



The homebuyers' guide to the

Help to Buy: Equity Loan

2021–2023





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Your guide to Help to Buy: Equity Loan

As a first-time buyer searching for a newly built home, you may need a little financial help. With the government's Help to Buy: Equity Loan scheme, buying your own home could become a reality.

This guide provides useful information about the Help to Buy: Equity Loan (2021-2023) scheme, a government home-ownership scheme. It will help you to understand what is involved in taking out an equity loan, how it works and how to apply.

Information in this guide is about how the Help to Buy: Equity Loan scheme (Help to Buy) works for homebuyers in England. Separate schemes are available in Wales and Scotland.



This guide is for information only and must not be considered as advice. Consider getting independent financial advice about whether Help to Buy is right for you.

What is the Help to Buy: Equity Loan scheme?

This is a government scheme for first-time buyers. It provides a loan, called an equity loan, that you put towards the cost of buying a new build.

A **new build** is a newly built home, including converted commercial premises and conversions of buildings which have never been used as homes.

Properties split into flats do not count as new builds.

Help to Buy cannot be used to buy a home that has been lived in before.

Help to Buy aims to help first-time buyers to get on the property ladder.

If you're eligible for an equity loan, you can borrow up to 20% (40% if you're in London) of the market value of a new build.

The **market value** is:

- the value of the home, as determined by an independent organisation called the Royal Institution of Chartered Surveyors (RICS), or
- the price a home sells for, whichever is higher.

During the term of the equity loan you only pay interest on the amount you borrowed. You do not pay off any of the loan itself. But you can choose to pay all or part of it off at any time. If you sell your home, you will need to pay off all of your equity loan.

You can only apply for an equity loan if you reserve a new build from any of the homebuilders registered with the Help to Buy scheme (registered homebuilders).

Who provides the equity loan?

We, the Homes and Communities Agency (trading as Homes England), provide equity loans. We are a government agency funded by the Department for Levelling Up, Housing and Communities.



Homes
England

Key things you should know before taking out an equity loan

Help to Buy is not a discount scheme or a price reduction - the cost of the home will be the same whether or not you get an equity loan.

The equity loan is not interest-free. We do not charge interest for the first five years, but you will start to pay it from year 6.

The total amount you repay is linked to the value of your home at the time, and not the amount you originally borrowed.

You cannot have an equity loan without having a repayment mortgage in place for the duration of the equity loan.

A **mortgage** is an amount of money you borrow from a lender to put towards the price of a property. You normally borrow it for a set amount of time and pay back a set amount each month, for an agreed time.

With a repayment mortgage, you make monthly repayments which go towards paying the full amount borrowed (the capital) plus interest. The amount you owe will decrease until you have repaid the mortgage in full by the end of your mortgage term.



How does it work?

With an equity loan, we lend you between 5% and 20% (or 40% in London) of the market value of your home.

The amount you can spend on the home depends on where in England you buy it.

Maximum price for a home – April 2021 to March 2023	
Region	Maximum property price
North East	£186,100
North West	£224,400
Yorkshire and the Humber	£228,100
East Midlands	£261,900
West Midlands	£255,600
East of England	£407,400
London	£600,000
South East	£437,600
South West	£349,000

The maximum property price is the full purchase price. You cannot change or negotiate this maximum. Your homebuilder will be able to confirm if the home you want to buy is within the price range.

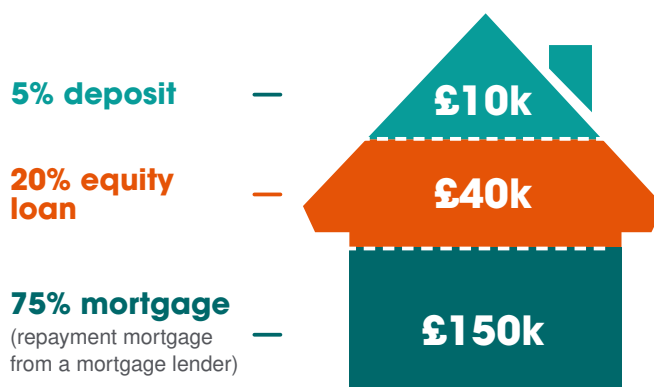
You must:

- pay a deposit of 5% of the purchase price of your new home at exchange of contracts, and
- arrange a repayment mortgage of at least 25% of the purchase price of your new home.

