

HEWITSONS

THE HELP TO BUY SCHEME



What is it?

Help to Buy is a Government-backed scheme aimed at facilitating home ownership by providing financial assistance to buyers who would otherwise struggle to raise the deposit required to purchase their own home.

How does it work?

Help to Buy consists of two schemes designed to enable aspiring homeowners with deposits of just 5% to buy a property worth up to £600,000. Both schemes are only available to owner occupiers so applicants must be buying the property as their main residence and not as a buy-to-let investment or as a second home.

1. Equity Loans for New-Build Homes

The first scheme was launched on 1st April 2013 and only applies to new-build homes worth less than £600,000 being sold by registered homebuilders.

Through the scheme, buyers with a 5% deposit can apply for a government loan of up to 20% of the purchase price, thereby in effect giving the buyer a deposit of 25%. The buyer must then take out a mortgage from a participating lender to cover the balance of the purchase price. The government loan is free of charge for the first five years, after which an annual fee of 1.75% of the loan is charged, rising annually by retail price inflation plus 1%. Borrowers can repay back some or all of the loan at any point, provided it is a minimum of 10% of the home's market value at that time.

The loan must be repaid in full when the home is sold or at the end of the mortgage period – whichever comes first. When repaying the loan the 20% (or however much is borrowed) will reflect the value of the home at that time – not the original value at time of purchase.

2. Mortgage Guarantees

The second part of Help to Buy was launched on 7th October 2013 – three months earlier than originally planned – and applies to both new-build and existing homes.

It allows buyers with a deposit of as little as 5% to take out a mortgage with a greatly improved interest rate due to the government guaranteeing any mortgage borrowing above 80% of the property's value, thereby minimising risk for banks.

Lenders will be free to charge whatever interest rates they choose and the guarantee will only be valid for seven years.



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