

Home Owners Support Fund – Mortgage to Rent Scheme

HOSFGN/003: Guidance for Social landlords

This guidance note sets out the operating arrangements for the Home Owners' Support Fund (HOSF) Mortgage to Rent Scheme. It is intended to assist social landlords (local authorities and registered social landlords) participating or considering participation in the Mortgage to Rent (MTR) scheme.

Content

1. Introduction
2. Signing Up to the HOSF Scheme
3. Referral of Properties
4. Calculating the Purchase Price
5. Inspection of Property
6. Funding repairs
7. Subsidies
8. Conveyancing
9. Change of tenure
10. Tenancy conditions
11. Further Information

1. Introduction

Landlord participation in MTR is **entirely voluntary** and participating social landlords are not obliged to take on any specific property.

2. Signing up to the HOSF scheme

The Scottish Government Homeowners Support Fund (HOSF) will write to all Social landlords across Scotland to invite them to participate in the Mortgage to Rent scheme for the upcoming financial year.

Social landlords who are interested in participating in the scheme, should respond to this letter (by completing the enclosed pro forma) no later than 31 March. This will ensure that social landlords details are added to the HOSF database ahead of the 1 April commencement date and ensure we understand which areas and property types you wish to target.

Social landlords are free to join or leave the scheme at any time. They can also amend the postcode area of interest or any other details when necessary by writing to the HOSF Programme Manager at the address at the end of this guidance note.

3. Referral of Properties

HOSF team will send details of the property address to all participating social landlords in that area. Social landlords should then respond with either an expression of interest or refusal **within two working days**.

An expression of interest should indicate (where appropriate) whether:

- the property was part of your previous housing stock
- you are a factor for the property (or neighbouring properties)
- you have any properties in the same street or wider area
- the homeowner(s) have outstanding debts to the social landlord for rent, factor fees or council tax, etc.

HOSF will consider all expressions of interest and then make a decision on whom to offer the property to in the first instance. This will be the **preferred social landlord**.

If a landlord who previously owned the property has an expression of interest, they will always be the preferred social landlord and will be offered the property in the first instance.

In the majority of cases, all interested parties will be notified of the decision within five working days of making initial contact with the social landlords.

If, for any reason, the preferred social landlord withdraws their interest in the property once an offer has been made, HOSF will revert to other parties who initially expressed an interest.

Please note that participating social landlords will only receive referrals for properties in areas that they have previously identified as being interested in. It is therefore important that you keep us up to date of the areas where you wish to consider properties in.

4. Calculating the purchase price

The single survey carried out by the scheme surveyors determines the open market value for the property. This is the purchase price that the social landlord will pay.

There is no appeal process.

5. Inspection of properties

The preferred social landlord will receive:

- the contact details of the present owner
- a copy of the single survey carried out by the scheme surveyor
- a copy of the repairs pro forma.

The landlord should then arrange **directly** with the homeowner to inspect the property to :

- assess the condition (including the commissioning of gas and electrical safety checks)
- commission asbestos checks where necessary
- carry out their normal pre-tenancy checks
- determine the social rent that would be charged and advise homeowners of any benefits they might be entitled to

The preferred landlord should aim to carry out the necessary inspection and forward the results within 10 working days of being allocated the property. Where this is not possible social landlords should notify HOSF of the delay.

If access has not been granted by the homeowner (e.g. cancelling appointments, not responding to phone calls, etc.) HOSF can intervene on the landlord's behalf.

On completion of the inspection, the HOSF Mortgage to Rent repairs pro forma should be returned which will be used to calculate any repairs subsidy.

6. Funding Repairs

The maximum funding that the Scottish Government will make available for eligible repairs to a property for applications received in 2015 and 2016 is £8,500.

This includes the cost of repairs required to bring the property up to Scottish Housing Quality Standards (SHQS) as detailed in the single survey. The only additional repairs that the Scottish Government will fund are those identified as a result of the gas and electrical safety checks carried out by the social landlord. We will accept the social landlords costs for any work arising as a result of these safety checks.

Repairs in excess of £8,500 will need to be funded from one of the following sources. In order:

- equity to be returned to the homeowner following the sale of the property
- equity to be returned to the Trustee
- the social landlord purchasing the property
- a shortfall agreement with a homeowners lender
- a third party, such as a family member of the applicant

In exceptional circumstances, in cases where HOSF will receive equity from the sale of the property, we may allow this to be used to pay for additional allowable repairs costs but only after all other avenues have been explored and ruled out.

7. Subsidies

When the results of the repairs survey have been submitted by the landlord, HOSF will provide the prospective landlord with a breakdown of the anticipated subsidy (based on available figures). This subsidy will be paid to the social landlord ahead of the purchase but must be repaid to the Scottish Government if the property purchase transaction fails to complete.

The total subsidy payable to social landlords will comprise of the following components:

- a purchase subsidy (if applicable). *An explanation of how to calculate this can be found at **appendix I of this guidance note***
- repairs subsidy (if applicable)
- an administration allowance of £900

Social landlords should confirm within three working days if they are, in principle, content to proceed with the purchase of the property on the basis of the total subsidy offered in each case.

