

AMI Factsheet: Help to Buy: Equity Loan

Introduction

This factsheet has been prepared by the Association of Mortgage Intermediaries to provide an introduction to the issues for firms to consider when advising existing customers of the Help to Buy: Equity Loan scheme in England. It is not a full guide to the scheme nor is it intended to provide an exhaustive list of considerations as this will ultimately depend on each individual's needs and circumstances.

This factsheet refers to the Help to Buy schemes in England. Information on the government supported schemes in Scotland and Wales can be found in the Useful Support Material section.

Background

The government's Help to Buy (H2B) initiatives currently open to applications comprise:

- Equity loan (open to new customers until 2021)
- Shared ownership
- ISA (open to new savers until 2019 – for more information, see our Help to Buy and Lifetime ISA factsheet)
- Forces Help to Buy (ends 2018)

The H2B equity loan is interest free for the first five years. In the sixth year a rate of 1.75% applies, which increases each subsequent year by the increase in the Retail Prices Index (if any) plus 1%. With the H2B equity loan scheme launched in April 2013, many customers may now be looking to remortgage. The government's Homes and Communities Agency (also known as Homes England) is responsible for issuing the equity loans, which Target Services administers on its behalf. If a customer with an equity loan wants to remortgage or take out a further advance to repay all or part of the equity loan, consent from Homes England (and sometimes the lender) needs to be obtained. For some a product transfer, where this is available, might be appropriate.

Customers can review their options at any point in the cycle, and whilst an obvious point might be at the end of the five year interest free loan period, transferring product, remortgaging, staircasing or redeeming can be considered at any time.

Advice considerations for remortgaging and further advances

At the point of remortgaging or taking out a further advance the customer's circumstances should be re-assessed. This should include the ability to make part repayments (staircasing) or full settlement of the H2B equity loan, and whether this would be beneficial for the customer. The advice should not only take into account the reduction in the cost of the loan and changed mortgage cost, but also the increased share of the proceeds when the property is sold.

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The scheme allows customers to use additional borrowing from the mortgage to repay the equity loan. Staircasing payments must be a minimum of 10% of the current property value and will be subject to a Homes England administration charge, conveyancing costs and a valuation fee.

Remortgages that don't include additional borrowing do not normally require a valuation for Homes England.

The property valuation is key in determining whether the customer is able to remortgage or take out a further advance. Advice will also depend on product availability; whether the existing lender can offer a product transfer combined with a further advance compared to the suitability of a remortgage. If house prices have gone up since the equity loan was taken out, the customer will owe Homes England more. But if house prices have fallen then the customer will owe less, as the equity loan is based on Homes England being entitled to a share of future sale proceeds.

If the customer has the ability to redeem or reduce the equity loan due to appreciation in the property value and improved affordability, either by using their own funds or increasing the first charge mortgage, the advice should cover whether this would be suitable.

If the value of the property has declined, customers may not be able to repay any of the equity loan. The mortgage rate may also be affected by the change in loan-to-value. If the customer cannot remortgage nor will their lender offer a further advance and product transfer, **we would like to know about this**. We are concerned if there are help to buy mortgage prisoners who have no option but to revert to a lender's standard variable rate.

Remortgaging will be subject to a Homes England administration charge. When paying back the equity loan, either through staircasing or when selling the property, the amount owed to Homes England depends on the most recent valuation, which will have to be paid for and obtained by the customer independently of a lender or estate agent and from a RICS qualified surveyor.

Under current H2B contracts the remaining term for any remortgage is not dictated by a predetermined term of the equity loan. The term of the first charge will dictate the repayment date of the equity loan. If a remortgage term longer than the remaining term on the existing mortgage is being considered this should be agreed with the Homes England agent.

Regardless of whether a customer is remortgaging, conversations with customers should sufficiently explain changes in monthly payments. This should include the impact of the equity loan interest rate and charges, and the increase or decrease in the mortgage rate.

Summary

Conversations with existing customers of the Help to Buy equity loan scheme will be detailed and are more complex than other remortgage cases. There are a number of considerations to be made such as the property valuation, ability to repay the equity loan, availability and cost of mortgage products, estimated ongoing costs of the equity loan, and any plans to sell the property. Although it is not necessarily within the scope of the advice to make a recommendation purely based on inflation estimates, the discussion should still take place. The Help to Buy buyer's guide (below) includes illustrations of how the fees and increases in interest rates are applied.

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Useful support material

England

- Help to Buy [buyer's guide](#)
- [Guidance](#) for customers who have already bought their home through one of the government's Help to Buy initiatives and how to remortgage
- [List](#) of Homes England administration charges
- [Information](#) on the different Help to Buy schemes available
- General [information](#) on affordable home ownership schemes
- [Guide](#) on the Help to Buy scheme for armed forces personnel

UK

- [Information](#) on Help to Buy (Scotland)
- [Information](#) on Help to Buy (Wales)

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