhere in the world
- not have another active cash ISA in the same tax year. Although if you have opened a cash ISA this tax year, you can open a Help to Buy: ISA but will have to take additional steps.

To qualify for the government's 25% bonus, the property you want to buy must:

- be in the UK
- have a purchase price of up to £250,000 (or up to £450,000 in London)
- be the only home you will own
- be where you intend on living
- be purchased with a mortgage

**Important note: The Help to Buy ISA will come to an end in November 2019. However, existing holders will have until 1 December 2030 to claim the government bonus.**





## THE HELP TO BUY ISA ALTERNATIVE: LISA

A Lifetime ISA (LISA) offers the same 25% government bonus as the Help to Buy ISA, but there are some key differences:

### 1) LISA holders get a bigger bonus

With a Lifetime ISA, you can add up to £4,000 each tax year until your 50th birthday. That's up to £1,000 in bonuses every year whilst you can contribute. The H2B ISA, on the other hand, has lower maximum contributions meaning you can only receive a bonus of up to £3,000 in total.

### 2) LISA offers more choice

You can use the Help to Buy ISA to buy a home worth up to £250,000 (or £450,000 in London). With a LISA, the limit is a home worth £450,000, even outside of London. The LISA also gives you the choice to save as cash or invest in stocks and shares, while Help to Buy ISAs only allow you to save as cash.

Investing in the stock markets gives you the chance to make more money than cash alone. But it also carries more risk. Unlike the security offered by cash, all investments can go down as well as up in value so you could get back less than you put in.

### 3) LISA gives greater flexibility

After a first lump sum payment of £1,200, you can only save monthly into the H2B ISA, capped at £200 a month. With the LISA, you can choose to save monthly or in lump sums. As long as you keep within the £4,000 limit, you can save as little or as often as you like.

### 4) Restrictions

Due to the greater benefits of the LISA over the H2B ISA, there are stricter rules on withdrawing money. If you decide to make a withdrawal from your LISA and it's not to purchase your first home or after the age of 60, a 25% government charge will normally apply so you could get back less than you put in.

Also, the LISA must have been open for 12 months before it can be used towards your buying first home without the government charge being applied. Neither of these conditions apply to the Help to Buy ISA.

\*See Appendix 4 for a comparison table of the two ISAs.



## THE FUTURE OF HELP TO BUY

In the 2018 budget, Chancellor of the Exchequer Philip Hammond unveiled a new Help to Buy: Equity Loan scheme to succeed the current one in March 2021. The new scheme introduces two major updates to the policy: Help to Buy will only be available to first-time buyers, and there will be regional price caps to the value of eligible properties.

The price caps are set at 1.5 times the regional average first-time buyer price currently forecast, as shown in the table below.

### New Help to Buy regional price caps

REGION	PRICE CAP FOR PROPERTIES ELIGIBLE FOR HELP TO BUY FROM APRIL 2021 TO MARCH 2023
North East	£186,100
North West	£224,400
Yorkshire and the Humber	£228,100
East Midlands	£261,900
West Midlands	£255,600
East of England	£407,400
London	£600,000
South East	£437,600
South West	£349,000

Source: HM Treasury

Justin Gaze, head of residential development land at Knight Frank, said: "No industry should be reliant on government assistance indefinitely, so the decision by ministers to restrict the scheme to first-time buyers with regional purchase price caps is a sensible one.

"However, the 'deposit gap' that the Help to Buy equity loan scheme was established to overcome is still very much a problem.

"UK house prices are 37% higher than when the scheme was introduced in 2013 and the mortgage market for those with only a 5% deposit remains very thin.

"For prospective buyers, finding the funds for a deposit will remain the biggest barrier to home ownership.

"From 2023, the onus will move to mortgage lenders and the development community to help buyers bridge this gap." (source: [yourmoney.com](https://www.yourmoney.com))

<sup>4</sup> <https://hoa.org.uk/advice/guides-for-homeowners/i-am-buying/help-to-buy/>



# WHAT DO DEVELOPERS, LENDERS AND CONSUMERS THINK?

In 2018, the UK government published the long-awaited evaluation of the Help to Buy scheme after a market study spanning 2013 to 2015.

