

Shared Ownership *-is it for you?*

Here we take a look at the various shared ownership schemes available for those clients looking to enter the property market also highlighted are possible extensions of these schemes in the future.

The recent Budget announcement that the starting level for stamp duty would be increased to £120,000 met with a lukewarm reaction from the industry; although pleased the level had been raised, there was widespread disappointment that the government hadn't done more to help first-time buyers.

But it is clear that housing and home-ownership are now high on the political agenda. In its 2005 Manifesto the Labour Party announced: 'Home-ownership has increased by over one million with Labour and by the end of our third term we aim for it to have risen by another million to two million'. One of the ways it intends to do this in the event of a third term is to increase the number of properties purchased via shared ownership schemes. Similarly, the Conservative Party pledged to boost funding for shared ownership schemes should it win the election. So what exactly is shared ownership? And what are the various schemes now available to first-time buyers?



Purchasing opportunities

In simple terms, shared ownership schemes give individuals who can't afford to get on the property ladder the opportunity to purchase a share of a property from a 'registered social landlord' (hereafter known as an 'RSL'). An RSL is a non-profit-making organisation that provides and manages homes for people who cannot afford to buy or to privately rent. The RSL is registered with the Housing Corporation: a government body that was set up in 1965 to both regulate RSLs and to pay public grants to them. An RSL could be a housing association, a housing society or a not-for-profit housing company. While most RSLs rely on public grants to operate, there are a few RSLs that are financially self-sufficient. So what are the schemes on offer?

Shared ownership

Traditional shared ownership schemes remain popular with first-time buyers as the gap between house prices and earnings continues to grow.



The scheme is open to individuals currently living in rented accommodation and sometimes with family, subject to the criteria set by each RSL, such as their income level or, as is often the case in London, the borough they are currently living in (most RSLs prefer to sell to people already renting in the same borough).

The individual is given the opportunity to buy a 25-75 per cent share of a RSL-owned property with the proportion they buy depending on the size of the mortgage they can afford. Many high-street lenders now offer mortgages for this scheme.

The individual then pays rent to the RSL to cover the remaining share. The rent is usually subsidised by a public grant so the combined cost of the mortgage and the rent works out less than the cost of a full mortgage, making the scheme a viable opportunity for more people to become homeowners. A lease (usually lasting 99 years) sets out all the terms of the shared ownership agreement and confirms that the individual is the owner-occupier of the property. The lease also outlines the process for the individual to buy further shares in the property so they can increase the proportion they own over time - known as 'staircasing'.

Homebuy

Launched in 1999, Gordon Brown announced plans to expand this scheme in his recent Budget. HomeBuy is open to existing tenants of a RSL as well as those on the waiting list to become tenants. It aims to help those on a low income so applicants must show proof of their income before being accepted onto the scheme.

Unlike traditional shared ownership, individuals are not restricted to RSL properties and can buy a flat/house from the open market. As before, a mortgage is taken out for a proportion of the property, usually 75 per cent. The remaining 25 per cent is covered by an interest-free equity loan from the RSL. The loan does not need to be paid back until the property is sold, at which point 25 per cent of the market value - rather than the value of the original 25 per cent - is paid back to the RSL. The government is currently in discussion with the Council of Mortgage Lenders (CML) regarding its plans (announced during the Budget) to ask banks and building societies to fund part of the equity loan. If the new funding proposals go ahead, the government is hoping to run regional trials of the revised scheme before widening it out across the country.

Key worker living

This scheme is only available to 'key-workers': employees in the public sector whose roles are deemed 'essential' by the government, including nurses, teachers, the police, prison officers and social workers. The scheme operates in London, the South East and the East of England - regions where house prices are particularly high and where it is proving difficult to recruit and retain key workers (the intention is that key workers will be more likely to stay in their jobs if they are given the opportunity to purchase a property in the area).

