

Helping you to become a home owner

Low-cost Initiative for First-Time Buyers

LIFT

Open Market Shared Equity Pilot



The Scottish Government

Open Market Shared Equity Pilot

This document can be provided, on request, in other languages and formats. Please contact Janette Campbell, telephone number, 0131 479 5162 or email: translations@communitiescotland.gsi.gov.uk.

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The Scottish Government is committed to helping people meet their aspirations to become home owners. This booklet gives information about our Open Market Shared Equity Pilot that will help more people across Scotland become home owners.

It is for people on low incomes, particularly first-time buyers, in partnership with a registered social landlord – normally a housing association or housing co-operative.

The Open Market Shared Equity Pilot is separate from the main 'New Supply' Shared Equity scheme which mostly relates to homes that are newly built by registered social landlords. A separate booklet covers that scheme.



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What is the Open Market Shared Equity Pilot and how does it operate?

The Open Market Shared Equity Pilot aims to help people on low incomes who wish to own their home but who cannot afford to pay the full price for a house. It is part of the range of assistance from the Scottish Government under LIFT, the Low-cost Initiative for First-Time Buyers.

From January 2008, the Open Market Shared Equity Pilot will be run in a number of areas across Scotland where it is difficult to find affordable homes for sale. The table below shows the three registered social landlords who run the pilot and the areas they cover:

Albyn Housing Society Limited	Highland Council area
Grampian Housing Association Limited	Aberdeen City, Aberdeenshire and the Moray Council areas
Link Homes	The City of Edinburgh, East Lothian, Midlothian, Perth & Kinross, Stirling and West Lothian Council areas

The Scottish Government gives grants to these registered social landlords to help them fund part of the price of a property that is for sale on the open market. You will pay for the majority share in the property – normally between 60 and 80 per cent of the price – and the registered social landlord will use the grant to pay for the rest.

For example, if you can afford a 75 per cent share of a property the registered social landlord will pay for the remaining 25 per cent. You will own the property outright and will have a 75 per cent stake in its value, whatever changes there are to the property's value over time. When you sell your house, both you and the registered social landlord will receive your share of the property value. You do not pay any form of rent to the registered social landlord.

Who is it for?

The Open Market Shared Equity Pilot mainly aims to help first-time buyers and will be promoted to local authority and registered social landlord tenants.

The Open Market Shared Equity Pilot can, however, help others too. For example, it may be able to help you if you are looking for a new home after a significant change in your household circumstances, or if you have a disability and own a house which doesn't suit your needs. If you currently own your home or part-own a property, you will have to sell your interest in that home at the same time that you buy a home through the Open Market Shared Equity Pilot. If you live in one of the areas listed and are currently a tenant of a local authority or registered social landlord, you will not be able to buy your existing home from your landlord through the Open Market Shared Equity Pilot, but you may be able to buy a property that is for sale on the open market.

How do I know if I'm eligible?

The property that you buy must be your only home. Although it should be suitable for your current housing needs, you can if you wish buy a home which has one room more than your existing need. For example, a couple would be eligible to buy a home with two double bedrooms.

As the **Open Market Shared Equity Pilot is aimed at low income households**, you will be assessed by the registered social landlord to see whether or not you qualify. To allow this to happen, a form of 'means testing' will be carried out.

The amount that you contribute must be the maximum mortgage that you are able to obtain plus any personal contribution that you are able to make. The overall amount must be enough to pay for your stake and cover all the costs of buying a home, such as survey and legal costs.

Limits are set on the price you can pay for a property under the Open Market Shared Equity Pilot. You can find out what these limits are at: www.communitiesscotland.gov.uk/lift.

The stake that you hold will normally be determined by the maximum mortgage that you can raise, plus any personal contribution that you are able to make towards the purchase. For example, if a property is valued at £100,000 and you can afford to contribute £70,000 (the maximum mortgage that you can raise plus any personal contribution) you would hold a 70 per cent stake in your home.

When you apply to buy a house, you will have to state all your sources of finance. Your funds will be considered to be the total of:

- gross earnings, per single person or couple, as appropriate;
- any other income, comprising sickness benefit, unemployment benefit, bank interest, superannuation or pension from previous employment, working families tax credit, widow's pension and shareholder's profits; and
- personal contributions.

Personal contributions may include, for example, savings and gifts. The definition of savings that we use includes: cash; premium bonds; stocks and shares; unit trusts; bank or building society accounts and fixed-term investments; the surrender value of any endowment policies; property; redundancy payments; and pension lump sum payments.

