

# Help to Buy: guidance for lenders and independent financial advisers

## Contents

- Introduction
- Do lenders have to register to provide mortgages through the scheme?
- Who can apply?
- Threshold prices
- How can a buyer apply?
- Assisted sale
- Eligibility criteria
- Repayment of Scottish Government equity share
- Remortgages
- Sustainability calculator
- Affordability and assessment of applications (case studies)

## Introduction

The information below is for lenders and independent financial advisers on the Help to Buy (Scotland) Affordable New Build Schemes. The main Help to Buy (Scotland) Affordable New Build Scheme is available to larger homebuilders while the Help to Buy (Scotland) Small Developers New Build Scheme is available to smaller home builders. The rules of both schemes are identical and the agents administering the schemes will identify which scheme an application is to be processed under.

## Do lenders have to register to provide mortgages through the scheme?

Unlike builders, lenders do not have to register with the Scottish Government to offer mortgages through the scheme. However it would be appreciated if you could advise the Scottish Government [housingmarket@gov.scot](mailto:housingmarket@gov.scot) to allow us to notify administering agents and update our website. For further advice on becoming a Help to Buy (Scotland) lender you may wish to contact UK Finance [john.marr@ukfinance.org.uk](mailto:john.marr@ukfinance.org.uk)

## Who can apply to the scheme?

The schemes are available to help first time buyers and existing homeowners to buy a new build home up to a maximum threshold price (see important information below on these). Existing homeowners must sell their home prior to buying a home with assistance from the scheme.

## Threshold prices

The threshold price for the scheme is £200,000

## **How can a buyer apply to the scheme?**

All buyers should be provided with a copy of the information leaflet for the scheme. It is a prerequisite of the scheme that all buyers must contact a participating home builder who will inform them to speak to a lender or an independent financial advisor before they proceed with applying to the scheme. Applications cannot be submitted more than nine months before the expected completion date for the purchase of the home.

A buyer can only submit an application form to the relevant administering agent for the scheme once they have discussed their position with a lender or an independent financial advisor. Application forms should be requested from and submitted to the relevant administering agent.

The Scottish Government encourages lenders and independent financial advisors to complete the application form together with the buyer. We strongly recommend that buyers submit a full mortgage application only after an Authority to Proceed Letter has been issued by an agent administering the scheme.

## **Assisted sale**

Assisted sale is when a home builder provides a package of assistance to someone who wishes to purchase a new build house, to help the purchaser sell their existing property. The support normally involves putting the purchaser in touch with an estate agent to sell their existing property, based upon an agreed sale fee.

It is acceptable for home builders participating in the Help to Buy (Scotland) Affordable New Build scheme to offer 'assisted sale'.

Assisted sale can be used by home builders provided that:

- (a) the existing house is indeed sold before the purchaser completes the purchase of the new build house, and
- (b) it does not 'morph' into part-exchange where the builder (or a company associated with the builder) ends up being the purchaser of the existing property.

It is important to note that the value of any estate agency fees or other costs that a home builder offers to pay for would be classified as an incentive for the purpose of the scheme, and the value should not exceed 5% of the open market sale price/value of the house.

Please be aware this is not part exchange, which is not permitted under the Help to Buy (Scotland) Affordable New Build Schemes.

## **Eligibility criteria for the Help to Buy (Scotland) Affordable New Build Schemes**

Only those who need shared equity support to purchase a home are eligible. Most applicants must take out at least a 25% mortgage. However, applicants aged 60 and over who demonstrate a housing need to move can apply without taking out a mortgage.

If an applicant can afford over 100% of the purchase price of a home through a combination of a mortgage and a deposit (or in the case of those aged 60 and over, the proceeds of their existing or previous property and savings) then their application will not be eligible.

Applicants purchasing with a mortgage will be required to submit payslips for the last three months along with a copy of their application form. The level of mortgage offered by lenders will depend on expenditure commitments as well as income but, as a rule of thumb, it is expected that single buyers can borrow 4.5 times their household income and couples to borrow 3.5 times their joint income.

A single person will not be eligible if he or she requires a mortgage of more than 4.5 times their income; couples will not be eligible if they require a mortgage of more than 3.5 times their joint income. If an applicant requires to borrow less than the rule of thumb levels, evidence will need to be provided to the administering agent to support this. Please see the example provided in case study two, below.

A mortgage lender is likely to require a deposit of around 5% and the mortgage and deposit must cover a combined minimum 85% of the total purchase price.

A buyer's mortgage must be a repayment mortgage, of at least 25%, and eligible buyers cannot buy a Help to Buy (Scotland) Affordable New Build Scheme home with an interest-only first mortgage.

A buyer must take out a first charge mortgage with a lending institution, unless they are aged 60 and over.

