

Could the government's new Help to Buy: ISA help you save?

What do I need to know first?

The Help to Buy: ISA is a savings account that helps first-time buyers get onto the property ladder. It's different from other ISAs because the government will add a 25% cash bonus on savings between £1,600 and £12,000 to help you save for your first home.

52% of people hoping to own a property in the next 3 years aren't currently saving towards this investment. With a maximum possible bonus of £3,000 from the Help to Buy: ISA, the new savings account may prompt more people to begin saving for their first home.

With those saving for a property believing they'll be 32 before owning their first home, a Help to Buy: ISA may help first-time buyers save for a property quicker than expected.

If you're interested in applying for a Help to Buy: ISA, you must be a UK resident aged 16 or over. You must also be the account holder - so you can't open one on behalf of someone else, such as your child, even if they are over 16.

To be eligible, you can only subscribe to one cash ISA in a tax year and you must not have used your total annual ISA allowance in an investment ISA during the same year, and you must be a first-time buyer. If you're buying a property with another first-time buyer, you can each open an account and both get a bonus to go towards the same property.

You are not obligated to use the money you have saved in the Help to Buy: ISA to purchase a property, however if you choose to use the money for something else, then you would not be able to claim the Help to Buy: ISA bonus.

Before you open a Help to Buy: ISA

Where can I open the account?

A number of banks offer the Help to Buy: ISA.

How much can I pay in?

Once you've opened your Help to Buy: ISA, you can deposit up to £1,200 in the first calendar month.

Although you can only have one Help to Buy: ISA, there are other options available if you have additional savings.

While you're saving

How much can I save?

After your first month, the maximum amount you can pay in is £200 per calendar month. The payment limit is calculated per calendar month, so if you pay in £200 on the 27th of the month, you'll only have to wait until the 1st of the next month to be able to pay in again.

You don't have to pay into your ISA every month, but your monthly deposit limit will always be £200. If you pay in £100 in March your maximum won't increase to £300 in April.

What government bonus can I get?

You've got to reach a balance of £1,600 when you close your Help to Buy: ISA to qualify for the 25% government bonus. If you pay in the full £1,200 in month 1 and £200 in the following months, you'll have £1,600 in 3 months, and a bonus of £400.

The maximum bonus you can receive is £3,000. You'll need to save £12,000 to be entitled to the full £3,000. By saving £200 a month and depositing £1,200 in the first month, it'll take 4 years and 7 months to reach £12,000, not including interest. You can continue saving into your ISA when you've got to £12,000, but your bonus will not increase.

You won't see the bonus added to your balance. Your conveyancing solicitor will apply for the government bonus on your behalf as part of the legal process of your purchase.

How much interest will I get?

The interest rates vary from bank to bank.

When you've finished saving

What property can I buy?

As you build up your savings and start to look at properties, it's important to note that you can only claim the Help to Buy: ISA bonus on properties valued up to £250,000, or £450,000 in London.

The bonus can be used for all property types, including both newly built and existing houses and flats, but the property must be purchased to live in, not as a buy-to-let.

What mortgage can I get?

You don't have to get your mortgage with your Help to Buy: ISA provider, but you must be buying with a mortgage - not as a cash buyer. Get more information about the scheme rules of the Help to Buy: ISA at gov.uk

You can combine your Help to Buy: ISA with other affordable housing products and schemes, such as the equity loan, mortgage guarantee, and shared ownership. If you and your partner pay the full amount into the ISA each month, you'll have saved £16,400 in 3 years, which is a 10% deposit for a £164,000 house (the average price of a property in Birmingham).

What if I have other savings?

You don't have to rely only on the money you've saved in your Help to Buy: ISA to put down a deposit on a property, if you have savings elsewhere you can add them to your deposit, too.

When you're ready to buy

What do I need to do?

All you'll need is a closing statement from your Help to Buy: ISA provider. You'll get this when you close your account. Make sure you don't just withdraw the money from your account, or you won't get your closing statement and, consequently, you won't get your bonus.

You can only use your bonus for your property purchase; you can't use it to pay for additional costs, such as your conveyancing, house survey or stamp duty.

After you've closed your account and started the process of buying your first home, your conveyancer will need to claim the bonus within 12 months. If you don't reach completion on your purchase, you can reopen your account and deposit your cash back into your ISA in full.

Full details of the ISA scheme rules which cover eligibility for a Help to Buy: ISA bonus can be found on the government website.