



Qualitative Evaluation of the Scottish Government First Home Fund Shared Equity Scheme



PEOPLE, COMMUNITIES AND PLACES

Qualitative Evaluation of the Scottish Government First Home Fund Shared Equity Scheme

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Contents

| | |
|--|-----------|
| Executive Summary | i |
| 1. Introduction | 1 |
| 2. Study Approach | 4 |
| Research design | 4 |
| Research challenges | 8 |
| Report..... | 9 |
| 3. The Shared Equity Approach | 11 |
| Awareness of shared equity approaches in Scotland | 11 |
| Potential buyers' views on shared equity approaches | 11 |
| Other stakeholder views on shared equity approaches | 12 |
| Lenders' decision to offer a First Home Fund product | 13 |
| Developers' decision to promote the First Home Fund | 14 |
| | |
| Kirsty's story | 15 |
| 4. Awareness of the Fund and Ease of Understanding | 16 |
| Set up of the First Home Fund..... | 16 |
| Buyers' awareness of the First Home Fund | 16 |
| Ease of understanding | 18 |
| | |
| Matt and Ellie's story | 20 |
| 5. Key Eligibility Criteria for the First Home Fund | 21 |
| Being a first-time buyer | 21 |
| Minimum deposit and mortgage requirement..... | 23 |
| Maximum £25,000 equity stake | 23 |
| Choice of new build or resale..... | 24 |
| Being able to offer over value | 24 |
| No property price cap..... | 25 |
| No means testing..... | 26 |

| | |
|--|-----------|
| No interest payable | 27 |
| When the First Home Fund is not an option..... | 28 |
| The Parveen family’s story | 29 |
| 6. Impact on Buyers and Other Stakeholders | 30 |
| Dealing with changes to mortgage offers..... | 30 |
| The timing or type of purchase..... | 31 |
| Affordability | 33 |
| Closing of the First Home Fund | 35 |
| Impact on other stakeholders..... | 36 |
| The Slattery family’s story | 37 |
| 7. The Application Process | 38 |
| Views on the application fee | 38 |
| Timing of application relative to purchase..... | 39 |
| Ease of the application process | 39 |
| 8. Conclusions | 41 |
| Conclusions to key research questions..... | 41 |
| Extent to which First Home Fund is meeting its core objectives | 44 |

Executive Summary

Introduction

This summary presents the key findings from a qualitative study of the effectiveness of the Scottish Government's pilot shared equity home ownership scheme, the First Home Fund.

The First Home Fund is a £200 million pilot shared equity scheme to help first-time buyers buy their first home. It provides a contribution of up to £25,000 towards the purchase of a property under a shared equity agreement.

This study, carried out by Craigforth, complements quantitative analysis conducted in-house by Scottish Government analysts and together this work will form an overall evaluation of the First Home Fund. The quantitative analysis can be accessed at the Scottish Government's First Home Fund website.¹

Research questions and approach

The key research questions for this study were:

- What are stakeholders' experiences and views about the First Home Fund?
- Why are buyers using the First Home Fund?
- What are the barriers, if any, to using the First Home Fund for purchasing a home?
- What effect, if any, has the £550 application fee had on applications?
- What effect, if any, has the First Home Fund had on stakeholders' business?
- In what way, if any, has the First Home Fund affected the other shared equity schemes?

All research was carried out by semi-structured interview, with all interviews conducted by telephone or video call from late October to December 2020.

The key professional stakeholder groups for the study were:

- Independent Financial Advisors (IFAs), with a particular focus on those providing mortgage-related advice to first-time buyers. Eight interviews were carried out, with interviewees ranging from those working for larger companies through to a sole trader.

¹ <https://www.gov.scot/policies/homeowners/first-home-fund/>

- Lenders that offer a mortgage product that may be available to customers using the First Home Fund. Five interviews were carried out spanning UK wide banks or building societies and local credit unions.
- Housing developers, with five developers and Homes for Scotland participating. Each of the developers is also involved with the Scottish Government's Help to Buy scheme.

The study also gathered the views and experiences of those who had applied to the First Home Fund. They included:

- Those who have completed a home purchase using the First Home Fund (Buyers).
- Those who applied but have not completed a home purchase using the First Home Fund (Non-buyer). This included those who had not completed their purchase at the point they were invited for interview and those who had applied but had not gone on to use the First Home Fund.

Fifty five interviews with applicants were carried out: 49 Buyer interviewees had bought with support from the First Home Fund, and six Non-buyer interviewees had not. Non-buyers are only referred to specifically when the distinction is relevant. Otherwise the group of 55 interviewees are referred to as Buyers.

The impact of the COVID-19 pandemic has clearly been central to the experiences of many of those participating in this study. Although some Buyers had already completed their home purchase before the first national lockdown began, many others did so very firmly within a COVID-context. However, although the impact of COVID-19 has at times been significant, in other respects the experiences and views of study participants draw on, and are pertinent to, a context which is not dominated by a global pandemic.

The shared equity approach

A clear message was that if people had been able to purchase the same home without accessing a shared equity scheme, they would have preferred to do so. This was generally about a preference for being independent and owning all of their home. However, when this was not possible, shared equity was seen as a good, pragmatic choice. In particular, Buyers welcomed the opportunity to buy in areas to which they had connections but might otherwise not be able to afford.

All the lenders, developers and IFAs were supportive of Government-led and backed approaches that help people access the owner occupied housing market. They thought that a strength of shared equity approaches was in enabling first-time buyers to overcome difficulties in saving for a deposit.

All the lenders said the decision to offer a First Home Fund-compatible mortgage product had been a relatively easy and straightforward one. They welcomed the relatively straightforward eligibility criteria and application

processes for the First Home Fund. Like lenders, developers said it was a straightforward and obvious decision to promote the First Home Fund.

Awareness and ease of understanding

Professional stakeholders generally reported that Scottish Government communication about the First Home Fund had been good. However, the experience of developers was more mixed, with a view that the launch of the First Home Fund was not as well organised as had been the case for other Scottish Government shared equity schemes.

There was a lot of variation in how Buyers had become aware of the First Home Fund. Some had carried out their own, primarily web-based, research, others had heard about shared equity and/or the First Home Fund from family, friends or colleagues and others through early conversations with a mortgage advisor, lender or developer.

A general observation was that the First Home Fund had not been well publicised and that prospective buyers are only likely to have known about it if they had actively sought out information on funding a first home purchase.

A consistent finding across this study has been that the First Home Fund's approach to supporting first-time buyers is generally considered to be a straightforward and easy to understand one.

Key eligibility criteria for the First Home Fund

Being a first-time buyer: For many of the Buyers, purchasing their first home was a much planned, saved for and anticipated event, with some speaking of the security and stability they felt would come with owning their own home. The preparation to buy phase tended to be very much focused on saving, with the high levels of support for the first-time buyer focus associated with the challenges of trying to pull a deposit together.

Those with an interest in the wider operation of the housing system often highlighted the importance of first-time buyers to a well-functioning owner occupied housing sector. The First Home Fund was seen as having a key role to play in helping maintain good levels of demand from first-time buyers, particularly over the period when high loan-to-value (LTV) mortgage products have been unavailable.

Maximum £25,000 equity stake: There was strong support for the maximum equity stake taken by the Scottish Government being set at £25,000. This was generally seen to be appropriately pitched at a level suitable for a substantial majority of first-time buyers in Scotland. It was also felt to be a good fit with local housing market conditions, perhaps excepting Edinburgh and some other small pockets of high property values.

Choice of new build or resale: For many, one of the key strengths of the First Home Fund is its flexibility – and the limited restrictions on the age, type

and size of property that can be bought. Some contrasted the flexibility of the First Home Fund with the Help to Buy Scheme which was limited to the purchase of newly built homes. Others welcomed the flexibility of being able to purchase a new build at a higher price than the £200,000 limit in place for the Help to Buy scheme.

Being able to offer over value: The potential to purchase at over the Home Report valuation was also seen as a strength. For some, the combination of being able to bid above the valuation and the lack of an upper price threshold (as below) had been critical in enabling them to buy the property they wanted. However, the sums involved tended to represent a small proportion of the property value and the decision appeared to have been carefully considered, especially in relation to affordability.

IFAs and lenders observed that the flexibility to offer over value was particularly important for those trying to buy in areas with buoyant housing markets and where properties routinely sell at over Home Report value.

No property price cap: Just as being able to offer over value was seen as opening up more options and greater choice for prospective buyers, the absence of any property price cap was also highlighted as a key advantage of the First Home Fund's approach. Developers, lenders and IFAs all welcomed the absence of any purchase price constraint, noting its particular value in opening up support to first-time buyers looking for a larger family home.

No means testing: In addition to expanding the range of people who are eligible for support, absence of means testing was seen as eliminating one of the more confusing elements of other schemes. Part of the much-valued simplicity of the First Home Fund stemmed from a potential buyer, or their advisor, being able to tell almost instantly that the First Home Fund would be an option.

Impact on Buyers

Dealing with changes to mortgage offers: For some, their home purchasing experience has been set very firmly within the context of COVID-19, and in particular the disappearance of most low-deposit mortgage deals. Some Buyers had not planned to use the First Home Fund, but it became the critical bridge that allowed them to proceed when LTVs shifted in the wake of the pandemic.

The timing or type of purchase: Most Buyers explained that accessing the First Home Fund had either allowed them to buy a little earlier than they might otherwise have done or that it allowed them to buy a more expensive property. Many thought that without the First Home Fund they would have been most likely to postpone purchasing and carry on saving for their deposit. For others, in particular those who were a little older and/or who had or were

planning to have children, buying their first home perhaps came with a greater sense of urgency.

While for some the purchase of a larger home, or a home in a different area, was very much associated with their immediate needs, others suggested that by 'trading up' as they had, they had been able to purchase a property that would be likely to meet their needs in the medium term at least.

Conclusions to research questions

What are stakeholders' experiences and views about the First Home Fund?

Overall, the evidence points clearly to interviewees across the different stakeholder groups having a positive experience of, and views on, the First Home Fund. Buyers generally believed it had made a real difference to them and, for some, this difference had been life changing.

All stakeholders felt the considerable degree of flexibility permitted by the First Home Fund's eligibility criteria to have worked well and, overall, it was seen as a helpful addition to the range of shared equity options.

Why are buyers using the First Home Fund?

First and foremost, the First Home Fund enabled first-time buyers to overcome the challenges of getting a deposit together, particularly for those without access to financial support from family or friends.

The COVID-19 pandemic heightened the importance of the First Home Fund and for some, the Scottish Government's equity stake became vital to plugging the funding gap created by the disappearance of most low-deposit mortgage deals.

Accessing the First Home Fund had allowed most Buyers to bring their home purchase forward and had sometimes enabled the purchase of a larger home and/or a home in a preferred area.

What are the barriers, if any, to using the First Home Fund for purchasing a home?

Stakeholders did not identify any routine or frequently encountered barriers to using the First Home Fund to purchase a new home.

What effect, if any, has the £550 application fee had on applications?

Buyers were generally accepting of a fee being payable and of that fee being set at £550. Other stakeholders also felt the application fee presented few issues.

What effect, if any, has the First Home Fund had on stakeholders' business?

Lenders reported having been very busy since the housing market re-opened at the end of the first lockdown. However, First Home Fund-related applications as a proportion of all applications remained very modest.

IFAs reported that they had been dealing with a surge in enquiries since near the end of the lockdown in June 2020 and that First Home Fund-related enquiries had remained at significant levels throughout summer and into the autumn.

From a developer perspective, the First Home Fund was seen as addressing some of the more problematic aspects of the Help to Buy scheme and to be having a positive impact on numbers of first-time buyers seeking to buy a new home.

In what ways has the First Home Fund affected other shared equity schemes?

Although evidence is limited, feedback from Buyers and other stakeholders suggests that the First Home Fund may be the preferred option for at least some buyers who could also access one of the other Scottish Government shared equity options. Amongst professional stakeholders, the general consensus is that if the First Home Fund is a viable option, it will typically be a buyer's first choice.

Extent to which First Home Fund is meeting its core objectives

The stated objectives of the First Home Fund are to help first-time buyers put together a mortgage deposit in order that they can purchase a home that meets their needs, which is located in the area where they want to live.