### The developers

On the whole, developers have seen improved confidence in the market and see Help to Buy Equity Loan making a strong contribution to the profile and awareness of the new build market. They estimate that between 40-50% of Help to Buy Equity Loan sales would not have happened without the assistance. Most developers felt Help to Buy Equity Loan would continue to play a valuable role in helping access to the market, particularly among first-time buyers, with most having little concern were the maximum price limit to be reduced. (source: Department for Communities and Local Government)

### The lenders

Among lenders, although the new build lending market is dominated by a small number of large providers, the introduction of the Help to Buy Equity Loan has helped make it more financially viable to enter the new build lending market. In turn, this is seen to have built capacity and encouraged lenders back to higher loan to value lending, a trend consistent with wider evidence showing uplifts in the number and value of new mortgage loans (although they still remain

below pre-crisis levels) and higher loan to value mortgage products since early 2013. Lenders were, however, less clear on the extent to which it had resulted in increased levels of output although most recognised that if the scheme had not existed, the new build market would have evolved more slowly. (source: Department for Communities and Local Government)

### The consumers

The survey of consumers, based on those who have successfully purchased using Help to Buy Equity Loan, presents a largely positive picture in terms of experiences and impacts. A lack of consumer understanding of finances is not apparent. A majority (58%) of those surveyed said they had a great deal of understanding about the financial commitment when they bought, while an overwhelming majority continue to remain confident in their ability to pay mortgage repayments and the equity loan elements. Stated levels of satisfaction with the overall experience are also high, with 70% saying they were very satisfied. (source: Department for Communities and Local Government)



# SUMMARY/HOW BROKERS CAN HELP MOVING FORWARD

Thanks to the sheer amount of data available, from customers, home developers and lenders, brokers play a pivotal role in Help to Buy through the entire buyer journey. Even existing Help to Buy customers will need to seek advice about the options available to them as they prepare to start paying back the government loan, or moving home and understanding their place in the market.

Craig Hall, new build manager at Legal & General Mortgage Club, suggests: "Many brokers are already receiving enquiries from borrowers that are reaching the end of their product term and are looking at options to repay their equity loan. This is only set to increase as the scheme continues to grow."

Intermediaries will be looking at the best overall deal for their client so will take a whole of market approach, looking at all options including remortgaging, staying with their current lender, or restructuring the lending if repayment (or partial repayment) of the equity loan is possible.

**'When we ask customers questions about who and what was helpful in the buying process, the people who get namechecked are the brokers. Not the Help to Buy agents, not the conveyancers, not Homes England and not the builder, very often it's the broker.'**

Andy Nelson, Head of Relationship Management for Help to Buy at Homes England



## APPENDIX 1 - USEFUL CONTACTS

### Help to Buy agents

Help to Buy London 0300 5000996

<http://www.helptobuylondon.co.uk/>

Help to Buy North West 0300 7900570

<http://www.helptobuynw.org.uk/>

Help to Buy North East, Yorkshire & the Humber

0113 8256888 <http://www.helptobuyneyh.co.uk>

Help to Buy Midlands 0345 850 2050

<http://www.helptobuymidlands.co.uk>

Help to Buy South West 0300 100 0021

<http://www.helptobuysw.org.uk>

Help to Buy South 0800 456 11 88

<http://www.helptobuysouth.co.uk>

Homes for Londoners 0800 088 5935

<https://www.london.gov.uk/homes>

Help to Buy East and South East 03333 214044

<http://www.helptobuyese.org.uk>

### The Money Advice Service

An independent organisation set up by the Government which offers tools and advice for first time buyers 0300 500 5000 /

[www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)

### Legal Matters

For your local Citizens Advice Bureau, visit [www.citizensadvice.org.uk/](http://www.citizensadvice.org.uk/)

For help in finding a solicitor, contact

The Law Society: 020 7320 5650

[www.lawsociety.org.uk/findasolicitor/](http://www.lawsociety.org.uk/findasolicitor/)

### Stamp duty

For information on Stamp Duty and the latest rates, look at: [www.gov.uk/stamp-duty-land-tax-rates](http://www.gov.uk/stamp-duty-land-tax-rates)

### Arranging a survey

To find a surveyor in your area, visit

[www.ricsfirms.com](http://www.ricsfirms.com)

### HomeOwners Alliance

hello@hoa.org.uk; 033 0088 2051;

