

Help to Buy Scheme

You decide you're ready to get on the housing ladder.

You've found your dream home, and it costs £150,000. You've worked hard to save up for a deposit and have £7,500 put away, which equates to 5% the value of the property.

But until recently, this would not have been a big enough deposit to secure a mortgage. You'd have to continue saving until you'd amassed at least 10% of the value of the property – in this case £15,000.

Needing such a big deposit meant it just wasn't possible for many people to buy their own homes.



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In order to overcome this problem, the Government introduced the [‘Help to Buy’](#) scheme in October 2013.

To qualify for the scheme you only need to save enough to cover 5% of the value of the property, rather than the 10% required for most mortgages.

There are two ways that the scheme can help you to buy your own home:

- By giving you an equity loan of up to the value of 20% of the property price

OR

- By offering a guarantee to the lender so they can issue you with 95% mortgage

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Equity Loans

With an equity loan, the Government provide a loan of up to 20% of the price of the property, meaning you may be able to buy a home that you would ordinarily not be able to afford.

There are a couple of conditions to the Equity Loan that are important to be aware of. Firstly, because it's an equity loan, the government owns 20% of your property until you have paid the loan back. Secondly, after a 5-year interest-free period, the government will start charging you fees for the loan until you repay it.

Mortgage Guarantees

Under the Mortgage Guarantee pathway, the government offers a guarantee to banks and building societies to support them in giving you a 95% mortgage.

However, this doesn't mean that the government would help you repay your mortgage if you find yourself in financial difficulty. Your home will still be repossessed if you don't keep up with the payments on your mortgage.

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Eligibility Conditions

Here is a brief outline of eligibility conditions for the [Equity Loan](#) and [Mortgage Guarantee](#).

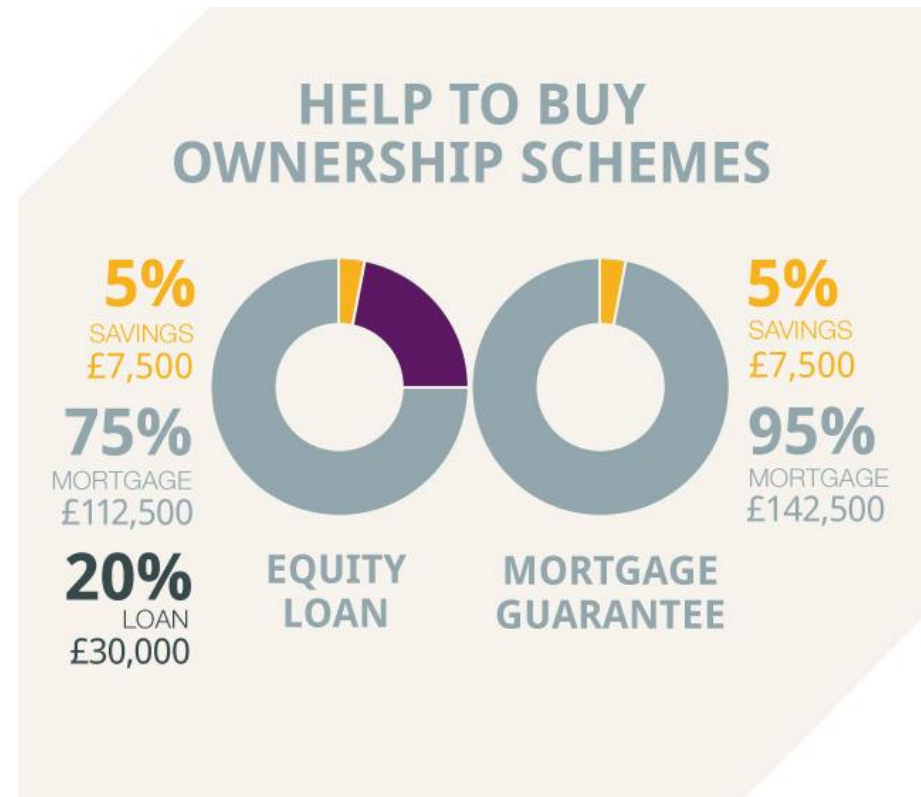
DETAILS OF OWNERSHIP SCHEMES

	EQUITY LOAN	MORTGAGE GUARANTEE
Type of property	Newly built only	Newly built & pre-owned
Max Property Value	£600,000	£600,000
First-time buyers	Yes	Yes
Current Owners	Yes	Yes
Buy-to-Let	No	No
Available in	England & Scotland	England, Scotland & Wales
Available until	2017	2017

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How do Equity Loans & Mortgage Guarantees compare?