It is hard to draw firm conclusions solely from this qualitative dimension of the wider evaluation study, especially as much of the evidence has been provided by those who have in some way benefited from the First Home Fund. Keeping in mind this qualification, the evidence suggests strongly that the First Home Fund has enabled some buyers to purchase a home that meets what they consider to be their needs, but also their preferences.

By accessing the First Home Fund, some study Buyers have been able to purchase a more expensive property than they might otherwise have afforded. Without accessing the First Home Fund, these Buyers could probably have afforded to buy a home that met their needs, either now or in the not too distant future. However, they tended to say that in the absence of support, they would have continued to save until such time as they could afford to buy their preferred type of property or in their preferred location.

An important issue for any shared equity policy is whether it has extended homeownership to households who might otherwise never have been able to

buy a home or whether it has mainly benefitted households who would have bought at a later date.

For the most part, the qualitative evidence suggests that First Home Fund has mostly benefitted households who would probably have attained homeownership at some point in the future, in the absence of the First Home Fund. It has enabled Buyers, often in their twenties, to buy at a younger age than would otherwise have been possible. It has also, as already noted, enabled Buyers to purchase a larger property, or one in a preferred area, than they were initially looking for.

Nonetheless, it is also clear that a significant minority of Buyers had been unable to build up sufficient savings for a deposit. For this group, continuing to save was unlikely to make a material difference in terms of being accepted for a mortgage that would give them the purchasing power to buy a home suitable for their needs. It therefore seems reasonable to conclude this group of Buyers would be very unlikely to have been able to purchase without assistance.

For this minority group of Buyers, the impact of becoming a homeowner has been life changing. For some living in the private rented sector, it has enabled them to move on from living in shared, overcrowded, or other unsuitable housing. Those in their mid-thirties or older, as well as those with children, were particularly likely to emphasise the sense of security, permanence and improved wellbeing that had come with owning a home.

Overall, these findings are perhaps not too surprising. In the absence of income limits or a price ceiling, the First Home Fund was effectively open to all first-time buyers, as opposed to only those struggling to secure the minimum deposit required to secure a mortgage.

Additionality, and the extent to which the First Home Fund has assisted people who would otherwise have been unable to buy a home, may not be the only, or perhaps the best way to judge its success. That said, the study findings at least raise questions about whether the parameters for the First Home Fund might benefit from being tightened.

During the pilot period, the First Home Fund proved to be very popular precisely because it was simpler, more flexible and less formulaic than other shared equity products. This made it a viable option for households in different local housing market contexts as well as for households facing different affordability constraints and with differing housing requirements and preferences.

If the First Home Fund were to operate on a larger scale over a sustained period of time without any additional constraints on the eligibility criteria it could risk putting upward pressure on house prices in different local housing markets. On the other hand, tightening eligibility criterion and other

parameters would increase the complexity of the scheme, which would run the risk of reducing consumer interest.

These observations suggest that in moving forward, it will be important to think carefully about the benefits and trade-offs from tightening the parameters of the First Home Fund and how best to set and regularly review these parameters, and in particular eligibility criteria, in response to shifting housing market conditions.

1. Introduction

This report presents the findings from a qualitative study of the effectiveness of the Scottish Government's pilot shared equity home ownership scheme, the First Home Fund.

The Scottish Government commissioned Craigforth to carry out the research, and this study draws on primary qualitative research data gathered by them between October and December 2020. It complements quantitative analysis conducted in-house by Scottish Government analysts, and together this work will form an overall evaluation of the First Home Fund.

Due to COVID-19, the study approach was designed to be delivered within the context of social distancing.

This chapter gives an overview of the First Home Fund and sets out the research aims and questions. The following chapters set out the research approach, followed by the findings of the study.

Overview of the First Home Fund

The First Home Fund is a £200 million pilot shared equity scheme to help first-time buyers buy their first home. The scheme has the following objectives:

- To help first-time buyers that may be struggling to put together a deposit for house purchase.
- To help first-time buyers purchase a home that meets their needs and is located in the area where they want to live.

The First Home Fund provides a contribution of up to £25,000 towards the purchase of a property under a shared equity agreement, with other key features of the First Home Fund that:

- It can be used to purchase a new build or existing property.
- All applicants must reside in the property as their main residence.
- No means testing is applied.
- Buyers need a deposit of around 5%, subject to lender requirements.
- The minimum mortgage on the property is 25% of the purchase price.
- There are no property price caps but any amount paid over valuation cannot be covered using the First Home Fund.
- The Scottish Government equity stake cannot exceed 49% of the property value or purchase price, whichever is the lower.
- No interest is charged on the Scottish Government stake at any point.

- The Scottish Government's share in the property should normally be repaid when the property is sold. However, buyers have the option of increasing their share beforehand (with some conditions).
- The First Home Fund cannot be used in conjunction with other Scottish Government shared equity schemes.²

A first-time buyer is considered to be someone who does not own, nor has previously owned, a dwelling in Scotland, the rest of the UK or the rest of the world. If a joint purchase is being made, only one of the purchasers needs to be a first-time buyer in order to apply to the First Home Fund.³

Link Housing is the Administering Agent for the First Home Fund⁴ and there are currently twelve mortgage lenders participating in the scheme.

Research aims and questions

The aims of this qualitative component of the wider evaluation were to provide a deeper insight into:

- The extent to which the First Home Fund is meeting its objectives.
- Aspects of the First Home Fund that are working well or less well in terms of helping first-time buyers to purchase a home.
- Any limitations or barriers that are affecting the effectiveness of the First Home Fund, including affordability.
- Any other outcomes of the First Home Fund.
- Other types of support that were considered by First Home Fund applicants.

The six research questions for this study are set out below.

² There are currently three other Scottish Government shared equity schemes. Help to Buy can be used to help buy a new build property. Further information is available on the Scottish Government's website at: <https://www.gov.scot/policies/homeowners/help-to-buy/>. The two Low-cost Initiative for First Time Buyers (LIFT) schemes are the Open Market Shared Equity scheme (OMSE) and the New Supply Shared Equity scheme (NSSE). Further information on these schemes is available on the Scottish Government's website at: <https://www.gov.scot/policies/homeowners/low-cost-initiative-for-first-time-buyers/>

³ Further information on the First Home Fund can be found on the Scottish Government's website at: <https://www.gov.scot/policies/homeowners/first-home-fund/>

⁴ <https://linkhousing.org.uk/firsthomefund>

Research Questions

1. What are stakeholders' experiences and views about the First Home Fund?
2. Why are buyers using the First Home Fund?
3. What are the barriers, if any, to using the First Home Fund for purchasing a home?
4. What effect, if any, has the £550 application fee had on applications?
5. What effect, if any, has the First Home Fund had on stakeholders' business?
6. In what way, if any, has the First Home Fund affected the other shared equity schemes?

The next chapter summarises the research approach used to address these questions.

As noted above, this qualitative study will complement in-house Scottish Government quantitative research looking at scheme administrative data, buyer survey responses and housing market data.

2. Study Approach

This chapter sets out the research approach, considers the research-related challenges encountered and provides an overview of the profile of research participants.

Research design

The key stakeholder groups for the study were:

- Those who applied and have gone on to complete a home purchase using the First Home Fund.
- Those who applied but have not completed a home purchase using the First Home Fund.
- Independent Financial Advisors (IFAs), with a particular focus on those providing mortgage-related advice to first-time buyers.
- Lenders that offer a mortgage product available to customers using the First Home Fund.
- Housing developers and Homes for Scotland (a membership based representative body for the home building industry).

All research was carried out by semi-structured interview, with all interviews conducted by telephone or video call from late October to December 2020.

Lenders

All the lenders who offer mortgages for the First Home Fund were invited to take part in the study. Five interviews were carried out - spanning UK wide banks or building societies and local credit unions.

Independent Financial Advisors

A range of IFAs were approached with the sample based on information provided by the administering agent for the First Home Fund and web search. The sample included larger, national companies through to smaller independent financial advice providers, including those connected to legal practices and covered a range of locations across Scotland.

Eight interviews were carried out. Three of the interviewees worked for the same company but covered different areas of Scotland or different types of sale (new build or resale). The other interviews included those working for larger companies through to a sole trader and worked across a range of urban and rural locations.

Developers

In addition to direct approaches to a sample of developers, Homes for Scotland invited members to take part in the study.

Six interviews were carried out, with five developers and Homes for Scotland participating.

Each of the five developers is also involved with the Scottish Government's Help to Buy scheme.

Applicants to the First Home Fund (buyers and non-buyers)

A purposive sampling approach was used to recruit study participants.

Someone was considered to be a buyer if they had completed the purchase of a home with support from the First Home Fund at the point the samples were drawn (the first sample was drawn in October 2020 with a second sample drawn in November 2020).

A non-buyer was someone who had either not completed their purchase at the point the sample was drawn, but who might still be going ahead with a purchase using the First Home Fund, or who had applied but for some reason had not gone on to use the First Home Fund.

A cross-section of buyers and non-buyers was drawn, taking into account:

- Characteristics of the applicant (including age, household type and ethnicity).
- Type of location in which a property was being purchased - whether city, other or rural.
- Whether new build or resale (for buyers only).
- Price point (for buyers only).
- Date of application or purchase.

The study team drew an initial sample of around 400 buyers and 125 non-buyers from anonymised records supplied by Link Housing. Link Housing then supplied contact details for those within the sample and the Scottish Government issued an email invitation to participate in the study. Those interested in taking part were invited to contact the study team (via email, telephone or through an online expression of interest form).

Based on the numbers of applicants from the first round of recruitment who expressed an interest in taking part in the study, a second sample of around 650 buyers and 250 non-buyers was drawn up and a second round of email invitations issued.

In total 55 interviews were carried out: 39 of these interviewees were classified as being buyers and 16 as non-buyers, according to the data set from which the sample was drawn.

Profile of Buyer and Non-buyer interviewees

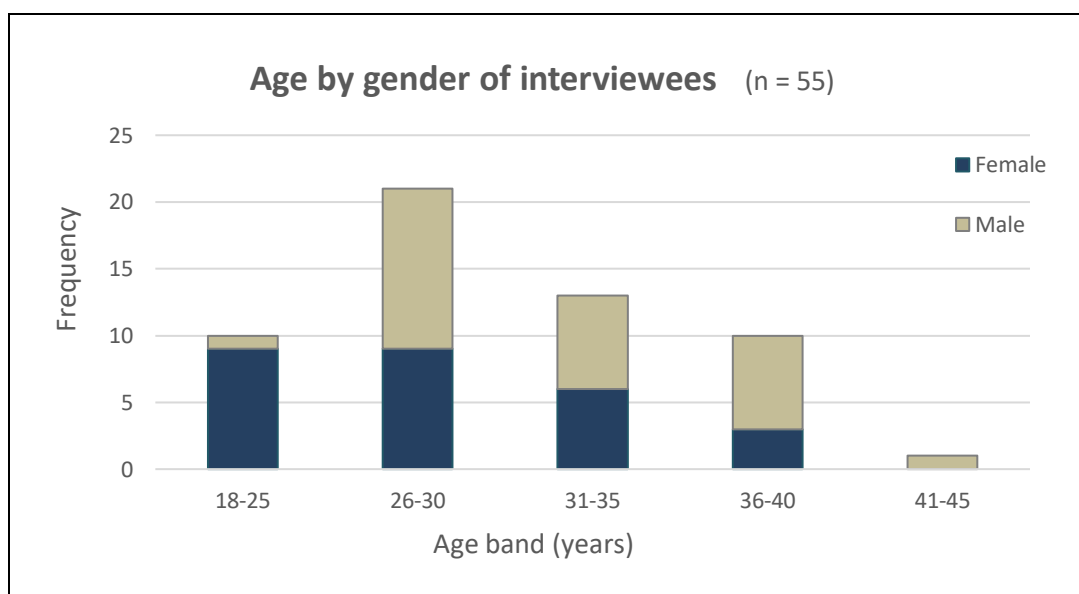
Summary information on the profile of Buyer and Non-buyer interviewees is set out below.

Although 16 of those who took part in interviews were from the Non-buyer sample, ten of these had gone on to access the First Home Fund and complete a purchase by the point of interview. This meant that 49 interviewees had bought with support from the First Home Fund, and six interviewees had not.

