

The Help to Buy Equity Loan Scheme

What you need to know before you go ahead

What is the Help to Buy Equity Loan scheme?

The Help to Buy Equity Loan scheme is a Government backed programme designed to help people who have smaller deposits to buy a newly built home in England. The scheme is managed by the Homes and Communities Agency (HCA) who are the national housing regeneration agency for England.

With a Help to Buy Equity Loan;

- ✓ You own 100% of the property
- ✓ Not restricted to key workers
- ✓ Available to First Time Buyers
- ✓ Available on both houses and flats/apartments

Do I qualify under the scheme?

If you can answer yes to all the following questions, and you can meet No1 CopperPot Credit Union's current lending criteria, you may be able to buy a property under the scheme

- ✓ Is the property you want to buy a new-build property in England?
- ✓ Is the property included in the scheme? If in doubt, speak to the builder or developer about whether they take part in the scheme
- ✓ Is the price of the property £600,000 or less?
- ✓ Will the property be your only home (not a second home or a property you plan to rent out)?
- ✓ Are you taking your mortgage on a repayment basis (capital and interest) over 25 years or less?
- ✓ Have you saved a deposit of at least 5% of the purchase price?

How does the scheme work?

- ✓ You need a deposit of at least 5% of the purchase price.
- ✓ You buy your new home with up to 75% of the cost met by a Help to Buy capital and interest repayment mortgage provided by No1 CopperPot Credit Union.
- ✓ The rest is funded by the Government through an equity loan which is interest free for the first five years of the scheme, after which you will be charged interest. The equity loan can be repaid in full at any time or you can make a partial repayment but it must be a minimum of 10% of your home's market value at the time the payment is made.

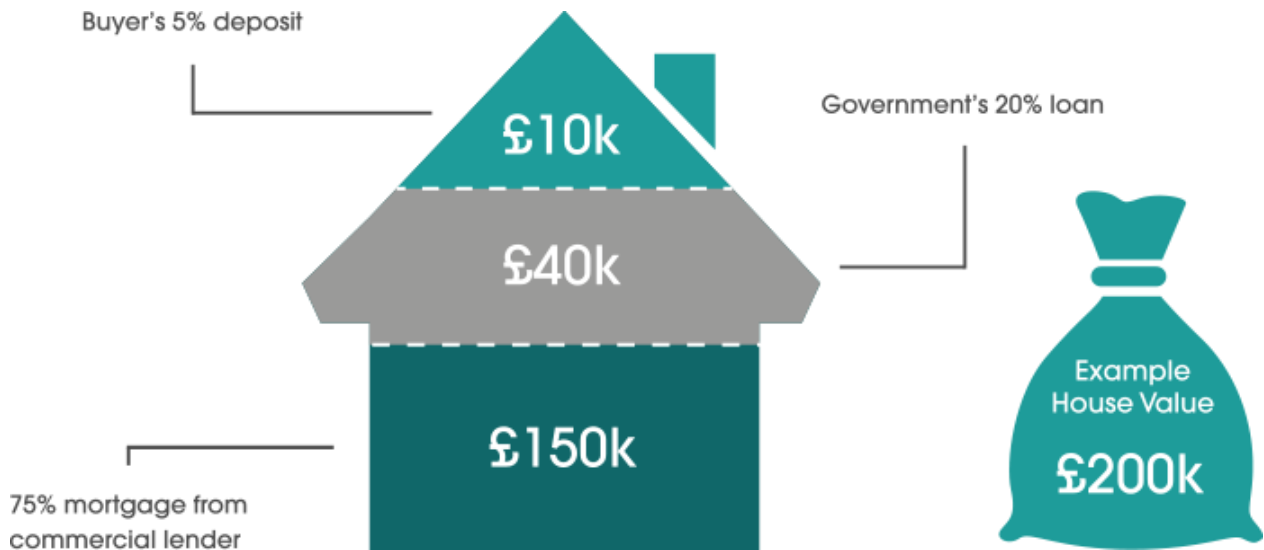
This means you will have two loans in place to finance your home;

- ✓ A mortgage with No1 CopperPot, and
- ✓ An Equity Loan from the Homes and Communities Agency (HCA)

As the two loans are managed separately by two different providers, you will pay two separate repayments. So it's important that you remember from year 6, you will also need to repay the interest on your equity loan monthly, as well as the monthly repayment you have been making on your mortgage.