You may keep £5,000 of any personal contribution you can make. Above this amount, 90 per cent of the balance will be treated as a contribution towards the cost of buying your home.

Example

An example of how the Open Market Shared Equity Pilot works:

Mandy is single, lives in Stirling and earns £18,500 a year.

She has £8,000 saved towards the cost of buying a property. She may keep £5,000 and must contribute 90 per cent of the £3,000 balance. Therefore she can make a contribution of £2,700.

After being accepted onto the Open Market Shared Equity Pilot, she identifies a two bedroom property which has been valued at £92,000. This is within the maximum price of £93,680¹ that can be paid for a two bedroom property in Stirling. The maximum mortgage that Mandy can secure is £64,750. This sum, together with her savings of £2,700, means that Mandy can contribute £67,450 towards the purchase of the property.

The registered social landlord is able to fund the balance of the purchase price of £24,550.

After the property has been bought, Mandy has a 73.32 per cent equity stake in it. The registered social landlord holds the remaining equity stake of 26.68 per cent.

¹ Figure accurate at January 2008.

What percentage of a home can I have?

The stake that you take will normally be between 60 and 80 per cent of the price of a property, according to the maximum mortgage that you can obtain and the personal contribution that you are able to make. In most circumstances you will have to take a stake of at least 60 per cent of the price of your property.

In exceptional circumstances you may be able to take a stake of less than 60 per cent but not less than 51 per cent. This is likely to apply, for example, where you have additional housing costs because of your particular housing needs, which might be related to a disability.

The registered social landlord will tell you if you can take a stake of less than 60 per cent.

In all cases, the maximum initial stake that you can take will be 80 per cent of the price of a property.

In the majority of cases, you will have the option to increase your stake after two years to 100 per cent. However, in a small number of circumstances the registered social

landlord will be allowed to keep a 20 per cent stake in the property. This is known as a 'golden share' and is likely to happen in areas where there is only a small amount of affordable housing and few opportunities to build more affordable homes, in particular some rural areas.

The registered social landlord will tell you before you look for a property whether it wishes to retain a golden share.

After two years, if you have a stake of less than 80 per cent you can increase this stake to 80 per cent (or more if there is no golden share). This first increase must take the stake to a minimum of 80 per cent.

At least one year after this first increase (and again assuming that there is no golden share held by the registered social landlord) you may increase your stake once more. This increase must take your stake to 100 per cent.

Example

An example where a shared equity owner increases their equity stake:

John has a 60 per cent stake in a shared equity house in Aberdeen where there is no golden share. After two years he looks again at his financial position. As he has received an increase in his salary he feels that he would now like to own more of his property. He seeks independent financial advice and decides that he will raise his stake in the house to 80 per cent (the minimum increase allowed).

After a further three years John receives another rise in his salary and he decides that he would like to have an even greater share in his home. If he chooses to increase his stake again, he must now take it to 100 per cent. Again he receives advice from an independent financial adviser and decides to go ahead with the increase.

He now holds a 100 per cent stake and, if he sells, will receive the whole of any increase or depreciation on the sale price of the house.

You can increase your stake in your home regardless of whether the market value of the property has increased or decreased. (The market value is set by an independent professionally qualified valuer.)

You will not be asked about your financial circumstances again after you have bought your home. Before you increase your stake in your property, you are advised to take independent financial advice.

Can I reduce my stake?

It will not be possible for you to reduce the stake you own. This is important and means you should be as confident as possible that you can meet your mortgage payments each time you increase your stake in your home.

What responsibilities does a shared equity owner have?

When you buy through the Open Market Shared Equity Pilot you own the property outright – you will have full title to the property.

Like other home owners you will be responsible for all maintenance, insurance and repair costs, as well as making your mortgage repayments and paying tax to your local authority. You are responsible for keeping your property in a good state of repair. If the property has common and shared areas, flats for example, you will be responsible for paying any common maintenance or service charges.

You will need to take these costs into account when assessing whether you can afford to buy a property. You should seek independent financial advice on the responsibilities that come with being a home owner.

You are only allowed to let or sub-let your property with the registered social landlord's prior written consent. If you let or sub-let your home, no rent will be due to the registered social landlord.

If the registered social landlord allows you to let your property you will only be able to do this for a limited period of time. This is because you are expected to live in the property as your only home. You must therefore receive written consent from the registered social landlord agreeing the start and finish dates for the period of letting. If the registered social landlord does not provide written consent you must not let your home.

