Open Market Shared Equity Scheme

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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, it is also open 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, people aged 60 and over, 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 one agent across Scotland. You can find contact details for the agent on pages 11 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 standard security 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 (unless you are one of the priority access groups).

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, people aged 60 or over, 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: Further information on Open Market Shared Equity Scheme

How do I know if I'm eligible?

You will need to submit an application form to the administering agent. Contact details for the agent are provided on page 11. 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 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 Land and Buildings Transactions Tax (LBTT).**

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. In addition to this requirement, any amount over valuation must be cash funded and must still be within the price threshold.

You should be aware that if you opt to pay over the Home Report Valuation, the equity percentage that the Scottish Government hold is based on the property valuation at point of purchase. When selling the property, the Scottish Government equity stake is calculated as a percentage of the sale price. If you wish to increase your equity stake while you still own the property, the Scottish Government equity stake is calculated as a percentage of the latest valuation.

If you are aged 60 or over, there is no requirement to take out a mortgage but you must contribute as much as you can to towards the purchase price. This includes all proceeds of the sale from any existing or previous property and the majority of your savings (see below regarding personal contributions).

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 retain £5,000 of any personal contribution you can make to help you to fund the costs of buying your home (such as your legal costs, registration fees, mortgage arrangement fees and any removal costs). For any personal contribution above this amount, 90 per cent of your funds must 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 any size home, subject to affordability and the threshold prices set for your area based on apartment size. 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 <u>initial stake</u> 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 Dundee. 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 - Example of buying property above market value

Property valuation	£100,000
Applicant contribution	£ 70,000 (mortgage & deposit)
Applicant contribution	£ 10,000 (above valuation)
SG contribution	£ 30,000
Purchase price	£110,000

SG Equity share	30%
Applicant equity share	70%

In this example the property has been purchased for £110,000, £10,000 over the property valuation. The Scottish Government has provided a contribution of £30,000.

Scottish Government's equity share is based on the valuation figure rather than the purchase price. Therefore the Scottish Government share is 30% of £100,000 (£30,000).

In this example the applicant would personally contribute £15,000 (5% of the valuation as a deposit plus the £10,000 above valuation) towards the purchase of the property.

By paying above the valuation figure you are increasing your risk of negative equity which is when your borrowings exceed the market value.

Example 3- 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 4 - 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.

Your home should be your sole residence and permission to let your home will not be given. If you let your home or do not reside there as your sole residence then this will be a breach of the shared equity agreement and enforcement action could be taken.

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.

On the sale of your home the equity percentage which is paid to the Scottish Government is based on the sale price of the property regardless of whether the property has increased or decreased in value and regardless of whether the sale price is above or below the valuation figure.

Example

An example of when you sell your home which was purchased above valuation

Initial property value	£100,000
Purchase Price	£110,000
Your stake – 70 per cent	£ 70,000 (mortgage & deposit
Applicant contribution	£ 10,000 (above valuation)
Scottish Government's stake – 30 per cent	£ 30,000
Sale price	£150,000
You receive 70 per cent of £150,000	£105,000
Scottish Government receives 30 per cent of £150,000	£ 45,000

How do I apply?

If you think you might meet the eligibility criteria, please contact the administering agent, Link Housing.

Link Housing Watling House Callendar Business Park FALKIRK FK1 1XR Telephone: 0330 303 0125 lift@linksharedequity.co.uk

Post Sale Information For Open Market Shared Equity Scheme Homeowners

You can download a copy of the post sales leaflet for buyers at Post Sale Information for Buyers

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 the 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.

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