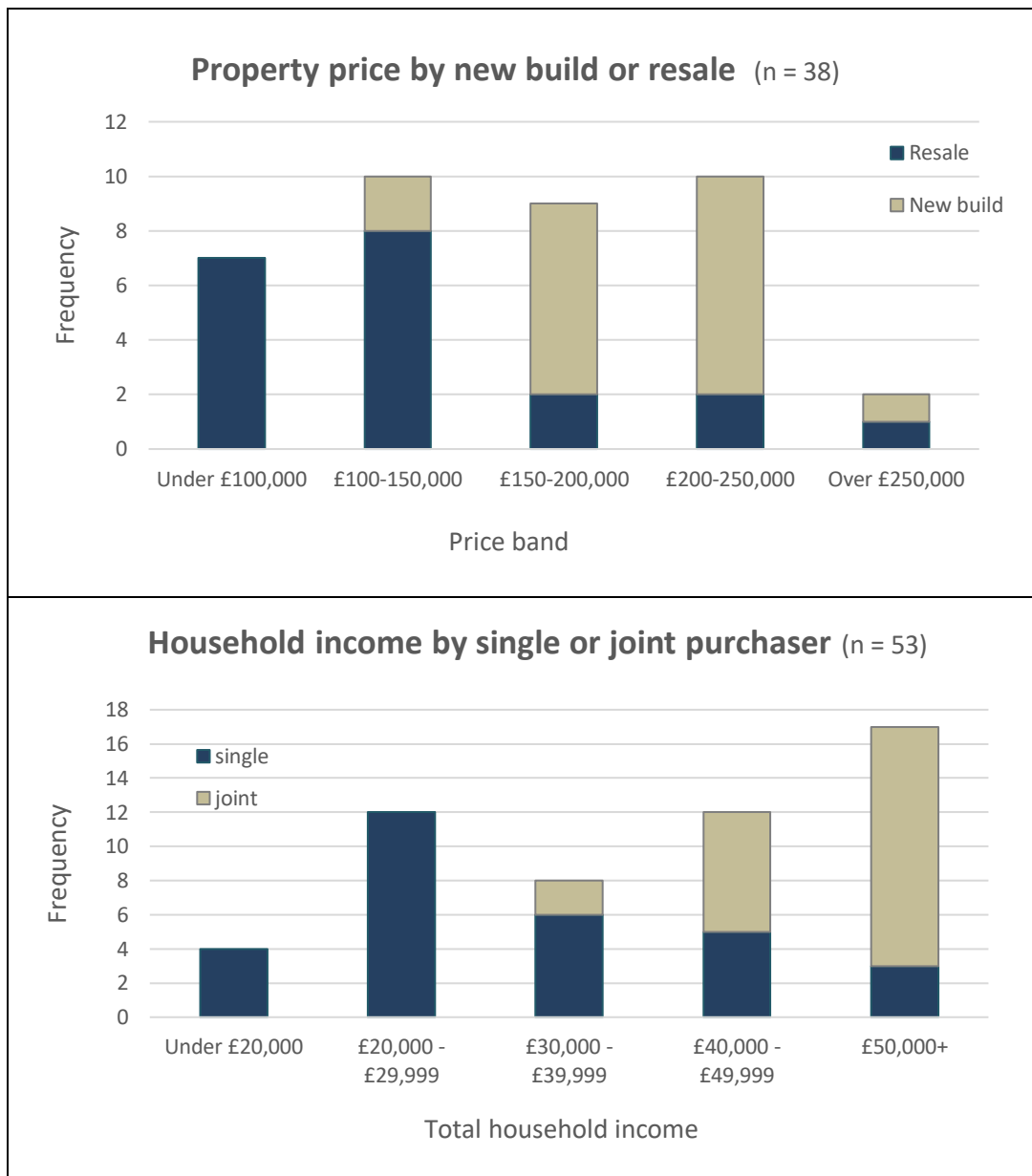
Of these six interviewees who had not:

- One had an active application with the Fund and, at the point of interview, was still expecting to access funding and complete their purchase.
- One had bought with support from the Help to Buy scheme.
- Two had bought without using another Scottish Government shared equity scheme.
- Two were waiting for the First Home Fund to reopen (for reasons discussed further in Chapter 6).

Further information is set out below about the interviewees for this study, both in terms of their profile and the property purchased. Not all information was available for all interviewees⁵, hence the base number for the information may vary.



⁵ Profile and property information was taken primarily from First Home Fund data set from which the sample was drawn. Not all information was available, including because of the stage of application for the non-buyer group. Where possible, any gaps in the information were filled at interview. However, some interviewees preferred not to give the information (primarily relating to purchase price). In other cases a property purchase had not yet taken place and hence there was no property type or price information.



Relative to all applicants to the First Home Fund⁶, the interviewees for this study were:

- More likely to fall within the 31-35 and 36-40 age groups and in particular were less likely to be in the 41-45 age group.
- Much more likely to have purchased a new build property.
- More likely to be single rather than joint purchasers.
- More likely to live in a city or other type of area and less likely to live in a rural area.

⁶ The profile of all applicants to the First Home Fund to which the qualitative sample is compared is based on Scottish Government analysis presented in the quantitative analysis, which can be accessed at the Scottish Government's First Home Fund website.⁶

- More likely to have an annual household income (£40,000-£49,999 or £50,000+).

In terms of ethnicity, 42 interviewees described themselves as White, with the majority of these describing themselves as White Scottish. Six interviewees described themselves as Scottish or British Asian, three as African or Scottish African and one as of mixed ethnicity (Black African and White Scottish).⁷

Of the 55 interviewees, 21 had completed a First Home Fund-supported purchase prior to the start of the first COVID-19 lockdown on 24 March 2020.

Research challenges

This study draws on primary qualitative research data gathered between October – December 2020. Due to COVID-19, the study approach was designed to be delivered within the context of social distancing and worked well.

Study participant numbers were broadly as planned, albeit there were some challenges with recruiting sufficient numbers of professional stakeholders to take part. Those who did take part sometimes noted that changes to working arrangements, combined with high levels of demand across the financial services and development industries may have played a role in others being unable to participate.

In terms of applicants to the First Home Fund, the original intention had been to interview 55 people in total, with around 40 of these being those who had bought a first home using the Fund and the remaining 15 being those who applied to the Fund but had not gone on to make a purchase.

Although 16 of the interviewees were recruited from the Non-buyer sample (as outlined above), most had gone on to complete a purchase using the First Home Fund. The experiences and views set out within this study, therefore, very much represent those for whom their application to the First Home Fund led to the expected and hoped for outcome i.e. a First Home Fund-supported first-time home purchase.

It should also be noted that the study has not sought the views of those who may have considered a shared equity approach but did not go on to make an application to the First Home Fund. However, IFAs and other professional stakeholders were able to shed some light on the experiences of this group of potential buyers.

The impact of the COVID-19 pandemic has clearly been central to the experiences of many of those participating in this study. Although some Buyers had already completed their home purchase before the first national lockdown began, many others did so very firmly within a COVID-context.

⁷ The remaining interviewees described themselves as being of other ethnicity or preferred not to say.

However, although the impact of COVID-19 has at times been significant, in other respects the experiences and views of study participants draw on, and are pertinent to, a context which is not dominated by a global pandemic.

Report

The remainder of this report is structured as follows:

Chapter 3 - The Shared Equity Approach. This chapter considers interviewee awareness of the range of shared equity approaches available currently in Scotland and their impressions about the concept of shared equity. It also reports on lender perceptions of the factors that influenced their decisions to offer a First Home Fund-compatible mortgage product and developers stated reasons for promoting the First Home Fund to potential buyers.

Chapter 4 - Awareness of the Fund and Ease of Understanding. This chapter considers how interviewees became aware of the First Home Fund, lenders' and developers' decisions to be involved with the First Home Fund and how easy the range of stakeholders found the Fund to understand.

Chapter 5 - Key Eligibility Criteria for the First Home Fund. This chapter sets out interviewees' views on the main eligibility criteria for the Fund, focusing on those most likely to have been raised by Buyers and other stakeholders.

Chapter 6 - Impact on Buyers and Other Stakeholders. This chapter focuses on the main impacts that Buyers and other stakeholders identified as having stemmed from the First Home Fund.

Chapter 7 - Application Process. This chapter considers some of the issues raised in relation to the application process and the administration of the First Home Fund.

Chapter 8 - Conclusions. This final chapter returns to the research questions for the study and draws overall conclusions to those questions based on the views expressed by the range of stakeholders who took part in this study

Throughout the report, we use the terms "stakeholders" to collectively refer to buyer, non-buyers, lenders, developers and IFAs who took part in the study. We use the term "professional stakeholders" to refer to lenders, developers and IFAs.

Other points to note about the report are:

- When referring to interviewees for the study, Buyer or Non-buyer is capitalised to indicate that the reference is to study participants (as opposed, for example, to buyers more generally).
- Non-buyers are only referred to specifically when the distinction is relevant. Otherwise the group of 55 interviewees are referred to as Buyers.

- The chapters include anonymised verbatim quotations and pen portrait stories to illustrate the views of various stakeholders discussed in the main text.
- The stories draw on the experience of Buyer interviewees or examples provided by IFAs. Details have been changed to ensure confidentiality, but any quotes are real and provided by a Buyer in similar circumstances or by the IFA who provided the example.

The findings presented in the following chapters reflect the views and perceptions of stakeholders that participated in the programme of interviews. Consistent with the remit for the study, this qualitative data has not been triangulated with other evidence.

3. The Shared Equity Approach

This chapter considers stakeholder awareness of the range of shared equity approaches available currently in Scotland and their impressions about the concept of shared equity. It also reports on lenders' stated reasons for offering a First Home Fund-compatible mortgage product and developers' stated reasons for promoting the Fund to potential buyers.

Awareness of shared equity approaches in Scotland

All professional stakeholders were familiar with the concept of shared equity and the range of shared equity products that were being used in Scotland prior to the establishment of the Fund. Lenders had a (sometimes long) track record in offering shared equity mortgage products and all IFAs had experience of advising customers interested in either Help to Buy or one of the Low-cost Initiative for First Time Buyers (LIFT) schemes. All developers we interviewed were also very familiar with the range of shared equity products in Scotland and with Help to Buy in particular.

Many but not all Buyers had some awareness of the concept of shared equity prior to making enquiries about First Home Fund. Those aware of shared equity generally knew that the Scottish Government had products to help people buy a home, most commonly shared ownership or Help to Buy, sometimes as a result of friends or family having accessed such support previously.

Some Buyers were familiar with the First Home Fund from having carried out extensive, usually web-based, research as part of their preparations for buying a home. In contrast, others had first heard about the First Home Fund as part of conversations with developers or mortgage advisors, and occasionally lenders. (How buyers found out about the Fund is covered further in Chapter 4).

Potential buyers' views on shared equity approaches

A clear message from Buyers, which was reinforced by IFA and developer feedback, was that if they had been able to move forward with buying the same property without accessing support, they would have preferred to do so. This was most commonly expressed in terms of being independent and being able to 'stand on their own two feet' and some said they preferred the idea that they owned all of their home, rather than another party owning a part of it.

Although not necessarily a preferred route, shared equity was generally described as a good, reasonable or pragmatic choice. The decision to proceed with applying to a shared equity scheme was generally reported as being an easy and straightforward one.

“Right at the beginning...it was obvious that I needed help from somewhere because of where I wanted to buy...not saying I would have chosen it, but it was a pretty obvious one once I knew there might be a way.” (Buyer)

Both Buyers and Non-buyers express strong support for approaches that helped potential buyers like themselves to purchase a home that meets their needs and preferences. They also welcomed the opportunity to buy in areas where they had connections and wanted to live. Some also felt shared equity approaches made people like themselves more confident about being able to afford mortgage repayments going forward. The impact of accessing a shared equity scheme and specifically the First Home Fund, are explored further in Chapter 6.

The Non-buyers had chosen not to proceed with an application specifically because they did not want to go down a shared equity route. IFAs and lenders were, however, aware of people who had decided against using any shared equity product. The most common reason given was that people were able to proceed without support, reflecting the earlier point that people preferred not to access support unless they judged it necessary. It was also reported that some people preferred not to ‘lose out’ on a proportion of any increase in the value of their home when they came to sell in the future⁸ whilst others did not wish to be constrained by any of the conditions associated with accessing shared equity funding.

