



Cefnogir gan
Lywodraeth Cymru
Supported by
Welsh Government

Help to Buy – Wales Buyers' Guide

A large white sign with a red top section and a blue bottom section. The words 'For Sale' are written in large black letters across the white middle section. The sign is positioned in front of a brick house with white window frames and a white pillar.

www.helptobuywales.co.uk

What is Help to Buy – Wales?

Help to Buy – Wales is an initiative that provides shared equity loan assistance to home buyers from Help to Buy (Wales) Limited (HtBW) with funding provided by the Welsh Government.

The Help to Buy – Wales scheme makes new-build homes available to all home buyers (not just first time buyers) who wish to buy a new home, but may be constrained in doing so – for example as a result of deposit requirements – but who could otherwise be expected to repay a mortgage. Support of up to a maximum of 20% of the purchase price is available to buyers through a shared equity loan funded by HtBW, while buyers are required to provide a deposit of a minimum of 5% of the purchase price.

Help to Buy – Wales is available in Wales from housebuilders registered to offer the scheme. Help to Buy – Wales will run from the launch of the initiative in January 2014 until March 2016 (or earlier if all of the funding is taken up).

This guide provides an overview of the product. If you'd like to know more, or if you want to apply, please contact HtBW (see page 24).

Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.

Check that these mortgages will meet your needs if you want to move or sell your home or you want your family to inherit it. If you are in any doubt, seek independent advice.



Key information

Buyers using this scheme must provide security in the form of a second legal charge over the new home which HtBW has helped to buy.

Amount of credit	The maximum you can borrow from HtBW under this scheme is £60,000. There is no minimum amount.
Deposit and advance payment	Buyers must provide a deposit of a minimum of 5% of the purchase price of the home bought under this scheme.
Frequency, number and amount of repayments	After five years you will be required to pay interest at 1.75% of the market value of your shared equity loan at the time you purchased your property, rising each year after that by the increase (if any) in the Retail Prices Index (RPI) plus 1%. More details are on page 15. The loan itself is repayable after 25 years or on the sale of the property if earlier, or in certain other circumstances.
Other payments and charges	You must pay a monthly management fee of £1 per month from the start of the loan until it is repaid.
Total amount payable	<p>The total amount payable by you will be the proportion of the market value of your home that was funded by this loan, plus interest and charges.</p> <p>The amount you will have to repay under the loan agreement will depend on the market value of your home when you repay the shared equity loan and the rate of inflation in the meantime. An example is shown on page 17 including the equivalent APR.</p>

Help to Buy – Wales overview

With Help to Buy – Wales, the buyer ('you') buys a new home on a new-build development with assistance from HtBW in the form of a shared equity loan.

You must take out a first mortgage (with a qualifying lending institution e.g. a bank or building society) and this mortgage must be on a repayment basis. The mortgage, together with your cash contribution of at least 5% of the purchase price, must make up a minimum of 80% of the full purchase price. The maximum full purchase price of an eligible property is £300,000.

HtBW will provide a shared equity loan to fund the balance needed to make up the full purchase price of your home, up to a maximum of 20% of the full purchase price.

The shared equity loan must be repaid after 25 years or earlier if you sell your home, or in certain other circumstances (see "Q When do I have to repay the loan?" on page 23).

You must repay the same percentage of the proceeds of the sale to HtBW as the initial shared equity loan (i.e. if you received a shared equity loan for 20% of the purchase price of your home, you must repay 20% of the proceeds of the sale).

No interest is payable on the shared equity loan for the first five years. After that, you will pay interest of 1.75%, rising annually by the increase (if any) in the Retail Prices Index (RPI) plus 1%. In addition, you will pay a small monthly management fee, by direct debit, of £1 per month from the commencement of the shared equity loan until it is repaid.

HtBW will assess and approve your purchase of a Help to Buy – Wales property, and you will need their approval before you proceed with the buying process.

Further details on all these points and the buying process are set out within this guide.

How does it work?

Help to Buy – Wales enables buyers to purchase a new property, funded by a buyers' deposit, a repayment mortgage and a shared equity loan from HtBW.

This enables you to take out a mortgage on which you make repayments in the normal way. Your mortgage lender is likely to require, and it is a requirement of HtBW, that you contribute a deposit of at least 5% of the full purchase price and your mortgage and deposit must cover a combined minimum of 80% of the total purchase price. The rest of the purchase price will be paid for with a shared equity loan from HtBW. Your first mortgage must be a repayment mortgage (meaning that you must be required under the mortgage to make payments of interest and capital which are designed to repay the mortgage over the stated time). You are not permitted to buy a Help to Buy – Wales property with an interest-only first mortgage.

As a result of providing this assistance, HtBW has an entitlement to a share of the future sale proceeds equal to the percentage contribution required to assist your purchase. Examples of this are shown below.