8. Conveyancing

Once the HOSF team has received confirmation that the Social landlord is content with the subsidy figures, a formal offer letter will be issued to all relevant parties, an acceptance of the terms of the offer letter should be returned within **10 working days**.

Factoring fees and/or council tax arrears will be addressed before offer letters are issued and, where possible, will be paid from any remaining equity.

Upon receipt of the signed offer letters, the case will be passed to the scheme lawyers, Anderson Strathern for conveyancing. It is anticipated that this will take approximately five weeks.

9. Change of tenure

The tenancy agreement must begin on the same date the sale of the property completes.

10. Tenancy conditions

The landlord will let properties on Scottish Secure Tenancy terms after purchase. Where the landlord is unable to offer a Scottish Secure Tenancy equivalent terms must be offered.

The rules regarding prospective tenants with a record of previous antisocial behaviour, as set out in Schedule 6 of the Housing (Scotland) Act 2001, will however, apply. The scheme is supportive of probationary tenancies being considered by landlords in such cases.

11. Further Information

Should you require any further information on this guidance note, you can contact:

The Programme Manager
Home Owners Support Fund
5 Atlantic Quay
150 Broomielaw
Glasgow
G2 8LU

Email: hosf@gov.scot
Telephone: 0300 244 1093

Scottish Government
April 2017

Appendix I: Calculating subsidies payable

Mortgage to Rent Calculations

Funding calculation for the purchasing landlord

1. The purchase price is the Open Market Value identified in the Single Survey.
2. The total grant approved will be the purchase subsidy plus:
 - the cost of repairs required to bring the property up to the Scottish Housing Quality Standard (plus the cost of repairs required as a result of gas and electrical checks), and the cost of asbestos checks where necessary, up to a maximum of £8500; plus
 - an administration allowance of £900
3. **Note:** the purchase subsidy will be the purchase price less the assumed private finance. The purchase subsidy will be capped at 60% of the purchase price. The purchase price is the market value of the property identified in the Single Survey.
4. The assumed private finance (capitalised net rent – capitalised operating costs) will be calculated by the Scottish Government based on previous Housing Association Grant (HAG) guidance for registered social landlords as follows:

Step one

The average apartment rental charges within each local area, published by the Scottish Housing Regulator, less 1% for voids will give the net rent for the property.

Step two

Assume standard operating costs for management and maintenance repairs. These are currently set out in HSGN 2017 and are updated regularly. It is the allowances for rehabilitation that are used for management and maintenance allowances and rental 'off the shelf' for major repairs in this calculation. The assumed management costs will vary depending on the number of properties the landlord owns. Major repairs allowance is 0.72% of the purchase price if the property is over 10 years old (up to a maximum of £677); and 0.64% of the purchase price if the value is less than 10 years old (up to a maximum of £603).

Step three

To calculate the assumed private finance:

- multiply the net rent (from step one) by 17.5689. This multiplier is published in HSGN 2017 and is reviewed annually normally. This gives the capitalised net rent

- multiply the total operating costs from step two (management, maintenance and major repairs) by 17.5689. This multiplier is also published in HSGN 2017 and is reviewed annually normally. This gives capitalised operating costs
- deduct the capital net rent figure from capitalised operating costs figure to determine the assumed private finance
- The purchase subsidy will then be calculated by deducting the assumed private finance from the purchase price. The purchase subsidy will be capped at 60% of the purchase price

Note: the total grant approved will be the purchase subsidy plus:

- the cost of repairs required to bring the property up to the Scottish Housing Quality Standard (plus the cost of repairs required as a result of gas and electrical checks), and the cost of asbestos checks where necessary, up to a maximum of £8500; plus
 - an administration allowance of £900.
5. The grant is the actual amount that the Scottish Government will pay. The assumed rents, operating costs and private finance assumptions are all notional figures. The Scottish Government expects landlords to charge affordable social rents, to meet the performance standards set by the Scottish Housing Regulator, and to maintain the property to the Scottish Housing Quality Standard. Within these parameters, social landlords are free to determine actual rents, operating costs and financing arrangements.

Worked example

1 Approved costs

Open market value	£90,000.00
Purchase price	£90,000.00
Administration costs	£900.00
Total approved costs	£90,900.00

2 Private finance

Apartment size	67.17
Apartment size property rent	£3,492.84
less 1% voids	34.92
Net rent	£3,457.92

3 Operating costs

Landlord units	20000
Management	£330.00
Maintenance	£940.00
Major repairs (p.p. x 0.9%) x 80% (capped at £657)	£648.00
Operating costs	£1,918.00

4 Assumed private finance

Assumed private finance	£3,357.53
Net rent x 17.5689	£58,988.03
Operating costs x 17.5689	£33,697.15
Assumed private finance total	£25,290.88

5 Grant payable

Purchase subsidy (capped at 60% of purchase price)	£54,000.00
Repairs (capped at £8,500)	£8,500.00
	£900.00
Total subsidy	£63,400.00