Buyers and Non-buyers alike felt it was reasonable to assume that the Scottish Government would not set up a scheme with unfair terms and conditions and would act in the best interests of a home buyer. Such perceptions were echoed by IFAs and some lenders, who described shared equity, and more especially the First Home Fund, being ‘an easy sell’.

“...if it’s by the Government it must be an acceptable scheme. It’s not like you are handing money over to a separate scheme that may not be funded by the Government or backed by the Government.” (Buyer)

There was also a view that, if anyone other than yourself is to potentially benefit from any increase in the value of the property, then the Scottish Government, and by extension the public purse, would be the preferred option.

Other stakeholder views on shared equity approaches

All the professional stakeholders who took part in the study were supportive of Government-led and backed approaches that help people access the owner-occupied housing market.

Lenders and developers generally reported that the principles underpinning shared equity sat very well with their own business strategy and their desire to see a good supply of both existing and first-time buyers active in the market.

⁸ If the property is sold, the Scottish Government is repaid based on the sale price and the proportion of its equity share. This means that if a property goes up in value from the time purchased, then the Scottish Government’s equity share will be of an increased value.

Lenders were also particularly likely to stress that they were keen to support Government-led policy initiatives when possible.

The role of shared equity products in facilitating effective demand was highlighted, with developers in particular pointing to their importance in supporting the continued provision of starter homes and smaller new build properties. For development sites with a significant proportion of smaller or less expensive homes, first-time buyers were described as being critical to maintaining a good and timely level of sales, particularly in the current uncertain times.

Lenders, developers and IFAs thought that a strength of shared equity was that it enabled first-time buyers to overcome difficulties in saving for a deposit, especially for those without access to financial support from family or friends. They also indicated that difficulties saving for a deposit were most acute for people renting in the private sector. Buyers' reflections on these issues are covered in Chapters 5 and 6.

Lenders' decision to offer a First Home Fund product

As noted in Chapter 1, thirteen lenders offered a mortgage to buyers using the First Home Fund. All the lenders that participated in this study said the decision to offer such a product had been a relatively easy and straightforward one because:

- Of prior experience of other shared equity schemes.
- The First Home Fund fitted well with their business strategy.
- Scottish Government plans for the First Home Fund were well communicated with sufficient advance notice given.

Lenders welcomed the straightforward nature of the First Home Fund, including eligibility criteria and application processes. This had made it relatively simple to modify existing policy and procedures for shared equity-compatible mortgages, including risk assessment arrangements. It also meant that no substantive and potentially costly changes to information and communications technology (ICT) systems had been required. This was a very important factor for larger UK-wide lenders for whom the First Home Fund was likely to represent only a very small share of their mortgage business, especially in the pilot phase.

Although not necessarily wishing to see a proliferation of shared equity schemes, lenders felt there were advantages to having a manageable range of options. Apart from supporting a wider range of potential buyers, lenders pointed to the importance of having a reasonably diverse mortgage book and the ability to spread risk across a range of products.

Developers' decision to promote the First Home Fund

As with the lenders, all the developer interviewees had previous experience of supporting and promoting Scottish Government shared equity products and Help to Buy in particular.

Like lenders, developers said it was a straightforward and obvious decision to promote the First Home Fund. It was viewed as a helpful addition to the range of shared equity approaches offered by the Scottish Government and was perceived to sit well with Help to Buy. Developers reported that:

- Relative to other shared equity products, the First Home Fund has been easy for buyers to understand.
- By boosting effective demand from first-time buyers, the First Home Fund has helped to keep the housing market flowing and unlock pent-up demand from existing homeowners wanting to move.
- The absence of a purchase price cap has opened up a greater proportion of the new build supply to first-time buyers.

Themes around the focus and eligibility criteria for the First Home Fund are in covered in greater detail in Chapter 5.

Kirsty's story

Kirsty is 25 years old and lives and works in a west coast town. She returned to her parental home after university and for the last 3 years has been employed as a support worker at a third sector project that works with vulnerable adults. Her salary varies because of shift working but averages around £24,000 a year. By living at home, Kirsty had been able to save around £11,000 and planned to use around £8,500 as a deposit, with £1,500 used to cover solicitor and other fees associated with buying a property. She planned to use the remaining £1,000 to start furnishing her new home.

Kirsty knew about the First Home Fund and Help to Buy schemes having carried out extensive research into home purchasing over the last 2 years, but originally thought she'd prefer just to buy outright.

She had been looking at flats in her local area but was struggling to find anything suitable and was starting to look further afield. However, she didn't want to move too far away, particularly as her shift patterns mean she can be coming and going from work late at night.

When a 2 bed terraced property was put up for sale in her local area she decided to put in an offer and make an application to the First Home Fund. She paid £132,000 - around £1,500 over valuation - and accessed £25,000 from the First Home Fund.

Kirsty moved into her new home in September. It is a 10-minute walk from work in one direction and 5-minute walk from her parent's home in the other. It needs some work, but she is planning on doing that herself (with some help from friends and family) over the next couple of years. She expects it to be her home for the next 5 years at least.

Kirsty said...

"I really don't think I could have done this for a couple more years at least. My Mum and Dad are great, but it felt like it was time..."

"I honestly can't say a big enough thank you... just please say thank you from me."

4. Awareness of the Fund and Ease of Understanding

This chapter considers how interviewees became aware of the First Home Fund, lenders' and developers' decisions to be involved with the First Home Fund and how easy the range of stakeholders found the First Home Fund to understand.

Set up of the First Home Fund

Professional stakeholders (lenders, developers and IFAs) generally reported that Scottish Government communication about the First Home Fund had been good and that information about the planned approach had been shared well in advance.

Lenders were particularly likely to say that the Scottish Government was very good at initiating early discussions and keeping them well informed about future plans in this area. This timely approach was welcomed and had helped to ensure the decision to offer a First Home Fund compatible mortgage product was a relatively easy and straightforward one (discussed further below).

“That team have always been very good at letting us know what’s coming up and having those early conversations...that feeds into us being able to have those discussions in plenty of time and certainly makes it all a lot simpler at our end.” (Lender)

IFAs also typically reported that they had become aware of the plans to establish the First Home Fund in good time, including because this type of information tends to be shared through a range of trade publications.

The experience of developers was more mixed. There was a perception that the launch of the First Home Fund was not as well organised as had been the case for other Scottish Government shared equity schemes. For example, one developer reflected that whereas branding and marketing materials had been supplied for Help to Buy, they had to develop their own First Home Fund related materials. An associated concern was that, with each developer producing their own publicity materials, building the brand and raising awareness about the First Home Fund among potential home purchasers may have been diluted and less effective.

Buyers' awareness of the First Home Fund

There was a lot of variation in how Buyers had become aware of the First Home Fund. As noted earlier, a small number had carried out extensive, primarily web-based research, in preparation for buying a home. Others indicated that they had carried out more preliminary web-based research. In both cases, Buyers generally referred to having visited the Scottish Government and/or the Link websites.

Some mentioned seeing promotional materials or advertisements produced by developers, usually on developer websites. Some had become aware of the First Home Fund through family, friends or colleagues that had previously accessed one of shared equity schemes, or through social media or money advice websites.

Others had first heard about the First Home Fund (and the concept of shared equity in general) through early conversations with a mortgage advisor, lender or developer. Similarly, IFAs reported that most potential buyers were not aware of the First Home Fund at the point of first making contact and that a key part of their role was to set out the full range of options available to a potential home purchaser.

All but one of the Buyer interviewees who had spoken with an IFA reported that the First Home Fund had been explained to them as a possible option from the outset. The remaining Buyer said that their IFA had only told them about the Fund when other financing options had fallen through and accessing the First Home Fund made the difference between being able to proceed with a purchase or not. The impact of COVID-19 on mortgage offers is covered in Chapter 6.

Buyers who had accessed information about the First Home Fund from either the Scottish Government or Link websites all thought that the information provided was of a good quality, with some describing it as 'clear and comprehensive'. Similarly, explanations or information provided by a mortgage advisor was generally described as clear and easy to understand.

Some did report going back to a mortgage advisor on points of clarification or for further explanation of certain aspects of the First Home Fund. There were no common issues about which potential buyers sought more information. However, a small number of Buyers said that they had sought reassurance that they had not overlooked something important or had 'missed the catch' in what seemed to be such a positive option.

In terms of potential improvements in information provision, some Buyers suggested information about the management fee, and in particular when it is due to be paid, could be given greater prominence. One IFA also suggested that summary information about the application process, and in particular key timescales, could perhaps be more accessible.

A more general observation, which was raised by all types of stakeholder, was that the First Home Fund had not been well publicised and that prospective buyers are only likely to have known about it if they had actively sought out information on funding a first home purchase.

“I did think that I only knew about it because I had gone to ask about getting a mortgage anyhow...and maybe other younger people might be missing out...if they think they haven’t got enough saved maybe...that seems a pity.” (Buyer)

However, there was also a note of caution that, while in theory it would be positive if more people were aware of the First Home Fund, there is a potential to create a level of demand and expectation amongst first-time buyers that cannot be met.

“On the one hand it would be good if more people knew about it... but then unless there’s more money - or somehow, it’s made to last longer - we could just end up with a lot of disappointed people... it’s not good for anyone if the money runs out in a few months.” (IFA)

Ease of understanding

A consistent finding across this study has been that the First Home Fund’s approach to supporting first-time buyers is generally considered to be a straightforward and easy to understand one.

IFAs and lenders described the First Home Fund as being relatively easy to explain to potential buyers, in large part because in comparison with other shared equity options, there were relatively limited eligibility criteria that needed to be set out, explained and assessed.

“Within minutes you are pretty sure whether someone will be eligible or not... that’s really only whether they are a first-time buyer and have a bit of a deposit. Obviously, you still have to go through all the details with them to make sure it’s the right way to go... but basically you can tell them that if you can find them a mortgage then they can get it.” (IFA)

Buyers generally had a similar perspective. Overall, the First Home Fund was described as straightforward to understand. However, some Buyers felt that buying a home had been a complicated process and that they had been required to spend a significant time looking into all aspects of their purchase, including the criteria and arrangements for the First Home Fund. A few Buyers also thought that, on reflection, they should perhaps have sought more information or sought information at an earlier stage in the process. This was generally explained as reflecting their own prior lack of experience with the process or disruption in their lives caused by COVID-19, rather than as being about the First Home Fund itself.

Buyer comments:

"It's simple to get your head round."

"Just does what it says on the tin."

"I looked at other shared equity [schemes] but they were confusing. This is easier to understand."

"Was pretty sure we'd get it after a couple of minutes."

"Really simple – really straightforward."

Simplicity was also seen as a key advantage for lenders, who felt it made it easier to ensure borrowers had a clear understanding of their mortgage-related obligations going forward. The absence of interest charges was felt to eliminate one of the most frequent areas of potential confusion with some other shared equity products on offer in the UK. It was also seen to reduce the risk for lenders if buyers had given insufficient thought to affordability beyond the short term.

IFAs reported that it can sometimes be difficult to get potential buyers to think through the medium to longer term implications of receiving support from a shared equity scheme such as the First Home Fund, including in relation to resale. Likewise, some Buyers acknowledged that they may have been less clear about the post-purchase conditions and arrangements associated with the First Home Fund.

Matt and Ellie's story

Matt and Ellie are in their late 20s and live in Edinburgh. He took up his first teaching post in autumn 2018. She works for an insurance broker in the City. Their joint income is around £52,000 per year. They are currently renting a one bedroom flat, which costs them around £650 a month plus bills. With Matt having returned to full-time education to become a teacher, and with other student-related debts to pay off, money has been tight for the last few years. Despite this, Matt and Ellie have been saving for a deposit on their own home, and Ellie received a legacy from her late grandmother, meaning they had around £20,000 for a deposit. They both work long hours and were keen to buy in or near Edinburgh if at all possible. They are looking for a 2 or 3 bedroom property that they can 'grow into' over the next few years, and potentially start a family.