For the first five years of HtBW home ownership you pay no interest on the amount that HtBW contributed to your purchase. However, a management fee of £1 per month will be collected from the commencement of the shared equity loan (paid by direct debit) until it is repaid.

After five years, the shared equity loan will be subject to interest (collected from you by HtBW) of 1.75% per annum on the outstanding amount of the shared equity loan. Interest will increase by the annual percentage increase in RPI plus 1% from 1 April following the fifth anniversary of the drawdown of the shared equity loan and each 1 April after that. However, if you take out the shared equity loan between 1 January and 31 March inclusive, the first increase in the rate of interest will take effect on the second 1 April following the fifth anniversary.

When you sell your Help to Buy – Wales home (unless you have chosen to repay your shared equity loan earlier), you must repay the Help to Buy – Wales assistance from a share of the sale proceeds.

So, if HtBW assisted your purchase with a 20% contribution, your repayment will be 20% of the total market value when it is sold. Turn to page 12 to see what happens if the market value of your property has fallen.

Following the purchase you can choose at any time to make voluntary part repayments ('staircasing' or a full repayment) of the HtBW shared equity loan at the prevailing market value. The minimum voluntary repayment is 10% of the market value at the time of repayment. There is more information on staircasing on page 13.

HtBW's entitlement to a share of the future sale proceeds is secured through a second charge on your home. This is done in the same way that your mortgage lender will secure its lending through a first charge on your home. The table below shows how it works.

Example of Help to Buy – Wales home ownership	£	%
Open market price of new home	£200,000	100
Help to Buy – Wales buyer mortgage at 75%	£150,000	75
Help to Buy – Wales buyer pays 5% deposit	£10,000	5
Help to Buy – Wales buyer total contribution	£160,000	80
HtBW 20% shared equity loan	£40,000	20

In this example, the Help to Buy – Wales buyer has purchased a £200,000 home with a deposit of £10,000 and a repayment mortgage of £150,000. HtBW has contributed a shared equity loan totalling £40,000 or 20% of the total purchase price.

In this example, when the home is sold, HtBW will be entitled to 20% of the total sale price.

The amount due to HtBW will be less if you have made voluntary part repayments as referred to above.

Who can take part in the scheme?

The scheme is open to all buyers seeking a new-build home, subject to restrictions mentioned in this guide.

Help to Buy – Wales buyers must be able to fund up to 80% of their selected property through a combination of a conventional repayment mortgage, and a minimum deposit of 5% of the purchase price. Interest-only mortgages are not permitted for the Help to Buy – Wales initiative.

Buyers must take out a first charge repayment mortgage with a qualifying lender. The maximum purchase price for an eligible property under the scheme is £300,000.

HtBW will carry out an assessment of an application (see below) by a potential Help to Buy – Wales buyer to ensure that they are in a position to afford a conventional mortgage for their proposed purchase. This protects tax payers' investment in the Help to Buy – Wales home.

You must have access to a minimum 5% deposit. It is very unlikely that your lender will allow you to proceed without a deposit and you cannot consider a Help to Buy – Wales purchase unless you have access to a 5% deposit.

The property purchased must be your only residence. Help to Buy – Wales is not available to assist buy-to-let investors or those who will own any property other than their Help to Buy – Wales property after completing their purchase.

You cannot rent out your existing home and buy a second home through Help to Buy – Wales.

Applicants who make fraudulent claims for Help to Buy – Wales assistance will be liable to criminal prosecution.

Fraudulent claims will always require immediate repayment of the Help to Buy – Wales shared equity loan assistance.



What does Help to Buy (Wales) Ltd (HtBW) do?

HtBW is a subsidiary of the Welsh Ministers and it is their role to administer the Help to Buy – Wales initiative. HtBW provides potential buyers with information on the initiative (such as information relating to registered builders and locations of eligible properties), carries out an affordability and eligibility check on applicants and collects all payments (interest and loan repayments) due.

They will also guide you through the process of buying your Help to Buy – Wales home and issue the approvals to your solicitor and the housebuilder to purchase the home through the Help to Buy – Wales scheme.

In making the shared equity loan, the role of HtBW is to:

- hold information about the Help to Buy – Wales scheme for prospective buyers
- assess affordability and eligibility, and
- give approval to a Help to Buy – Wales buyer's solicitor/conveyancer to proceed with a purchase.

Following the Help to Buy – Wales new house purchase, HtBW will provide a single point of contact to:

- administer payment of fees by buyers. A £1 a month management fee will be charged and collected monthly by direct debit from the first of the month following the date the shared equity loan mortgage is signed until the mortgage is repaid. Interest will also then be collected on the HtBW shared equity loans after five years of ownership;
- recover the shared equity loan repayments as owners sell, move on or staircase; and
- provide advice and approval for exceptional cases relating to subletting, remortgaging and requests for additional borrowing.

