Help to Buy Scheme - how does it work?

This year saw the Government announce two new schemes to help first-time and existing homebuyers get onto or step-up the property ladder. For each scheme prospective homeowners will still need to raise a minimum 5% deposit.

The first is the ‘Help To Buy: Equity Loan’ scheme which was launched in April 2013. Under this scheme the Government can loan all New Build homebuyers between 10%-20% of the value of their property. The loans, which are available up to a value of £600,000 in England (£400,000 in Scotland), are interest-free for the first five years; after which time, unless redeemed; buyers have to pay an annual fee. The Government effectively owns a percentage of the value of the property and will benefit from any increase in value when the owner sells it or repays the loan.

The second scheme launched in October 2013 is the ‘Help To Buy: Mortgage Guarantee' which is designed to increase the number of mortgages available up to 95% of loan-to-value by reducing the lender's need to hold large deposits. Under the scheme, the Government guarantees the loan up to 15% of the overall mortgage value and, if the borrower defaults, the state, not the buyer or the lender, will be liable for a proportion of the losses.
The 'Help to Buy: Mortgage Guarantee' scheme is open to all buyers and all property types (excluding buy-to-let landlords) as long as you can raise a 5% deposit. Buyers with a deposit of more than 20% will not be eligible.

As with any mortgage application the same rigorous financial checks will be applied to ensure you can meet monthly repayments.

Edward Foster is Senior Partner at Fosters Law, Solicitors. If you have a question relating to this or any other matter, simply ‘Ask Ed’ by emailing me at asked@fosters-law.co.uk or for further information visit fosters-law.co.uk/helptobuy.