

How to use your HTB ISA or LISA towards your deposit



What is a Help to Buy ISA?

Help to Buy ISAs are no longer open to new applicants. But, if you already have one, they let you save up to £200 a month towards your first home, with the state adding a 25% bonus (max £3,000) on top of what you save. Plus, you earn interest on whatever you save, and as it's an ISA, that interest is tax-free.

However, you only get the bonus when you use the Help to Buy ISA cash as a deposit for your first home. The way it works is a bit complex, if you're getting close to using your Help to Buy ISA savings to buy a property.

You can keep saving up to £200/month until 30 November 2029

You can save up to £200 a month in your Help to Buy ISA. If you've got less, you can put in less each month. If you miss a contribution one month, it's not a problem, though you can't make it up the next month (ie, you can still only put in £200 the next month).

The deadline to open a Help to Buy ISA has now passed. But if you've already got one, you can keep saving in it until 30 November 2029. You'll then have until 1 December 2030 to claim the 25% state bonus.

Are my savings safe in a Help to Buy ISA?

As Help to Buy ISAs are savings accounts, there is no investment risk. The only risk is the slight one of the bank or building society going bust.

Yet all the providers have the full UK £85,000 safe savings protection and Help to Buy ISAs are covered by that. This covers per institution not per account.

The state adds 25% tax free to whatever is in the ISA when you use it to buy a home, up to a max £3,000 bonus

At the point you use your Help to Buy ISA savings towards buying your first home, all the cash you've saved, and the interest, will have 25% added to it, with two exceptions:

- You need to have at least £1,600 saved to get any bonus (so you'd get £400 extra).
- The most you'll get the bonus on is £12,000 (so a £3,000 bonus). If you have more than that you can still use the ISA to save, you just won't get more than £3,000 on top.

Buying with another first-time buyer? You can join bonuses

If you've got a Help to Buy ISA and you're buying with someone else who also has one, you can save up to £400 a month across your two Help to Buy ISAs and, when you come to buy, double the bonus. Similarly, if the person you're buying with has a Lifetime ISA, you can both get the bonuses when you buy.

The Help to Buy ISA can be used for any property costing £250,000 or under (£450,000 in London)

The bonus will only be available on homes you buy for £250,000 or less, or £450,000 in London. Unlike some other Government schemes, you're not restricted to buying a new build; any property works – provided you're buying with a mortgage (you won't get the bonus if you're a cash buyer).

- You can use it with any mortgage type, but it must be a residential mortgage, including self-build and shared ownership, NOT buy-to-let.
- Do note, with shared ownership, you'll only get the bonus if the total property price is £250,000 or under (£450,000 in London) – it's not based on the price of the proportion you're buying.
- The property price limit is absolute – it doesn't double if you're buying with another Help to Buy ISA holder.
- It doesn't need to be your sole deposit money, you can combine it with other savings or gifted deposit.
- You don't need to get a mortgage from your Help to Buy ISA provider.
- You don't need to be named on the mortgage to use your bonus, though you must be on the title deed of the property you're buying – and some lenders may require everyone named on the title deed to be named on the mortgage too.

The Help to Buy ISA bonus only helps with the mortgage deposit, not the deposit you send to the buyer at exchange

When you buy a home there are two types of deposit and, as the Government decided you only get the Help to Buy ISA bonus at completion, it only helps you with one of these types, and it's important to understand the difference.

The home exchange deposit: During the process of buying a property, after your offer is accepted, once you have checked everything out you normally exchange contracts with the seller. At this point the seller will usually ask you to put down a 10% deposit, to secure the property. After that no one else can trump you as you and the vendor are committed to the sale. You then have time to work through your finances and any other issues towards completion, which is when you and the mortgage company hand over the remainder of the cash.

While you can use the money you've saved in a Help to Buy ISA towards this exchange, it's only at completion that you receive the mortgage money and Help to Buy ISA bonus – so the bonus won't help towards the home exchange deposit. So if you're relying on the Help to Buy ISA bonus to get you to 10%, it could be a problem. However, please discuss this with your Mortgage Broker and Solicitor at the earliest opportunity.

The deposit at completion (sometimes called the mortgage deposit): It is this final deposit when you actually become the legal property owner – not the specific exchange deposit described above – which the Help to Buy ISA bonus is for.

You need to ask your solicitor to apply for the bonus when you buy a home

When you're ready to buy, to get the bonus, you let your ISA provider know that you're closing down your Help to Buy ISA account, and transfer the funds into another account (or your solicitor's account). You'll then receive a closing letter from your ISA provider, which you need to give to the solicitor who is doing your conveyancing work for you.

The solicitor then uses the letter to apply online for the Government bonus, between the stages of exchanging and completing on your home purchase. Beware! Because it's admin work, and takes time, solicitors are allowed to charge up to a maximum of £60 (£50 + VAT).

You can transfer your Help to Buy ISA to a different provider to up the rate

Though many providers have now withdrawn their Help to Buy ISAs from the market, a few still allow transfers in for those who already have one. Therefore, it's important to check the rate you're getting from your provider to see if you can do better elsewhere.

Note: you'll need to ask the new provider to transfer your existing account when you open the new one – don't take the money out yourself. Remember, your maximum ISA allowance per tax year is £20,000 so you can't put more than this into ISAs in the same tax year.

It could be worth transferring your Help to Buy ISA to a Lifetime ISA if you won't be buying for a year or more

Like the Help to Buy ISA, the Lifetime ISA (LISA) gives a 25% bonus on top of what you save. The LISA is designed to help you buy your first home, and to save for retirement, and can be opened by anyone aged 18 to 39.

The main difference is that you can save £4,000 a year in a Lifetime ISA, compared with £2,400 (£3,400 in year one) in a Help to Buy ISA. This could mean a much bigger bonus. The bonus is also paid differently – with a Lifetime ISA it's paid monthly. However, with a LISA you need to wait a year before using it to buy a home, and there's a penalty for early withdrawal.

You can have a Help to Buy ISA and a Lifetime ISA – even if the Lifetime ISA is a cash LISA.

This is because the Lifetime ISA is a whole new type of ISA. However, you can only use the bonus from one of them towards buying a home.

Use the LISA for the 25% bonus to buy a home and you won't get the bonus with the Help to Buy ISA, but you can still keep the money plus the interest (and use it towards buying your home).

Use the Help to Buy ISA for the 25% bonus, and you'd have to pay a penalty to use your LISA savings for a property, though you would still be able to use it and get the bonus for retirement savings. Please check out the specific benefits on the various providers websites

How do I transfer my Help to Buy ISA into a LISA?

You'll usually need to complete a transfer form after you've opened the LISA. It's worth getting in touch with the LISA provider you're transferring to so you know what to expect, what to do and when.

Note: Any money you transfer in will count towards your annual £4,000 LISA allowance. If you've more than £4,000 in your Help to Buy ISA, you'd need to do a partial transfer into your LISA.

We always recommend that you discuss the sources for your deposit with us and your Solicitor at the earliest opportunity. This should include savings from any source, investments and gifted deposits.

Contact Us

For further details about the mortgage and protection products we offer as a fully independent mortgage broker, or any other mortgage information, book your FREE CONSULTATION with one of our expert Mortgage Advisers.

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