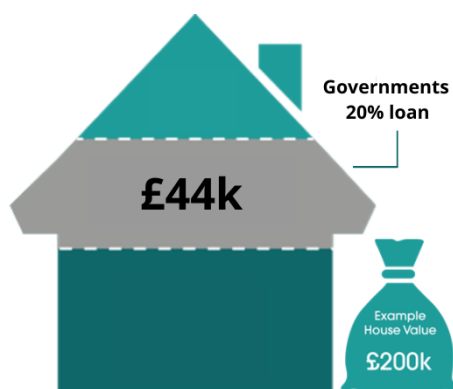
Repaying the Equity Loan

The example below illustrates how this works on a property worth £200,000.

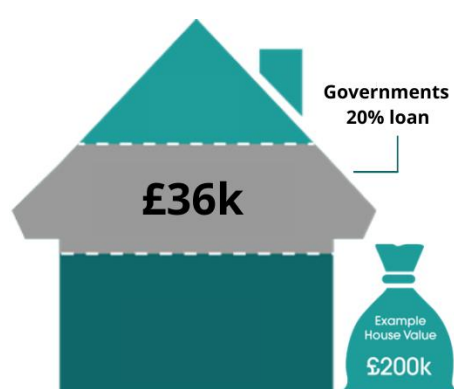


As a result of providing the equity loan, the Government has an entitlement to a share of the future sale proceeds equal to the percentage contribution required to assist your purchase. So if you took an equity loan of 20% to help purchase the property, you would need to repay 20% of the property's value in the future when you came to either sell, or repay your equity loan. The diagrams below illustrate the amount you would repay on your equity loan which can go up or down and is linked to the future value of your property.

Property value increases by 10%



Property value decreases by 10%



The Equity Loan provided by the Government is interest free for the first five years of the scheme. After that, if you have not already repaid your loan in full, from year six you will pay gross interest to the Government of 1.75% on the outstanding equity loan amount. This amount of interest will increase each year by the annual increase in the Retail Price Index (RPI) inflation plus 1%.

How do I access the scheme?

Step 1

Find a potential new home from a developer working within the Help to Buy scheme. Properties can be found from your local Help to Buy agent's website <http://www.helptobuy.org.uk/find-your-local-helpto-buy-agent/>, or if you are visiting a new housing development, ask the builder if they are participating in the scheme.

Step 2

Next speak to a Financial/Mortgage Adviser to obtain a mortgage 'Decision in Principle' before paying any reservation fees. A Decision in Principle will provide you with an approximate idea of the size of mortgage you would qualify for.

Step 3

Make your reservation with the builder, complete the 'Property Information Form' and the developer will send it to your local Help to Buy agent. At this point you may need to pay a reservation fee to the builder.

Step 4

The Help to Buy agent will assess your equity loan application and, if successful, will issue 'Authority to Proceed' (ATP) which you will need when you apply for your mortgage. This will be emailed to you and you will also receive a copy in the post.

Step 5

Once you have received your ATP you will then be able to go back to your Financial/Mortgage Adviser and complete your mortgage application.

Step 6

If your mortgage application is successful your Financial/Mortgage Adviser will inform you about the next steps and timescales in the process.

Step 7

On completion of your property your solicitor will register a second charge on your home to cover the equity loan.

Please note that the ATP is given on the specific property you are buying. If the property you are buying changes, you would need to be re-issued with a new ATP.