Exchange of contracts is when you and the seller have all the paperwork in place and you legally agree to buy the home. Your agreement to buy is legally binding.

An equity loan is secured against your property in the same way a repayment mortgage is. The Help to Buy: Equity Loan scheme is not regulated by the Financial Conduct Authority (FCA).

Example of how much your deposit, mortgage and equity loan may be if you buy a new home worth £200,000



For the first five years:

- the equity loan is interest-free, and
- you pay a £1 monthly management fee by Direct Debit.

From year 6:

- you pay the £1 monthly management fee, and
- you pay monthly interest of 1.75% of the equity loan.

You will continue to pay interest until you pay off your loan in full.

The interest rate will rise in April each year based on the rate of inflation at the time (according to the Consumer Prices Index), plus 2%. If the rate of inflation is 0% or less, the interest rate will rise by 2%.

Repaying the loan

You must repay the equity loan in full when you pay off your repayment mortgage, sell your home or reach the end of your loan term, which is normally 25 years.

You can pay off your equity loan in full, or make part payments, at any time before then.

Any **part payment** you choose to make on top of a monthly interest payment must be at least 10% of the market value of your home at the time. Part payments will reduce the amount you owe on the equity loan.

Funding your home purchase

Example of the deposit you pay and what you can borrow

	Home anywhere except London	Home in London
	Minimum percentage of purchase price	
Your deposit	5%	5%
Equity loan	5% – 20%	5% – 40%
Repayment mortgage	25%	25%

Example of how much your deposit, mortgage and equity loan may be

Buying anywhere except London - home with a purchase price of £200,000		
	Minimum percentage of purchase price	
Deposit	5%	£10,000
Equity loan	20%	£40,000
Repayment mortgage	75%	£150,000

Buying in London - home with a purchase price of £600,000		
	Minimum percentage of purchase price	
Deposit	5%	£30,000
Equity loan	40%	£240,000
Repayment mortgage	55%	£330,000



Am I eligible?

To be eligible for an equity loan you must be a first-time buyer and buying a new build.

You and anyone you're buying a home with must:

- not own, or have ever owned, a home or residential land now or in the past in the UK or abroad, and
- not have had any form of Sharia mortgage.

A **Sharia mortgage** is one that meets the requirements of Sharia (Islamic) law.

Quality standards

We aim to make sure that new builds bought using Help to Buy are of a high standard.

1. Consumer Code for Home Builders

All registered homebuilders must meet standards set out within the Consumer Code for Home Builders. The code is on the website at www.consumercode.co.uk.

2. New Homes Ombudsman

All registered homebuilders must sign up to New Homes Ombudsman scheme, which will launch in 2021. The scheme aims to enforce high standards and compensate homebuyers for poor building work.

3. Star rating

Registered homebuilders who are members of the Home Builders Federation (HBF) Star Rating scheme must display their star rating on all their marketing materials. The scheme awards homebuilders with stars for customer satisfaction based on homeowner feedback. HBF announce new star ratings every spring.

4. Building Safety Charter

Registered homebuilders who develop high-rise buildings must sign up to the Building a Safer Future Charter. The charter promotes practices which make living and working on new housing developments safer. To find out more, visit www.buildingasafefuture.org.uk.

5. Planning permission and building regulations

Registered homebuilders must keep to building regulations and the conditions of their planning permissions.

6. New-home warranty

Your homebuilder must give you a new-home warranty before completion.

Completion is the final stage in buying a property, and the point at which you become the owner.

You won't be able to buy your home until you have a new-home warranty. The warranty will:

- deal with any issues with the design or construction of your home (defects), which your homebuilder is legally responsible for fixing, and
- offer you, us and your mortgage lender protection.

If you have any questions about the new-home warranty, your conveyancer or homebuilder will be able to give you more information.

Restrictions on leasehold new builds

If you buy a 'leasehold' new build, you own the property, under a lease, for a fixed period. A lease is a legal agreement between you and the freeholder (the person who owns the land the new build stands on) and sets out your and their rights and responsibilities.

Help to Buy can be used for leasehold properties only in rare circumstances.

