

# Open Market Shared Equity Scheme

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March 2016

## **Open Market Shared Equity Scheme**

The Open Market Shared Equity Scheme helps first time buyers on low to moderate incomes to buy a home on the open market (within a certain price threshold) where this is sensible and sustainable for them to do so.

Although the scheme is currently open to help all first time buyers, priority access to the scheme is provided to priority group applicants which include social renters (in other words, people who rent a property from either a local authority or a housing association), disabled people, members of the armed forces, veterans who have left the armed forces within the past two years, and widows, widowers and other partners of service personnel for up to two years after their partner has been killed whilst serving in the armed forces.

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

The Open Market Shared Equity Scheme helps eligible buyers on low to moderate incomes to purchase a home where this is sensible and sustainable for them to do so.

The scheme is administered on behalf of Scottish Ministers by 5 agents across Scotland. You can find contact details for the agents on pages 13 & 14 below.

Under the scheme you will be required to contribute between 60%-90% of the purchase price of a home with the Scottish Ministers providing assistance to fund the remaining amount. Although you will own the property outright, the interests of the Scottish Government will be secured by a mortgage (or a 'standard security' as it is known in Scotland) on your property. Upon the occurrence of certain events in the future (for example when you sell your home) you will be required to repay funds to Scottish Ministers.

**You should be aware that a lender may expect you to provide a modest deposit in order to obtain a shared equity mortgage and you should discuss this with your independent financial advisor before you apply to the scheme.**

## Who is the scheme for?

The scheme is available to help all first time buyers. If you have previously owned a home you will not be able to receive assistance.

**You are strongly advised to take independent financial and legal advice before agreeing to take part in the scheme.**

Priority access to the scheme is provided to priority group applicants which include social renters (in other words, people who rent a property from either a local authority or a housing association), disabled people, members of the armed forces, veterans who have left the armed forces within the past two years, and widows, widowers and other partners of service personnel for up to two years after their partner has been killed whilst serving in the armed forces.

If you 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 Scheme. However, you may be eligible to buy a property that is for sale on the open market.

## How do I find out more?

You will find some more general information about the Open Market Shared Equity Scheme and general information on the house buying process at: [www.gov.scot/LIFT](http://www.gov.scot/LIFT)

## How do I know if I'm eligible?

You will need to submit an application form to the agent who administers the scheme in your area. Contact details of all of the agents are provided on pages 13 & 14. Your application will be assessed by the agent in accordance with the scheme rules to determine if it qualifies to receive assistance or not.

If your application is eligible, you will be issued with what is called a 'Passport Letter' by the agent which is valid for a 12 week period of time. **Please do not make an offer to buy a property unless you have been issued with a 'passport letter'**. Your 'Passport Letter' will amongst other things provide you with important information that will include the following:-

- The maximum size of a home is that you are able to buy
- The maximum price of a home that you are able to buy.
- Your expected level of financial contribution
- The expected level of financial contribution you can expect to receive from Scottish Ministers.

If you receive a 'Passport Letter' you may then proceed with finding a home for sale on the open market providing it meets the conditions set out in your 'Passport Letter'.

When you have seen a suitable property you will be asked to obtain a valuation from an independent professionally qualified valuer who is registered with the RICS this valuation will form part of the Home Report unless the property is a new build in which event you will be required to obtain a valuation at your expense.

You will also have to appoint a solicitor to act on your behalf to complete the work involved in buying a home. The Scottish Government will instruct its own solicitor to deal with its interest in the shared equity documentation. **You will pay for your share of the purchase price in the usual way, along with legal costs, and any other costs associated with the purchase including registration fees, and (if applicable) stamp duty.**

**You should ensure that your solicitor advises you on the terms of all documentation and that you are satisfied with those terms before agreeing to enter into any legal commitments.**

The shared equity arrangements will include the granting of a mortgage (or 'standard security' as it is known in Scotland) to secure the rights of the Scottish Government. **You should check that this mortgage will meet your needs if you want to move or sell your home, or if you want your family to inherit it.**

## How much will you be expected to contribute towards the purchase price?

The amount that you contribute must be the maximum mortgage you can reasonably obtain and afford plus any personal deposit contribution that you are able to make towards the purchase price.

You will be provided with information on the expected level of finance that you should be able to raise. You should not exceed this level and throughout the whole process you should speak to an independent financial advisor to make sure that you can pay your mortgage over the long term, even if mortgage interest rates or other living costs increase.

### **Example**

If you are eligible to purchase a home up to a maximum price of £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 and the Scottish Government would provide assistance of the remaining £30,000.

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 – this will help you to fund the costs of buying your home (such as your legal costs, registration fees, mortgage arrangement fees and any removal costs). Above this amount, 90 per cent of the balance will need to be treated as a deposit contribution towards the cost of your home.

