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Your guide to Help to Buy

Which? Mortgage Advisers

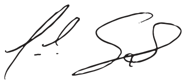
Welcome

This guide is brought to you by Which? Mortgage Advisers. It's packed with information on the government's Help to Buy scheme and covers all the options available, so that you can make the right decision when you're buying your new home.

The government introduced the Help to Buy scheme as a response to rising house prices and it aims to help buyers with smaller deposits. While the scheme can help you get a foot on the property ladder, there are also other options out there, and it is important to understand both the pros and cons of the scheme.

The information in this guide and advice from Which? Mortgage Advisers can give you an understanding of all the options available and whether the scheme is right for you.

Speaking to a mortgage adviser will help you when making this decision. Which? Mortgage Advisers will present the best mortgage options available to you and can help anyone seeking a mortgage.



Paul Smith
Managing Director, Mortgages and Home Services

Which? Mortgage Advisers can help you understand the mortgage options available to you.

We are completely independent and will look at available mortgage products on the market. We will also review the mortgage options available on the high street, and also those lenders who only use an intermediary like us.

- We give unbiased, straight-talking advice – our advisers aren't paid commission.
- We'll research the market for you to find you the best deal, and help you save money if you're switching mortgages.
- Your first consultation is free.

Find the right mortgage for you – call Which? Mortgage Advisers on 0800 912 8813

Phone lines are open Mon-Fri 9am-6pm (excl. bank holidays) and Sat 9am-1pm.

Who we are: Which? Mortgage Advisers is a trading name of Which? Financial Services Limited, Registered Office: 2 Marylebone Road, London NW1 4DF. Registered in England and Wales No. 7239342. Which? Financial Services Limited is authorised and regulated by the Financial Conduct Authority (No. 527029).

Your home may be repossessed if you do not keep up repayments on your mortgage.

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Introducing Help to Buy

First-time buyers can now find help to get on the property ladder with a host of schemes and offers. The government's Help to Buy scheme is one option – read on for more information

Foot on the ladder

With house prices increasing significantly over the past few years, getting onto the property ladder has proved difficult for first-time buyers. The government's Help to Buy scheme was launched in 2013 to help remedy this. And so far, 220,000 people have been able to buy a home using Help to Buy products, including equity loans, mortgage guarantees and Isas.

Parts of the scheme

Help to Buy aims to support people who could afford to pay a mortgage but are having difficulty raising a deposit. The scheme formed the centrepiece of a package of financial support for the housing market announced by the Chancellor in the 2013 Budget.

The first part, the Help to Buy equity loan scheme, is tailored for people with small deposits, but it can only be used when buying new-build homes. As of September 2016, just over 100,000 homes had been bought using this scheme, with 80,000 of these purchased by first-time buyers. For buyers in the capital, London Help to Buy offers a bigger equity loan to reflect the city's higher house prices.

The second part of the scheme, the Help to Buy mortgage guarantee, has now closed.

For would-be first-time buyers who are just starting to save for a mortgage deposit, the government launched the Help to Buy Isa, which offers savers a bonus when they purchase their first home.

"Due to rising house prices, many first-time buyers are concerned that property may become too expensive for them"

Considering the options

Before getting to grips with the basics, it's important to note that Help to Buy isn't right for everyone, and you should thoroughly research your options before jumping in.

For example, there may be other products available, such as a standard mortgage offering 90% or even 95% of the value of the property. As a consequence of the credit crunch and 2014's Mortgage Market Review, lenders operate thorough credit checks, so it's important to get your credit report in shape before applying for a mortgage.

Help to Buy: the drawbacks

Those who have saved more than a 5% deposit may find more attractive products elsewhere on the market. Some experts have also expressed a concern that Help to Buy ramps up the price of new-build homes, which grew significantly faster than existing properties in 2016. The government hopes the measures to increase supply announced in the 2017 Housing White Paper will alleviate this.

Seeking advice

You are unable to take out interest-only or offset mortgages using this scheme, so if you're searching for this type of mortgage, it's best to speak to an adviser to find out more about your options. Equally, loans taken out using Help to Buy can't be used for the purchase of second homes or for mortgages for buy-to-let investors.

Before considering Help to Buy or any other type of mortgage, it's wise to speak to an independent mortgage adviser who will be able to help you understand the best options available to you.