The Government has set out rules to protect you from unfair lease terms and costs when you buy a home. If you are buying a leasehold property, check with your conveyancer that the terms of the lease meet the requirements of Help to Buy. For example, homebuilders are not allowed to charge you ground rent.

Applying for an equity loan

Important points

- You will need to arrange a repayment mortgage of at least 25% of the purchase price of your new home. This is separate from the equity loan.
- If you are married, in a civil partnership, or living with a partner as if you were married, you will have to make a joint application with your husband, wife, civil partner or partner.
- You will need to sign a legal declaration to confirm that you are a first-time buyer. Your conveyancer will explain this to you.
- When you buy your home with an equity loan, you must be able to afford the monthly fee and interest payments.
- You must tell us if you or anyone you are buying with has a connection with the homebuilder, as this could affect your eligibility for an equity loan.
- If you have a large deposit and can get a mortgage without our support, think carefully about whether an equity loan is right for you. Getting independent financial advice could help you make the right choice.

Your deposit is your investment in the house you buy. Please be aware that property values can go down as well as up and you may get back less than you invested.







Buying your new home with an equity loan

Before you get started, make sure you have the funds available to pay:

- a reservation fee of up to £500
- a 5% deposit on exchange of contracts, and
- the rest of your deposit, as well as other fees (stamp duty, legal fees, mortgage fees), at completion.

Stage 1: Applying

Find your new home

Search online for new homes available to buy using Help to Buy. Look for the Help to Buy logo on homebuilders' websites.



Backed by
HM Government

Reserve your home

Reserve your home with the homebuilder and pay a reservation fee of no more than £500. This fee will be refunded if you're not approved for an equity loan. Make sure the homebuilder gives you a signed copy of the reservation form. You'll need it when you apply for the equity loan.

Get financial advice

Buying a new home can be daunting, but there are many organisations that offer free advice. Consider getting independent financial advice.

A Help to Buy agent will check if you're eligible for the scheme. They will use our Help to Buy eligibility calculator tool to check your monthly income and outgoings, including household bills and estimated mortgage repayments. You can find a Help to Buy agent on the website at www.ownyourhome.gov.uk.

Apply for your equity loan

If you're eligible for an equity loan and can afford the monthly fee and interest payments on top of your other outgoings, your Help to Buy agent will help you to apply for the equity loan.

You will need to fill in a Property Information Form to provide personal and financial information, such as your income and details of the property, your proposed repayment mortgage and your deposit. You can get a Property Information Form from your Help to Buy agent.

The information you provide must be true. Providing false information will lead to delays and could be considered to be fraud, which is a criminal offence.

Send your signed Property Information Form and a copy of the signed reservation form to your Help to Buy agent.



Stage 2: Authority to Proceed

Get Authority to Proceed

If your application is approved, your Help to Buy agent will give you an Authority to Proceed. An Authority to Proceed is an official document which means you're eligible for the scheme and can progress with buying your home.

Once you have the Authority to Proceed, your conveyancer will give you legal guidance and forms for you to fill in. Return these, along with the Authority to Proceed, to the Help to Buy agent.

The Authority to Proceed is valid for three months. If it expires you will need to make another application for an equity loan.

Apply for a repayment mortgage

You are responsible for arranging your repayment mortgage. Do not apply for the mortgage until you have the Authority to Proceed. If you apply for a repayment mortgage before then and are not eligible for an equity loan, you may lose money. Your credit rating may also be affected.

Your repayment mortgage should be less than 4.5 times your annual income (before tax).

If your home is worth less than when you bought it, it may affect your ability to pay off your repayment mortgage. Consider talking to a financial adviser about what you could do if this happens.

Your home could be at risk if you do not keep up with repayments on your mortgage.



Stage 3: Exchange of contracts

When you have the Authority to Proceed, your conveyancer will receive necessary legal information and forms for you to fill in and send to your Help to Buy agent.

Your conveyancer will do the following

- Explain the equity loan contract and your legal responsibilities. They will remind you that your application must have been accurate and true, and give you the opportunity to correct any issues. Giving false or misleading information could be fraud. This is a criminal offence and you may have to repay the equity loan
- Ask you to sign the sale contract, the equity loan contract, and a declaration to confirm that you and anyone you're buying with are first-time buyers.
- Make sure your mortgage offer, the property price and your deposit are the same as shown in our Authority to Proceed.
- Ask your Help to Buy agent for permission to exchange contracts.