Key workers can apply for an interest-free equity loan of up to £50,000 if they can't



otherwise afford to buy a home (applicants must prove that their total household income is less than £60,000). The loan can be extended up to £100,000 for teachers living in London who have the potential to become leaders in their particular field, The RSL - called a 'zone

agent' in this scheme - provides the loan and a mortgage is taken out for the remaining value of the property (which must be located within a certain distance of the key worker's place of employment). As with the HomeBuy scheme, the loan is only repaid when the property is sold with the equivalent market value of the proportion of the loan being paid back rather than the original amount. But if the individual changes career and is no longer classified as a key worker then the loan must be repaid within two years, irrespective of whether the property is sold.



Shared equity

Inspired partly by the government's calls for housing developers to build more affordable housing and partly by their desire to attract more customers in a competitive market,

some housing developers have started to offer shared equity schemes. For example, the developer might sell 75 per cent of the property and retain 25 per cent. The individual can purchase the remaining share at a later date, subject to conditions such as paying the current market price for that share. One company offering a similar scheme is Redrow - its 'easi-buy equity assistance' scheme gives individuals the chance to buy affordable housing (prices start at just under £55,000 for its newbuild homes in Rugby) with up to a 10 per cent share retained by Redrow. The homeowner then has ten years from the purchase date to repay the interest-free loan under flexible conditions: they can pay a monthly amount, pay off large amounts at irregular intervals or repay the full amount in one lump sum. Such schemes are sure to become increasingly popular with developers and customers alike.

General conditions

Individuals and lenders entering into shared ownership schemes should be aware that restrictive conditions may be written into the lease in regards to staircasing and resale. If they are too restrictive they can affect mortgage-ability. Some RSLs control the sale of their remaining share of the property so an individual can only purchase a fixed percentage (normally 75 per cent) or they might only be allowed to buy further shares at specific points during a certain period and if they miss this opportunity they might not then be able to buy any more. Controls also exist in

relation to resale with some RSLs having the right to buy back the property or to insist that the property is sold to a person nominated by them. However, the RSL will only have a limited period in which to exercise these rights after which the individual can sell to whoever they wish. RSLs are keen to ensure that individuals applying for shared ownership don't have any problems with rent arrears but some will accept applications for the traditional shared ownership scheme from individuals with minor credit problems (such as a small CCJ) as long as they can declare and prove their affordability for the combined mortgage and rent. Since entering the shared ownership market in February 2002, Preferred has been the only non-conforming lender operating in this field.

The way forward

Shared ownership aims to help individuals become homeowners and it has certainly achieved that: so far the HomeBuy scheme alone has helped 10,000 people to buy a property and the Labour Party aim to help a further 100,000 people with this scheme over the next five years. It is certainly proving successful but perhaps more could be done to promote the traditional shared ownership scheme to first-time buyers who are struggling to get onto the property ladder but who fall outside the necessary criteria of the other schemes (such as being a key worker).



In January this year, the Office of the Deputy Prime Minister announced its five-year plan to create 'homes for all' pledging £600 million towards the HomeBuy scheme and challenging housing developers to build affordable housing for under £60,000. Gordon Brown expanded on this proposal in the Budget, announcing his aim to increase the total amount of funding for the HomeBuy scheme to over £1 billion with the introduction of private finance for equity loans from banks and building societies.

The Conservative Party had also announced plans to extend the HomeBuy scheme should it have been voted in, proposing changes that would enable individuals to increase or decrease their share in their property according to their financial situation.

Irrespective of who is now in situ in Downing Street, we can expect the issues of housing and home-ownership to maintain their place near the top of the political agenda. Shared ownership looks set to be at the heart of the debate.

Call us today for an appointment to discuss the options open to you.....

Stuart Brown
Mortgage Services Ltd



Independent Mortgage Advice

Email: advice@sbms-online.co.uk

Telephone

Beds: (01525) - 756650
Herts: (01442) - 252040
Mobile: (07710) - 770969



Bedfordshire
17 Wingate Road Harlington
Dunstable Beds LU5 6NJ
Office: (01525) 756 650
Fax: (08717) 333 798

Hertfordshire
45 St. John's Road Boxmoor
Hemel Hempstead Herts HP1 1QQ
Office: (01442) 252 040
Fax: (08717) 333 798

www.sbms-online.co.uk

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up the repayments on your mortgage.