They started looking seriously when Matt took up his teaching post and found out about the Scottish Government's shared equity schemes through an early conversation with a mortgage advisor. However, with property price caps associated with the Help to Buy, and not being able to offer over market value and access the LIFT schemes, they have really been struggling. Their mortgage advisor let them know about the First Home Fund in its early days and it immediately unlocked a number of possible options. They completed on their 5-year old, 3 bedroom home in Gilmerton in March 2020 and moved in just before the lockdown began.

They paid around £285,000 for their home, with a £25,000 contribution from the First Home Fund. Their monthly mortgage repayment is around £1,050 but even with increased travel costs they are confident that this will be affordable going forward. In a few years they might think about starting to repay some of the equity share, but in the meantime are saving to furnish their new home.

An IFA said...

"For first-time buyers Edinburgh can be brutal...they can bid on dozens of properties but keep missing out. Unless they've got a big chunk of savings, the £25,000 is the difference between them buying or not."

5. Key Eligibility Criteria for the First Home Fund

This chapter sets out interviewees' views on the main eligibility criteria for the First Home Fund, focusing on those most likely to have been raised by Buyers and other stakeholders.

Being a first-time buyer

For many Buyers, purchasing their first home was a much planned, saved for and anticipated event and tended to be viewed as a natural or desirable key life stage.

Some buyers, particularly those with children, or in their mid-30s or older age groups, spoke of the security and stability they felt would come with owning their own home. In contrast to the perceived insecurity and impermanence of private renting, buying a home was seen as equating to investing in their future. This was partly about acquiring a significant asset. Equally important, however, was the ability to 'put their own stamp' on their home and the ability to have more options, around the choice of property and community in which they wished to put down roots.

"...it was just perfect... has meant that I could really buy a property where I could see myself living several years rather than a property just to get on to the property ladder. Before I was sharing. It wasn't really my space but now I do feel at home... so thankful I have my own space." (Buyer)

"I've been a renter for most of my adult life so it's more independence to own the property and do what I want to it...it gives a bit more security to be on the property ladder, especially with the way the current year has been and working from home...being a bit more comfortable in my own space and the joy of owning it rather than renting." (Buyer)

Buyers referred to looking for a property with more space, including both outdoor and working space. This was sometimes connected with the work and lifestyle changes associated with COVID-19, but also more generally with having space to allow their family, and particularly children, to grow and flourish.

"...where we're buying there's a nice sense of community... we've both got family...safe places to walk the dogs and there's a health centre and a school... if we have a baby, we wouldn't need to move." (Buyer)

"My son has a bigger bedroom, he's getting older so it's good for him to have more space. Previously all our living space was in one room, now we have a separate kitchen, dining and living room and a garden joined on to the house which will make a huge difference for my son come summer with being able to play out." (Buyer)

For a small number of Buyers, purchasing a home offered the only real opportunity to live independently - most obviously because in rural, and

particularly remote rural areas, there can be little if any supply of rental housing, across either the social or private rented sectors.

Buyers often explained that they had been planning to buy a home for some time, in most cases at least two or three years and in some cases for more than a decade. IFAs also confirmed that most of their clients had been thinking about buying for a few years before first making contact to discuss possible options.

This preparation to buy phase tended to be very much focused on saving, with the high levels of support for the first-time buyer focus of the First Home Fund very much associated with the challenges of trying to pull a deposit together. In terms of the types of household most likely to struggle with a deposit, the following were highlighted:

- Those without access to financial support from family or friends. This was sometimes associated with not coming from a family that already owns their home.
- Those living in the private rented sector, and particularly those living in areas where private sector rent levels are high, either absolutely or relative to average local wage levels.
- Those mainly single adults in their twenties, planning to establish their own household. A number of the Buyers who had been in this position highlighted how central the combination of working, while continuing to live in their family home, had been to their ability to save a deposit.

A range of personal circumstances were reported to affect the ability of Buyers to save. Examples given included: being a parent, and particularly a single parent; relationship breakdown; being in low-paid or insecure employment, including zero-hours contracts; and having outstanding debts such as student loans.

While Buyers understandably focused on and supported an approach which helped them to make a first home purchase, stakeholders with an interest in the wider operation of the housing market highlighted the importance of the First Home Fund in helping to 'shore up' demand from first-time buyers and enabling existing homeowners to sell on as lenders responded to the pandemic by withdrawing most low deposit mortgages from the market. Issues relating to LTVs and changes to mortgage offers are covered in Chapter 6.

Some professional stakeholders also noted that first-time buyers are a diverse group, with more people entering the market at a later age when they had started or were in the process of starting a family. This was said to be one of the reasons why some buyers had sought larger properties, preferably with outdoor space. There was also a perception that homeworking during the pandemic had led some buyers to consider a move to a more rural location and/or to be looking for a home with workspace. However, it is too soon to assess if, and how, more flexible and home working may impact on demand in the longer-term.

Although very supportive of the First Home Fund's focus on first-time buyers, some stakeholders also stressed the importance of continued support for other sectors of the housing system. This included the availability of other shared equity products for existing homeowners looking to move to a home better suited to their changing needs, such as older homeowners with modest incomes and levels of equity.

Minimum deposit and mortgage requirement

As noted in Chapter 1, Buyers need a deposit of around 5% to access the First Home Fund, subject to lender requirements, and the mortgage on the property must equate to a minimum of 25% of the purchase price.

Buyers raised no substantial issues about either of these requirements. A few questioned lender deposit requirements and suggested that it should be possible to cover any such requirements by using a proportion of the equity stake made available through the First Home Fund.

On the other hand, most Buyers raised no objections to the principle of paying a deposit and some suggested that they had gained a sense of satisfaction and feeling of achievement from being able to save towards their new home. For some Buyers, getting into the habit of saving has also increased their confidence that they would not struggle to cover their mortgage repayments and other home ownership costs going forward.

"I'm actually pretty proud of myself. It's only a bit but I worked out I've already paid for about a third of my kitchen... not bad eh!" (Buyer)

Buyers generally felt a 5% deposit was a reasonable and achievable proportion, although those looking to buy in higher value markets sometimes noted that a 5% deposit equated to a substantial sum. This was reinforced by one IFA that noted that first-time buyers in their local market could require a deposit of anywhere from £15,000 to £20,000, depending on the type of property they were looking to buy. One IFA also noted that some buyers were looking to put down large deposits to secure more advantageous mortgage deals being available to those with a higher deposit.

This echoed lender perspectives that saving for a deposit demonstrates a commitment to house purchase and suggests first-time buyers have given sufficient thought to the substantial financial commitment they are making.

Maximum £25,000 equity stake

There was strong support amongst both Buyers and other stakeholders for the maximum equity stake taken by the Scottish Government being set at £25,000. This was generally seen to be appropriately pitched at a level suitable for a substantial majority of first-time buyers in Scotland. It was also felt to be a good fit with local housing market conditions, perhaps excepting Edinburgh and some other small pockets of high property values. In other words, a stake of £25,000

was felt to make a clear difference in terms of expanding the pool of people able to access first-time home ownership and in enabling first-time buyers to purchase a home that meets their needs and is located in the area where they want to live. These themes are picked up again in Chapter 6.

Lenders and IFAs reported that there had been a small number of cases when the £25,000 equity stake had been insufficient to allow a buyer to purchase what they felt their family required or wanted. This was generally due to very specific personal circumstances, such as a household on a modest income requiring a large family home. In the examples quoted, the buyers had been able to access the Open Market Shared Equity scheme, with its maximum Scottish Government equity stake of 40% of the purchase price.

Choice of new build or resale

For many Buyers one of the key strengths of the First Home Fund has been its flexibility and the limited restrictions on the age, type and size of property that can be bought. Some Buyers contrasted the flexibility of the First Home Fund with the Help to Buy Scheme which was limited to the purchase of newly built homes. Others, including those who preferred to buy a new build property, welcomed the flexibility of being able to purchase a property above the £200,000 limit in place for the Help to Buy scheme.

“...that there is more freedom. You can buy an older house, you can go above the £200k. You’re not pigeonholed into a new build. That’s the reason we didn’t go for Help to Buy...you’re very limited to what you can buy especially if you have children and need a specific area.” (Buyer)

Being able to offer over value

Another feature of the First Home Fund that Buyers saw as a strength was the potential to purchase at over the Home Report valuation. Buyers noted this flexibility had finally allowed them to secure a home having made numerous unsuccessful bids in the past, sometimes over a period of many months or even years. For some, the combination of being able to bid above the valuation and the lack of an upper price threshold (covered further below) had been critical in enabling them to buy the property they wanted.

IFAs and lenders observed that the flexibility to offer over value was particularly important for those trying to buy in areas where there was a lot of competition from other prospective purchasers, including investors, and in high demand and buoyant housing markets such as the Edinburgh and Lothians market where properties routinely sell at prices over Home Report value.

As one IFA explained, ‘buy to let’ investors are aware that home buyers can be constrained by the Home Report value and often offer a small amount over that value in order to ‘out compete’ home buyers. At the lower end of the market, this might only amount to only a few hundred pounds, but it is still sufficient to outbid homebuyers.

There were similar reports that in some rural areas, where the number of properties coming to the market are very limited, home buyers need to offer over value in order to compete with holiday let and second home purchasers, as well as with existing homeowners with substantial equity looking to move into or retire to the area.

One IFA also reported that a possible COVID-19 related effect had been a surge in enquiries from those currently living in the Central Belt and in England, particularly London, and suggested anything that helped local people to compete with purchasers from elsewhere was helpful.

“...having the option to go a bit over, and just having that bit more to spend anyway, really is making the difference for some locals, even more so at the moment. There’s not a lot to buy anyway... so otherwise they could be waiting a really long time.” (IFA)

Amongst those Buyers who had purchased at over value, the sums involved tended to represent a small proportion of the property value and the decision to do so appeared to have been carefully considered, especially in relation to affordability. Buyers tended to report that the additional amount paid had either been taken from savings and/or had reduced the amount that they put down as a deposit.

Interestingly, none of the professional stakeholders believed that First Home Fund buyers being able to offer over value had so far had any significant inflationary impact on the housing market. This was primarily because they perceived First Home Fund buyers to make up only a small number of the total volume of property sales.

No property price cap

Just as being able to offer over value was seen as opening up more options and greater choice for prospective buyers, the absence of any property price cap was also highlighted as a key advantage of the First Home Fund’s approach.

Developers, lenders and IFAs all welcomed the absence of any purchase price constraint, noting its particular value in opening up support to first-time buyers looking for a larger family home. Similarly, some Buyers reported that they had considered both Help to Buy and the First Home Fund as possible options but that the First Home Fund had been their preferred or only option because of the size of home they needed or the area in which they wanted to buy.

“If you are a first-time buyer and you are looking at supplementing your deposit in some way, previously you were looking at relying on the Help to Buy scheme... there aren’t very many, if any, new builds in Edinburgh or East Lothian that are under the £200k mark. It’s very difficult to find something...it’s good because you can go above that limit and still get that bit of support...and if you want to buy a used property... [so it] provides a lot of flexibility.” (Buyer)

Just as professional stakeholders did not think being able to offer over value was having any significant impact on the market overall, they also did not think it was encouraging individual buyers to pay more than they could afford. They pointed out that the standard affordability tests applied to any mortgage application were designed to prevent buyers from overstretching themselves and taking on an unaffordable level of debt.

For some Buyers, the additional £25,000 provided by the First Home Fund generally covered entirely any increase in the purchase price they were considering or had paid. For instance, one Buyer had an initial maximum budget of £210,000 but increased this to £235,000 by accessing the First Home Fund.

While the First Home Fund itself applies no maximum purchase price threshold, at least one of the lenders had capped the purchase price for the First Home Fund and any other shared equity purchase at £250,000. Some Non-buyers had come up against this issue, and there was at least one occasion on which a Non-buyer had understood this to be a First Home Fund rather than a lender-related cap.

No means testing

Unlike other Scottish Government shared equity schemes, no means testing of any kind is required to access the First Home Fund. This was seen as a positive development by both Buyers and professional stakeholders. Part of the much-valued simplicity of the First Home Fund stemmed from the fact that a potential buyer, as well as anyone advising them, was able to tell almost instantly that the First Home Fund would be an option.