Your Help to Buy agent will do the following

- Check all the paperwork is correct and send your conveyancer an Authority to Exchange (ATE) so they can go ahead with exchanging contracts.

You must do the following

- Pay at least 5% of your deposit.

When contracts are exchanged, you will be legally bound to buy your new home, usually by an agreed date (the completion date). You should speak to your conveyancer about making sure your repayment mortgage offer does not end before the completion date.

Once you have exchanged contracts you may have to pay costs if you change your mind about buying the home.

Home visits

You can visit your new home once you have exchanged contracts. Your homebuilder will arrange this for you. This will give you a chance to confirm any last-minute details or changes before you move in. Speak to your conveyancer or your homebuilder for more information about home visits.



Stage 4: Completion

At completion:

- you pay the rest of your deposit (if your deposit is more than 5%)
- your lender pays the homebuilder the full amount of the repayment mortgage
- we pay your equity loan to the homebuilder, and
- you legally own your new home and can move in.

The legal charges will be recorded with HM Land Registry and will be shown on the title deeds (ownership documents) for your home. The legal charges will not be removed until you have paid off your equity loan and your repayment mortgage.

An equity loan is secured against your property in the same way a repayment mortgage is. This means that if you do not keep up with repayments, you may be at risk of losing your home.



Your home may be repossessed if you do not keep up repayments on your repayment mortgage, equity loan or other loans secured against your home. Consider getting independent financial advice before making any financial decisions.

Equity loan administrator

After completion, your Help to Buy agent will pass your details to our equity loan administrator. They will:

- set up your Direct Debit to pay the £1 monthly management fee
- arrange for you to pay fees and interest payments on your equity loan (after the first five years)
- help you if you want to pay off some or all of your equity loan, and
- help you if you want to make changes to your equity loan account.

How long does it take to buy a new home with an equity loan?

When you get our authority to proceed you have three months to exchange contracts.

You must complete buying your home within six months of exchanging contracts.

Once you have exchanged contracts, you may have to pay costs if you change your mind about buying the home.





Repaying your equity loan

When you take out your equity loan, you agree to repay it in full, plus interest and management fees.

You must repay your equity loan in full when any one of the following happens.

- The equity loan term ends
- You pay off your repayment mortgage
- You sell your home
- We ask you to repay the loan in full (if you have not kept to the conditions of the equity loan contract).

You cannot make regular monthly payments towards paying off the equity loan. However, you can pay off all of your equity loan, or make part payments, at any time. If you want to do this, contact the equity loan administrator.



You may pay back more than you borrow

The amount you borrow is based on the market value of your new home when you buy it.

When you repay some or all of your equity loan, the amount you pay is worked out as a percentage of the market value at that time.

If the market value of your home increases, so does the amount you have to repay. And if the value of your home falls, the amount you have to pay also falls.

Work out what you need to repay

You can pay off all or part of your equity loan at any time. You can make part payments of at least 10% of the full repayment amount, based on what your home is worth at the time, to reduce how much you owe.

For you to make a payment, we need to know the current market value of your home. You will need to get a Royal Institution of Chartered Surveyors (RICS) valuation report from a qualified surveyor who has estimated the value of your home, based on its condition and the current housing market.

If you are repaying the full equity loan after selling your home, the amount you pay will be based on:

- the market value of your home, as set out in a RICS valuation report, or
- the price you sold the home for,

whichever is higher.



Understanding your interest payments

We charge interest on the equity loan we provide.

Your monthly interest payments do not go towards paying off your equity loan.

- You start to pay interest from year 6.
- Your first interest payment will be taken on the fifth anniversary of the completion date and will be 1.75% of the amount you borrowed.
- The interest rate will rise in April each year based on the rate of inflation at the time (according to the Consumer Prices Index) plus 2%. If the rate of inflation is 0% or less, the interest rate will rise by 2%.

How monthly interest payments are worked out

We first multiply the amount of the **equity loan outstanding** by the current **interest rate**. This gives the annual interest due.

