

Help to buy mortgages for contractors

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Contractors seeking a mortgage on a new build property may qualify for government help under the [Help to Buy Scheme](#). The scheme can provide a low interest loan to increase the size of a contractor's deposit or provide a 'mortgage guarantee', designed to encourage lenders to provide mortgages to borrowers with small deposits.

"In order to apply, contractors require a minimum of a 5% cash deposit and must be buying a new build property valued at up to £600,000 via a capital repayment mortgage," explains [Taj Kang](#) of specialist mortgage broker [Contractor Mortgages Made Easy](#) (CMME).

However, Kang notes that there may be rules that affect the eligibility of [limited company contractors](#) who receive low salaries and high [dividends](#), unless specialist assistance is sought in proving income.

Kang says that only one lender has agreed to provide contractors applying for the scheme with mortgages based on contract values. But, he warns: "It is important that your broker explains to the HomeBuy Agents responsible for approving prospective buyers, that contract rate has been used as part of the affordability assessment with the lender, and that they do likewise when approving their side of the funding. Without this intervention the application for Help to Buy may be declined on affordability grounds"

How the scheme works

The Help to Buy scheme introduced in the [2013 Budget](#) is an extension of the First Buy scheme, which was open to first-time buyers to help them get on the first rungs of the property ladder. Help to Buy is designed to kick-start the UK's new build housing market, so it is open to all buyers.

"The idea is that the government makes up the shortfall in the contractor's deposit for a new home to top it up to equal 25% of the purchase price," says Kang.

Help to Buy works as follows:

The property must be in England

Contractors must have saved a minimum 5% cash deposit

The maximum purchase price is £600,000

Only capital repayment mortgages are eligible

Contractors must be intending to live in the property as their only residence, and not be making the purchase as a 'buy to let'.

Assuming the conditions are met, the government will loan contractors up to 20% of the purchase price. The loan is repayable over 25 years, or on the sale of the property following an independent valuation, whichever is sooner. When the property is sold, 20% of the proceeds are paid to the Homes and Communities Agency (HCA), regardless of the initial loan figure.

The loan is interest free for the first five years. After that, the interest is charged at 1.75%, rising in line with the retail price index (RPI) of inflation plus 1%.

The approvals and loan management process

"The application process is cumbersome," says Kang. "Contractors must submit two applications; one standard application to their mortgage lender for the mortgage and a separate one to the HCA-appointed HomeBuy Agents for the deposit top-up loan."

This also means that contractors undergo two 'affordability' checking processes, which require that the mortgage is a maximum of 4.5x income, with monthly repayments comprising no more than 45% of a contractor's net disposable monthly income.

"Because the scheme is designed to help homebuyers struggling to raise high deposits, contractors will also be assessed by the HCA as to whether they actually need government help with their mortgage," says Kang.

As a result, some contractors may be judged to be earning too much to qualify for the scheme, if it is felt they can save for a full 25% deposit without government help. It also means contractors who are assessed to be able to afford higher value mortgages and who apply for help under the scheme for smaller mortgages may also get refused.

Salary or gross contract value?

When the HCA allows HomeBuy Agents to affordability test contractors based on a multiple of gross contract value, then many will have no problem with meeting the affordability criteria and accessing a loan under the scheme.

"However, the HCA don't have specific guidelines around contractor income, and it is up to the broker to guide the HCA on whether to use a multiple of salary or a calculation based on gross contract value," continues Kang. "Few contractors will be drawing a large enough salary from their limited or umbrella company, so may find it a challenge to secure a large enough mortgage without specialist assistance."



Taj Kang

Mortgage Specialist

Contractor Mortgages Made Easy

Taj Kang was formerly a Mortgage Consultant with 12 years of advice experience, and is now Business Development Director for Contractor Mortgages Made Easy.

Contractor Mortgages Made Easy are a specialist, mortgage and protection advisory service who have been servicing the needs of contractors and freelancers since 2004. [Read Full Profile...](#)

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Kang says: "Contractors planning to apply for help under the Help to Buy scheme should consult with their mortgage adviser about eligibility and the HCA's latest view on affordability before paying housing developers a deposit on a new home.

"Many new home deposits are non-refundable and contractors may lose out if they find they are not eligible for the scheme."

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