

# **New Supply Shared Equity**

## **New Supply Shared Equity**

The Scottish Government is committed to helping people on low to moderate incomes to become home owners where it is sustainable for them. This information leaflet provides information about the New Supply Shared Equity Scheme which is part of the Scottish Government's Low-cost Initiative for First Time Buyers (LIFT).

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## **What is New Supply Shared Equity and how does it operate?**

The New Supply Shared Equity scheme aims to help people on low to moderate incomes to purchase a new build home where it is sustainable for them. It is part of the range of assistance from the Scottish Government under the Low-cost Initiative for First-Time Buyers (LIFT).

The homes that are provided will be for a variety of household sizes and designed to meet a range of housing needs.

Under the New Supply Shared Equity Scheme, the Scottish Government will keep a financial stake in the property so you do not have to fund all of it. You will pay for the majority share in the property (normally between 60 and 80 per cent) and the Scottish Government will hold the remaining share under a shared equity agreement which they will enter into with you. Although you will own the property outright, the interests of the Scottish Government will be secured by a standard security on your property.

If you can afford a 75 per cent share of a property the Scottish Government contribution will make up the remaining 25 per cent. You will have a 75 per cent stake in its value, whatever changes there are to the property's value over time. The price that the property is worth when you buy it is worked out by the District Valuer or another independent, professionally qualified valuer.

You will have to appoint a solicitor to act on your behalf to complete the work involved in buying a home. A solicitor acting on behalf of the Scottish Government will deal with the Scottish Government's interest in the purchase.

You will pay for your share of the purchase price in the usual way, along with legal costs, survey fees and any other costs associated with the purchase. You will also pay for the documenting and securing of Scottish Government's interest including all registration dues and (if applicable) stamp duty. You do not pay any form of rent on the property although you are advised to check if there are factoring charges that you will be required to pay.

## **Who is it for?**

New Supply Shared Equity mainly aims to help first-time buyers, such as people living in social housing, people in the Armed Forces or veterans, widows, widowers and other partners of service personnel and people living in private rented housing or with relatives. But it can help others too. For example, it may be able to help you if you are looking for a new home after a significant change in your household circumstances or if you have a disability and own a house which doesn't suit your needs. If you currently own your home or part-own a property you will need to sell your interest in that property at the same time that you buy a home through the New Supply Shared Equity scheme.

In a small number of locations where you own a home affected by demolition plans, New Supply Shared Equity may be available to help you buy a home in the same area.

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

The property that you buy must be your only home. Although it should be suitable for your current housing needs, you can if you wish buy a home that is a little larger than your current requirements. You will be able to purchase a property that is 1 apartment size larger than your current need. For example, a single person will be entitled to purchase a 3 apartment property as will a couple. A three person household would be entitled to buy a 4 apartment property.

As the New Supply Shared Equity scheme is aimed at low to moderate income households, you will be assessed by the relevant registered social landlord to see whether or not you qualify. To allow this to happen, a form of 'means testing' will be carried out. Because housing costs vary so much from area to area there are no national criteria for this test. Instead, the registered social landlord involved in the scheme will agree on a local set of criteria with the Scottish Government, or the City of Edinburgh Council or Glasgow City Council if you live in those areas.

You will need to demonstrate that you cannot buy a house suitable for your needs without help from the New Supply Shared Equity scheme.

The amount that you contribute must be the maximum mortgage you can reasonably obtain plus any personal contribution that you are able to make towards the purchase. For example, if a property is valued at £100,000 and you can afford to contribute £70,000 (the maximum mortgage that you can raise plus any personal contribution) you would hold a 70 per cent stake in your home.

The registered social landlord will be able to give you information on the income multipliers it uses when considering the level of mortgage finance you can raise – plus any personal contribution you are able to make. The overall amount must be enough to pay for your stake and cover all the costs of buying a home, such as survey and legal costs.

When you apply to buy a house, you will have to state all your sources of finance. Your funds will be considered to be the total of:

- gross earnings, per single person or couple, as appropriate;
- any other income, comprising sickness benefit, unemployment benefit, bank interest, superannuation or pension from previous employment, working families tax credit, widow's pension and shareholder's profits; and
- personal contributions.

Personal contributions may include, for example, savings and gifts. The definition of savings that we use includes: cash; Premium Bonds; stocks and shares; unit trusts; bank or building society accounts and fixed-term investments; the surrender value of any endowment policies; property; redundancy payments; and pension lump sum payments.

You may keep £5,000 of any personal contribution you can make. Above this

amount, 90 per cent of the balance will be treated as a contribution towards the cost of buying your home. **You should be aware that a lender may expect you to provide a modest deposit in order to obtain a shared equity mortgage and you should discuss this with your independent financial advisor before you apply to the scheme.**

#### Example

An example of how the New Supply Shared Equity scheme works

Ian is single and has seen New Supply Shared Equity properties advertised in the area where he would like to live and thinks that he might be eligible for the scheme. The properties are valued at £100,000 each. He works full-time and earns a salary of £21,000.