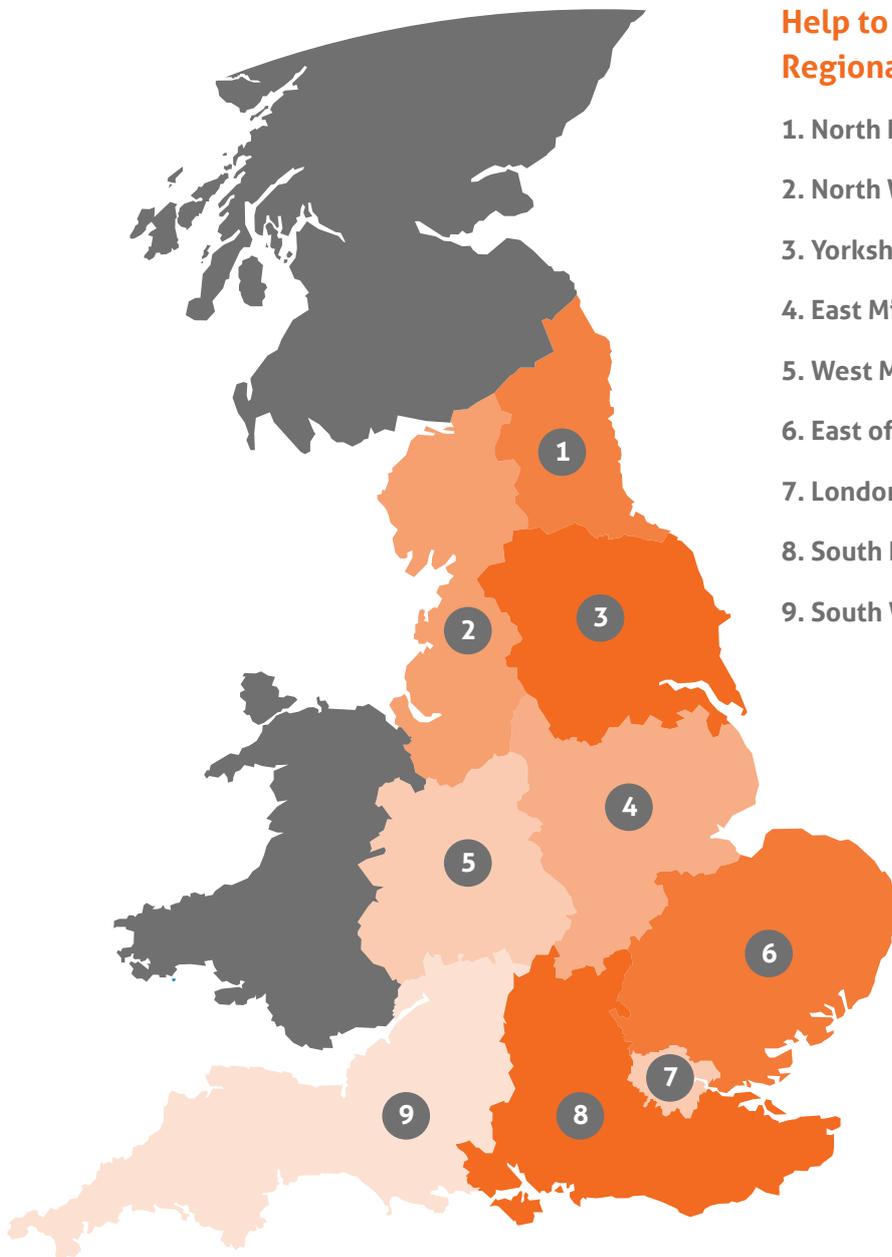
<https://hoa.org.uk>



## APPENDIX 2 - MAP OF REGIONAL PRICE CAPS (FROM 2021)

### Help to Buy 2021 - 2023

Regional price caps for property eligibility to the help to buy equity loan scheme from April 2021



### Help to Buy Regional property price caps

1. North East	£186,100
2. North West	£224,400
3. Yorkshire and The Humber	£228,100
4. East Midlands	£261,900
5. West Midlands	£255,600
6. East of England	£407,400
7. London	£600,000
8. South East	£437,600
9. South West	£349,000



## APPENDIX 3 - HELP TO BUY ISA EXAMPLE

MAXIMUM CONTRIBUTION	RUNNING TOTAL	TOTAL
Initial deposit	£1,000	£1,000
Year 1	£2,400 (£200/month)	£3,400 + interest
Year 2	£2,400 (£200/month)	£5,800 + interest
Year 3	£2,400 (£200/month)	£8,200 + interest
Year 4	£2,400 (£200/month)	£10,600 + interest
Year 5	£200/month until you reach £12,000	£12,000
Government bonus	£3,000	£15,000
Grand total	£15,000	



## APPENDIX 4 - HELP TO BUY ISA VS LIFETIME ISA

	LIFETIME ISA	HELP TO BUY ISA
Who can open the account?	18-39 year olds	First time buyers aged 16 and over
How much can you save each year?	£4,000 (up to the day before 50th birthday)	£2,400 (£3,400 in the first year)
What is the government bonus?	Up to £1,000 each tax year until you turn 50	Up to £3,000 in total
What's the maximum property value allowed?	£450,000	£250,000 (£450,000 in London)
When do I receive the bonus?	Monthly	On completion of buying your first property
How can you save?	Monthly and lump sums	Monthly only (except initial lump sum of £1,200)



Accord Mortgages  
Yorkshire Building Society  
Yorkshire House  
Bradford  
BD5 8LJ