Important Considerations

Prior to purchasing a house under the Help to Buy Equity Loan scheme, there are some important points to consider:

Risk of negative equity. Some new build properties include an extra premium on the sale price that can reduce as soon as someone moves into the property. This potential reduction in the value of the property is an important factor you should consider when buying a new home using a mortgage and an equity loan which could represent borrowing of up to 95% of the value of the property (e.g 75% LTV mortgage plus an equity loan for 20%). If house prices fall, you may not have enough money from selling the property to repay the mortgage and the equity loan. This could leave you with a shortfall. If the amount you owe under your mortgage and equity loan is greater than the value of your home, this is called 'negative equity' and could make it difficult to move or remortgage unless you can meet the shortfall from savings or other sources. However, this is a risk of high loan-to-value borrowing (where you borrow a large percentage of the value of the property), not the Help to Buy Equity Loan scheme itself. It is important that you fully discuss this scenario with your Financial/Mortgage Adviser so that you understand what this means before making a decision.

Repaying your equity loan. The equity loan can be repaid at any time within 25 years (or the terms of the mortgage), or on sale of the property. It is important that you think about, and discuss with your Financial/Mortgage Adviser, about saving to make sure you can repay the loan in the future. You should be clear about how you plan to repay the loan and have a plan in place to enable you to do this.

Financial Difficulties. You are responsible for paying your mortgage under the Help to Buy Equity Loan scheme in exactly the same way as any of No1 CopperPot's other mortgage customers and you should talk to us if your circumstances change. If No1 CopperPot had to repossess the property and sell it, you would be responsible for paying any shortfall between the amount you owe us (including costs) and the amount we received from the sale of the property. You are also responsible for paying the interest due on the equity loan from year 6 onwards until you have fully repaid the equity loan.

Access to additional borrowing. You would need to gain permission from the Help to Buy Agent first if you are looking to borrow more. Consent will not usually be granted but is likely to be considered if you are looking to repay the equity loan. If their permission is granted, you will need to contact No1 CopperPot to discuss your application. Any additional borrowing will be subject to status and No1 CopperPot's current lending criteria at the time, but you may find it difficult to be accepted for additional borrowing if your LTV remains high.

Remortgaging. If you decide that in the future you would like to move your mortgage to another mortgage lender (this is called remortgaging) you should also be aware that you would need prior permission from the Help to Buy Agent. Your new lender must also offer Help to Buy equity loan mortgages and you would need to inform them that your home is a Help to Buy property with a second charge entitling the Government to a share of the future sale proceeds. You should be aware that not all mortgage lenders offer Help to Buy Equity Loans, so you may be restricted in the number of mortgage lenders you can choose. Your Financial/Mortgage Adviser should be able to inform you which lenders are currently participating in the scheme.

Frequently Asked Questions

Can I put more than a 5% deposit down?

Yes, but you should discuss this with both the Home Buy Agent and your Financial/Mortgage Adviser to understand all your available options so that you can decide which mortgage is best for you.

How much can I borrow?

The amount you can borrow will depend on your individual circumstances and on No1 CopperPot's current lending criteria at the time of your application. You will need to check with your Financial/Mortgage Adviser to make sure you can afford the mortgage.

Can I do part exchange as part of the scheme? No. Part Exchange is not available as part of the Help to Buy scheme.

When will I have to pay back my equity loan?

The equity loan can be repaid at any time within 25 years (or the terms of the mortgage), or on sale of the property. It is important that you think about, and discuss with your Financial/Mortgage Adviser, about saving to make sure you can repay the loan in the future. You should be clear about how you plan to repay the loan and have a plan in place to enable you to do this.

Can I buy a property using Help to Buy and rent it out?

No. Help to Buy will only be available on properties which are occupied by the individual or individuals taking out the mortgage. If you already own another property that you do not wish to sell, then you would not be eligible for the scheme.

Who do I speak to if I have any questions about my Equity Loan?

The Equity Loan is a separate arrangement between yourself and the HCA. You will receive an annual statement from them, and

they will be able to answer any questions relating to the Equity Loan.

Who do I speak to if I have any questions about my mortgage?

You should contact No1 CopperPot if you have any questions about your mortgage. Further Information Speak to your local Help to Buy agent and participating developers to find out more about the Help to Buy Equity Loan scheme. Details of your local Help to Buy agent can be found on the Help to Buy website below together with further information about the scheme.

http://www.helptobuy.org.uk/help_to_buy.aspx

You should also speak to a Financial/Mortgage Adviser where you can discuss your financial circumstances and decide whether a mortgage under the scheme is right for you.