Further information on your obligations as a shared equity owner will be available from the registered social landlords taking part in the Open Market Shared Equity Pilot.

What happens when I want to sell my shared equity property?

If, for example, you have an 80 per cent stake in your property when you want to move, then you will get 80 per cent of the selling price when it is sold. The registered social landlord will receive the remaining 20 per cent. The percentage you get is not affected by changes in the value of your property over time. In this example, if the value of your house increases, you will benefit from 80 per cent of the increase. The other 20 per cent of the increase will go to the registered social landlord.

Example

An example of when the value of your property increases:

Initial property value	£100,000
Your stake – 80 per cent	£80,000
Registered social landlord's stake – 20 per cent	£20,000
Sale price	£140,000
You receive 80 per cent	£112,000
Registered social landlord receives 20 per cent	£28,000

In this example, the value of your stake has increased from £80,000 to £112,000.

The registered social landlord does not itself make a profit. Any surpluses go towards providing more affordable housing.

The next example shows what happens if the value of your property decreases.

Example

An example of when the value of your property decreases:

Initial property value	£100,000
Your stake – 80 per cent	£80,000
Registered social landlord's stake – 20 per cent	£20,000
Sale price	£90,000
You receive 80 per cent	£72,000
Registered social landlord receives 20 per cent	£18,000

In this example, the property value has fallen by £10,000. You have an 80 per cent stake and make a loss of £8,000 (80 per cent of £10,000).

If you have made any improvements to your home, these will be reflected in the valuation. You will not be reimbursed for the cost of any improvements made at your own expense. The amount you sell your house for will be split in proportion to the stakes held by you and the registered social landlord.

Example

An example of when you improve your property:

Initial property value	£100,000
Your stake – 80 per cent	£80,000
Registered social landlord's stake – 20 per cent	£20,000
Improvements funded by you	£10,000
Sale price	£150,000
You receive 80 per cent of £150,000	£120,000
Registered social landlord receives 20 per cent of £150,000	£30,000

You will be responsible for meeting the costs of marketing your house if you sell it on the open market.

How do I apply?

If you think you might meet the eligibility criteria, please contact the registered social landlord operating the scheme in the area you are interested in.

Highland Council area:

Albyn Housing Society Limited
98-100 High Street
Invergordon
ROSS-SHIRE
IV18 0DL
Telephone: 01349 855991
0789 4568182

Aberdeen City, Aberdeenshire and the Moray Council areas:

Grampian Housing Association Limited
Huntly House
74 Huntly Street
ABERDEEN
AB10 1TD
Freephone: 0800 1214496

The City of Edinburgh, East Lothian, Midlothian and West Lothian Council areas:

Link Homes
Link House
2C New Mart Road
EDINBURGH
EH14 1RL
Telephone: 08451 550019

Perth & Kinross and Stirling Council areas:

Link Homes
Watling House
Callendar Business Park
FALKIRK
FK1 1XR
Telephone: 08451 550019

What happens next if I make an application and it's approved?

If your application is approved, you will receive a letter from the registered social landlord confirming that you may now look for a property under the Open Market Shared Equity Pilot. The letter will allow you to find a property within your chosen area. It will confirm the maximum price that you can pay for a home as well as the maximum size of property you are able to buy. The letter will also tell you about the next steps in buying your home.

When you have seen a suitable property you will need to ask an independent valuer to value the property. You will need to let the valuer know that the registered social landlord will have an interest in the property when it is bought. You cannot pay anything above the value given by the independent valuer when buying a property through the Open Market Shared Equity Pilot.

You will also have to appoint a solicitor to act on your behalf to complete the work involved in buying a home. The registered social landlord will instruct its own solicitor to deal with its interest in the purchase.

You will pay for your share of the purchase price in the usual way, along with legal costs, survey fees and any other costs associated with the purchase including (if applicable) stamp duty.

It is important that you are aware that there are limited funds available for the Open Market Shared Equity Pilot and that a limited number of applications will be approved at any one time.

You should note that the letter you receive from the registered social landlord will be valid for a period of 12 weeks. It may lapse if you have not found a property and had an offer to purchase accepted within that period.

How do I find out more?

You will find some more general information about the Open Market Shared Equity Pilot, and general information on the house buying process, at:
www.communitiesscotland.gov.uk/lift.

You can also obtain further information, including details of the legal requirements of the Open Market Shared Equity Pilot, by contacting the registered social landlord operating the scheme in the area you wish to live in.