Where are Help to Buy – Wales homes available?

Help to Buy – Wales homes are available from housebuilders registered with the scheme. Registered builders will make it clear in their advertising if Help to Buy – Wales homes are available on their development sites.

How to buy a Help to Buy – Wales home

The four-stage Help to Buy – Wales buying process

Stage 1: Application

- Contact housebuilders, visit sites of registered housebuilders and identify your potential Help to Buy – Wales property.
- We recommend that you should see an authorised Financial Advisor to gain confirmation of your financial status.
- You must ensure you have funds to pay:
 - a reservation fee (if required);
 - a deposit on exchange of a minimum of 5% of the purchase price; and
 - other fees on completion (e.g. stamp duty, legal fees).
- You complete a Help to Buy – Wales “Property Information Form” (available from the developer or the HtBW website). You must complete this with details of your proposed purchase, your proposed main mortgage, deposit and your household income.
- You must also reserve the home. You will usually be expected to pay a reservation fee to the housebuilder.
- You must send the signed Property Information Form along with a copy of the builder’s signed reservation form and copies of your payslip covering your earnings for the last three months to HtBW.

Stage 2: Authority to Proceed

- HtBW checks you can afford your main mortgage and ensures you have signed the declaration that the Help to Buy – Wales home will be your only residence. This is to

protect tax payers’ investment in the HtBW shared equity loan.

- If affordable, you will receive an “Authority to Proceed” from HtBW within four working days of HtBW receiving your fully completed Property Information Form, reservation form and copies of your payslip covering your earnings for the last three months. This process may be delayed if you do not fully complete your Property Information Form.
- You instruct a solicitor/conveyancer to act for you and tell your authorised financial advisor so that a full mortgage application can be submitted.
- The ‘Authority to Proceed’ will be accompanied by instructions to you and your solicitor/conveyancer. This pack will include legal documents that will be explained to you by your solicitor/conveyancer.

Stage 3: Mortgage offer and exchange of contracts

- Your solicitor/conveyancer will advise you and ensure you sign the sale contract and the HtBW shared equity loan.
- Your solicitor/conveyancer will explain the legal implications of the shared equity loan, that the Help to Buy – Wales home must be your only residence and the consequences of a fraudulent application (see below). Your solicitor/conveyancer checks that your mortgage offer, property price and available funds are consistent with the Authority to Proceed, and requests permission to exchange contracts from HtBW.
- HtBW issues approval to your solicitor/conveyancer and contracts are exchanged.

- You will have paid a deposit and are now legally contracted to complete the purchase by an agreed date.

Stage 4: Completing the purchase

- At completion, your lender and HtBW will provide their funds to your solicitor. Once completion has taken place you own the property and can move in.
- Your solicitor returns confirmation of the sale to HtBW who then registers your details.
- A second charge is registered on your home by your solicitor in favour of HtBW, entitling them to a share of the future sale proceeds. The charge will be equivalent to the percentage contribution made towards the purchase price. You must repay the percentage contribution when you sell your home or within 25 years (whichever is earlier), or in certain other circumstances (see page 11).

The property purchased must be your only residence. Help to Buy – Wales is not available to assist buy-to-let investors or those who will own any property other than their Help to Buy – Wales property after completing their purchase.

You cannot rent out your existing home and buy a second home through Help to Buy – Wales.

Applicants who make fraudulent claims for Help to Buy – Wales assistance will be liable to criminal prosecution.

Fraudulent claims will always require immediate repayment of the shared equity loan assistance.

How long does the process take?

Once you find a property you want to buy you need to reserve it and submit a duly completed 'Property Information Form' to HtBW.

HtBW will seek to assess your affordability from a fully completed Property Information Form within four working days and, if satisfied, will issue an Authority to Proceed.

HtBW's 'Authority to Proceed' is valid for three months – the time limit for exchange of contracts. Typically, most housebuilders will be seeking buyers to exchange contracts within one month of making a reservation.

You are responsible for securing your mortgage and appointing your solicitor/conveyancer.

Further information

Help to Buy – Wales homes are only available from Help to Buy – Wales registered housebuilders who are in contract with HtBW to offer homes for sale through the scheme.

Registered builders will make it clear in their advertising whether Help to Buy – Wales homes are available on their development sites.

HtBW can also help you find out more about availability of Help to Buy – Wales homes in your area.

Your mortgage

What is the minimum and maximum contribution I must make to my Help to Buy – Wales home purchase?

Your minimum contribution must be 80% of the full purchase price which will be made up from your mortgage and your cash deposit of a minimum of 5% of the purchase price.

The affordability of your mortgage contribution will be assessed by HtBW.

