

FACTSHEET

Buying + Selling



A simple guide to Help to Buy schemes

Rising house prices and the cost of private rent means that for many people, being able to save a 10% deposit will seem an impossible task.

We all know that to get a mortgage, you'll need a deposit of at least 5%, but to access the best interest rates, you'll need to save three or four times this amount again.

If you'd like to buy your own home and you only have a small deposit, what options are available to you?

The good news is that the government has recognised the difficulties being faced by buyers and has created the Help to Buy scheme.

Aimed at addressing the gap between the deposit required by lenders and what buyers can afford to save, the scheme enables those who are eligible to buy their own home without a large deposit.

Help to Buy is made up of three main parts:

- + Equity loans
- + NewBuy
- + Mortgage guarantees

Help to Buy scheme – equity loans

As well as being open to first-time buyers, equity loans are also available to existing home owners who want to move, but have been priced out of the market.

Equity loans can only be used to buy a new build property worth up to £600,000.

For this you need to raise a deposit of at least 5% of the purchase price. The government will lend you up to 20% of the property's value as an equity loan and you'll need to secure a mortgage for the remaining 75% of the cost.

By borrowing 75% of the property's value, you'll also have access to cheaper rates of interest than you would for a 95% mortgage.

You won't be charged fees on your equity loan during the first five years. However after this period, you'll be charged an annual fee of 1.75% of the equity loan. This will rise each year by inflation plus 1%.

Any fees you've paid won't be used to pay off your equity loan. Instead it'll be paid back in full at the end of your mortgage or when you sell your home – whichever one comes first.

Help to Buy – NewBuy

The NewBuy scheme is open to first-time buyers and existing home owners, and will enable you to buy a new build property with just 5% deposit.

The purchase price limit under NewBuy is up to a maximum of £500,000.

To be eligible, the home you're buying must have been built by a builder taking part in the NewBuy scheme.

The property must also be owned fully by you as NewBuy isn't available for shared ownership or shared equity purchases.

Help to Buy – mortgage guarantees

Help to Buy mortgage guarantees aren't restricted to first-time buyers, so if you're stuck in a house which is too small or in the wrong area, for example, you can still benefit from the scheme.

The limit of the purchase is £600,000. Unlike the equity loan scheme, you can choose between buying a new build property or one which is pre-owned.

As with a normal mortgage, you'll need to raise a deposit of at least 5%. The remaining 95% will be borrowed through a mortgage.

In addition, the government will guarantee any mortgage borrowing above 80% of the property's value.

What does this mean in practice?

If you took out a 90% mortgage, the government would guarantee to repay your lender up to 10% of the property's value if you defaulted on your borrowing.

However if you took out a 95% mortgage, the government would guarantee 15% of the property's value.

Doing this acts as an 'insurance policy' for the mortgage lender. It also provides additional reassurance that they wouldn't be disadvantaged if you defaulted on payments and your home is repossessed.

Can I use the scheme to buy a buy-to-let property?

No, the rules are very strict around this. Any property you buy using an equity loan, NewBuy or mortgage guarantee must be your main place of residence and can't be sub-let.

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Will I have to pass the ordinary credit checks?

Yes, just like you would with a normal mortgage application, you'll need to pass a credit check and prove that you can cover mortgage repayments.

The mortgage provider will also check affordability, to make sure that your income will cover your mortgage repayments even if interest rates rise.

Is Help to Buy for me?

Affording the deposit is just one step in the home buying process. You also need to consider legal fees and disbursements, such as stamp duty, searches and VAT.

If Help to Buy isn't right for you or you're not eligible for the scheme, there are other options you could consider.

One example of this is shared ownership, which allows you to buy a stake – such as 25% or 50% – in a property. You'll need to pay rent on the remainder but will have the option to purchase the remaining share of the property at a later date.

Further Information

You can contact us by calling **0117 325 2929** or visit our website.

www.barcankirby.co.uk