“All you really need to check is they haven’t bought before. After that there are none of the other hoops and you don’t need to ask for a whole lot of information to be able to put it out.” (IFA)

Buyers themselves generally considered the absence of any income-related criteria as being a positive, including in some cases having been surprised that they themselves could apply.

“I didn’t think [it] would apply to me because I’m in decent job, making good money. I thought it was more for people who were struggling... [but]... when they said I could apply I thought ok.” (Buyer)

A number of stakeholders commented that even those on mid-range incomes (sometimes referring to those earning in the £30-£40,000 range), can struggle to buy their first home in certain areas, depending on the type of property they wanted or needed. It was reported, for example, that people delivering key public services that had to live in reasonably close proximity to their place of work could struggle to get a foothold in some local markets. This was highlighted with particular reference to rural, and particularly remote rural areas, where the supply is likely to be limited supply and potentially dominated by expensive properties.

However, a small number of stakeholders disagreed and felt that an income threshold would help to ensure that support was targeted at those who needed a 'helping hand' to be able to buy. Those in favour of targeting felt such a move would be 'fairer' and help to make the best use of public funding, especially in a context where demand for the First Home Fund was likely to continue to exceed the overall level of funding available.

"The only thing I would say is I wonder if everyone needs it. I know someone – he already has a flat, they are both in good jobs - in a way I'm pleased for them, but when I heard [the First Home Fund] closed, I thought maybe someone needed it more?" (Buyer)

On a similar theme, the appropriateness of only one of those making a joint purchase needing to be a first-time buyer was also queried; the suggestion was that if one of a couple has already got over the first hurdle to home ownership, most obviously in terms of having got together a sufficient deposit, then there is no obvious reason for their second purchase to be eligible for a First Home Fund designed specifically to facilitate first-time buying.

Both IFAs and developers reported instances where they had steered potential buyers away from making an application to the First Home Fund if their assessment was that the purchaser could proceed without any assistance. This was sometimes connected to trying to ensure that funding remained available for those who could only buy through a shared equity option. In other cases, it was connected with a wider range of more advantageous mortgage deals being available to those not going down the shared equity route and/or to a purchaser benefitting from all of any growth in the property's value if they sell.

No interest payable

A further difference between the First Home Fund and other shared equity products available elsewhere in the UK is that no interest becomes payable on the Scottish Government's equity stake at any point. Buyers had a good understanding of this feature of the First Home Fund.

Although not always central to why Buyers thought that the First Home Fund was a good option for them personally, the fact that no interest was payable contributed to their sense that the First Home Fund was a very good deal for first-time buyers. For those Buyers who felt it was a key feature, it was seen as creating greater certainty about the affordability of their housing costs over the medium to longer term and was connected to a sense of greater financial security and stability going forward.

From a lender and IFA perspective, no interest becoming payable was also seen as helpful in terms of longer-term affordability, and in particular as removing one of the possible pitfalls people can experience with other schemes if they lose sight of charges kicking in.

When the First Home Fund is not an option

Two out of the six 'Non-buyer' interviewees are hoping to reapply to the First Home Fund when it reopens for applications in April 2021. One of the other interviewees had applied to the First Home Fund in September 2020 and at the time of being interviewed expected a First Home Fund-supported sale to go ahead very shortly.

Three interviewees had not proceeded with a First Home Fund-supported sale. In one case, the interviewee had bought the new build property originally planned, but after the First Home Fund closed had gone ahead using Help to Buy. Their preference would have been to use the First Home Fund, as they saw it as a better option overall, but Help to Buy offered an acceptable alternative.

The two remaining interviewees have both now made a home purchase, but neither have accessed a shared equity scheme:

- One had made an agreement to purchase a new build property as a part-exchange. Having applied and received confirmation that the £25,000 equity stake would be made available, it subsequently emerged (when the issue was raised by the interviewee's solicitor) that the First Home Fund was not an option when a part-exchange was involved. No other shared equity scheme was an option and the interviewee had to raise the £25,000 in order to allow their purchase to proceed.
- One had been unable to proceed with the First Home Fund because they were not able to access a shared equity mortgage for the purchase price of around £300,000. It is understood that they had applied to a lender that has limited shared equity compatible mortgages to a purchase price of £250,000.

In addition to the experiences of these two Non First Home Fund buyers, some professional stakeholders cited other circumstances when the First Home Fund may not be a possible, or the best option, for a first-time buyer. These were:

- When the £25,000 maximum equity stake available from the First Home Fund is insufficient to allow a purchase, but the 40% equity stake possible through the Open Market Shared Equity scheme is greater than the £25,000 and high enough to allow for a purchase. This was generally described as being associated with larger family homes (with a correspondingly higher purchase price), and a buyer with a relatively small deposit and/or on a relatively limited income.
- When the prospective buyer does not strictly need to access the First Home Fund and significantly more advantageous 'mainstream' mortgage products are available.

The Parveen family's story

Ayesha and Faraz are a young couple with a new baby who live near Glasgow. Faraz works for a recruitment company and the family's income is around £38,000 a year.

The couple were originally planning on going down the Help to Buy route and were almost ready to proceed with purchasing a semi-detached property when Ayesha's father found out about the First Home Fund from a developer's promotional materials. They realised that using the First Home Fund would allow them to buy their 3 bedroom 'forever home'.

They had already seen and were ready to move ahead with a new build property back in late February, with their home expected to be ready in June. The purchase price was £235,000 and they had savings of just over £20,000. The original plan was to put down around £12,000 as a deposit, take out a 90% LTV mortgage, with the outstanding amount (£17,500) coming from the First Home Fund.

Various delays meant that the sale and mortgage agreement were not finalised when the impact of COVID-19 really began to affect mortgage offers – their 90% mortgage offer was no longer available, although a mortgage broker did find them an 80% LTV deal.

By increasing the size of their deposit and applying for the full £25,000 from the First Home Fund, they were still able to proceed and moved into their new family home in August.

Ayesha said...

"With everything that's happened – lockdown, baby coming – being able to have that extra money there... has been great. If we had never had that... there's a chance we could possibly have lost the house."

6. Impact on Buyers and Other Stakeholders

This chapter focuses on the main impacts that Buyers and other stakeholders identified as having stemmed from the First Home Fund. Although these varied depending on the circumstances of the household concerned, certain consistent themes emerged around affordability, the timing of a purchase and the type of home bought. However, one major issue, namely, the terms of available mortgage offers, was closely connected to the timing of home purchase in relation to the COVID-19 pandemic.

Dealing with changes to mortgage offers

While some Buyers had already secured funding and made a home purchase in late 2019 or early 2020, for others their home purchasing experience has been set very firmly within the context of COVID-19, and in particular the impact on mortgage deals, and especially on the reductions in LTV that many lenders implemented.

Lender interviewees tended to confirm that the LTV they were offering over the summer of 2020 had shifted, usually down from up to 95% to 85%, 80% or even 75%. However, both of the Credit Unions who participated in this study have only one mortgage product to which no changes had been made.

When lenders had adjusted the LTVs on offer, they reported that these changes were not confined to First Home First and other shared equity compatible mortgages. The changes tended to be described as a response to the wider lending environment and the need to manage levels of demand. On this latter issue, and very much reflecting the pattern of applications to the First Home Fund, lenders, IFAs and developers all reported that pent-up demand had led to a surge in home buying interest and activity at the end of the national lockdown in late May 2020.

Some Buyers had already been planning to access the First Home Fund to make their purchase, but the balance of their funding package had to change due to a reduction of the LTV they could access. For example, one buyer looking to purchase a £160,000 property had planned to put down a deposit of 5% (£8,000), for the Scottish Government's equity stake to cover 10% (£16,000) and for the remaining 85% to be covered by a mortgage (£127,500). When only an 80% LTV offer was available, they applied to the First Home Fund for the full £25,000 and were still able to proceed.

Professional stakeholders reported that some prospective buyers who were no longer able to find a workable mortgage deal with one of the larger, mainstream lenders may have been able to proceed by going to a different lender. It was also reported that a small number of buyers who might otherwise have gone to one of the bigger lenders had applied for a credit union mortgage after the bigger lenders reduced LTVs. In these cases, the impact of the First Home Fund may have been to allow the purchase to proceed at all rather than to

reduce mortgage repayments since credit union mortgages tend to offer less competitive interest rates than some of the bigger mainstream lenders.

For some Buyers, the use of the First Home Fund was the critical bridge that allowed them to proceed when LTVs shifted in the wake of the pandemic. This was supported by feedback from Non-buyers that are waiting for the First Home Fund to reopen, as well as lenders, developers and IFAs.

“We couldn’t have gotten a house without it... and it would have depended on whether the banks started increasing the level of mortgages they are offering again... we would have needed banks to offer a 95% mortgage or we just wouldn’t have been able to afford it.” (Buyer)

In such cases, a common scenario was for the Scottish Government’s equity stake to cover the funding gap resulting from the lower LTV ratio buyers could secure, in some cases by as much as 15-20%. Some of these Buyers had initially decided against applying to the First Home Fund prior to the pandemic because they had thought they would be able to secure a ‘mainstream’ mortgage to buy outright. Other Buyers became aware of the First Home Fund, once it was suggested as a means of responding to changes in LTVs.

“I had been looking back last October and found something... they decided not to sell but [my mortgage advisor] had found me a 95% mortgage so I just assumed it would be OK next time...it is now only 80% so he suggested I could apply for this (First Home)...I really like this flat and didn’t want to let it go so that’s what I did.” (Buyer)

The timing or type of purchase

Rather than being about the ability to make a purchase at all, most Buyers explained that accessing the First Home Fund had either allowed them to buy earlier than they might otherwise have done or that it allowed them to buy a more suitable, if also more expensive, property. These two factors also came together for some.

As noted earlier, a number of Buyers explained that they had been saving for a deposit on their new home for a number of years and for some this had been a considerable and challenging undertaking. Despite this effort, when starting to explore their possible options in more depth, some had found that their deposit was insufficient to allow them to buy, or that they would be left with no resources to cover purchasing fees or for decorating or furnishing their new home.

By reducing the equity stake they were taking in their new home (compensated for by the Scottish Government’s equity stake), they were either able to proceed or were able to allow themselves sufficient financial leeway to cover the purchasing and other costs without having to borrow elsewhere. In terms of that borrowing there were occasional references to taking out bank loans but more frequently to informal borrowing arrangements from family or friends.

These Buyers generally thought that had the First Home Fund, or potentially another shared equity option, not been available to them they would have been most likely to postpone purchasing and carried on saving in order to increase the size of their deposit. For some this would have been expected to take a matter of months, but for others a number of years.

IFAs tended to the same view - that many of those applying to the First Home Fund would not otherwise have been able to purchase at that time and would have needed to carry on renting or living with family.

Younger buyers were most likely to have seen waiting and saving as a relatively straightforward and acceptable alternative.

“I did feel a bit behind some of my friends, so it was good... but I’d have just stayed on at home. It wouldn’t have been a big deal; my parents would have been fine with it.” (Buyer)

For others, particularly those who were a little older and/or had or were planning to have children, buying their first home came with a greater sense of urgency. As one IFA explained, households with children can often be very keen to get their family settled into a new home, particularly if it is a new area, in time for the start of a school year. Other professional stakeholders also referred to clients seeking to provide a secure home that met their family’s needs and looking to move on from potentially very difficult living situations, such as living in overcrowded conditions or living in poor quality but expensive private rentals.

For some Buyers, and sometimes in conjunction with being able to buy sooner, the First Home Fund had opened up a greater choice of properties. For these buyers, the ability to consider a purchase of up to an additional £25,000 represented by the Scottish Government’s equity stake tended to be characterised by one or a combination of the following:

- A house rather than a flat.
- A bigger property, either in terms of more bedrooms or more living space, including home working space; in terms of bedrooms this was sometimes connected to children having their own rooms or to allow children staying under access arrangements to have sufficient space to feel at home.
- A property with a garden, a larger garden or an attached garden.
- A property in a different, usually more expensive, location, generally articulated as a ‘better’ area. This was sometimes associated with being safer, closer to family and friends, closer to key services (such as schools, shops and transport links) or closer to work.

