

Revamped Help to Buy – underwriting high house prices

“The IMF, Office of Budget Responsibility and the Treasury Select Committee have all warned that the government's Help to Buy scheme will push up house prices but have limited impact on increasing badly needed affordable house building.”

Jack Dromey, Shadow Housing Minister, July 5th 2013

The government is introducing a new version of Help to Buy, called [Your First Home](#). Whilst the details won't be announced until the budget, we know that the deposit will be 2.5%, compared to 5% under Help to Buy, and the government's equity loan will be 20%.

In the light of the stalled housing market, developers and big builders have been demanding the reintroduction of a Help to Buy scheme, effectively, to bridge the gap between exorbitant house prices and what buyers can afford. A feature of the housing market of late has been builders making special offers to buyers, such as deposit contributions, stamp duty payments, lower initial monthly payments, to tempt reluctant buyers; anything but lowering their prices.

Ironically the Starmer government was reluctant to introduce a Help to Buy type scheme because of the upfront cost. But the government under Andy Burnham has caved into pressure from the large volume builders in order to try and kick-start the housing market. With the government's 1.5 million target looking a long way away, Your First Home looks like a desperate attempt to drive up the number of new builds. In a previous effort to do that, the government under Keir Starmer, abandoned its opposition to the Tories “Permitted Development Rights” which Matthew Pennycook had denounced as a source of [“poor quality/slum housing”](#).

We won't know what the funding for the scheme will be until the budget, although the Financial Times says it will be on a smaller scale. The Help to Buy scheme launched in 2013 was taken up by 387,195 buyers over 10 years. The government dished out £24.7 billion in Equity Loans. However, unlike the mortgage element, buyers did not know what they would have to pay back, because they would owe the government 20% of the value of the property, whatever it was. The scheme was introduced to drive up new build rates. The equity loan was not available for buying existing homes. One of the attractions of the scheme was that the government equity was interest free for the first five years. After that there was an annual fee of 1.75% increasing by RPI +1% annually.

The Financial Times reported that

“Some government officials are concerned that the number of new homes being built is so low that the Office for Budget Responsibility could downgrade its predictions, which would impair growth forecasts and the Treasury's fiscal headroom...Ministers, including housing minister Matthew Pennycook, have been pushing to revive Help to Buy, albeit on a more limited and targeted scale than the Tories' version. One official said ministers were moving at “breakneck speed” to design the new product.”

Turning a profit?

The House Builders Federation, in a recent report directed at persuading the government to introduce a new Help to Buy, indicated that the combination of interest payments and returns resulting from increased house prices, enabled the government to gain a profit, so far, of £1.38 billion. At the end of March 2025, 181,437 loans, with an original value of £9.96 billion had been repaid, generating £1.02 billion (+10.3%).

So, returning a profit, why would the government not do it? It *may* eventually make a profit out of their loan, always providing that house prices increase rather than go down and give them a loss. From the point of view of resolving the housing crisis, the problem is that funding spent on the new scheme, cannot be used to fund social rent housing which is said to be a priority. Moreover, if prices continue to rise then mortgages will become unaffordable for even more people.

Help to Buy included a mortgage guarantee, with lenders paying a fee for the government to partially

underwrite losses in the event of repossession. It was an inducement to lenders to provide mortgages with a 5% deposit. Back in 2013 the House of Commons Treasury Committee expressed concern that the government would find it very difficult to set the fee at such a level as to minimise the risk to the taxpayer.

“The mortgage guarantee scheme now makes the government an active player in the mortgage market. The committee is concerned that *the Treasury now has a financial interest in maintaining house prices to limit losses to the taxpayer.*” (my emphasis)

Under the new scheme there will be “a developer contribution”, as yet unspecified.

Although the impact of Help to Buy on house prices is contested, it seems clear that it was, at least, a contributing factor in pushing up prices. The mean price of a home in England in the first year was £202,551. In the final year it was £358,329. The median house price rose from £185,000 in September 2013 to £297,500 in September 2023; a 60% increase. Even lower quartile sale prices rose from £127,000 to £195,712; a 54% increase.

‘Priced Out – the campaign for affordable house prices’ summed up Help to Buy well.

“Help to Buy should really be called ‘Help to Sell’, as the main winners will be developers and existing home owners who will find it easier to sell at inflated prices. Pumping more money into a housing market with chronic under-supply has one sure-fire outcome: pushing up house prices. At best it may help a small number of new buyers, but it will mean housing becomes more expensive for all those that follow.”

The recent “Evaluation of the Help to Buy scheme” carried out for the government said that the scheme “may have driven up prices in these relatively more expensive areas, so that buying a home remained out of reach for many potential First Time Buyers.” The research indicated that 54% of buyers interviewed said they could have bought a home without Help to Buy. It enabled them to buy a larger property than they would have otherwise been able to afford.

It appears that Your First Home will only be for First Time Buyers. However, as the government report points out, the context is different today. In 2013 the Bank of England Base Rate was 0.5%, and fixed rate mortgages were 3.4% to 3.58%. In comparison, today, the Base Rate is 3.75%, with the likelihood of it being increased, while the average five year mortgage rate has hit 6% and two year mortgages at 5.98%. Since the start of this September 1,500 mortgage deals below 5% have been withdrawn.

Peter Apps in [Demand side housing stimulus is back – but how much of a risk is it?](#), estimates that if a first time buyer wanted a £350,000 new build home, they would need a deposit of £8,750. The government equity loan would be £70,000. The buyer would have to take out a mortgage for £271,250. He suggests that would cost £1,379 a month at current rates. If, as with the original Help to Buy, the first five years of the equity loan are interest free, then after that there will be a payment in addition to the mortgage. Peter suggests “a further few hundred pounds”. A lot of people will struggle if interest rates increase.

One of the problems which Peter highlights is the current situation with flats, in particular in London. The leasehold and cladding issues have made people reluctant to buy flats. In London, in the first quarter of 2026 just 2,838 were sold. Just 604 of these were purchased by UK individuals (as opposed to companies or overseas investors).

Underwriting high house prices

Peter is right when he says that because builders are not producing homes at a price people can afford

“...the government has stepped in to make it easier for buyers to buy without prices having to fall. These equity loan schemes essentially use the government's balance sheet to underwrite high house prices – closing the gap between what buyers can afford to pay and what builders charge. It is accurately seen as a hand-out to developers first and foremost, because it underwrites their profit margin.”

With the announcement of Your First Home, share prices of the big builders rose in excess of 10%.

A couple of years ago, when Andy Burnham was Manchester Mayor, he said that

“The government should make building hundreds of thousands of council homes its defining purpose. No other policy achievable within a Parliament, would have greater social and economic benefits.”

However, there is no sign of this as yet. The recent Labour conference passed a resolution which called for [90,000 social rent homes a year, ending Right to Buy, and cancelling council housing debt](#). Yet the government's Social & Affordable Homes Programme is only funding 18,000 social rent homes a year, with no funding ringfenced for council housing. Whatever funding goes on equity loans is funding which could have gone towards social rent council housing. The Starmer government looked to the market to resolve the housing crisis. Your First Home does likewise.

'Hope again' said the Labour conference banner. Alas, Your First Home will boost the profits of the large volume builders but it will do nothing to offer hope to those in temporary accommodation, on the waiting lists, and stuck in poor or overcrowded housing. One of the delegates to the Labour conference said, “Hope needs a home”; a council home. There is no sign yet of “the largest council house building programme since the post-war years”. It will not happen unless [the government makes social rent council housing its first housing priority](#).

Martin Wicks
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