



Getting onto the property ladder with a Help to Buy: Equity Loan

The Help to Buy: Equity Loan is a government funded scheme which started in April 2013. It is intended to help first-time buyers purchase a home. It offers buyers the option to pay a 5% deposit on a new build property, and the Government offers 20% of the sale price of the home.

In simple terms:

- You put down a 5% deposit on a new-build house
- The government contributes 20% of the sale price of your home
- You'd need to borrow 75% of the sale price, by taking out a mortgage.

For example, say the cost of your new home is £200,000

- Your 5% deposit = £10,000 – this is the money you'll need to save for your first property
- Your 20% Equity Loan = £40,000 – this is the money the government will lend you for your first property
- Your 75% mortgage = £150,000 – this is the money your mortgage lender will provide

Paying back the Equity Loan

To avoid paying back any fees, you'll have to pay back the equity loan within the first 5 years. Otherwise, on the 6th year, you'll be charged 1.75% of the loan. On year 7 and after, you'll be charged 1.75% + RPI + 1%.

One of the payment options is to pay back in instalments (also known as staircasing). This will reduce your fees, meaning that you own a greater share of the total sale proceeds when you come to sell.

Another way to pay back the loan is in one lump sum. If you do that in the first 5 years, you'll have no interest to pay, and you'll own the property much quicker.

When it comes to selling your house

You'll need to pay back the equity loan when you sell the property and also after 25 years of owning the property.

Because this is an Equity Loan, the government will own 20% of your property. You'll have to pay back 20% of the sale fee. This means that if house prices rise you'll owe more money. Likewise, if house prices drop, you'll owe the government less than you borrowed.

Help to Buy in London

Instead of a borrowing 20% of a property as an equity loan, in London, the government has introduced a scheme that lets you borrow up to 40% of the property value as an equity loan. This is because house prices are more expensive.

You'll still need to save a 5% deposit, but you'll only need a mortgage for 55% of the property. Everything else works in the same way as the standard Help to Buy: Equity Loan above.