### **What size and percentage of a home can you have?**

You can purchase a home with one room more than you currently need. For example, a single person will be entitled to purchase a 3 apartment property as will a couple. A three person household would be entitled to buy a 4 apartment property. An apartment is classified as any habitable room, but does not include kitchens, bathrooms, box rooms, utility rooms or hallways. Glass conservatories do not qualify as an apartment

The stake that you take will normally be between 60 and 90 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 all cases, the maximum initial stake that you can take will be 90 per cent of the price of a property. If you can afford over 90 per cent of the purchase price of a home, your application will not be eligible to participate in the scheme.

In certain circumstances the Scottish Government will keep a 10 per cent stake in the property. This is known as a 'golden share' and is likely to happen in areas where there are only small amounts of affordable housing and few opportunities to build more affordable homes. For example, if you purchased an initial equity stake of 70% and you wish to increase your share, you may only increase up to a maximum of 90% as your property has a 'golden share' provision attached.

Here are some worked examples showing how the scheme operates

#### **Example 1 - Purchase of a home with assistance from OMSE**

Mandy currently rents a home from a local housing association and she earns £18,000 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 would be expected to make a contribution of at least £2,700.

After being accepted onto the Open Market Shared Equity Scheme, she identifies a two bedroom (3 apt) property which has been valued at £79,500. This is within the maximum price of £80,000 that can be paid for a 3 apartment property in Falkirk. The maximum mortgage that Mandy can secure is £54,000. This sum, together with her savings of £2,700, means that Mandy can contribute £56,700 towards the purchase of the property.

The Scottish Government will fund the balance of the purchase price of £22,800.

After the property has been bought, Mandy has a 71.32 per cent equity stake in it. The Scottish Government holds the remaining equity stake of 28.68 per cent.

#### **Example 2- Tranching Up to increase an equity stake where there is no golden share**

Jim and Susan purchased 65% of a house through the Open Market Shared Equity Scheme. After around a year, they look again at their financial position. They have both received rises in their salary and they feel that they would now like to increase their equity stake in their property.

As there is no 'golden share', they must increase their stake by a minimum of 5%. The couple seek independent financial and legal advice and decide that they will raise their stake in the house to 80%

After a further couple of years Jim receives another rise in his salary and the couple decide that they would like to have an even greater share in their home. Again, the couple must increase their stake by a minimum of 5% and following advice from an independent financial adviser and their solicitor and decide to go ahead with increasing their share by a further 20%. They now hold 100% of the stake and will receive the whole of any increase or depreciation on the sale price of the house.

### **Example 3 - Tranching Up to increase an equity stake where there is a golden share**

Jane bought a flat through the Open Market Shared Equity Scheme and took a 70% equity stake. Before she bought the property she was informed that the Scottish Government had the legal right to retain a 10% 'golden share' in the property. Her financial situation has improved since she bought the flat and she would like to increase her stake in the property. Because the property has a 'golden share' she cannot increase her stake above 90%. After taking independent financial and legal advice she decides to raise the stake by 20% to the maximum amount of 90 per cent.

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 the District Valuer or another 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 and legal advice. **You are advised to contact the administering agent when you wish to increase your equity stake.**

### **What responsibilities does a shared equity owner have?**

When you buy through the Open Market Shared Equity Scheme 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 Council tax to your local authority. You are responsible for keeping your property in a good state of repair. Before buying a property, you should therefore look closely at the Home Report which should be made available by the seller and ensure that you are comfortable that you can afford to pay for any repair which the Home Report survey indicates are needed. If the property has common and shared areas, flats for example, you will be responsible for paying any common maintenance or service charges. We advise you to check with your solicitor to ascertain how much these additional costs are before you proceed with buying a property.

You will need to take costs of this nature into account when assessing whether you can afford to buy a property and should therefore seek more detailed independent financial and legal advice on the responsibilities that come with being a home owner in relation to any particular property you select and all documentation which you will require to enter into.

If you wish to let or sub-let your property you need to obtain the Scottish Government's prior written consent. If you are given permission to let your property you will only be able to do this for a limited period of time, for example if you are required to move away temporarily for a work posting but plan to return. This is because all shared equity owners are expected to reside in their home as their sole residence. You must therefore



receive written consent agreeing the start and finish dates for the period of letting. If the Scottish Government does not provide written consent, you must not let your home.

The law imposes obligations on private landlords to register with their local authority to ensure that they are a “fit and proper person” to let property and failure to comply is an offence. Any consent to sub-let a property will be conditional on you complying with these provisions. Further information on the registration process is located on the Scottish Government website at <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/privaterent/landlords/registration>

You must ensure that any lease provided to a tenant is a properly constituted short-assured tenancy that contains certain rights to terminate.

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

You should contact the administering agent **in the first instance**.

