

Help to Buy refinance options

Supporting your clients during, and at the end of,
their five-year interest-free equity loan period.



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Help to Buy Refinance Options

This guide outlines the options open to your clients if they are part of the Help to Buy/equity loan scheme in England including London (Scotland and Wales have different rules and different administrators).

There are four main refinancing options available, regardless of whether or not your client has reached the end of the five-year interest-free period on their equity loan.

There is no right or wrong answer when it comes to retaining or repaying the government equity loan. It all depends on the individual client's circumstances and their plans moving forward.

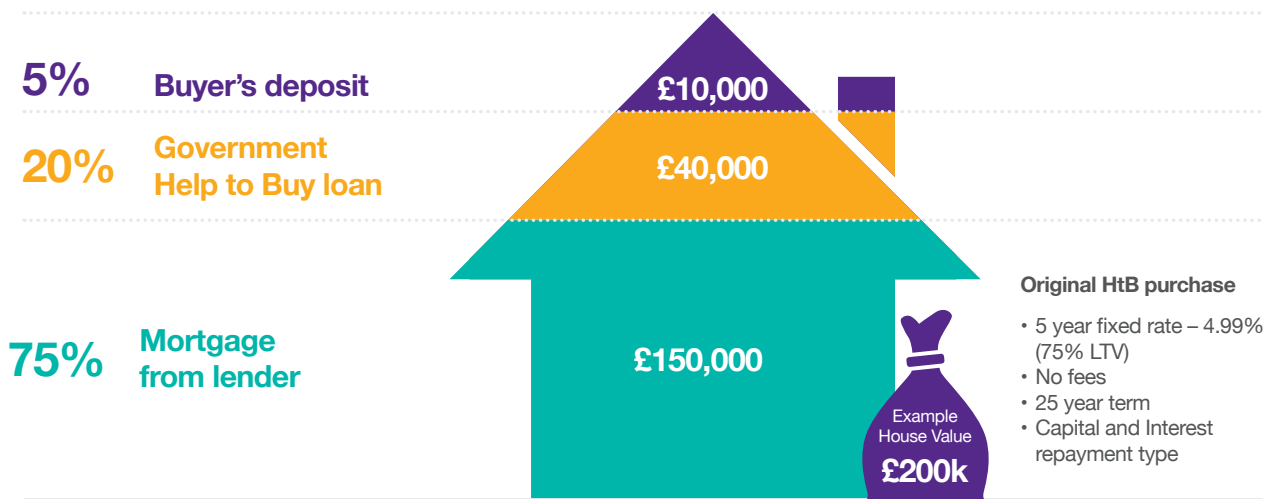
The information provided in this guide is not intended as mortgage advice.

Option 1 – remortgage – retaining equity loan

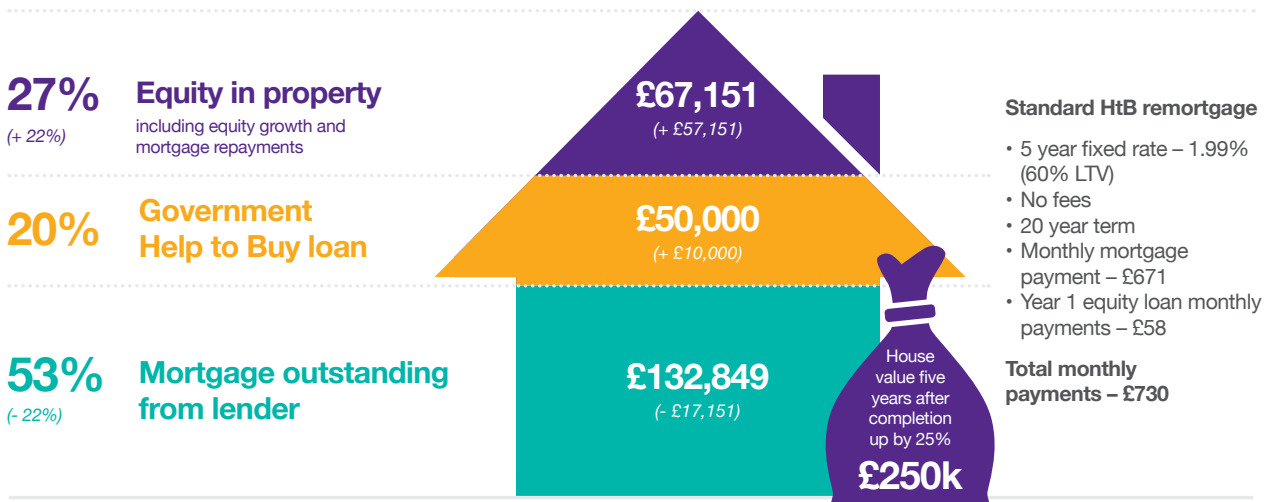
If your clients want to remortgage to Skipton or another lender while retaining their equity loan, they'll need the consent of Homes England (formerly HCA). Certain requirements must be met for the request to be considered:

- the mortgage term with the new lender must not exceed the unexpired term of their existing mortgage. For example, if remortgaging a 25-year mortgage five years into the term, the new mortgage should not exceed 20 years
- the new mortgage loan must be no more than the existing loan. The exception to this is if they are going to use Additional Borrowing to repay their equity loan (see Option 3).

Original equity loan example



Example – five years after completion if remortgaging and retaining equity loan





Over 28,000 people could be due to start paying interest on their equity loan in 2019. In 2020 this could rise to over 31,000.*

*According to a report from the Ministry of Housing, Communities and Local Government – Help to Buy (equity loan scheme) and Help to Buy: NewBuy statistics: Data to 30 September 2017.

Option 2 – selling the property – redeem equity loan

Although not strictly a refinancing option, if your clients want to sell their property, they'll need to repay the equity loan in full. This is also known as loan redemption. The repayment amount required is calculated as a proportion (percentage) of either the current market value or the agreed sale price of the home (whichever is higher). Note: The equity loan will rise or fall with the property's value.

Option 3 – remortgaging – redeem equity loan

To exit the Help to Buy scheme, but remain in the current property, your clients may want to remortgage either with Skipton or another lender and increase their total borrowing to repay the equity loan.

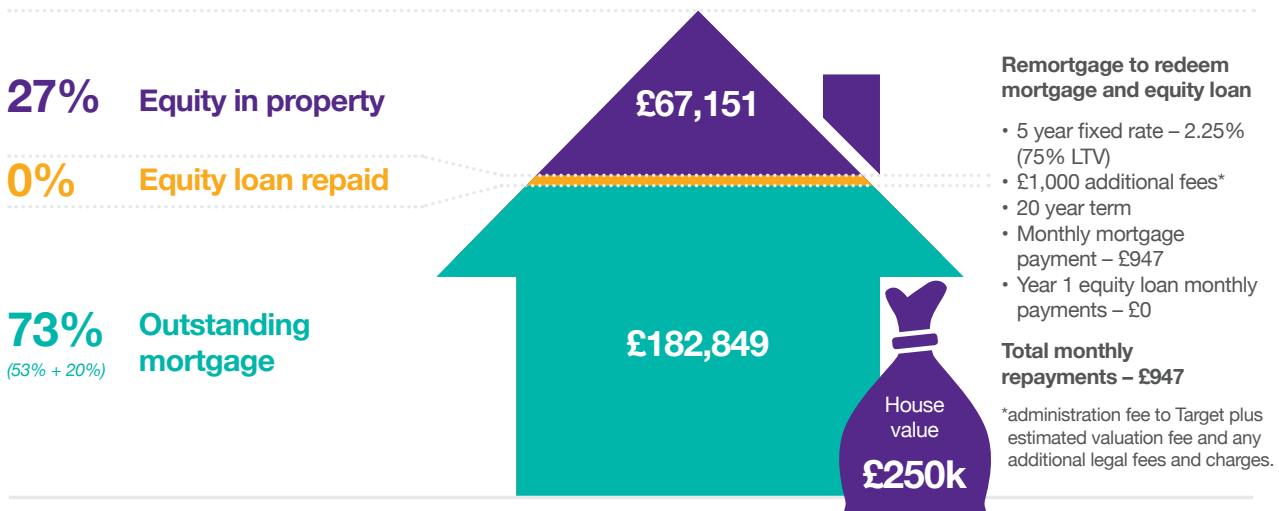
Your client will need to have the property valued by an independent surveyor. This valuation will be used to calculate the amount required to repay the equity loan in full and must be paid for by your client.