Your mortgage must be on a repayment basis (meaning that you must be required under the mortgage to make payments of interest and capital which are designed to repay the mortgage over the stated term). Interest-only mortgages are not permitted.

To ensure that funding can be used to help as many buyers as possible, Help to Buy – Wales purchasers are always expected to maximise their contribution to a reasonably affordable level. This is assessed by HtBW. If you could reasonably afford more than 90% of the full purchase price you will not receive Help to Buy – Wales assistance.

Your mortgage is designed to be affordable relative to your income. HtBW will ensure you maximise your mortgage while having regard for the overall affordability of your repayments.

Typically, your mortgage will be based on a multiple up to 4.5 times your household income. HtBW will also work to a guideline to ensure that your monthly costs (mortgage, service charges and fees) are no more than 45% of your net disposable income (including hp and credit card costs).

You cannot choose to take a lower mortgage if your affordable income multiple suggests you can afford and sustain a higher one. This is because the scheme is designed to assist buyers by giving them the help they need (but not more than that) to buy a new home. With limited resources available, HtBW is seeking to help as many buyers as possible, and allowing a buyer to reduce their mortgage (and maximise their shared equity loan) could stop others from also benefiting from the initiative.

HtBW will carry out this assessment to ensure that as many buyers as possible can benefit from the Help to Buy – Wales scheme. If HtBW approves your application, this does not mean that HtBW is recommending either that you take part in the scheme or that you take out your proposed mortgage. If you require financial advice, for example about the suitability of the scheme and your proposed mortgage, you should speak to an authorised financial adviser.

What is the legal mechanism that ensures HtBW receives their correct share when the shared equity loan is repaid?

HtBW's shared equity loan will be secured through a second charge registered on your property title at HM Land Registry; this process will be undertaken by your solicitor. This means your property cannot be sold in the future unless HtBW's shared equity loan percentage is repaid.

You must agree to the legal charge being secured on your home before your purchase can be completed.

HtBW's shared equity loan also includes other obligations such as the requirement for you to insure your property. Your solicitor/conveyancer will advise you on the legal implications of your obligations and these documents before they are signed.

What happens when I sell my Help to Buy – Wales home?

When you sell your Help to Buy – Wales home (unless you have already chosen to repay your HtBW shared equity loan in full) you will repay HtBW's shared equity loan simultaneously. So if you initially purchased with a 75% mortgage and a 5% cash deposit and have made no other staircasing repayments (see Illustration 1 below) you will repay HtBW 20% of the market value at the time you sell.

You can sell your home at any time and an independent valuer must decide what it is worth. Your property should be sold on

the open market at the prevailing market valuation. If you do sell your property for more than the prevailing market value then the amount due to HtBW under the shared equity loan will be their percentage value of the actual sale price. HtBW will not agree to release its charge over the property for sales at less than market value.

If there are any fees outstanding, for example arrears at the time of selling, these must be paid before the sale is completed.

The HtBW shared equity loan must be repaid when you sell your home. You will pay the costs of selling.

The illustrations below give examples of how the shared equity loan repayment is calculated assuming a Help to Buy – Wales home starting value of £200,000 and a buyer taking on a mortgage for 75% and paying a 5% deposit. Your solicitor/conveyancer will be able to provide more illustrations when they advise you on your purchase.

Illustration 1

Start of year	Estimated annual change in market value of property %	Market value of property	Your entitlement to 80% of market value of property	HtBW entitlement to 20% of market value of property
1	2	£200,000	£160,000	£40,000
2	2	£204,000	£163,200	£40,800
3	2	£208,080	£166,464	£41,616
4	2	£212,242	£169,794	£42,448
5	2	£216,486	£173,189	£43,297
6	2	£220,816	£176,653	£44,163

In the example above, if the buyer chose to sell their Help to Buy – Wales home at the start of year six (after owning the property for five years) and assuming the market value of their property increased by 2% every

year, the buyer would receive an estimated £220,816 from the sale. The buyer would then use this to settle any outstanding balance on their main mortgage and to repay the £44,163 HtBW shared equity loan.

What happens if property values fall? Will I have to repay the full amount of Help to Buy – Wales assistance or just a percentage of the total sale proceeds?

When you sell your home, (unless you have repaid the HtBW shared equity loan previously) the HtBW shared equity loan document commits you to repay a percentage of the market value equal to the percentage contribution of assistance received.

This means if the market value of your property falls below the level at which it was first purchased, you will repay less than the original amount HtBW contributed to the original purchase.

You must always show that the proposed sale value is at the prevailing market value before proceeding with the sale. HtBW must approve the sale before allowing the second charge to be released.

As long as you have complied with all your obligations in the HtBW shared equity loan, you will not be required to provide for any shortfall in the shared equity loan if you sell when values have fallen.