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 Scottish Government 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 Scottish Government. You should be aware that improvements you have made to your home will be reflected in the valuation when you sell your home and they will not be deducted from the value of your home.

#### Example

##### An example of when the value of your property increases

|   |          |
|---|----------|
| Initial property value                    | £100,000 |
| Your stake - 80 per cent                  | £80,000  |
| Scottish Government's stake - 20 per cent | £20,000  |
| Sale price                                | £140,000 |
| You receive 80 per cent                   | £112,000 |
| Scottish Government receives 20 per cent  | £28,000  |

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

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 |
| Scottish Government's stake – 20 per cent | £ 20,000 |
|   |          |
| Sale price                                | £ 90,000 |
| You receive 80 per cent                   | £ 72,000 |
| Scottish Government 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 Scottish Ministers.

### Example

#### An example of when you improve your property

|  |          |
|--|----------|
| Initial property value                               | £100,000 |
| Your stake – 80 per cent                             | £ 80,000 |
| Scottish Government'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 |
| Scottish Government receives 20 per cent of £150,000 | £ 30,000 |

You should be aware that you will be responsible for meeting all costs (including those incurred by the administering agent and Scottish Ministers) when you sell your home.

## How do I apply?

If you think you might meet the eligibility criteria, please contact the appropriate agent who administers the scheme in the area you live in:-

| AGENT   | Local Authority Areas Covered   |
|---|---|
| <p><b>Highland Residential<br/>(Part of Albyn Enterprises Limited)</b><br/>68 MacLennan Crescent<br/>INVERNESS<br/>IV3 8DN</p> <p>Telephone:<br/>01463 701 271</p>  | <p>Highland<br/>Eilean Siar (Western Isles)<br/>Shetland Islands</p>  |
| <p><b>Grampian Housing Association Limited</b><br/>Huntly House<br/>74 Huntly Street<br/>ABERDEEN<br/>AB10 1TD<br/>Freephone:<br/>0800 1214496<br/><a href="mailto:ownership@grampianhousing.co.uk">ownership@grampianhousing.co.uk</a></p> | <p>Aberdeen City<br/>Aberdeenshire<br/>Moray</p>  |
| <p><b>Hjaltland Housing Association Limited</b><br/>2 Harbour Street<br/>Lerwick<br/>SHETLAND<br/>ZE1 OLR</p> <p>Telephone: 01595 694986</p>  | <p>Shetland Islands</p>   |
| <p><b>Link Housing</b><br/>Watling House<br/>Callendar Business Park<br/>FALKIRK<br/>FK1 1XR<br/>Telephone: 0330 303 0125<br/><a href="mailto:lift@linkhalted.co.uk">lift@linkhalted.co.uk</a></p>  | <p>Edinburgh, East Lothian, Midlothian,<br/>West Lothian, Scottish Borders and Fife</p> <p>Angus, Clackmannanshire, Dundee, Falkirk,<br/>Perth &amp; Kinross and Stirling</p> <p>Glasgow, East Renfrewshire, Renfrewshire,<br/>East and West Dunbartonshire, Inverclyde,<br/>North and South Lanarkshire, North, South and<br/>East Ayrshire, Argyll &amp; Bute and<br/>Dumfries &amp; Galloway</p> |

|   |                       |
|---|-----------------------|
| <p><b>Orkney Housing Association Limited</b><br/> 39a Victoria Street<br/> Kirkwall<br/> ORKNEY<br/> KW15 1DN<br/> Telephone:<br/> 01856 875253</p> | <p>Orkney Islands</p> |
|---|-----------------------|

**POST SALE INFORMATION FOR OPEN MARKET SHARED EQUITY SCHEME HOMEOWNERS**

You can download a copy of the post sales leaflet for buyers at <http://www.gov.scot/Topics/Built-Environment/Housing/BuyingSelling/lift/LIFT-Shared-Equity-Post-Sale-Question-and-Answer>

**Remortgaging**

If you wish to remortgage your property, you are advised to contact the administering agent. If you have a copy of your Ranking Agreement, you will be required to send a copy of this.

**You will be responsible for meeting all costs (including those incurred by the organisation administering your request and Scottish Ministers) when remortgaging your property. The organisation administering your request will provide you with information on what these costs will be.**

**Adding or removing a person to your shared equity documentation**

You may wish to add a person who will assume liability under the shared equity documentation. Alternatively, you may seek to remove a person from any liability under the shared equity documentation. In either case, you should obtain the agreement of your primary lender in the first instance before contacting administering agent.

**You will be responsible for meeting all costs (including those incurred by the administering agent and Scottish Ministers) when adding or removing a person to your shared equity documentation. The organisation will provide you with information on what these costs will be.**

**Contact following the purchase of your property**

On or around the **fifth**, **tenth**, and **fifteenth** anniversary of the settlement of your shared equity transaction, you will be contacted by the administering agent.