

Implications and considerations of paying off your Help to Buy: equity loan in full

If you're considering paying off your Help to Buy: equity loan, there are some important implications and considerations we want you to be aware of.

Implications

- We won't provide advice about paying off your Help to Buy: equity loan. You must decide if this is the right thing for you.

Considerations

- There is no interest to pay on the first five years of your Help to Buy: equity loan. So if the additional loan is taken out during this period you'd be replacing an interest free loan with an interest bearing loan.
- When you pay off your equity loan in full you must repay the same percentage to the Government as the initial equity loan you took out. So if you took out a 20% equity loan to buy your property, you'd need to repay 20% of the value of your property when you repay the equity loan in full. Any increase or decrease in the value of your property will affect how much equity loan you pay back.

For example, if your property is currently worth £200,000, and you have a 20% equity loan, you'd pay back £40,000. If you waited and your property increased to £220,000, you'd need to pay £44,000 instead. If however it went down to £180,000, you'd only need to pay £36,000.
- If you think the value of your property may go up in the future, you may be better to pay off your equity loan now so you benefit from the full growth of any equity in your property.
- If you think the value of your property may go down in future, you could find yourself in the situation where you owe more money on your property than it's worth. This is called 'negative equity'. This could make it difficult to move home or remortgage to another lender.
- With an additional loan, when you set it up on a repayment basis, your monthly payments pay back the capital (the amount you borrowed) and interest.
- With a Help to Buy: equity loan your monthly payments only pay back the interest (not the capital). So you'll continue to pay the monthly interest payments and then have a lump sum to pay the Government when you pay off your equity loan.
- Monthly interest payments on your equity loan (after year 5) start at 1.75% in the first year the repayments are due. They then increase annually at a rate linked to the Retail Price Index (RPI). You may find your monthly payments with an additional loan are more expensive initially than if you continue to pay your equity loan, as the interest rate on your additional loan is likely be higher. However, with the additional loan, when you take it out on a repayment basis, you're paying back the capital (the amount you borrowed) and interest. You're also buying out the Government's interest in your property, so should you see your property increase in value, you will benefit from the full amount.
- Please remember the value of your property could go up or down in the future.

Please read the content of this factsheet carefully. If there's anything that you don't fully understand please speak to us or seek independent financial advice.

Put simply

- We won't provide advice about paying off your Help to Buy: equity loan.
- The value of your property could go up or down in the future.
- By repaying the equity loan, the Government no longer has a stake in your home. So if the value of your property goes up, you'd benefit from the full growth in value.
- With an additional loan, when taken out on a repayment basis, your monthly payments will pay back the capital (the amount you owe) and interest each month. This could make it more expensive initially than the equity loan monthly payments. But remember, with an equity loan you're only paying the interest (the rate of which increases annually at a rate linked to the Retail Price Index (RPI)). Plus you'll still need to find a way to pay back a lump sum (the equity loan) to the Government.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