We've illustrated how these two 'Help to Buy' pathways compare, with figures provided for a property valued at £150,000.



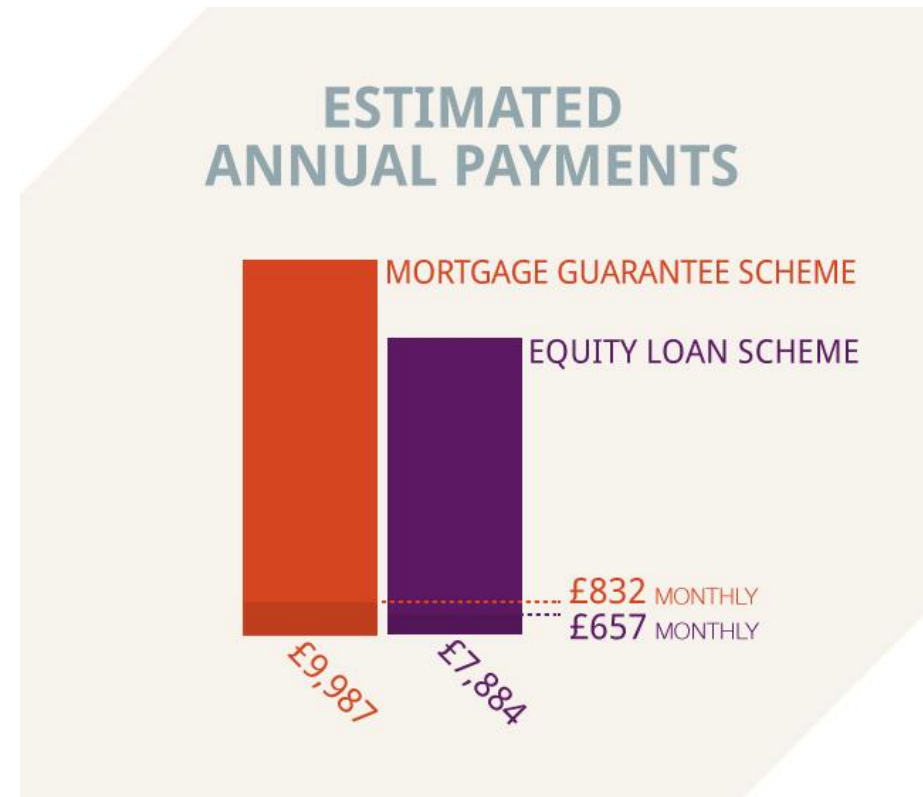
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How do Equity Loans & Mortgage Guarantee repayments compare?

There are two major points to consider here: interest rates and repayment.

As far as the interest rates are concerned, the deals offered by lenders as part of Help to Buy scheme are typically offered at around 4.99% for fixed rates.

Assuming the total duration of your mortgage is 25 years, here is what your repayments would amount to in the first 2 years:

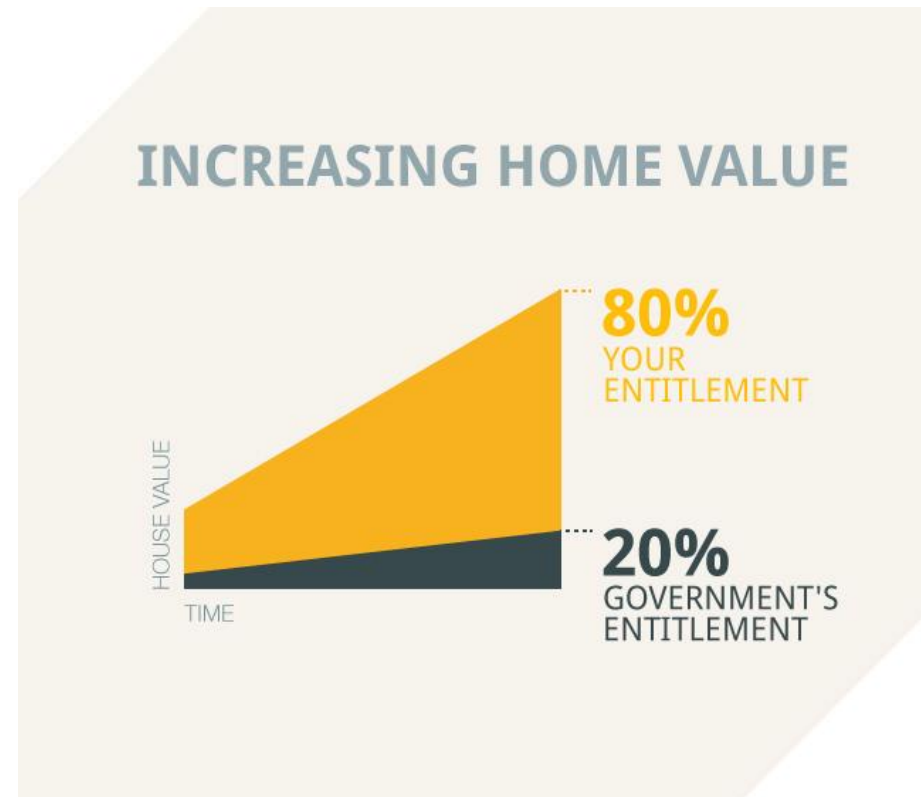


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As you can see, repayment amounts for the Equity Loan route are considerably lower, which is natural considering you're borrowing less.

However, you do have to bear in mind, that whilst you are repaying the money you've borrowed from the bank, the government still retains a 20% part of your home.

Moreover, if your home grows in value, so would the share owned by the government:

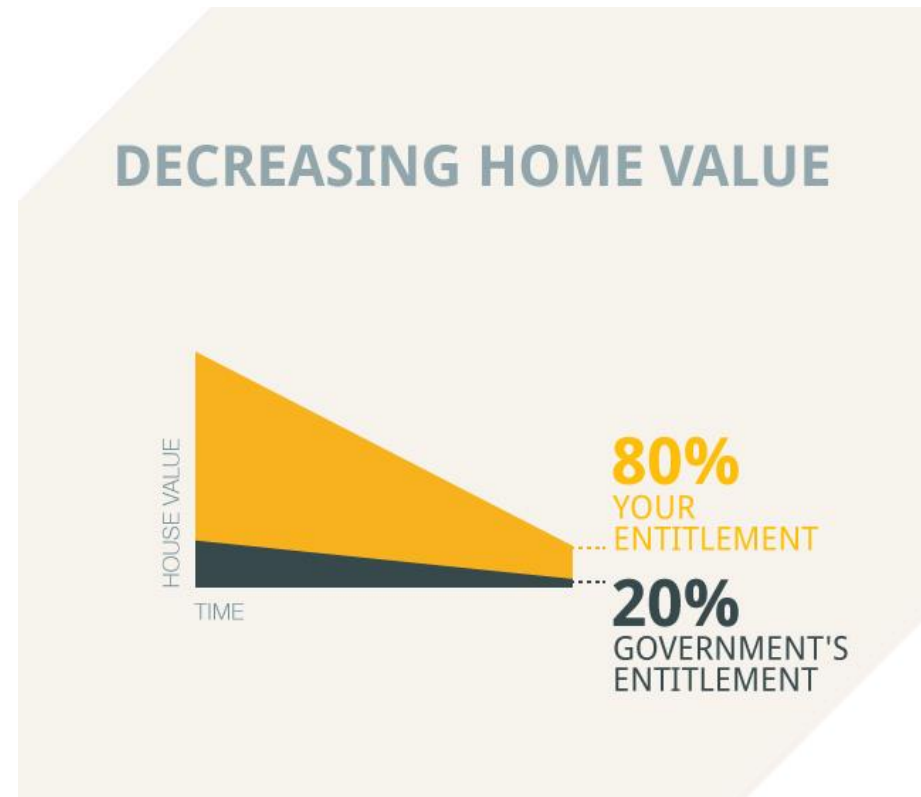


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Ultimately, this means that if you decide to sell your home at any point before repaying your Equity Loan, you will have to give repay the government 20% of the price you sell the home for, even if it's more than the original sum that you borrowed.