The valuation must meet certain criteria. For example, it must be provided by a Royal Institute of Chartered Surveyors (RICS) chartered surveyor (all criteria requirements are listed in the Homes England customer information pack).

Once the property's valuation has been approved, Target (the Homes England representatives) will write to your client with a redemption figure. After this point, Target will liaise directly with your client's conveyancer. An administration fee is payable for fully redeeming the loan. To avoid delays, this should be paid when your clients forward the valuation report to Target.

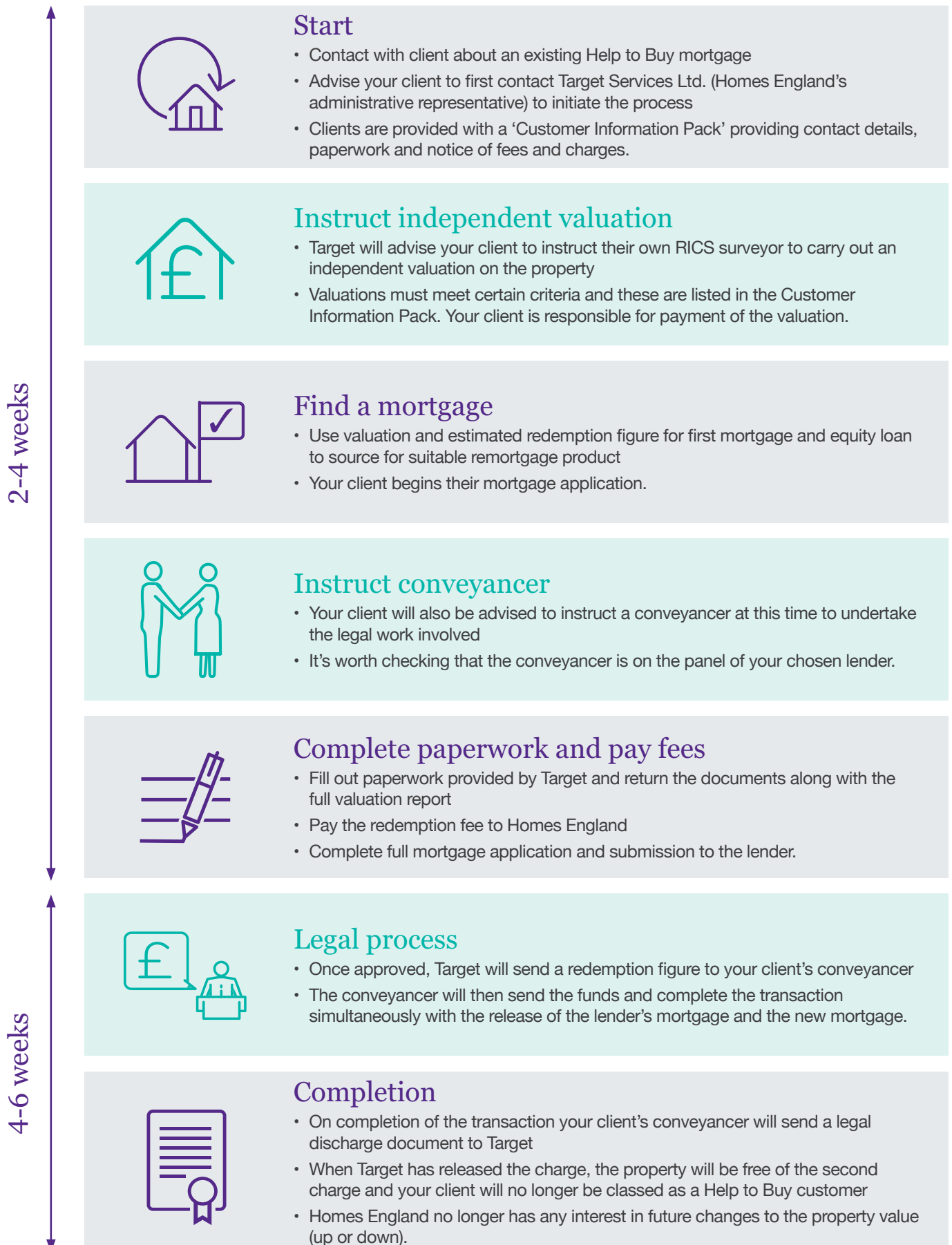
Please note, most mortgage lenders will also request their own property valuation following application for lending purposes.