If you do not comply with the terms of the HtBW shared equity loan, HtBW will seek to recover all the money they are owed. Your solicitor will explain the HtBW shared equity loan document to you before the property is purchased.

Illustration 2

Start of year	Estimated annual change in market value of property %	Market value of property	Your entitlement to 80% of market value of property	HtBW entitlement to 20% of market value of property
1	-5	£200,000	£160,000	£40,000
2	-5	£190,000	£152,000	£38,000
3	-5	£180,500	£144,400	£36,100
4	5	£171,475	£137,180	£34,295
5	5	£180,049	£144,039	£36,010
6	5	£189,051	£151,241	£37,810

In the above example, if the buyer again chose to sell their Help to Buy - Wales home at the start of year 6, and if no capital repayment has been made on the main mortgage, repayment of the £150,000 mortgage from the sales proceeds would leave £39,051 to contribute to the repayment of the £37,810 shared equity loan. All Help

to Buy – Wales main mortgages must be on a repayment basis (not interest– only). Therefore, in the above example, assuming the main mortgage and shared equity loan were not in arrears, if the property was sold for £189,051 there would be sufficient to repay both.

Can I repay my shared equity loan in part, sometimes known as “staircasing”?

The Help to Buy – Wales scheme allows you to repay all or part of your shared equity loan. A partial repayment is often called “staircasing”.

Staircasing payments can be made at any time and must be a minimum of 10% of your home’s prevailing market value – whether that value is more or less than when originally purchased. You may wish to check any additional requirements imposed by your mortgage lender.

An independent valuer must provide a valuation of your property and you will also be responsible for the associated administrative costs. Enquiries about administrative costs should be made to HtBW.

If you decide to staircase, the interest (see below) you pay after five years of ownership on your HtBW shared equity loan will reduce to reflect your smaller outstanding loan percentage.

If you extend your mortgage to fund your partial repayment of the HtBW shared equity loan, your mortgage repayments will probably increase to reflect the fact that you have repaid some of the shared equity loan. HtBW will need to approve any increase in your first charge mortgage.

In the example below, the buyer chooses to staircase by 10% to reduce the HtBW shared equity loan to 10% at the start of year six (after owning the property for five years). Assuming property values increased by 5% every year, the buyer would have to repay £25,526 to reduce the HtBW shared equity loan to 10% based on the future property value.

If the buyer has any outstanding shared equity loan interest/fees at the time of staircasing, these arrears must also be paid at the same time as the staircasing payment is made.

Your solicitor/conveyancer will be able to provide more illustrations when they advise you on your purchase.

Illustration 3

Start of year	Estimated annual change in market value of property %	Total market value of property	Your entitlement to 80% of market value of property	Cost of staircasing by 10%	After staircasing your entitlement to 90% of market value of property
1	5	£200,000	£160,000	Not applicable	Not applicable
2	5	£210,000	£168,000	£21,000	£189,000
3	5	£220,500	£176,400	£22,050	£198,450
4	5	£231,525	£185,220	£23,153	£208,373
5	5	£243,101	£194,480	£24,310	£218,790
6	5	£255,256	£204,204	£25,526	£229,730

Are there any restrictions on the mortgage provider?

Your first mortgage must be from a qualifying lending institution and be a repayment mortgage. Interest-only mortgages are not permitted. These include lenders who are authorised under the Financial Services and Markets Act 2000, and who have permission to enter into regulated mortgage contracts. This is likely to include most banks and building societies.

The Financial Conduct Authority keeps a register of authorised persons on its website. The register can be found at www.fca.org.uk and select the Financial Services Register link.

Your solicitor/conveyancer will check that the lender is compliant before a sale can proceed.



Interest and costs

What are the monthly costs of Help to Buy – Wales?

Typically every month, you will need to make payments in addition to your normal monthly outgoings, including:

- mortgage repayments to lenders;
- a £1 management fee to HtBW;
- after five years, interest on the HtBW shared equity loan (see below);
- service charges, if you buy a house or flat with shared areas that require maintenance;
- council tax;
- life insurance;
- buildings insurance; and
- utility bills and other costs of occupying the property.

How is the interest calculated on the HtBW shared equity loan?

If you have not repaid your HtBW shared equity loan in full after five years you will be required to pay interest at 1.75% of the market value of your property at the time you purchased it, multiplied by the proportion that your HtBW shared equity loan currently bears to the market value of your property at the time you purchase it. Interest will increase by the annual percentage increase in RPI plus 1% from 1 April following the fifth anniversary of the drawdown of the shared equity loan and each 1 April after that. However, if you take out the shared equity loan between 1 January and 31 March inclusive, the first increase in the rate of interest will take effect on the second 1 April following the fifth anniversary.

