

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 (known as Homes England) who are the national housing regeneration agency for England.

With a Help to Buy: equity loan:

- You own 100% of the property
- It's available if you're buying your first home or moving home
- It's available on new build houses and flats/apartments

Do I qualify under the scheme?

If you can answer yes to all the following questions, and you can meet our current lending criteria, you may be able to buy a property under the scheme.

- Is the property you want to buy a newly built 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)?
- Have you saved a deposit of at least 5% of the purchase price?

How does the scheme work?

- Help to Buy: equity loan is offered by the Government to anyone looking to buy a newly built property.
- You need to have a deposit of at least 5% of the property's value. The Government provides an equity loan of up to 20% of the property's value. You then take a mortgage to cover the remaining value of the property, up to 75%. However, if you're buying a home in a London borough, you could get an equity loan of up to 40% of the property value. You'd then need to take a mortgage for the remaining value of the property, up to 55%.
- The equity loan is interest free for the first five years, after which you'll be charged interest. You can start to pay back your equity loan at any time. Please note, the minimum amount you can pay back is 10% of the value of your property at the time the payment is made.

This means you'll have two 'loans' in place to buy your home;

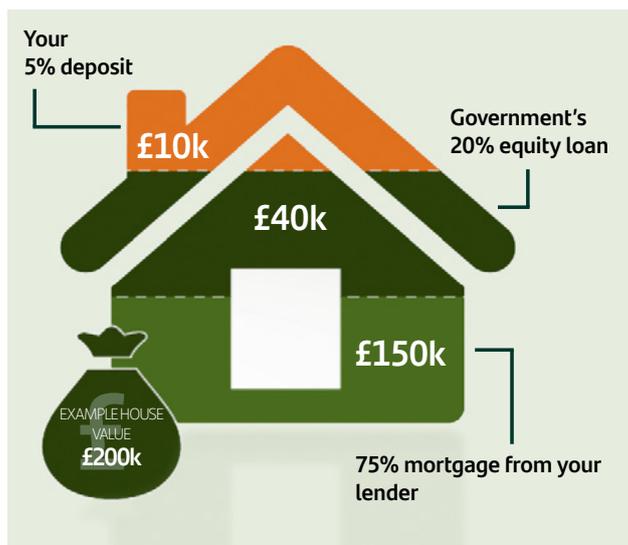
- A mortgage with Santander, and
- An equity loan from the Homes and Communities Agency (known as Homes England).

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



Repaying your equity loan (outside London)

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



Source: HM Treasury

The equity loan must be repaid after 25 years or earlier if you sell your home. You must repay the same percentage to the Government as the initial equity loan, i.e. if you took an equity loan of 20% to help buy your home, you would need to repay 20% of your home's value in the future when you came to either sell, or repay your equity loan. The diagrams below shows the amount you would repay on your equity loan which is linked to the future value of your home. Please note, the value of the equity loan could go up or down.



How is the interest calculated on my equity loan?

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

The illustrations below show how interest on the equity loan is calculated, if the annual increase in the Retail Price Index (RPI) was estimated at 5%.

- From year six, interest at 1.75% would be charged on the amount of the equity loan.
- From year seven, if the annual increase in the RPI was 5% the interest payable on the equity loan would increase by 6% (i.e. increase in RPI of 5% + 1%). So interest on the equity loan would then be charged at $(1.75\% \times 6\%) + 1.75\% = 1.86\%$

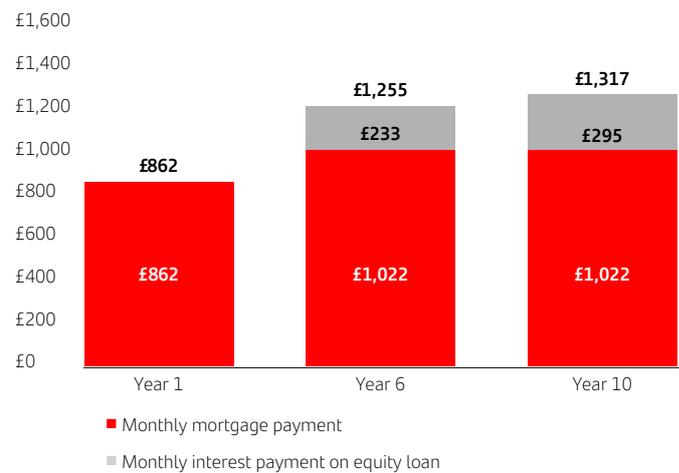
The monthly mortgage payment is based on a 30 year mortgage term with the first five years being on our 5 Year Fixed Rate Mortgage of 2.44% then changing to our Follow-on Rate (FoR), currently 4.00%. Rates correct as at 2 August 2018.

Based on property value £200k, mortgage £150k, equity loan £40k (20%) and customer deposit £10k

Outside London			
Year	Monthly interest payment on equity loan	Monthly mortgage payment	Total monthly payment
Year 1	£0	£588	£588
Year 6	£58	£697	£755
Year 10	£74	£697	£771

Based on property value £400k, mortgage £220k, equity loan £160k (40%) and customer deposit £20k

Inside London			
Year	Monthly interest payment on equity loan	Monthly mortgage payment	Total monthly payment
Year 1	£0	£862	£862
Year 6	£233	£1,022	£1,255
Year 10	£295	£1,022	£1,317



Please note, all rates are for illustrative purposes only.

How do I access the scheme?