That said, it also works the other way round and if your home were to depreciate, so would the value of the share government holds in it.

In this instance, if you were to sell your home before you repaid your Equity Loan, you would pay the government back less than you originally borrowed.

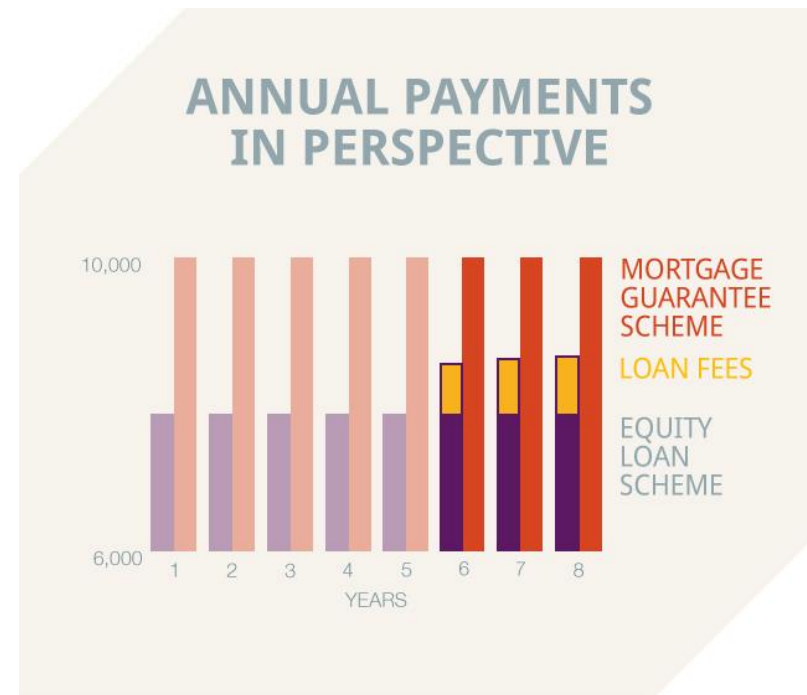


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Equity Loan Fees

Another thing to consider is the Equity Loan fees. These loans are offered interest free for the first five years, however in Year 6 of your mortgage you will be obligated to pay 1.75% of the original amount of your Equity Loan in fees. In each subsequent year this percentage will rise by the increase in Retail Price Index (a measure of inflation) plus 1 percentage point.

Assuming, for the sake of this explanation, that the Equity Loan fees are going to rise at the rate outlined above and the interest rates on the mortgage would remain at 4.99%, let's see how the rise in loan fees would affect your monthly expenses on repaying your mortgage:



Notice the loan fees kicking in from Year 5 to Year 6? The fees are predicted to be rising every year, cutting the difference in your repayments shorter and shorter with every passing year.

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So, which one do I choose?

It really depends on your personal situation.

What kind of property are you looking to buy? Is it a new build, or a previously owned home? Remember, Equity Loans are only available on new build homes.

Also think about the property you're buying, is it a home for life, or something you plan to sell in a few years' time? If so, would you be ok with giving 20% of the sale price to the government?

Are you prepared to repay another loan in addition to your mortgage? Alternatively, if don't want to take our an equity loan, are you prepared to take on a 95% mortgage?

Also, don't forget about the other expenses associated with buying a home. These include legal fees, stamp duty, Land Registry fees and mortgage arrangement fees.

If you're buying a home for £150,000 you'd also need to pay:

- Up to £1000 in legal fees
- £1,500 in stamp duty
- £140 to Land Registry
- Plus you may also need to pay mortgage arrangement fees

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Finally, do remember that even under the [Help to Buy Scheme](#), failure to pay your mortgage and other loans secured on your property may result in your home being repossessed.

From all of us at [Zoopla](#), best of luck on your property search!