We then divide the annual figure by 12.¹

Example

Market value of your home when you bought it:
£200,000

Equity loan borrowed: £40,000 (20%)

Interest rate charged in year 6: 1.75%.

So to work out your monthly interest payments, the sum is:

$(£40,000 \times 1.75\%) \div 12 = £58.33$ interest every month in year 6.

¹ We work out interest using the Consumer Prices Index (all items) published by the Office for National Statistics. Go to [the ONS website](#) and search for Table 20b in the contents list.

The table below shows typical annual interest and monthly payments for the example above, if the rate of inflation were 2.5%.

	Annual interest	Monthly payments
Year 1 to 5		
No interest payments	£0	£0
Year 6		
1.75%	£700.00	£58.33
Year 7		
1.83%	£732.00	£61.00
Year 8		
1.91%	£764.00	£63.67

These payments are on top of your monthly management fee.



Differences in interest payments

You will pay slightly less interest if you take out an equity loan at the start of the year, and slightly more interest if you take it out later.

Your interest payments start in year 6, on the fifth anniversary of your equity loan being paid to the homebuilder.

- If the fifth anniversary is between **1 April and 31 December**, the first interest rate rise will be the following April. For example, if your equity loan was paid to the homebuilder on 1 June 2022, interest payments would start on 1 June 2027 (the fifth anniversary and the start of year 6) and the interest rate would increase in April 2028. **This means your interest would rise in less than 12 months, so you would pay more interest overall.**
- If the fifth anniversary is between **1 January and 31 March**, the first interest rate rise will be in April of the following year. For example, if your equity loan was paid to the homebuilder on 1 January 2022, interest payments would start on 1 January 2027 (the fifth anniversary and the start of year 6) and the interest rate would increase in April 2028. **This means you would pay a lower rate of interest for slightly longer.**



Equity loan fees and costs

When you apply for an equity loan you agree to pay interest and other fees and costs. These include the following.

Monthly management fee

When your equity loan starts you must pay a £1 monthly fee. This is paid by direct debit until you pay off the full equity loan.

Administration fees

You pay administration fees for making changes to your equity loan, such as making a part payment. You can find the current Help to Buy: Equity Loan administration fees on our website at www.gov.uk/manage-equity-loan.

Costs for late payment

We may charge interest on overdue amounts you owe us. We will apply that interest every day until the money you owe is paid in full. You may also have to pay other reasonable costs if we need to take action against you to collect amounts you owe us.

We collect interest and management fee payments by Direct Debit. This helps to keep your payment details up to date. The payments are managed by our equity loan administrator.

Equity loans and repayment mortgages

Equity loans from Help to Buy normally have a term of 25 years. If you choose to remortgage (by switching your mortgage to a different lender or switching to a different mortgage deal with your current lender), you will need to get our permission first.

You may want to switch mortgage deal without borrowing more, and we would usually allow this.

If you want to borrow more we will only consider agreeing to this if you use the extra money to:

- pay off all or part of your equity loan
- pay for structural alterations that need to be made to your home for medical reasons
- pay to remove or add a homebuyer to the equity loan agreement (see next section), or
- pay for other personal circumstances that you agree with us.

If your new mortgage deal is for more than 25 years, we will extend the term of your equity loan to match it.



Consider getting independent financial advice to make sure you understand how a new mortgage deal may affect your equity loan and the interest payments.

Add and remove homebuyers from the equity loan

If we give our permission, you can add or remove a homebuyer from the equity loan contract. This is known as a 'Transfer of Equity'. At least one of the homebuyers named in the equity loan contract must stay the same, and not be removed, throughout the term of the equity loan.

Homebuyers who are added to the equity loan contract must meet the Help to Buy eligibility criteria shown on page 10.



Structural alterations

You cannot make structural alterations to your home, such as adding an extension or converting a bedroom into a bathroom, without our permission.

We will only give permission for structural alterations that are needed for medical reasons.

Structural alterations can increase the market value of your home, and your equity loan is linked to the value of your home.

- If you make structural alterations without our permission, and they increase the value of your home, the equity loan amount you owe will increase.
- If we give you permission to make structural alterations, and they increase the value of your home, when we work out how much you owe on your equity loan we will ignore the increase in value relating to the alteration.