Ian has £8,000 saved towards the cost of buying a property. He may keep £5,000 and must contribute 90 per cent of the £3,000 balance. Therefore he can make a contribution of £2,700.

The maximum mortgage that Ian can secure is £63,000. This sum, together with his savings of £2,700, means that Ian can contribute £65,700 towards the purchase of a property.

After the property has been bought, Ian has a 65.70 per cent equity stake in it. The Scottish Government holds the remaining stake of 34.30 per cent.

## **What percentage of a home can I have?**

The stake that you take will normally be between 60 and 80 per cent of the price of a property, according to the maximum mortgage that you can obtain and the personal contribution that you are able to make. In most circumstances you will have to take a stake of at least 60 per cent of the price of your property.

**In exceptional circumstances you may be able to take a stake of less than 60 per cent but not less than 51 per cent. This is likely to apply, for example, where you have additional housing costs because of your particular housing needs which might be related to a disability, or in areas where house prices are exceptionally high.**

The registered social landlord will tell you if you can take a stake of less than 60 per cent.

If you have been affected by a programme of demolition and are looking to buy a replacement house in the same area, there will be no fixed minimum percentage stake that must be taken. You will, however, be expected to invest the value of your existing house in the replacement house.

In all cases, the maximum initial stake that you can take will be 80 per cent of the price of a property.

You will have the option to increase your equity share by a minimum of at least 5% at any time and you may increase your share up to 100% if you choose to do so. Any increase is subject to you paying all valuation and other legal costs and expenses. For example, if you purchased an initial equity stake of 75% and one year later you decide you wish to purchase an additional 15% share, you may do so.

However, in certain circumstances the Scottish Government will keep a 20 per cent stake in the property. This is known as a 'golden share' and is likely to happen in areas where there are only small amounts of affordable housing and few opportunities to build more affordable homes. For example, if you purchased an initial equity stake of 75% and you wish to increase your share, you may only increase up to a maximum of 80% as your property has a 'golden share' provision attached.

When New Supply Shared Equity properties are advertised, the registered social landlord will tell you whether a golden share will be retained.

**You are strongly advised to consult with your financial advisor before you proceed with increasing your equity share.**

## **Examples of a shared equity owner increasing their equity stake with and without a Golden Share provision**

### **Example with No Golden Share Provision**

An example of where a shared equity owner increases their equity stake and there is no golden share

Jim and Susan purchased 65 per cent of a house from a registered social landlord. After eighteen months they look again at their financial position. They have both received rises in their salary and they feel that they would now like to increase their equity stake in their property.

As there is no 'golden share', they must increase their stake by at least 5% and they may raise it to 100 per cent if they wish. The couple seek independent financial advice and decide that they will raise their stake in the house to 85 per cent.

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

### **Example with Golden Share Provision**

An example of where a shared equity owner increases their equity stake and there is a golden share

Jane bought a flat from a registered social landlord and took a 60 per cent equity stake. The flat is in an area where house prices are high and there are few opportunities for building more affordable homes. Before she bought the property she was informed that the Scottish Government had the legal right to retain a 20 per cent 'golden share' in the property. Her financial situation has improved since she bought the flat and she would like to increase her stake in the property. After a period of around a year, she is able to increase the stake. She must increase her stake by at least 5 per cent but she cannot raise it above the maximum level of 80 per cent because of the operation of the golden share.. After taking independent financial advice she decides to raise the stake to 80 per cent.

You can increase your stake in your home regardless of whether the market value of the property has increased or decreased. (The market value is set by the District Valuer or another professionally qualified valuer).

You will not be asked about your financial circumstances again after you have bought your home. Before you increase your stake in your property, you are advised to take independent financial and legal advice. **You are advised to contact the registered social landlord who you purchased your property from when you decide to increase your equity stake.**

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

When you buy through the New Supply Shared Equity scheme you own the property outright – you will have full title to the property.

Like other home owners you will be responsible for all maintenance, insurance and repair costs, as well as making your mortgage repayments and paying tax to your local authority. You are responsible for keeping your property in a good state of repair. If the property has common and shared areas (flats for example) you will be responsible for paying any common maintenance or service charges. In so far as practical, **the registered social landlord administering your New Supply Shared Equity Scheme application should provide you information on common maintenance and or service charges, and the Home Buyers Warranty at an early stage.**

You will need to take these costs into account when assessing whether you can afford to buy a property. You should seek independent financial and legal advice on the responsibilities that come with being a home owner both generally and in relation to any particular property you select.

You are only allowed to let or sub-let your property with the Scottish Government's prior written consent. If you are given permission to let your property you will only be able to do this for a limited period of time. This is because all shared equity owners are expected to reside in their home as their sole residence. You must therefore receive written consent agreeing the start and finish dates for the period of letting. If the Scottish Government does not provide written consent you must not let your home.

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

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

Further information on your obligations as a shared equity owner will be available from the registered social landlord developing the New Supply Shared Equity properties and also from your own legal adviser.

