

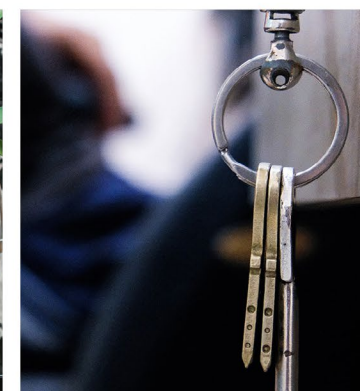
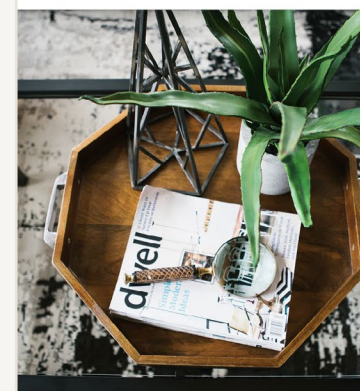
RESIDENTIAL MORTGAGES

THE TRUTH ABOUT HELP TO BUY?



The Help to Buy (Equity Loan) scheme is a government initiative created to help those who can only raise a small deposit towards buying a new build house or flat. With Help to Buy, the Government lends you up to 20% of the cost of your newly built home, so you will only need a 5% cash deposit and a 75% mortgage to make up the rest. In London the maximum equity loan amount rises to a maximum of 40% of the property value meaning you only need a 55% mortgage. Since its introduction in 2013, Help to Buy has allowed 145,000 people to buy a new build house or flat.

So how does it work? In return for their loan, the government takes a stake in your property equivalent to the percentage contribution they have made. The loan is interest free for the first 5 years but is subject to a management fee of £1 a month for the duration of the loan.



On the fifth anniversary of the loan, it is very important to note that your loan becomes eligible for interest payments at 1.75%. At first glance, that may not seem like much but since neither the management fee nor the interest fees are capital repayments, your loan amount does not decrease. Also, your loan amount will most likely have increased as it is linked to the value of your house. Therefore, after five years your loan amount might have increased along with the associated interest payments requiring you to review your finances to cover your loan payments.

Before you start to worry, you have three ways to repay the loan. The first is simply to sell your property after 5 years, repay both the mortgage and the equity loan from the proceeds and use the remainder to fund the deposit for your next property purchase. The second is to re-mortgage the property and to use the additional funds to repay the loan thus financing the entire property in a traditional way. The final option is to make capital repayments on the loan either before interest fees are due reducing the amount of interest payable or after the 5 year anniversary until the loan is repaid in full.



Whichever method you chose, it is critical you obtain the right advice from your financial consultant before you commit to any mortgage or loan. Our advisors at Arc & Co. have considerable experience in the Help to Buy scheme and will talk you through your options to make sure you have something in place to clear off the equity loan before you start to pay interest on it.

LET US HELP YOU FUTURE PROOF YOUR MORTGAGE



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Alistair has been in financial services since 2004. He started his career with RBS progressing to Santander then John Charcol before joining Arc & Co. in July 2017. Alistair specialises in complex cases, often involving multiple income streams, unusual properties or nonstandard personal situations. As well as providing quality, individual advice to his clients, Alistair prides himself on his customer service, economic understanding and industry knowledge. Throughout his career Alistair has built up strong relationships with underwriters at a number of smaller, bespoke lenders, allowing him to advise and find solutions for difficult cases. If you are considering the Help to Buy scheme or would like some advice on your options for a mortgage, please get in touch with Alistair.