A buyer's monthly costs (mortgage, service charges and fees) must be no more than 45% of their net disposable income. If a buyer's monthly costs are more than 45% of their net disposable income, they will not be eligible to participate in the scheme. This does not apply to those aged 60 and over purchasing without a mortgage.

Lenders wishing to offer mortgages for homes to be purchased with assistance from the scheme should be aware of the Scottish Government's eligibility criteria and affordability checks. These must be met regardless of the lender in question.

#### Applicants aged 60 and over

Persons aged 60 and over can apply to the scheme without the requirement for a mortgage. Mortgages of less than 25% will also be permitted for this group. These applicants must demonstrate a housing need to move which should include at least one of the following

- Under occupation – living in property which is too large and need to downsize
- The property no longer suitable to meet their needs – can no longer manage the stairs etc
- Support – need to move closer to family or friends that provide care and support

Joint applications may be eligible (without the requirement for a mortgage) where one of the applicants is aged 60 or over.

## **Repayment of Scottish Government equity share**

There is no set deadline by which purchasers must repay to Scottish Government the equity support which they receive through the Help to Buy (Scotland) Affordable New Build Schemes. The Scottish scheme runs on indefinitely and purchasers can decide to acquire all or some of Scottish Government's retained equity stake in their home at a time of their own choosing. Alternatively, the equity support will be required to be repaid upon the occurrence of certain events, the most common one being when the purchaser decides to sell their home.

A buyer's repayment of the equity is based on the value of the property at the time of the repayment.

## **Remortgages**

As there is no set deadline by which purchasers must repay the equity contribution to the Scottish Government, shared equity agreements run for as long as, or longer, than the primary mortgage. Lenders, therefore, do not have to take the equity contribution into account when assessing mortgage affordability under the Mortgage Markets Review 2014 guidance. This also applies to remortgages in Scotland, resulting in there being no payment event for lenders to consider, regardless of the term of the remortgage.

## **Repossessions**

If a home purchased through the scheme is to be repossessed it is expected that lenders will notify the Scottish Government of the intention to start the repossession process (calling up notice), as well as the relevant scheme administering agent

## **Sustainability calculator**

The Scottish Government has designed a [sustainability calculator and accompanying guidance document](#) which may be helpful to lenders and independent financial advisors to determine if a buyer is eligible to participate in the scheme.

## **Affordability and assessment of applications to the Help to Buy (Scotland) scheme**

All applications are subject to assessment under the scheme rules. Please see worked examples below.

### **Case study one**

Sally and Jack currently rent a one bedroom flat in Glasgow from a private landlord. They have been married for a year and are expecting their first child.

Both work full time – Sally earns a salary of £21,500 and Jack earns £20,000 a year. They have met with their financial advisor who has advised them that the maximum mortgage they will be able to obtain is £144,000 and that they will be expected to pay their lender a 5% deposit.

Jack has seen an advertisement from a developer participating in the Help to Buy (Scotland) Affordable New Build Scheme who has a development of new build homes in an area where he and Sally would like to live.

Jack and Sally make enquires about purchasing a three bedroom semi-detached new build home which is currently being marketed for sale at £170,000.

Jack and Sally have submitted an application form to an agent administering the scheme. Their application has been assessed and it is eligible to proceed. Jack and Sally can afford to buy a 90% share of the property for £144,500. This includes a 5% deposit to their lender of £8,500.

Value of Property	£170,000	
Deposit of 5% of mortgage	£8,500	(5%)
Owners' equity stake	£144,500	(85% stake)
Scottish Ministers' equity stake	£17,000	(10% stake)

Guidelines advise that your monthly costs (mortgage, service charges and fees) are no more than 45% of your net disposable income; in this case Jack and Sally's mortgage will be around 28% of their monthly income.

### **Case study two**

Mary and John are married with three children. They currently own a three bedroom home but they are looking to buy a larger property with four bedrooms.

Mary and John must sell their own home before they can buy a home under the scheme.

John and Mary have submitted payslips with their application form indicating that John's annual salary is £22,500 and Mary earns £21,000.

John has seen a local advertisement from a developer participating in the Help to Buy (Scotland) Affordable New Build Scheme who is marketing three bedroom detached homes for sale for £165,000. John and Mary can contribute a £17,500 deposit.

Using the rule of thumb of 3.5 times John and Mary's salary, the maximum level of borrowing that they should be able to achieve is £152,250. This, combined with their deposit of £17,500, amounts to around 103% of the purchase price of the property.

In the application form, John and Mary have no outstanding monthly debts other than their mortgage and utility bills.

The couple are unsuccessful as they can afford to buy the property without assistance from the scheme.

John and Mary's IFA has provided written evidence confirming that the maximum amount that their lender is willing to offer is £130,000.

The couple are successful as the amount of £130,000 combined with their deposit of £17,500 totals £147,500 and equals 89.4% of the purchase price of the property. They are therefore entitled to a contribution of £17,500 (10.6%) from the Scottish Government.