The example below shows how interest is calculated assuming the shared equity loan is drawn on 1 April. The interest payment is not made for the first five years. After this date monthly interest will also be payable and the table below illustrates how this would work on a HtBW shared equity loan totalling £40,000 on a home with an initial market value of £200,000.

Illustration 4

Start of year	Initial market value of home	HtBW shared equity loan assistance	Annual change in interest	Interest percentage	Annual interest due	Estimated monthly payment
1	£200,000	£40,000	6%	0%	£0	£0
2	£200,000	£40,000	6%	0%	£0	£0
3	£200,000	£40,000	6%	0%	£0	£0
4	£200,000	£40,000	6%	0%	£0	£0
5	£200,000	£40,000	6%	0%	£0	£0
6	£200,000	£40,000	6%	1.75%	£700	£58.33
7*	£200,000	£40,000	6%	1.86%	£744	£62.00
8*	£200,000	£40,000	6%	1.97%	£788	£65.67
9*	£200,000	£40,000	6%	2.08%	£832	£69.33
10*	£200,000	£40,000	6%	2.21%	£884	£73.67

* see box overleaf

Your solicitor/conveyancer will be able to provide more illustrations when they advise you on your purchase.

At the start of year six, after five years of ownership, the Help to Buy – Wales owner in this example has to pay monthly interest of £58.33 (plus the £1 management fee). At the next review date, the monthly interest will rise to £62.

*Any increase in the rate of interest payable will take effect on the 1 April following the fifth anniversary of your loan and each 1 April after that. However you take out your loan between 1 January and 31 March inclusive, the first increase in the rate of interest will take effect on the second 1 April following the fifth anniversary.

Example 1:

Date you took out the loan:

1 September 2014

First interest payment due on:

1 September 2019

Increases in interest from:

**1 April 2020 and each
1 April after that.**

Example 2:

Date you took out the loan:

1 February 2015

First interest payment due on:

1 February 2020

Increases in interest from:

**1 April 2021 and each
1 April after that.**

“Year 7” and later years will therefore always start on 1 April, and so may start before or after the actual anniversary of your loan. The percentage change in RPI Figure used for any increase in the interest rate is the year on year change in RPI for the twelve month period ending on the previous 30 September.

The interest structure is intended to encourage you to make partial repayments and move to full ownership. The introduction of interest after five years also takes into account that you benefit from living in your own home, made possible by HtBW contributing part of the purchase price, until your property is sold.

The interest is not introduced until the start of year six, which means that you have a five year period of zero interest at a time when many buyers are usually the most financially stretched.

The future rate of inflation cannot be predicted but you should assume your interest will always rise. The example shown above assumes a constant annual percentage change in RPI of 5% making the annual increase in the rate of interest by 6%, from 1.75% to 1.86%, in year seven. By the start of year ten, if the same rate of inflation is maintained, the interest would be 2.21% equating to £74 per month based on the original shared equity loan totalling £40,000.

Your annual interest will always increase by at least a factor of 1% (from 1 April following the fifth anniversary of the HtBW shared equity loan or where you take out the shared equity loan between 1 January and 31 March inclusive, the second 1 April following the fifth anniversary) even if there is no increase, or there is a decrease, in RPI.

Your payment of interest/fees does not contribute towards repaying your HtBW shared equity loan. If you staircase or want to make full repayment of the shared equity loan, any interest/fee arrears must be repaid at the same time.

Annual Percentage Rates (APR) for Help to Buy – Wales owners

Because you have to pay interest on your HtBW shared equity loan during your ownership, and you may have to pay more than the original contribution back to HtBW, the effect will be similar to a loan under which a buyer pays credit charges at a rate dependent on the growth in house prices combined with the percentage rates of interest payable.

The previous illustrations demonstrated separately the effects of house price changes and interest on the costs a buyer would have to pay, starting with a £200,000 market value home and a buyer's affordable mortgage and contribution of 80%.

The combined effect of interest and repayments affects the APR which is the buyer's cost of credit.

Using the previous illustrations, after six years of ownership, if the buyer decides to sell and house prices have grown, for example by 5% every year, the buyer will have to repay £53,604 on their shared equity loan.

Assuming that the loan was entered into on 1 April, the owner will have also paid £700 in interest on the HtBW shared equity loan and £72 in management fees. This means the total amount payable after six years on the Help to Buy – Wales original assistance of £40,000 is £54,376.

For this example, the APR equivalent for the capital sum repayment of £53,604 is 5%. The total amount repaid is £54,376. You should remember this is an illustration. House price inflation, the Retail Prices Index and the fees and costs an owner pays could all vary substantially over time. Your solicitor/conveyancer will be able to provide with further illustrations of the likely cost of the loan when they advise you on your purchase.