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

If, for example, you have an 80 per cent stake in your property when you want to move, then you will get 80 per cent of the selling price when it is sold. The Scottish Government will receive the remaining 20 per cent. The percentage you get is not affected by changes in the value of your property over time. In this example, if the value of your house increases, you will benefit from 80 per cent of the increase. The other 20 per cent of the increase will go to the Scottish Government. You should be aware that improvements you have made to your home will be reflected in the valuation when you sell your home and they will not be deducted from the value of your home.

### Example

An example of when the value of your property increases

Initial property value	£100,000
Your stake – 80 per cent	£ 80,000
Scottish Government's stake – 20 per cent	£ 20,000

Sale price	£140,000
You receive 80 per cent	£112,000
Scottish Government receives 20 per cent	£ 28,000

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

The next example shows what happens if the value of your property decreases.

### Example

An example of when the value of your property decreases

Initial property value	£100,000
Your stake – 80 per cent	£ 80,000
Scottish Government's stake – 20 per cent	£ 20,000

Sale price	£ 90,000
You receive 80 per cent	£ 72,000
Scottish Government receives 20 per cent	£ 18,000

In this example, the property value has fallen by £10,000. You have an 80 per cent stake and make a loss of £8,000 (80 per cent of £10,000).

**If you have made any improvements to your home, these will be reflected in the valuation.** You will not be reimbursed for the cost of any improvements made at your own expense. The amount you sell your house for will be split in proportion to the stakes held by you and the Scottish Government.

#### Example

An example of when you improve your property

Initial property value	£100,000
Your stake – 80 per cent	£ 80,000
Scottish Government's stake – 20 per cent	£ 20,000
Improvements funded by you	£ 10,000
Sale price	£150,000
You receive 80 per cent of £150,000	£120,000
Scottish Government receives 20 per cent of £150,000	£ 30,000

**You will be responsible for meeting the costs of marketing your house if you sell it on the open market.**

## What else do I need to know?

The Consumer Code for Home Builders applies to the New Supply Shared Equity Scheme and sets requirements that Home Builders who are registered with the supporting Home Warranty Bodies (NHBC and Premier Guarantee & LABC New Home Warranty) must meet. The Consumer Code for Home Builders is intended to ensure buyers are treated fairly; establish certain levels of service; information they receive is reliable; and in the event of a dispute, tell them how to implement low cost resolution procedures. The registered social landlord administering your application to the New Supply Shared Equity scheme will provide you with further information on the Consumer Code for Home Builders and further information can also be found at [www.consumercodeforhomebuilders.com](http://www.consumercodeforhomebuilders.com)

Registered social landlords will have more information on the requirements of the New Supply Shared Equity scheme. However, you are also strongly advised to take independent financial and legal advice before agreeing to take part in the scheme.

**YOU SHOULD ALSO ENSURE THAT YOUR SOLICITOR ADVISES YOU ON THE TERMS OF ALL DOCUMENTATION AND THAT YOU ARE SATISFIED WITH THOSE TERMS BEFORE AGREEING TO ENTER INTO ANY LEGAL COMMITMENTS.**

The shared equity arrangements will include the granting of a standard security to secure the rights of the Scottish Government. **YOU SHOULD CHECK THAT THIS MORTGAGE WILL MEET YOUR NEEDS IF YOU WANT TO MOVE OR SELL YOUR HOME, OR IF YOU WANT YOUR FAMILY TO INHERIT IT**

## **How do I find out more?**

You will find some more general information about the New Supply Shared Equity Scheme at [www.scotland.gov.uk/LIFT](http://www.scotland.gov.uk/LIFT)

Please check the area that you are interested in buying a new build home in to see if there are any New Supply Shared Equity Scheme developments in your area.

## **How do I apply?**

If you see a property advertised which you think you might be eligible for you should contact the registered social landlord responsible for the project. They will be able to give you further information on the New Supply Shared Equity scheme and how to apply.

The registered social landlord needs to know details of your income, the size of the mortgage and personal contribution you will be able to make, and information about your household and your current accommodation.

Once all the details needed are fully completed and submitted, the registered social landlord will write to you to tell you whether or not you are eligible to buy a property. If you are successful, the registered social landlord will tell you about the next steps in buying your new home.

## POST SALE INFORMATION FOR SHARED EQUITY HOMEOWNERS

### **Remortgaging**

If you wish to remortgage your property, you must contact the Registered Social Landlord who administered the initial purchase of your property. You are advised to send a copy of your Ranking Agreement to the Registered Social Landlord.

**You will be responsible for meeting all costs (including those incurred by the registered social landlord and Scottish Ministers) when remortgaging your property. The Registered Social Landlord will provide you with information on what these costs will be.**

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

You may wish to add a person who will assume liability under the shared equity documentation. Alternatively, you may seek to remove a person from any liability under the shared equity documentation. In either case, you should obtain the agreement of your primary lender in the first instance before contacting the registered social landlord who administered your New Supply Shared Equity Scheme transaction.

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

### **Contact from registered social landlord**

On or around the **fifth, tenth, and fifteenth** anniversary of the settlement of a shared equity transaction, a registered social landlord will send you a copy letter to you to remind you that you are able to purchase additional equity.



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