

Help to Buy – terms and conditions

Help to Buy means you could afford to buy a brand new home with an equity loan of up to 20%, meaning you may only need a mortgage of 75% and a deposit of just 5%

The Help to Buy scheme is a Government-backed initiative for first-time buyers, as well as people moving up the property ladder. The scheme is available on new build homes valued up to a maximum of £600,000 to all UK residents, of any age. All you will need is a 5% deposit and a 75% mortgage from a bank or building society. The balance of up to 20% will be covered by a Government equity loan. This equity loan is interest-free for the first five years after which there is an interest charge of 1.75% on the loan.

Valuations and the purchase price

This offer is only available on selected new build plots and developments. Help to buy is only available on properties on capital and interest (or repayment) mortgages on properties which are occupied by the individual or individuals taking out the mortgage.

To ensure properties are sold at market value, the selling price must match the main mortgage lender's independent valuation. It is a requirement of the Help to Buy product that purchasers take out and maintain a first charge loan with a qualifying lender.

Purchasers will be required to raise funding (including a mortgage and a deposit) of not less than 80% of the property purchase price (excluding any mortgage fees). The property will be subject to a first charge in favour of the mortgage company. Purchaser deposit must be a minimum of 5% after the equity loan has been applied. Mortgage lender's criteria may affect any deposit percentage and whether it applies before or after the equity loan is deducted from the purchase price.

Incentives are excluded from the assessment of the market value for the purposes of calculating the amount of equity the HCA will invest (i.e. the investment equity calculation is undertaken on the purchase price after incentives have been discounted).

Incentives could include the payment of fees or provision of white goods. Incentives will need to comply with Council of Mortgage Lenders (CML) guidance and not exceed 5% of the purchase price and therefore impact on the valuation of the property. Providers will also be required to use the CML disclosure of incentives form.

Charges on the equity loan

The HCA will provide an equity loan to eligible purchasers of not less than 10% and not more than 20% of the purchase price subject to the terms of the equity loan agreement. Based on the maximum purchase price of £600,000, the HCA will therefore provide an equity loan of up to £120,000. The equity loan provided by the HCA will be secured by a second charge on the property behind the first charge.

Help to Buy purchasers will not pay a fee on the HCA equity loan for the first five years. From the beginning of year six an annual fee of 1.75% will be levied on the equity loan payable in monthly instalments. The annual fee of 1.75% of the market value of the property at the time of sale will be uplifted by RPI + 1% p.a.

The purchaser may repay the equity loan to the HCA at any time following legal completion. Repayment whether in full or by instalments will be based on the market value of the property at the time of the repayment(s) and the purchaser will have to arrange and pay for the valuation of the property at that time. The minimum instalment value is 10% of the total of the equity loans. The equity loan must be repaid within 25 years of legal completion of the purchase of the property whether the property is sold or not.

Detailed terms and conditions apply to the equity loan which will be made available to the purchaser via their legal advisors as part of the conveyancing process.

Future sales or equity loan redemptions

If a buyer opts to sell the property prior to the redemption date (of 25 years), or redeems their main mortgage prior to that period (without immediately refinancing) the equity loan is to be repaid. The amount payable is based on the relevant percentage share of the market value of the property at the time the loan is repaid. Owners may redeem the equity loans ("staircase out") at any time in full or in part, earlier, if they wish.

The minimum amount for equity loan redemption will be 5%.

An example of how Help to Buy will work in a rising market is as follows:

Initial purchase

Purchase price: £200,000
Mortgage: £150,000 (75%)
Deposit: £10,000 (5%)
Equity loan: £40,000 (20%)

For the first five years the equity loan is charge free. At the start of year 6 an equity charge is levied of 1.75% rising at RPI + 1% per year.

Sale after 5 years

OMV: £210,000 (a 5% uplift in value).
Mortgage repayment: £150,000.
Equity loan: 20% of OMV = £42,000

Remainder available to the purchaser to use as a deposit = £18,000 for their next purchase.