Equity loans

Help to Buy equity loans are available to people looking to buy a new-build flat or house, and buyers in the capital can benefit from a higher loan percentage

The benefits

The Help to Buy equity loan supports first-time buyers and home movers looking for a new-build property. You can borrow 20% of a property's value from the government through the scheme, and you'll need a 5% deposit and a conventional mortgage to cover the remaining 75%.

For example, if you wanted to buy a home for £200,000 with a 5% deposit, you would need:

- A £10,000 deposit (5%).
- A £150,000 loan from a mortgage provider (75%).
- A £40,000 loan from the government (20%).

Using a Help to Buy equity loan rather than going it alone has two key benefits: you will only need a 5% deposit and, as you're only borrowing 75% from a mortgage lender, instead of up to 95%, you may be able to access better mortgage rates. That's because you'll be considered a safer prospect by mortgage lenders as you'll be borrowing a smaller proportion of the property's value.

London Help to Buy

London Help to Buy allows buyers in the capital to take out bigger equity loans than elsewhere in the country. If you're in Greater London, you can apply for an equity loan of up to 40% of the property's value, meaning you'll only need to get a mortgage for 55% of the overall cost.

What you'll pay

Help to Buy equity loans are interest-free for the first five years, but after this period you will have to pay a monthly admin fee, which starts at 1.75% of the loan. It will then rise every year by any increase in the Retail Price Index, plus 1%.

The equity loan from the government will fluctuate with the value of the property. So, over time the cost of the admin fee could become expensive, especially if inflation increases substantially. You will also be paying these fees in addition to your mortgage repayments.

You will need to repay the equity loan in full after 25 years, when your mortgage term finishes or when you sell your home – whichever happens first. You will repay the market value of the loan at the time, rather than the amount of cash that you were actually loaned (see example). You can also choose to repay part of the loan early in chunks of either 10% or 20% of the total value.

New builds

If you're interested in buying a new-build property, a Help to Buy equity loan is worth considering. To apply for one you need to contact your local Help to Buy agent. Visit the government's website helptobuy.org.uk for information on agents. More information about equity loan schemes in Wales and Scotland is available on the relevant government websites. There is no equity loan scheme in Northern Ireland at present.

An example

You could end up paying back more or less than you borrowed, depending on whether your home rises or falls in value. This is how it could work in practice:

- You take a 20% equity loan of £40,000 to buy a property worth £200,000.
- When you sell the property, it's worth £250,000.
- You repay £50,000 – this is 20% of the new value of your home, not the amount you borrowed. So you effectively lose this portion of growth in your property's value, but gain it in the remaining, larger portion.

However, if you sell the property for a similar price to what you paid, you'll repay roughly the same amount as you borrowed. And, with the effect of inflation, the value of money drops over time – so it won't be as difficult to repay the money because it's worth less in real terms.

Are you eligible?

To be eligible for a Help to Buy equity loan, you need to be looking for a new-build home and must also:

Have a deposit of at least 5%

Be looking to buy a home worth £600,000 or less

Be purchasing a property you intend to live in

Not planning to let it, or use it as a second home

Help to Buy: the pros and cons

While the scheme can give some much-needed help in a difficult housing market, it is important to be aware of the pros and cons before committing

The pros

■ **80%-95% mortgages** The government guarantee makes Help to Buy mortgages less risky for lenders, which means they are likely to offer a wider range of 80%-95% mortgages, and at potentially better rates than they would have done otherwise.

■ **You can buy a home with a 5% deposit** The so-called 'deposit gap' is one of the main barriers preventing first-time buyers from getting on to the housing ladder, but Help to Buy offers an opportunity for those who can only save a small deposit.

■ **More choice** After the financial crisis, there was a big drop in the number of mortgages available for those with small deposits. As the housing market has improved, a greater range of deals have become available for first-time buyers entering the market.

■ **Lower repayments** If you qualify and meet the lenders' criteria, the scheme should give you a valuable boost onto the property ladder, alongside affordable monthly mortgage repayments. At a time of low interest rates, it could allow you to take advantage of lower repayments than in the past.

The cons

■ **Interest rates** Mortgage lenders participating in the Help to Buy scheme are free to set their own interest rates, so there is no guarantee a Help to Buy mortgage will be the cheapest option available to you.