Redecorating or fitting a new kitchen or bathroom is not a structural alteration, and you do not need our permission for this.

You have the option of paying off your equity loan before you make structural alterations.

Other restrictions

You are not allowed to sublet your home (move out and rent the whole property out to another person) without our permission.

You must have building insurance for your home, keep your home in a good state of repair, and keep to all other conditions of the insurance policy.

You cannot sell your home or pay off your mortgage without repaying the equity loan in full.





Changes in the housing market could affect your property price

House prices can go up and down. As your equity loan is linked to the market value of your home, any change in property prices can affect the amount you have to repay. Examples 1 and 2 below show what could happen if property prices increase.

Example 1 - increase in property price of a Help to Buy home outside London

Price the property was bought for: **£200,000**

Deposit paid by the buyer: **£10,000**

Equity loan: **£40,000** (20% of purchase price)

Repayment mortgage: **£150,000**

The table below shows the amount of equity loan that would have to be repaid when the property was sold if property prices had increased by 2% every year.

	Market value	Increase in property prices	Equity loan that would need to be repaid (20% of market value)
Year 1	£200,000	–	£40,000
Year 2	£204,000	2%	£40,800
Year 3	£208,080	2%	£41,616
Year 4	£212,242	2%	£42,448
Year 5	£216,486	2%	£43,297
Year 6	£220,816	2%	£44,163



Example 2 - increase in property price of a Help to Buy home in London

Price the property was bought for: **£400,000**

Deposit paid by the buyer: **£20,000**

Equity loan: **£160,000** (40% of purchase price)

Repayment mortgage: **£220,000**

The table below shows the amount of equity loan that would have to be repaid when the property was sold if property prices had increased by 2% every year.

	Market value	Increase in property prices	Equity loan that would need to be repaid (40% of market value)
Year 1	£400,000	-	£160,000
Year 2	£408,000	2%	£163,200
Year 3	£416,160	2%	£166,464
Year 4	£424,483	2%	£169,793
Year 5	£432,973	2%	£173,189
Year 6	£441,632	2%	£176,653

Changes in the housing market could affect your property price

Examples 3 and 4 below shows what could happen if property prices fall.

Example 3 – decrease in property price of a Help to Buy home outside London

Price the property was bought for: **£200,000**

Deposit paid by the buyer: **£10,000**

Equity loan: **£40,000** (20% of purchase price)

Repayment mortgage: **£150,000**

The table below shows the amount of equity loan that would have to be repaid when the property was sold if property prices had fallen by 5% every year.

	Market value	Increase in property prices	Equity loan that would need to be repaid (20% of market value)
Year 1	£200,000	–	£40,000
Year 2	£190,000	-5%	£38,000
Year 3	£180,500	-5%	£36,100
Year 4	£171,475	-5%	£34,295
Year 5	£162,901	-5%	£32,580
Year 6	£154,756	-5%	£30,951



Example 4 – decrease in property price of a Help to Buy home in London

Price the property was bought for: **£400,000**

Deposit paid by the buyer: **£20,000**

Equity loan: **£160,000** (40% of purchase price)

Repayment mortgage: **£220,000**

The table below shows the amount of equity loan that would have to be repaid when the property was sold if property prices had fallen by 5% every year.

	Market value	Increase in property prices	Equity loan that would need to be repaid (40% of market value)
Year 1	£400,000	-	£160,000
Year 2	£380,000	-5%	£152,000
Year 3	£361,000	-5%	£144,400
Year 4	£342,950	-5%	£137,180
Year 5	£325,803	-5%	£130,321
Year 6	£309,512	-5%	£123,805

To apply for an equity loan, visit <https://www.ownyourhome.gov.uk/scheme/find-a-help-to-buy-agent/> to find your local agent.

If you would like this guide in an accessible format (for example, in large print or Braille, or as an audio version), please email: enquiries@homesengland.gov.uk

This guide is for information only and must not be considered advice. Consider getting independent financial advice before making any financial decisions on whether Help to Buy: Equity Loan is right for you.

Your home may be repossessed if you do not keep up repayments on your mortgage, equity loan and other loans secured against it.

Please take part in [a short survey](#) to help us improve this guide for future homebuyers.

