

HomeBuy Products Available through Affordable Homes Cumbria

Qualifying Criteria for Open Market HomeBuy products and HomeBuy Direct

Three main groups are eligible:

1. Existing Local Authority and Housing Association tenants, or those with a priority need on a housing waiting list
2. Key workers (i.e. education, health and police) In Cumbria, tourism and agriculture are also considered
3. Other priority first time buyers

Applicant's household income must not exceed £60,000

Applicants for all schemes listed below must be assessed initially by the Local HomeBuy Agent

1. Open Market HomeBuy Products

There are two new Open Market HomeBuy Products to choose from: 'MyChoiceHomeBuy' and 'Ownhome'. Qualifying applicants will be able to choose a suitable property off the open market, and purchase this through the combination of a mortgage (and equity if applicable) and a low interest equity loan. This increases the applicant's purchasing power, and reduces

MyChoiceHomeBuy is part funded by the government and is offered by eight housing associations, each of which is an equity loan provider in its own right. For the North West region, Metropolitan Home Ownership is the equity loan provider.

Key features include:

- Available throughout England
- You can borrow between 15% and 50% of the property price using an equity loan
- If you qualified for a mortgage of £60,000, for example, you could buy a property worth up to £120,000 (depending on your circumstances)
- You must maximise your mortgage potential i.e. the MyChoiceHomeBuy loan will be as a 'top up' loan
- The maximum equity loan available is £65,000
- You will pay a monthly interest on the loan based on 1.75% a year (this increases by RPI +1% annually)
- You would be able to obtain a conventional mortgage from a range of lenders

You would not have to pay a deposit, though you could if you wanted to.

Ownhome is provided by a partnership between *Places for People* and *The Co-operative Bank* and is part funded by the government. *Places for People* is an equity loan provider in its own right.

Key features include:

- Available throughout England
- You can borrow between 20% and 40% of the property price though a low interest equity loan
- If you qualified for a mortgage of £60,000 from *The Co-operative Bank*, for example, you could buy a property worth up to £100,000 (depending on your circumstances)
- You must maximise your mortgage potential i.e. the Ownhome loan will be used as a 'top up' loan
- You would not have to make payments on the equity loan for the first 5 years;
- After these 5 years, you would be charged at an annual fixed rate of 1.75% on the equity loan. After a further 5 years this will increase to a rate of 3.75%
- You would need to get your mortgage from the *Co-operative Bank* in the first instance

You would not have to pay a deposit, though you could do if you wanted to.

2. HomeBuy Direct

HomeBuy Direct is a product will be available in early 2009. Bidding for developments has now closed, and developers have been informed of which properties will be available.

It is aimed at helping First Time Buyers, Developers and the Housing Market; the scheme will be offered on specific new build properties brought forward by developers.

HomeBuy Direct is provided by a partnership between the Homes and Communities Agency and private developers.

Key features include:

- Eligible Buyers will be offered an equity loan of up to 30% of the property purchase price, the equity loan will be co-funded on equal terms by Government and by the developer supplying the property
- There will be no fee charge for the equity loan for the first five years, but a fee (to be confirmed) will be charged from year 6 onwards
- Applicants will be invited to choose one of the HomeBuy Direct properties brought forward by the developers
- Purchasers must contribute the remaining equity (a minimum 70%), through their mortgage and any deposit

What is an Equity Loan?

An equity loan is an additional loan designed to improve people's purchasing power by supplementing a conventional mortgage, so the amount borrowed via the equity loan will represent a percentage of the value of the property. So if the value of the property increases, the amount you will need to pay back will also.

For example- if you had a 30% equity loan on a house worth £100,000, you would have borrowed £30,000. If when you sold the property the market value has increased, and was then worth £200,000, you would need to pay back £60,000. If the value of your home decreased, you would have to pay less.

Selling your home

When you buy through Open Market HomeBuy, you will own your home and the equity loan will be secured by a second charge against the property.

However, your equity loan provider and your chosen mortgage lender need to protect their loans and will need to be notified of various events including:

- Making improvements and alterations to your home (though any increase in value gained from such alterations, will not be paid to the equity loan provider)
- Taking out further loans (that have to be secured against your home)
- Selling your home or repaying the equity loan (an independent valuation must be carried out to determine the amount to be paid back to the equity lender)

3. New Build HomeBuy and Shared Equity

Neither products have changed

4. Government Mortgage Rescue

The Mortgage Rescue scheme will comprise of two products, shared equity and Mortgage to Rent. The scheme is designed to be the last resort for applicants before repossession.

The scheme is delivered and funded through a partnership between the Homes and Communities Agency and the provider. The 'provider' is intended to be the HomeBuy agent for the delivery area.

Shared Equity

It is expected by the H&C Agency that most households will utilise this option; this will allow them to remain in home-ownership and is likely to be most cost-effective for the household and Homes and Communities Agency.

Prospective beneficiaries must:

- have 25% or more pre-existing equity in their property
- Would be able to continue in home ownership if between 25% and 75% of their current mortgage

Key features include:

- The equity loan will be secured as a second charge against the property, with interest of 2.75%p.a. (rise at RPI+0.5% annually)
- The household being rescued will be required to make an equity contribution equivalent to 10% of the value of the equity loan
- The household benefiting from a rescue on shared equity terms would be responsible for all maintenance on the property
- The Homes and Communities Agency will pay 50% of the equity loan required via grant with the other 50% input by the provider; we would also receive an agreed allowance for each completion

Mortgage to Rent

Will only be suitable for those households with very low equity or who are likely to be dependent on benefits

Prospective beneficiaries must:

- Have less than 25% pre-existing equity in their property (but more than 5%)
- Are currently or are expected to become benefit dependent

Key features include:

- The provider will purchase the freehold (or leasehold) of the property then issue an AST charged at 80% of market rent
- The provider will be responsible for all repairs

- The Homes and Communities Agency will pay 50% of the purchase price via grant with the other 50% input by the provider; we would also receive an agreed allowance for each completion

Process (please also see 'Mortgage Rescue Draft v5.2', attached separately)

- The scheme will only be open to households whose options have been exhausted after working with the lender
- Lenders will signpost potential customers to money advice agencies, who will work with the household to help prioritise debts, maximise income and if possible avoid the need to use this scheme
- The money advice agency will calculate a monthly affordable housing costs payment for the household, using a *common financial statement*
- The money advice agency will then send a copy of the common financial statement to the lender, and refer the household to the local Housing Authority
- The eligibility of the household will be assessed by the Local Authority, who will refer the applicant to the Mortgage Rescue provider
- The Local Authority will then contact the lender, who will suspend further action, fees and penalty interest while the property is being 'rescued'
- If the rescue does not/ cannot proceed, the LA will look to use an alternative means of homeless prevention

The role of the provider

The household will only be referred to the provider when:

- all other routes have been exhausted
- the initial eligibility has been determined by the Local Authority
- the estimated pre-existing equity has been calculated
- The provider has an important role in providing support to the household with clear communication and process
- The property will be valued by an RICS valuer at market value for the formal offer
- If the household is being rescued to rent, a market rent value is established by a RICS valuer. The Intermediate rent is to be charged at 80% of the market rent

For the **shared equity** product the provider will have an ongoing role in collecting the interest charge on the equity loan and administering the loan, including provision of annual statements and dealing with repayments

For the **Government Mortgage to Rent** the provider will be responsible for the housing management of the rescued property and household

The provider may wish to make alternative local management arrangements

The scheme is set to launch in January 2009, however details are to be finalised.