■ **Other mortgages** If you're looking for a mortgage at a high loan-to-value (LTV), it is worth looking at mortgages from lenders who aren't participating in the scheme.

There are also other options worth considering, such as 'parent mortgages', shared ownership or buying with friends to make home ownership more affordable. See **which.co.uk/parentmortgage** for more information.

■ **Larger deposit?** Are you able to save more than 5%? If so, there might be better deals available but, again, this is a decision that depends on your circumstances. Interest rates are generally better if you have a bigger deposit, which could save you thousands over the course of the mortgage.

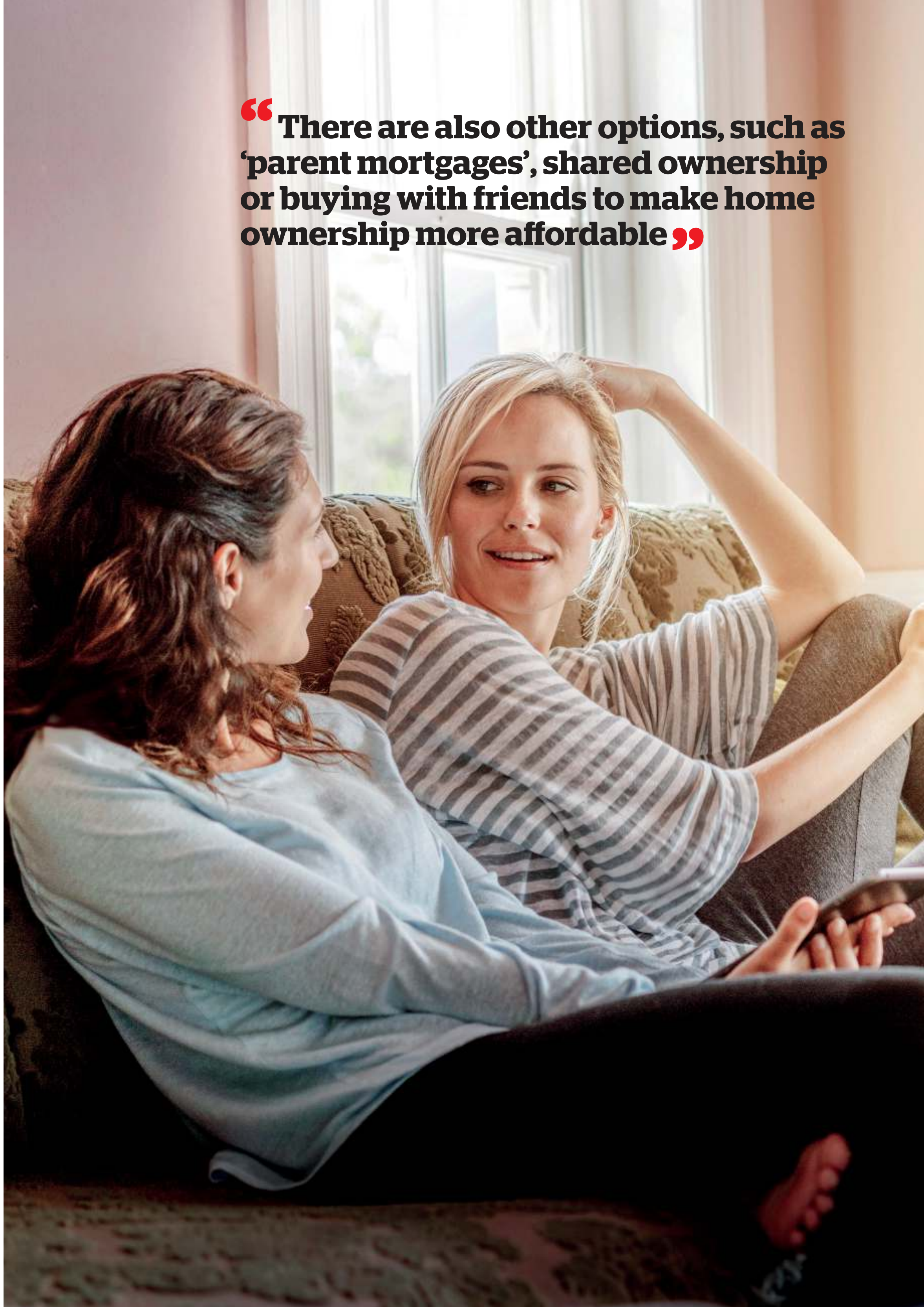
Independent advice

It's best to seek independent mortgage advice before taking out a mortgage. We pick the best deal that's right for you from more than 10,500* different mortgages.

