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HOW PARENTS WILL TAKE ADVANTAGE OF HELP TO BUY

Jonathan and Jennifer Davies are one of the first couples to take advantage of the money-saving scheme.

By Richard Evans
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A new government scheme to support the housing market could have the unintended effect of boosting retirement finances – or even allowing parents and grandparents to stay in the family home.

Those used to acting as the “bank of mum and dad” will be able to keep more of their money in their own pockets when a state scheme that helps first-time and other buyers with their deposits is extended to the entire housing market next year.

The scheme can already help children get on the housing ladder with a minimal deposit if they are happy to buy a newly built home; from January it will be extended to older properties, too.

Before the state-backed scheme began, much larger deposits were needed to avoid paying high mortgage interest rates. This led to many young property-buyers asking parents or grandparents to give or lend them their deposit.

Using the current scheme could mean parents having to fund 20% less of the purchase price of their offspring’s property. On a £200,000 home, they could keep hold of £40,000 that they might otherwise have had to lend a son or daughter for them to secure a decent mortgage.

Why 20%? Before the advent of the scheme, called “Help to Buy”, buyers normally needed a deposit of 25% to qualify for a lower mortgage rate. But under Help to Buy, the state advances a separate, interest-free loan of 20% of the purchase price. So assuming buyers have saved up 5% themselves, they need to borrow just 75% of the value from a mortgage lender.

The second phase of the scheme, which from 2014 extends this to older properties too, works slightly differently – it will offer help with 15% of the price, not 20%, and the assistance comes in the form of a mortgage guarantee.

Jonathan Harris, of Anderson Harris, a mortgage broker, says of the Help to Buy scheme: “Parents who may have worried about helping children with sizeable deposits will appreciate a scheme that could limit their involvement to 5% of the purchase price, enabling them to keep hold of savings for their own outgoings or retirement planning.

“Parents who plan to buy a property for children at university, for example, will need to produce a much smaller down payment.”

Alternatively, the scheme could enable some parents to stay in the family home rather than moving to a smaller one in order to release capital for their children.

Mark Harris, head of SPF Private Clients, another mortgage broker, says. “There has been a growing trend for parents, and increasingly grandparents, to move to a smaller property in order to free up money to help their children or grandchildren on to the housing ladder.

“The introduction and expansion of the Help to Buy scheme means this is no longer necessary. As long as parents or grandparents can help with a modest 5% deposit, there is no need to sell up. Funds can be kept to pay for retirement and other outgoings.”

It’s not just parents and grandparents who can benefit from the scheme. As Mr Harris explains: “It is entirely feasible that borrowers with more than a 5% deposit, and who don’t want to buy new build, will delay making their property purchase until after January – safe in the knowledge that they need to put down only this amount to get a competitive mortgage, and could use the rest of their savings for other purchases such as white goods or furnishings.”

Giles Hannah, the head of VanHan, an estate agency, says: “The extension of the Help to Buy scheme to cover older properties as well as new build is likely to make it incredibly popular.”

One pitfall of the scheme is the risk that buyers might be less discerning in their choice of property if they feel that they are getting “free” money to buy it.

Jeremy Leaf, a north London estate agent and housing spokesman for the Royal Institution of Chartered Surveyors, says: “Don’t buy something you wouldn’t have bought had Help to Buy not existing. The assistance is a loan, not a gift.

“Do all the research you would normally do and watch out for developers trying to sell the properties that no one else wants, for examples.”

Help to Buy has had a “flying start”, according to the Home Builders Federation, which said 4,000 people had reserved a new home in the two months following the scheme’s launch.

Mr Leaf added. “ It’s an attempt to break a vicious circle in the housing market – lenders tightening their criteria, leading to more people renting, which pushes rents up and makes it harder for tenants to save for a deposit. It’s a white knight coming to the property market’s rescue.”

Case Study

Jonathan and Jennifer Davies have moved into their new three-bedroom home in time for the birth of their second child, due in December.

“We probably could have managed it without the Help to Buy scheme, but it would have been a stretch,” Mr Davies says. “As it is, we’ve been able to upgrade from our previous two-bed without a big impact on our mortgage payments – they went up from about £700 a month to £750.”

He said his wife “fell in love” with the David Wilson development in Royal Wootton Bassett, Wiltshire, near their old property, when she saw the show home.

The developer suggested using the Help to Buy scheme. “I had heard of it but assumed I was for first-time buyers only,” Mr Davies says. “But the advisor told us that people moving home were also eligible.”

The couple had about £25,000 equity from their previous home to put towards the purchase price of just under £200,000, but the extra money from Help to Buy allowed them to qualify for a 3.59% fixed-rate mortgage from Halifax.

He said they were among the first homeowners in the country to use the scheme.

“The extra money allowed us to get the carpets and so on straight away, rather than having to wait,” he said. “We wanted to make our son, Owen, feel at home from the word go.”

How does the scheme work?

Mark Harris of SPF Private Clients explains how the two phases of Help to Buy operate.

First Phase (new homes only)

Those with a 5% deposit can borrow up to 20% of the value of a new home from the Government in the form of a loan that is interest-free for the first five years. The remainder is funded through a mortgage via one of the participating lenders, such as Nationwide, Woolwich, Halifax or Natwest. Most offer specific Help to Buy mortgages, though Nationwide allows access to its usual product range.

Borrowers can get much better rates than those normally available to those with just a 5% deposit, as they effectively have a 25% down payment. Rates start at 2.44% fixed for two years or 2.64% for three years, both from Nationwide and with a £499 fee.

After five years, if the government loan has not been repaid, it will start to incur interest at a starting rate of 1.75%, rising by 1% (of that figure) per year, plus inflation. So if inflation were 2%, the mortgage rate the following year would be 1.8%.

Letting out the home is not allowed.

Second Phase (new and existing homes)

Borrowers still need a 5% deposit, while the lender will be able to buy a guarantee from the Government covering up to 15% of the value of the property.

Help to Buy is open to people moving home as well first-time buyers, so has more scope than previous government schemes. There is no limit on the level of your income but the value of the property must be no more than £600,000.