*“The appeal was I could get a bigger house. I have a 3-bed semi-detached, by myself. Previously I was looking at a 2 bedroom flat.”
(Buyer)*

“It let me look a little higher than would have been looking. It jumped it up by about £10,000...I managed to get a 3 bed mid terrace in the area wanted. I wanted either 2 or 3 bedrooms depending on what was available and price. I was mainly looking at 2 bedrooms, but it allowed me to go that wee bit bigger.” (Buyer)

“If we didn’t have the Fund, we wouldn’t have got this house, in the location that we wanted as well. We had researched a lot on different prices, what would be good for the future if we do have children, thought about all of it, transport to get to work. Without it we wouldn’t have this house.” (Buyer)

Although one professional stakeholder suggested COVID-19 had led to a growth in buyer interest in more rural locations, the interviews otherwise gave little sense that Buyers were moving from urban to rural areas. However, Buyer comments suggested that the perceived importance of access to a garden and/or proximity to public parks and other open spaces has increased in the wake of COVID-19, especially for households with or planning to have children.

While for some the purchase of a larger home, or a home in a different area was very much associated with their immediate needs, others suggested that ‘trading up’ had enabled them to purchase a property that, if not their ‘forever home’ would be likely to meet their needs in the medium term at least. As with saving longer for a deposit, younger buyers and those without children were most likely to refer to having bought a home that they could now grow into.

IFAs confirmed that many younger or single buyers would prefer not to make what might have been considered a traditional first home purchase such as a small one or possibly two bedroom flat and instead preferred to look for something with extra space and longevity. This appeared to be mainly connected to prospective purchasers looking to avoid the need to sell and buy again over the next few years, including because of the costs and upheaval involved. There were, however, also references to people looking to make the best possible investment in terms of anticipated price growth.

Stakeholders were by and large silent about the potential impact of the temporary increase in the first-time buyer threshold for the Land and Buildings Transaction Tax from £175,000 to £250,000 at the end of July 2020. This suggests any resulting incentive for First Home Fund buyers to purchase more expensive properties may have been marginal.

Affordability

Irrespective of the circumstances of the buyer, or the type of property being purchased, the most universal impact of the First Home Fund identified by those taking part in this study was to make purchasing a home more affordable.

For many Buyers, increased affordability was critical in terms of allowing them the choice to purchase a property that met their current needs and expectations and, in some cases, also their anticipated future needs and aspirations.

The focus was often on reducing borrowing levels and monthly housing costs – sometimes to below the level that standard affordability calculators suggested they could afford. For some, the ability to ease monthly mortgage outgoings was associated with maintaining a reasonable lifestyle, perhaps being able to buy things for the home or go on holiday for example. However, it was sometimes also about maximising a sense of financial security. As IFAs and lenders explained, for some home buyers, being well able to afford monthly outgoings whilst also continuing to save afforded considerable peace of mind. This was particularly important for Buyers concerned about job security or those who worried about how they would manage if interest rates were to increase significantly in the future.

“It helped us massively and I also feel like, in the times that we are in, it is really hard. For me to buy a property is quite a big achievement. I feel like it’s really expensive... so that £25k that I got helped so much. It’s contributed towards everything – our mortgage payments and everything else. Would have had to wait longer 100%, probably a year or two or maybe longer to feel as comfortable as we do with the First Home Fund.” (Buyer)

“We managed to buy a house we are happy with... it’s saved us from ending up with something we are not as happy with and higher mortgage payments... it lets us spend money on other things and not just all on the mortgage.” (Buyer)

Still on the question of monthly mortgage outgoings, some Buyers and other stakeholders commented that, depending on circumstances, a reduced LTV on a property could lead to a more advantageous mortgage deal being available, especially prior to the pandemic. However, most stakeholders, including lenders themselves, reported that overall shared equity compatible mortgages tend to be less competitive than other products on the market.

“...if you are under 10% deposit the interest rate or monthly payment is much higher. It helped us go above that... and reach 19.5% or so. That’s big enough for the banks to categorise it as a stable investment or a stable mortgage so we got better mortgage deals at that level.” (Buyer)

Some Buyers and other stakeholders felt the relatively limited pool of lenders that offered a First Home Fund-compatible mortgage product may be having an adverse effect on the affordability of the mortgage deals on offer. They were amongst those suggesting that a bigger pool of lenders offering shared equity-compatible mortgages might result in more competitive deals becoming available.

“The only problem was there were a limited number of banks that would accept it under the mortgage... and the interest rates were slightly higher than without it. Think there were only three that you could use but if did it without the scheme then we had around 35 options. I think it still works out cheaper but if more accepted (the First Home Fund), you would have more flexibility with who you want to go with.” (Buyer)

The affordability of monthly mortgage payments tended to be judged against rent levels in the private rented sector. Buyers and others consistently reported that, once the hurdle of a deposit had been overcome, mortgage repayments could be lower, and by extension more affordable, than private sector rents.

Aside from the benefit associated with greater choice and improved affordability, some other benefits were occasionally identified by Buyers, including being willing and able to invest resources in the upkeep or improvement of their property.

Closing of the First Home Fund

Due to high uptake, the First Home Fund closed to new applications on 2 October 2020. This was explained as a pause in the First Home Fund scheme which will re-open in 2021 for purchases completing from 1 April 2021 to 31 March 2022⁹.

Perhaps one of clearest testaments to the First Home Fund’s popularity, including the extent to which those who have benefited have valued the support, can be taken from the plans of those unable to access funding at this time.

IFAs and developers were amongst those commenting that many of the first-time buyers known to them are pausing their home purchasing plans and are now waiting for the First Home Fund to reopen to applications in April 2021. Some IFAs reported having many, sometimes bitterly disappointed, clients who had been planning to apply to the First Home Fund but have now put their plans on hold.

“When we heard it was closing, I had to ring round 18 clients, some of those were really difficult conversations. One or two were heartbroken, especially if they’d already found something...as far as I’m aware only one isn’t waiting.” (IFA)

Similarly, two of the six Non-buyers who took part in this study are also waiting for the First Home Fund to reopen¹⁰. In both cases, their first application to the

⁹ <https://linkhousing.org.uk/find-a-home/affordable-home-ownership/scottish-government-funded-schemes/first-home-fund/#>

¹⁰ As noted in Chapter 2, of the remaining four interviewees, one bought using Help to Buy, two bought without using a shared equity scheme and one was still expecting to purchase using the First Home Fund at the point of interview.

First Home Fund did not proceed because of an issue with the purchase property (in one case the seller withdrew and in the other major structural issues led the purchaser to withdraw).

“For me, even though people might think I have a good salary, staying in Edinburgh and renting, the cost of living is very expensive especially when living alone. Cost of living is so high that when it comes to buying a property, to have an option of 10% [from the Fund]...created an opportunity to buy something. Then unfortunately I was told that it was put on hold until next year, but I will reapply when its available.” (Non-buyer)

For some this potential surge of applications did raise issues around the First Home Fund for 2020/21. The concern was partly in relation to the administrative challenges for Link in dealing with possible high volumes in April and May 2021. Beyond this practical challenge, there was a concern that, with six months of unmet need and demand to respond to, the next round of funding could be exhausted relatively early in the next financial year.

Impact on other stakeholders

While the main focus of this study has been on home buyers’ experience of using the First Home Fund, other stakeholders highlighted the wider impact that the First Home Fund has had on both the developer and mortgage advice industries.

As noted in Chapter 2, all the IFAs spoken to reported that the post-lockdown period has been an extremely busy one. There were reports of a particular surge in enquiries about home purchasing in May and June, with sustained levels of interest and activity through the summer and autumn. Although the extent to which this high level of demand and activity was first-time buyer driven varied, all reported that First Home Fund-related enquiries and First Home Fund applications had been significant. For some this had extended to helping to sustain their business over what has clearly otherwise been a very challenging year.

As noted above, from a developer perspective, one of the strengths of the First Home Fund has been in allowing purchases of over the £200,000 price cap that applies to Help to Buy. Although the Help to Buy threshold was widely perceived to be too low for the Edinburgh and Lothians market, it was also reported that ‘starter homes’ on many new developments in many areas of Scotland were at a price point that would not allow Help to Buy supported purchasers to consider them. Options which expand choice, and which give developers confidence to build properties of varying type and size, and at a range of price points, were seen as highly beneficial.

The Slattery family's story

Danielle is in her early 40s and lives in Glasgow with her teenage daughters. She was furloughed from her job with an energy company in March but is now back at work. She earns around £18,500 a year.

When her marriage broke up 2 years ago, the family moved into a 2-bedroom private rented flat, but it has never felt like home and she really wanted to buy a home for the family. She managed to boost their savings during lockdown and by June had nearly £4,500 for a deposit.

An IFA connected to a lender had told her about the First Home Fund and had helped Danielle explore possible mortgage options. She does not have a long credit history and the options were relatively limited – though they did find an option for up to an 80% mortgage.

A 3 bedroom flat in just the right area went onto the market in early July and her offer of £59,000 was accepted in August. She has used £3,000 of her savings for the deposit and the rest has covered the fees. She applied for £15,000 from the First Home Fund and has a mortgage of £41,000 over 15 years. As her mortgage is for less than two and a half times her salary, Danielle managed to secure quite a good deal and her mortgage repayments are around half of the rent she used to pay.

The Slatterys moved into their new home in early October.

Danielle said...

“If I had to do it myself, I probably wouldn't have been able to afford it for another 4 or 5 years being realistic.”

7. The Application Process

This chapter considers some of the issues raised in relation to the application process and the administration of the First Home Fund.

Views on the application fee

An application fee of £550 is charged and collected by Link as the administering agent for the First Home Fund.

In the main, the £550 was considered to be reasonable; this was sometimes connected to fees being payable for other financial products, with some buyers reporting that they had anticipated that a range of fees (such as solicitors and mortgage set up fees) would be payable and that the application fee for the First Home Fund felt in line with these. Whilst sometimes noting that they would, of course, have preferred if no fee had been charged, it was neither seen as unreasonable nor as having been a significant consideration in their decision to make an application to the First Home Fund. Other views included that:

- Relative to some other fees, and particularly to solicitors' fees, the amount seems reasonable.
- When balanced against no interest being chargeable on the equity stake at any point, it could be said to represent good value for money.

Not everyone agreed, with a small number of buyers thinking that no fee should be payable for accessing a Government scheme, or that the level of the fee is simply too high. There were also queries as to why a fee is charged and what it is designed to cover; it was suggested that this is not explained to applicants and that greater clarity would be desirable.

Although a minority perspective, there were reports from an IFA and a developer that when added to other upfront purchase costs, the £550 fee might occasionally create the tipping point that prevents a buyer from making an application.

The timing of the payment of the fee, along with it being upfront, were also raised by others. In terms of the timing of payment, some buyers reported that they had understood that a fee would be payable but not necessarily when. This had left some needing to access the funds at what they felt to be short notice and there were associated suggestions that information about the fee, including when it is to be paid, could be given greater prominence and applicants could be given advanced notice that the fee would need to be paid within a set number of days (for example within 10 working days).

In terms of the fee being upfront, there was a query as why the amount of the fee could not be added to the Scottish Government's equity stake, such that, for example, if £25,000 was provided, the equity stake would be set at £25,550. Alternatively, it was suggested that the fee could be subtracted from the amount contributed to the purchase – for example, that if the full £25,000 was being

used, the amount put towards the purchase price would be a maximum of £24,450.

Timing of application relative to purchase

An application to the First Home Fund is made once a first-time buyer has found a property they wish to purchase and has had an offer on that property accepted.

As noted above, for many buyers the process of researching their home buying options had been a relatively lengthy one, including seeking advice about the borrowing options available to them, and by extension the budget they had to spend. Buyers sometimes explained that they understood this to be the recommended and responsible approach. There were also comments about first-time purchasing feeling like a monumental and potentially frightening process, and to wanting to be as well prepared as possible. This included being sure that they could afford and would be able to finance a purchase before putting in an offer.

In this context, some buyers would have preferred to be able to apply to the First Home Fund at an earlier stage and to be reassured that, once accepted, the Scottish Government's equity stake had at least been secured 'in principle'.