*Based on data from Mortgage Brain showing 10,800 mortgages available at 13.03.17.

Your home may be repossessed if you do not keep up repayments on your mortgage.

"There are also other options, such as 'parent mortgages', shared ownership or buying with friends to make home ownership more affordable"



Mortgage planning

Whether you're opting for a loan under the Help to Buy scheme or taking another route, it is important to be aware of all the considerations before you go ahead with a property purchase

Budgeting

Whether you're a first-time buyer or home mover, it might seem tempting to borrow more than you can afford to buy your ideal property. But while more lenders are coming onto the market with high loan-to-value mortgages, the floodgates haven't suddenly opened overnight; lenders are still imposing strict lending criteria.

The total cost of moving can stack up – not just the deposit but also the associated costs, such as legal and mortgage fees, moving costs and stamp duty. Affordability calculators can help you work out what to expect and how far your money will stretch. Visit **which.co.uk/mortgageadvisers-calculator**.

Check your credit history

With some high street lenders only accepting borrowers with perfect credit histories, it's important for buyers to access their personal credit files and address any negative marks on these. If there are any late or missed payments, an accompanying explanatory note can help lessen the impact this might have. It's also important for individuals to have an up-to-date address history and, crucially, be registered on the electoral roll.

With many parents helping first-time buyers by putting them up while they save, you might find that you have a low credit score simply because you've never had a credit card or paid bills. Check whether you need to establish a credit history before you start house-hunting.

Questions to prepare for

No two borrowers have the exact same circumstances. You'll need to provide advisers and lenders with as much information as possible up front to enable them to establish the most suitable mortgage for you. This is especially important when there may be something slightly out of the ordinary, such as:

- If you are still in a probationary period at work, can you get an employer's reference?
- If you are self-employed, do you have two or three years of audited accounts, an SA302 tax calculation or an accountant's certificate?
- If you are currently on maternity leave, do you have a letter from your employer confirming your return-to-work date and your salary?

It's better to discuss your exact circumstances with an adviser in advance, rather than waiting to be prompted by a lender to provide them with this information.

Finding a property

The first stage of the house-buying process for many potential homeowners is searching online property portals. It's important to register with such sites to receive notifications when new properties become available. There are also websites where you can find out what properties sold for previously, and it's worth checking local papers for property listings. It's also worth seeking a recommended solicitor to avoid incompetent legal handling.

Learning about the different types of surveys available is also worthwhile. It's better to spend £1,000 checking out a property than having to spend £50,000 on rectifying any problems you discover once you've bought it.

Collating all paperwork

It pays to have all your documentation in order, saving you the time and stress of searching for bits of paper and documents at the last minute. When you apply for a mortgage, you may be asked to provide paperwork that proves the following:

Your identity
ID such as a passport or driving licence

Your residence
recent utility bills

Your earnings
your latest payslips and P60s

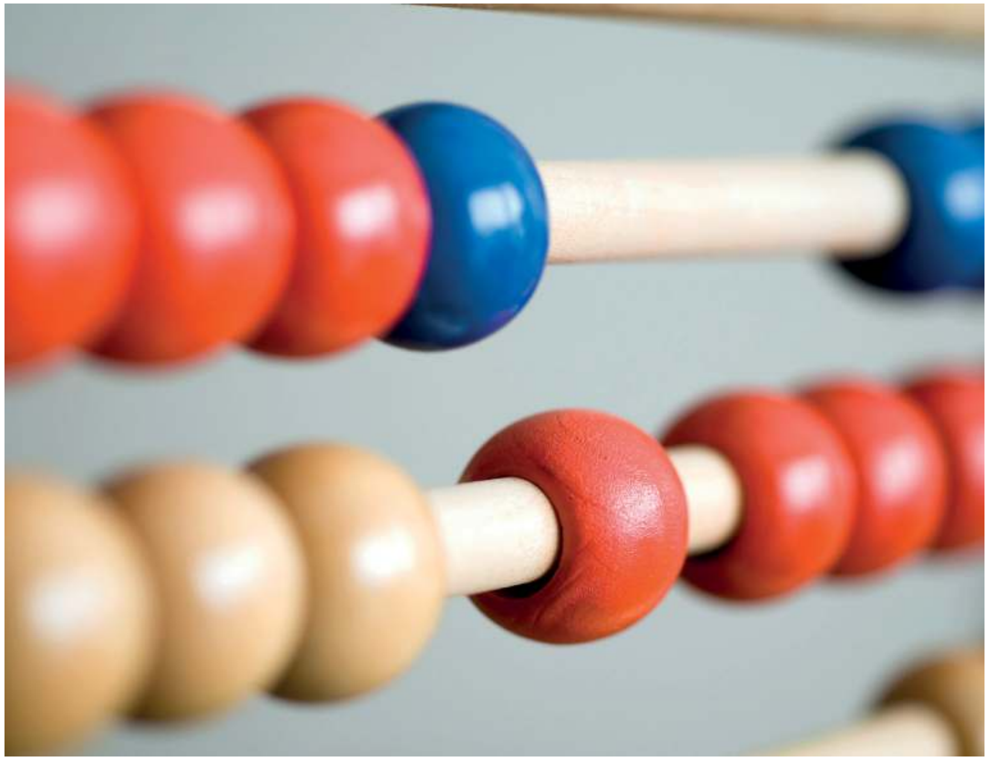
Your banking history
your latest bank statements

Your deposit
savings account statements that contain the money*

* Alternatively, as required by some lenders, if the money was a gift to you, a letter confirming how you amassed your deposit.

Financial planning

Buying a home is one of life's biggest financial transactions, but having all the facts to hand will help make the journey to picking up the keys the exciting process it should be



Budget plans

There is a range of additional one-off costs on top of the price of a property, including stamp duty, and surveyor's and solicitor's fees, alongside sums for arranging a mortgage and setting up your new home, which can add up to an eye-watering amount if you're not prepared for them.

If you're buying a home, it's helpful to create a budget plan covering all the possible fees and associated costs. Stamp duty in particular can amount to a sizeable bill, so may be a large part of your budget.

It's worth bearing in mind that fees, such as stamp duty, must be paid separately, so can't be included in the loan.

How a mortgage adviser can help

While many of these costs are one-off, a mortgage is an ongoing monthly commitment. You can use a mortgage calculator to get an initial idea of what amount you may be able to borrow, but seeking advice from a mortgage broker to find out exactly how much you may have to spend on a property is important. The next step would be to secure a mortgage approval in principle.

> **"By the time your property purchase is progressing, you may find that the mortgage deal you've decided on has disappeared, or that rates have risen"**

By going to a mortgage adviser, you can be assured you are speaking to a professional who can assess your situation and search the whole of the market for the best deal available to you.

Not only that, but by the time your property purchase is progressing, you may find that the mortgage deal you've decided on has disappeared, or that rates have risen. An adviser is focused on what's going on in the mortgage market, and will be able to chat through your best options.

An adviser can also guide you through the minefield of mortgage types. For example, a fixed-rate deal may be the best option for homeowners who want greater certainty in their monthly outgoings. These also appeal to many first-time buyers, especially if you're keen to keep your monthly repayments the same. The base rate has recently been at record lows, but a change of even 1% may make a significant difference to your monthly payments, and it's important to consider this for when your current deal ends. There are also offset, tracker and variable-rate mortgage deals to consider.

Buyers with small deposits may find it tricky to get a mortgage from a high street bank or building society. The choice of deals can be disappointing, as lenders prefer borrowers with the highest deposits, incomes and credit scores. So you may run the risk of a refusal and damage to your credit record by going down this route. Taking advice and pinning down the most suitable products for you up front could protect you from having refusals noted on your credit record.

Get in touch

By now, we hope you'll have a good idea of how mortgages work and what you need to do to get one. But it can still be a pretty daunting task. Whether you need us to explain some of the technical aspects, or whether you're ready to apply for your mortgage, we can help. Not only can we help find the right mortgage for you but, if you choose a lender who we can deal with on your behalf, we will also complete the application, send it to the lender and help you through the whole process, all for an administrative fee.*

To book a phone appointment with one of the team, give us a call on 0117 981 1624 or visit us at mortgageadvisers.which.co.uk