



Coming to the end of your interest-free equity loan period

The government launched its Help to Buy equity loan in April 2013 and since then 210,964 properties have been bought under the scheme.

First-time buyers and people moving to a new-build home worth up to £600,000 have benefited from the scheme, which provides an equity loan of up to 20% of the cost of the property interest free for the first five years. But what happens when you come to the end of the interest-free period?

Continue paying

If you haven't paid your equity loan off by the end of the five-years, you'll be charged 1.75% interest on the outstanding loan amount and this will increase by the Retail Prices Index (RPI) plus 1% each year.

Sell the property

If you choose to sell your home, you'll need to repay the equity loan in full. If the value of your property has stayed the same and your loan was 20% then your repayment will be 20% of the value of your home.

If the value of your home has increased or decreased the amount you pay will change by the same percentage. So, if your home is now worth 5% more than when you originally bought it you'll owe an extra 5% of original loan value.

Remortgage and keep the loan

If you want to remortgage and keep your equity loan, the new mortgage must not exceed the current mortgage and cannot be longer than the entire term of the existing mortgage.

For example, if you remortgage five years after taking a 25-year Help to Buy equity loan, your current mortgage must not be longer than 20 years. You will of course have to start paying interest on your equity loan.

Remortgage and pay the loan

If you choose to increase your borrowing to remortgage to pay the equity loan off in full, you'll need to be aware of any changes in the size of your equity loan just as if you were selling.

If your original loan value was £20,000 – below is indicative values of the amount owing when you come to sell:

House value decreased 5% - £18,000
House value the same - £20,000
House value increased 10% - £22,000

There are a number of options when it comes to the end of your five-year equity loan period. Contact us and we can discuss the right option for you.

Your home may be repossessed if you do not keep up repayments on your mortgage