Example – five years after completion if remortgaging and repaying equity loan



Remortgaging – stages and timescales

The flow chart below outlines the likely stages and timescales for clients who are remortgaging to redeem their equity loan.



Option 4 – staircasing – partially repaying equity loan

Staircasing is the partial repayment of the equity loan without the sale of the mortgaged property. The process generally follows the same steps as the redemption process. The minimum amount your client can staircase at one time is 10% of the total market value of the property at the time of staircasing. This means that, when the lenders' equity in your client's property is less than 20%, they can only repay the loan in full. Clients can only staircase in multiples of 10%. Skipton only allows staircasing to repay the equity loan in full.

Impact of retaining vs. repaying the equity loan – five year outlook

The graph below compares the costs of repaying or retaining the equity loan versus the projected equity position a borrower could expect based on different House Price Index (HPI) scenarios over the next five years. The figures are the growth in equity, minus the associated mortgage costs such as fees and mortgage payments. The assumed property value is £250,000, with an original 20% equity loan of £50,000, following HPI growth of 25% over five years as shown in our original example on page two. The original mortgage term was 25 years.

The product details for comparison are:

	Remortgage Balance	LTV	Rate	Term	Additional fees
Repay equity loan	£183,849	73%	2.25% 5 years	20 years' capital and interest repayment	£1,000
Retain equity loan	£132,849	53%	1.99% 5 years	20 years' capital and interest repayment	£0



Example only, figures correct as of 19 July 2019.

As you can see, if the HPI increases by as much as 5% annually over the next five years, then a borrower would have an additional £10,122 in equity if they chose to repay the equity loan at the start of the five-year period. This is compared to retaining the equity loan. This figure takes into account the increased mortgage costs and fees the borrower will have faced.

However, assuming an average annual HPI increase of just 1%, and if the borrower chose to wait until the end of the standard 25-year term to repay the equity loan, the total repayable could be £61,010. That's 53% more than the original Help to Buy equity loan advanced.

Try the different scenarios for your client today on our
[Help to Buy refinancing calculator on skipton-intermediaries.co.uk](https://skipton-intermediaries.co.uk)

Why choose Skipton?

At Skipton we've been offering Help to Buy products for several years, so we understand the complexity of this scheme. That's why we offer your clients a range of Help to Buy mortgage products, including our standard remortgage range and products for clients who want to exit the scheme. This includes products with higher cashback options to cover the legal and valuation costs of equity loan redemption.

An additional legal fee of £150 + VAT will apply to clients who want to exit their government equity loan, and who choose products with free standard legal fees to remortgage. This has been specially agreed with our chosen conveyancer.

Try our Help to Buy refinancing calculator

We've created an industry-first [Help to Buy refinancing calculator](#), to help you explore the different repayment options for your clients in relation to their government equity loan.

The calculator is designed to help you:

- understand how your client's equity loan may have changed in size since completion
- compare the likely financial impact of repaying vs retaining the equity loan
- project the future size of the equity loan if not repaid
- compare monthly mortgage and equity interest payments in different repay/retain scenarios.

The Help to Buy refinancing calculator is for illustrative purposes only and is not intended as mortgage advice. The aim of the calculator is to help your clients when they reach the end of their existing Help to Buy interest free period, to make a decision about keeping or repaying their equity loan. The calculator does not provide a guide to staircasing.

What next?

- Visit the Skipton Intermediaries website to download our Help to Buy refinancing calculator and see our latest products.
- Alternatively, you can contact your local BDM or our Broker Support team by phone or web chat for more information.

Helpful links

Skipton Intermediaries Help to Buy refinancing calculator:

skipton-intermediaries.co.uk/mortgages/help-to-buy-refinancing

Target: myfirsthome.org.uk

HTB scheme: helptobuy.org.uk

Find a conveyancer: lawsociety.org.uk

Find a RICS surveyor: rics.org/uk

Skipton offers products designed with Help to Buy in mind.

Talk to your BDM or download our calculator to compare your client's redemption or retention options.

 **0345 601 6683***  webchat.skipton.co.uk

 skipton-intermediaries.co.uk

*To help maintain service and quality, some telephone calls may be recorded and monitored.

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