Prospective buyers should always seek independent financial advice before proceeding.



Questions and Answers

Q Can I buy a home off plan?

A Yes. You are able to reserve a new home off plan at any time. HtBW generally require that legal completion takes place no more than 6 months from exchange of contracts. However HtBW can extend this if construction of the new home is not finished. You also need to ensure that your mortgage offer is valid through to legal completion.

Q Can I buy with an interest-only main mortgage?

A No. Your main lender's mortgage must be a repayment loan with interest and capital repaid every month. This ensures you make the Help to Buy – Wales purchase on a sustainable basis and protects the tax payers' investment in your home.

Q Can I part exchange my existing home for a Help to Buy – Wales home?

A No. Part exchange is not available. Housebuilders selling Help to Buy – Wales homes cannot offer a part exchange sale.

Q Will I have to pay Stamp Duty?

A The Government's standard rules and procedures for Stamp Duty Land Tax (SDLT) apply to all Help to Buy – Wales purchases.

SDLT is payable at the time of purchase, on the full purchase price of the home. That is, the amount paid by you (the first mortgage and any cash contribution) plus the value of the Help to Buy – Wales assistance.

There is no further SDLT to pay on any 'staircasing' repayments or repayment when the home is sold.

You should budget for SDLT on the full open market price of the property when you purchase a Help to Buy – Wales home.

This guide reflects our understanding of the current tax rules, but these may change in the future. They may also vary depending on your individual circumstances. You should seek professional advice if you need further guidance in relation to tax.

Q Who pays for repairs and ongoing maintenance to my home?

A It is your responsibility to repair and maintain your home. New homes often come with a guarantee that will cover certain defects for up to 10 years after it was built. This guarantee usually only covers defects in the housebuilder's workmanship. Your solicitor/conveyancer will be able to advise in more detail on this.

Q Who provides the contribution for Help to Buy – Wales?

A The shared equity loan is provided by HtBW from funding provided to HtBW by the Welsh Government. The shared equity loan is secured by a second charge on your property title, which is registered at HM Land Registry.

Q How long will it take before I can move in?

A Because Help to Buy – Wales homes are generally on new developments (and may still be under construction), in common with most new home sales, you will normally be expected to arrange a mortgage and exchange contracts within one month of paying your reservation fee.

Your moving in date may depend on the time required to complete construction work, which will vary from scheme to scheme. Some Help to Buy – Wales applicants may need to wait for a longer period of time for a home that matches very specific needs whereas others may buy from a development that allows earlier occupation.

Q What happens if the completion of my home is delayed?

A Once you have committed to buy a home (at exchange of contracts) the housebuilder will have agreed to build the home and keep you informed of progress. If you are unhappy about any delays in construction you must speak to the housebuilder. Your solicitor/conveyancer will be able to advise on the housebuilder's contractual responsibilities before you agree to the sale. You should check with your solicitor/conveyancer that the funding will be available on the date you expect to complete your purchase.

Q Are there any restrictions on the properties that I can purchase?

A All Help to Buy – Wales homes are on new-build developments where HtBW has a registration agreement with the housebuilder. You can only purchase from these housebuilders. The maximum purchase price is £300,000.

Q Can I sublet my Help to Buy – Wales home?

A No. Help to Buy – Wales is designed to assist you to move on to or up the housing ladder. If you wish to sublet, you will first have to repay the HtBW shared equity loan in full. In exceptional circumstances (e.g. a serving member of the Armed Forces staff whose tour of duty requires them to serve away from the area in which they live for a fixed period) then sub-letting can be considered. In these circumstances you would require approval from HtBW and also your mortgage lender.

Q Can I own other homes and buy a Help to Buy – Wales home?

A No. Help to Buy – Wales is designed to assist you to move on to or up the housing ladder and must be your only residence. This means you will be expected to sell your current home if moving up the ladder. The disposal of your current home will be verified by your solicitor/conveyancer before you can proceed to exchange contracts on the Help to Buy – Wales home.

Q Can I own a Help to Buy – Wales home and buy a second home?

A No. Help to Buy – Wales is designed to assist you to move on to or up the housing ladder. If you can afford to purchase another home you will have to repay the HtBW shared equity loan in full.

The property purchased must be your only residence. Help to Buy – Wales is not available to assist buy-to-let investors or those who will own any property other than their Help to Buy – Wales property after completing their purchase.

You cannot rent out your existing home and buy a second home through Help to Buy – Wales.

Applicants who make fraudulent claims for Help to Buy – Wales assistance will be liable to criminal prosecution.

Fraudulent claims will always require immediate repayment of the shared equity loan assistance.

Q Can I use cash from my council, Housing Association or other public sector body to buy with the addition of help through Help to Buy – Wales?