◦ Step 1	Find a potential new home from a builder participating in the Help to Buy scheme. Properties can be found from your local Help to Buy agent's website on www.helptobuy.org.uk , or if you're visiting a new housing development, ask the builder if they're participating in the scheme.
◦ Step 2	Before paying a reservation fee speak to an Independent Financial Adviser (IFA) to get a mortgage 'Decision in Principle'. This will give you an approximate idea of the size of mortgage you could get.
◦ Step 3	Then make your reservation with the builder and, complete the 'Property Information Form', which they'll send 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 an 'Authority to Proceed' (ATP) which you'll need when you apply for your mortgage. This will be emailed to you and you'll also receive a copy in the post.
◦ Step 5	Once you've received your ATP you'll then be able to go back to your IFA and complete your mortgage application.
◦ Step 6	If your mortgage application is successful your IFA will inform you about the next steps and timescales in the process.
◦ Step 7	On completion of your home your solicitor will register a second charge on your home to cover the equity loan.

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

Important considerations

Before buying a home under the Help to Buy: equity loan scheme, there are some important points to consider:

(1) Risk of negative equity

Some newly built homes include an extra premium on the purchase price that can go down as soon as you move in. If house prices fall, you may not have enough money from selling your home to repay the mortgage and the equity loan.

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 home or remortgage to another lender unless you can meet the shortfall from savings or other sources. However, this is a risk of any high Loan to Value borrowing, not the Help to Buy: equity loan scheme itself. It's important to discuss this risk with your IFA so you fully understand what this means before making a decision.

(2) Repaying your equity loan

You must pay back the equity loan after 25 years or when you sell your home (whichever is earliest). How much you pay back will depend on the market value at that time you pay the equity loan back. It's important that you think about, and discuss with your IFA, saving enough money to make sure you can repay the equity loan in the future. You should be clear about how you plan to repay the equity loan and have a plan in place to be able to do this.

(3) Financial difficulties

You're responsible for paying your mortgage under the Help to Buy: equity loan scheme in exactly the same way as any mortgage. So you should talk to us if your circumstances change.

You're also responsible for paying the interest due on the equity loan from year six onwards until you've fully repaid the equity loan to the Government.

(4) Access to additional borrowing

If you're looking to borrow more money in the future you would need to first gain permission from the Help to Buy Agent. It's likely to be considered if you're looking to repay your equity loan.

In which case, you'll need to contact Santander to discuss your application. Any additional borrowing will be subject to status and our lending criteria at the time. It may be difficult to get additional borrowing if you have a high Loan to Value (LTV).

(5) Remortgaging (moving your mortgage from us)

If you decide in the future to move your mortgage to another lender (known as remortgaging) you'll need permission first from the Help to Buy Agent. The new lender must offer Help to Buy: equity loan mortgages and you need to inform them that your home is a Help to Buy property with a second charge on it entitling the Government to a share of money from a sale.

Not all lenders offer Help to Buy: equity loans, so you may be restricted in the number of lenders to choose from. Your IFA should be able to let you know 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 Help to Buy Agent and your IFA to understand all of your available options so that you can decide what is best for you.

How much can I borrow?

The amount you can borrow will depend on your individual circumstances and on our lending criteria at the time of your application. You'll need to check with your IFA 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: equity loan scheme.

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

No. Help to Buy is only available on homes which are occupied by those people named on the mortgage.

Can I use Help to Buy if I already own another property?

If you already own another property and you don't want to sell then you're unable to use the Help to Buy: equity loan 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 Homes and Communities Agency (known as Homes England). You'll receive an annual statement from them, and they'll be able to answer any questions you have about your equity loan.

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

You should contact us if you have any questions about your mortgage.

Further information

Speak to your local Help to Buy Agent and participating builders to find out more about the Help to Buy: equity loan scheme.

Details about the scheme and your local Help to Buy Agent can be found on the Help to Buy website www.helptobuy.org.uk.

You should also speak to an IFA where you can discuss your financial circumstances and decide whether a mortgage under this scheme is right for you.

Glossary

- **Authority to Proceed (ATP)** is the approval from the Help to Buy Agent that your equity loan application has been successful. You need this before you can apply for a mortgage and it relates to a specific property.
- **Independent Financial Adviser (IFA)** is an independent individual or company who would provide impartial advice on your mortgage options.
- **Help to Buy Agents** are registered providers appointed by the Homes and Communities Agency (known as Homes England). Your local Help to Buy Agent is there to guide you through the options available and explain the eligibility and affordability criteria of the Help to Buy scheme. Details of your local Help to Buy Agent can be found at www.helptobuy.org.uk
- **Homes and Communities Agency (known as Homes England)** is the national housing and regeneration agency; and the regulator of social housing providers in England.
- **Loan to Value (LTV)** is the percentage of your mortgage to the value of your home. For instance, if your home is worth £100,000 and you're borrowing £75,000, your Loan to Value (LTV) is 75%.
- **Negative Equity** is where the value of your home is less than the amount of money you owe on it. This means you would not be able to repay the outstanding mortgage/loan on your home when you sold it and you would be left with a shortfall to pay.
- **Retail Price Index (RPI)** is the 'headline rate of inflation'. It's calculated by taking a 'shopping basket' of goods and services and working out the average price and seeing how that changes over time. Inflation shows an increase in prices over time.
- **Second charge** is a secured loan against your home. When your home is sold, the first charge (your mortgage), is cleared in full before any money remaining goes to the second charge (the equity loan). You would receive any money that was left after both of the 'loans' had been repaid.

All applications are subject to status and our lending criteria.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

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