HCA recognises that the value of homes can also fall. It is intended that HCA will accept the equity depreciation as well as the benefit from any appreciation. Therefore, as long as an owner has otherwise complied with the terms of the mortgage, the HCA will not pursue the owner for payment if there is a shortfall when the mortgage is redeemed.

As the equity loan is a second charge, the first lender will always recover up to the full amount due under its loan before the second charge holder has any rights to the proceeds of the sale. In circumstances where house prices have fallen since the initial purchase, Help to Buy provides an extra cushion for the homeowner against negative equity.

An example of how Help to Buy will work in a falling market is as follows:-

Initial purchase

Purchase price: £200,000.
Mortgage: £150,000 (75%).
Deposit: £10,000 (5%)
Equity loan: £40,000 (20%).

For the first five years the equity loan is charge free. At the start of year 6 a low equity charge is levied of 1.75% rising at RPI + 1% per year.

Sale after 5 years

OMV: £180,000 (a 10% fall in value).
Mortgage repayment: £150,000.
Equity loan: 20% of OMV = £30,000.

The HCA absorbs a £10,000 loss. The purchaser receives no capital and loses their deposit.

Applicant affordability criteria

Help to Buy is targeted at providing support for first time buyers and those selling to move up the property ladder. Applicants for Help to Buy will be required to undergo an affordability check with a HomeBuy Agent, to ensure they can afford to sustain home ownership.

The maximum equity loan which a purchaser will be able to access is 20%. However, the purchaser may wish to maximise the amount of their contribution (mortgage plus deposit) which they can reasonably afford. Where this is the case, the minimum (total) equity loan allowable will be 10% combined with 90% finance (mortgage plus deposit) to fund the purchase.

Main lender mortgage deposit requirements will vary but as a minimum, buyers must contribute at least 5% deposit of the full purchase price. Main lender mortgages must always be on repayment basis. Purchasers are not permitted to take out an interest-only mortgage.

Role of HomeBuy Agents

HomeBuy Agents will review applications from potential buyers and determine whether applicants meet the minimum affordability criteria for assistance through Help to Buy.

HomeBuy Agents undertake an affordability check designed to ensure that an applicant can afford their financial contribution to the purchase. This is based on a maximum of 45% for housing costs as a proportion of net available income. HCA believes this approach provides a robust assessment of an applicant's ability to afford and sustain home ownership in the long term and protects tax payer assistance to purchasers.

HomeBuy Agents will issue their approval for a Help to Buy purchase to proceed to the applicant and the registered house builder Provider. Potential purchasers are strongly encouraged to seek independent financial and legal advice before they purchase. Local HomeBuy Agents and Providers will often be able to 'signpost' purchasers to potential advisors although potential purchasers are not restricted in their choice of advisors. However, Local HomeBuy Agents will have the final say in determining whether a buyer is deemed to be able to satisfy the affordability and eligibility criteria for the Help to Buy product.

A Post Sales HomeBuy Agent (Housing Options Plus – HOP) is engaged by the HCA to collect the interest charges for each of the equity loans once those become due, and to deliver after sales services.

General terms and conditions

Any promoted offer is subject to contract and status. Offers are on selected plots only and are subject to availability. The offers advertised cannot be used in conjunction with any other offer on the same plot unless expressly stated otherwise. Prices and

details are correct at time of going to press. All images are typical of our new developments and are for illustrative purposes only. Please contact the development in which you are interested for further details.

Centra Living reserve the right to withdraw or alter any of these offers at any time prior to the payment of a reservation fee. Contracts must be exchanged within 28 days of reservation of your property. Failure to do so may result in the loss of all or part of your reservation fee.

The current specific offers being advertised in relation to selected Centra Living developments are also subject to the specific terms and conditions set out above (N.B. these offers may vary from time to time and you should refer to the development in which you are interested to discover which offers are available on specific plots and developments).

Centra Living will not be liable for the refusal of a mortgage based on the borrower's individual circumstances which leads to the loss of any reservation fee. Centra Living will not be responsible for the failure of any deal due to any defects in your existing property which arise as a result of an inspection or survey.

These terms and conditions do not affect your statutory rights.

Centra Living is a sales brand name representing subsidiaries of Circle Housing.