"I don't know why you can only apply after you've had an offer accepted. There must be a reason for it but I would rather you could apply and get a decision in principle...that would give you a sense of certainty when you're putting an offer in. When we put an offer in, it was in the back of our heads that this might not happen if we don't get that money." (Buyer)

IFAs also reported that some buyers can struggle with the idea of making an offer based on an assumption that they will be able to access the First Home Fund as planned. However, they did note that given the relatively limited application criteria, they are usually able to reassure buyers that their application will be successful.

Ease of the application process

Although the First Home Fund itself was almost universally considered to be simple and straightforward, views on the application process were more mixed.

A mortgage advisor had completed their First Home Fund application for many of the Buyers. For these Buyers, any issues had tended to be about the amount of information that needed to be provided - albeit this was often described as part of a wider challenge with purchasing a property and not as being specific to the First Home Fund. Similarly, some Buyers and others described problems that were connected to a timely service from a solicitor, but again they did not generally see these as First Home Fund-specific issues.

A small number of Buyers had submitted their own First Home Fund application. They tended to describe the process as being time consuming but otherwise

relatively straightforward. There were occasional reports of delays when making contact with Link in relation to queries, or when looking for a progress update. Buyers tended to connect these difficulties with staffing pressures stemming from COVID-19.

Although also recognising the pressures that COVID-19 has placed on those continuing to deliver services, some IFAs did report that prior to lockdown they had sometimes experienced difficulties in making contact with Link or in getting clear and consistent responses to queries raised. One supposition was that the First Home Fund was more popular than anticipated from the outset and that this created resourcing pressures that could not be immediately or readily resolved, especially with the added complications stemming from lockdown and the need for home working.

In terms of a lack of consistency there were reports of some issues with affordability assessments. This was both in terms of consistency of approach and messaging across the Link team but also in terms of a difference in overall approach between Link and IFAs and lenders. In essence, the affordability assessment calculator used by Link was described by some as an overly blunt tool that sometimes rules people out despite them passing the affordability assessment for a mortgage. Although all those raising this issue had been able to resolve any issues on a case-by-case basis, it was nonetheless described as a potentially time consuming and frustrating part of the application process.

Finally, there were a small number of other queries about how the application process worked for the 2019/20 round of funding, and by extension the plans for 2020/21. These included:

- Whether those who made an application to the First Home Fund for a new build, but whose application did not proceed because the First Home Fund closed before the completion date, will be able to or need to reapply in 2021.
- More generally, whether Link will be in a position to deal with a surge of applications from April 2021 and whether there are any plans in place to avoid the First Home Fund needing to close, or to close at short notice.

8. Conclusions

This final chapter sets out the main conclusions that can be drawn from the views of the range of stakeholders who participated in this study. It is primarily based around the six key research questions set by the Scottish Government for this study, and which form part of the wider First Home First evaluation. It also considers what can be inferred from the qualitative evidence in terms of the extent to which the First Home Fund has met its two core objectives.

In drawing up findings, we have been mindful that the COVID-19 pandemic emerged shortly after the First Home Fund had been established and has dominated many aspects of life for much of the period when the First Home Fund was accepting applications (effectively from December 2019-September 2020).

Conclusions to key research questions

1. What are stakeholders' experiences and views about the First Home Fund?

Overall, the evidence confirms that all of the different stakeholder groups experience of, and views on, the First Home Fund are positive.

Buyers felt the First Home Fund was relatively easy to understand, especially compared to the overall purchase process. Professional stakeholders also found the First Home Fund to be easier for prospective buyers to understand than other shared equity products. They also found it straightforward to administer and lenders welcomed the ability to use existing ICT systems with only minimal adjustments required.

Buyer comments....

"I would happily advertise it from a soapbox"

"A brilliant idea."

"Honestly, it's been great, I mean life changing type of great."

Those who had completed a home purchase or were waiting for the First Home Fund to reopen in April 2021, appreciated the availability of Government support for first-time buyers, with a shared equity approach seen as an effective way of providing that financial support.

The considerable degree of flexibility permitted by the First Home Fund's eligibility criteria was felt to have worked well by all stakeholders. Central to its appeal was the freedom to select a new build or resale property on the open market rather than being tied to a particular product, the lack of means-testing, the absence of a property price cap and the ability to be able to offer over value.

The views and experiences of professional stakeholders broadly mirrored those of Buyers. Overall, the First Home Fund was seen as a helpful addition to the range of shared equity options. Being able to purchase at over the Help to Buy £200,000 maximum purchase price was seen as key to supporting those looking to buy a larger home or who are looking to buy in areas, such as Edinburgh and the Lothians, where property prices may be higher. Elsewhere, the First Home Fund was seen to have made it possible for first-time buyers to compete with 'buy to let' investors and other purchasers.

2. Why are buyers using the First Home Fund?

The reasons why buyers are using the First Home Fund very much reflect their overall views of the First Home Fund.

First and foremost, it has enabled first-time buyers to overcome the challenges of getting a deposit together, particularly for those without access to financial support from family or friends. The COVID-19 pandemic heightened the importance of the First Home Fund in this respect. The rapid reductions in the LTV of mortgages available over the summer and autumn of 2020 forced some prospective buyers to reconsider their options. For some, the Scottish Government's equity stake became vital to plugging the funding gap created by the disappearance of most low-deposit mortgage deals after the start of the pandemic.

The fact that the First Home Fund could be used to lower the value of the mortgage required and, by extension, monthly housing costs, was very important for buyers with more modest incomes or with higher outgoings, such as those with children. For such buyers, accessing the First Home Fund could make the difference between being able to buy or not, especially for those seeking a family size home where their children could flourish and grow up.

For many buyers, accessing the First Home Fund had made it possible to bring forward the decision to buy a home. Buyers typically reported that the First Home Fund had permitted them to buy their first home sooner than planned, including those who purchased a larger home in the preferred area. In the absence of the First Home Fund, Buyers generally said that they would have delayed house purchase and carried on saving for a larger deposit. Younger buyers, including those who lived with family, concurred. However, they were also inclined to say they would look to buy a larger house in their preferred area and avoid buying a property at the bottom end of the market (typically smaller flats).

3. What are the barriers, if any, to using the First Home Fund for purchasing a home?

Stakeholders did not identify any routine or frequently encountered barriers to using the First Home Fund to purchase a new home. Any barriers that were reported related to specific circumstances, such as the completion dates for new homes being delayed to the end of 2020/21 or later. Buyer choice or reluctance to access the First Home Fund was linked to personal preferences and aspirations (such as unwillingness to lose a proportion of any increase in property value) as opposed to limitations with the design or operation of the First Home Fund. For most Buyer and non-Buyers, however, foregoing a share of any capital gains (and downside risks) was seen as a reasonable trade-off in return for the assistance provided.

4. What effect, if any, has the £550 application fee had on applications?

Although no-one would choose to pay an application fee, Buyers were generally accepting of a fee being payable and of that fee being set at £550. However, some queried why charges could not be covered by the Scottish Government taking an increased equity stake, rather than being payable prior to funds being released.

Other stakeholders also felt the application fee presented few issues. It was suggested that the administration fee, when combined with other upfront costs associated with house purchase, could occasionally create a tipping point that prevented otherwise eligible buyers from applying to the First Home Fund.

5. What effect, if any, has the Fund had on stakeholders' business?

Lenders reported having been very busy since the housing market re-opened at the end of the first COVID-19 lockdown. During summer and autumn 2020 they received high numbers of mortgage applications, partly due to pent up demand during the lockdown. Consequently, First Home Fund-related applications as a proportion of all applications remained very modest, especially for the main national lenders.

In contrast, the First Home Fund appears to have had a significant impact on some IFA businesses. IFAs reported that they had been dealing with a surge in enquiries since near the end of the lockdown and that First Home Fund-related enquiries had remained at significant levels throughout summer and into the autumn, sometimes representing a good proportion of their business.

From a developer perspective, the First Home Fund was seen as addressing some of the more problematic aspects of the Help to Buy scheme and, by extension, this was seen to be having a positive impact on numbers of first-time buyers seeking to buy a new home, especially in more highly priced housing market areas. Developers felt that by allowing households to buy above the Help to Buy cap of £200,000, the First Home Fund had given developers more confidence to include a mix of 'starter homes' at different price points within their developments, and especially within larger development sites.

6. In what ways has the First Home Fund affected other shared equity schemes?

The nature of this study means evidence to answer this question is very limited but feedback from Buyers and other stakeholders suggests that the First Home Fund appeared to be the preferred option for buyers who were eligible to access one of the other Scottish Government shared equity options. Most obviously, some Buyers who purchased a new build home for less than £200,000 opted for the First Home Fund rather than Help to Buy. In large part this seems to be because the First Home Fund is not only more transparent and easier for buyers to understand, but also that the application process is more straightforward.

Amongst professional stakeholders the general consensus is that the First Home Fund is a very popular, consumer friendly and viable option. Where shared equity was a viable option, professional stakeholders said it was typically a buyer's first choice and other shared equity options would only be considered if necessary, such as when there was a need to access the higher equity stake available through the Open Market Share Equity scheme. IFAs noted that some buyers had looked at other schemes after the pilot First Home Fund closed to applications, but there was a strong perception that many prospective buyers were eagerly awaiting the First Home Fund's reopening in April 2021.

Extent to which First Home Fund is meeting its core objectives

The stated objectives of the First Home Fund are to help first-time buyers put together a mortgage deposit in order that they can purchase a home that meets their needs, which is located in the area where they want to live.

It is hard to draw firm conclusions solely from this qualitative dimension of the wider evaluation study, especially as much of the evidence has been provided by those who have in some way benefited from the First Home Fund. Keeping in mind this qualification, the evidence suggests strongly that the First Home Fund has enabled some buyers to purchase a home that meets what they consider to be their needs, but also their preferences.

By accessing the First Home Fund, some study Buyers have been able to purchase a more expensive property than they might otherwise have afforded. Without accessing the First Home Fund, these Buyers could probably have afforded to buy a home that met their needs, either now or in the not too distant future. However, they tended to say that in the absence of support, they would have continued to save until such time as they could afford to buy their preferred type of property or in their preferred location.

An important issue for any shared equity policy is whether it has extended homeownership to households who might otherwise never have been able to buy a home or whether it has mainly benefitted households who would have bought at a later date.

For the most part, the qualitative evidence suggests that First Home Fund has mostly benefited households who would probably have attained homeownership at some point. It has enabled Buyers, often in their twenties, to buy at a younger age than would otherwise have been possible. It has also, as already noted, enabled Buyers to purchase a larger property, or one in a preferred area, than they were initially looking for.

Nonetheless, it is also clear that a significant minority of Buyers had been unable to build up sufficient savings for a deposit. For this group, continuing to save was unlikely to make a material difference in terms of being accepted for a mortgage that would give them the purchasing power to buy a home suitable for their needs. It therefore seems reasonable to conclude this group of Buyers would be very unlikely to have been able to purchase without assistance.

For this minority group of Buyers, the impact of becoming a homeowner has been life changing. For some living in the private rented sector, it has enabled them to move on from living in shared, overcrowded, or other unsuitable housing. Those in their mid-thirties or older, as well as those with children, were particularly likely to emphasise the sense of security, permanence and improved wellbeing that had come with owning a home.

Overall, these findings are perhaps not too surprising. In the absence of income limits or a price ceiling, the First Home Fund was effectively open to all first-time buyers, as opposed to only those struggling to secure the minimum deposit required to secure a mortgage.

Additionality, and the extent to which the First Home Fund has assisted people who would otherwise have been unable to buy a home, may not be the only, or perhaps the best way to judge its success. That said, the study findings at least raise questions about whether the parameters for the First Home Fund might benefit from being tightened.

During the pilot period, the First Home Fund proved to be very popular precisely because it was simpler, more flexible and less formulaic than other shared equity products. This made it a viable option for households in different local housing market contexts as well as for households facing different affordability constraints and with differing housing requirements and preferences.

If the First Home Fund were to operate on a larger scale over a sustained period of time without any additional constraints on the eligibility criteria it could risk putting upward pressure on house prices in different local housing markets. On the other hand, tightening eligibility criterion and other parameters would increase the complexity of the scheme, which would run the risk of reducing consumer interest.

These observations suggest that in moving forward, it will be important to think carefully about the benefits and trade-offs from tightening the parameters of the First Home Fund and how best to set and regularly review these parameters, and in particular eligibility criteria, in response to shifting housing market conditions.



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