A Provided that your local council is satisfied that this represents value-for-money and the other funding is compatible with Help to Buy – Wales. Funding provided which must be secured against your home would not be compatible with the Help to Buy – Wales scheme.

Q After purchasing my home, can I increase my mortgage or take out another loan?

A Not without permission from HtBW. Further advances must be approved by HtBW.

Advances to be used for staircasing or repaying the shared equity loans will usually be welcomed and approved. Advances for other purposes will be considered by HtBW on a case by case basis (see question below regarding extending or altering the property).

You may be able to transfer your mortgage to another qualifying lending institution following prior permission from HtBW. However, you must ensure your new lender is informed that your home is a Help to Buy – Wales property with a second charge entitling HtBW to a share of the future sale proceeds. You should note not all lenders will accept a remortgage where there is already an equity loan in place.

HtBW may decline permission for further advances or transfer to another lender if after assessment they consider you may be putting yourself in an unsustainable financial position.

Q Can I extend or alter the property?

A Not without permission. Because Help to Buy – Wales is designed to help people move on to or up the housing ladder, you should consider repaying part or all of HtBW's contribution before making plans for improvements or alterations. This is because HtBW is seeking to help future aspiring buyers and may use the proceeds of these repayments to make more assistance available. Therefore, consent will not usually be granted for significant home improvements. HtBW will act reasonably in considering any application and will review cases of hardship if, for example, property modifications are required for a disability.

When your property is sold in the future, if improvements have been made with the approval of HtBW, these will be ignored when your property is valued to work out how much should be repaid to HtBW.

Q What is the Management fee for?

A HtBW does not charge an application fee for the shared equity loan as is common practise with mortgage lenders. Instead, HtBW charges a nominal monthly management fee of £1 to cover normal administration costs (this will exclude any administration costs for defaulting borrowers, changes of ownership or reasonable repayment administration costs) over the period of the loan. The annual fee collected will therefore be £12 in total and if the shared equity loan remains in place for the 25 years term, the total management fee payable will be £300.

Q After five years of ownership how is the interest collected?

A Interest will be collected in monthly instalments.

HtBW will collect your interest by direct debit and will contact you at least a month before your interest payments start to inform you of the increase in your direct debit from the existing £1 a month management fee.

You will also receive a statement each year confirming when your interest is payable. The annual statement will also show any payments you have made once you start paying the interest.

Q When do I have to repay the loan?

A The loan is repayable when you sell the property or after 25 years, whichever comes first. It is also repayable if you are in breach of your covenants and obligations under the loan agreement, if you repay the first charge mortgage on the property (unless you are remortgaging), the first charge mortgage becomes repayable, or you become bankrupt.

Q What if I die after purchasing a Help to Buy – Wales home?

A This depends on whether you bought your home alone or with others.

If you bought the property on your own and you die, the home will be passed on in the normal way under the terms of your will and the payments explained in this guide will be made by your estate in accordance with the scheme. If you have not made a will it will pass under the laws of intestacy.

It is recommended that a sole buyer seeks independent legal advice about this.

If you bought your home with others and one of them dies, their interest in the property will either be transferred to the surviving co owner(s) or will pass under the terms of their will, or (if there is no will) the laws of intestacy.

It is recommended where there are two or more owners, that they seek independent legal advice about this.

Q Can owner names be added or changed on the Help to Buy – Wales property?

A Only with permission from HtBW and you will be required to cover their reasonable administrative costs. This will require a deed of accession and/or a deed of release to be completed by you and may also mean that an amended loan has to be entered into.

Q Can I get help with benefits to pay the Help to Buy – Wales interest if, for example, I lose my job?

A Because Help to Buy – Wales interest is not classified as rent, it does not qualify for payment through Housing Benefit. You should make sure you have made arrangements to ensure you can continue to make your HtBW payments if your income falls. You should seek financial advice about this before purchasing a Help to Buy – Wales home.

Q What happens if my partner moves out and no longer wants to be party to the shared equity loan agreement?

A HtBW will be able to arrange for a 'Deed of Release' which will release your partner from the obligation of having to repay the shared equity loan. You may also have to enter into an amended loan agreement. Assuming that your first charge mortgage lender is content for this to take place and that you are able to provide evidence that you can meet your housing costs and still have a reasonable standard of living, permission should be a formality.

Help to Buy (Wales) Ltd

For more information, our contact details are below:

Registered Office:

1 Capital Quarter

Tyndall Street

Cardiff, CF10 4BZ

Enquiries: 08000 937 937

www.helptobuywales.co.uk

Registration Number: 8708403

Company registered in England and Wales.

Help to Buy (Wales) Limited is authorised and regulated by the Financial Conduct Authority for credit related regulated activities not covered by an exemption.

Please contact us if you would like a copy of this document in large type or Braille.