The Scottish Government

Low-cost Initiative for First-Time Buyers

LIFT

Open Market Shared Equity Pilot

Helping you to become a home owner

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The Scottish Government is committed to helping people meet their aspirations to become home owners. This booklet gives information about our Open Market Shared Equity Pilot that will help people across Scotland who are on low incomes, particularly first-time buyers, become home owners.

The Open Market Shared Equity Pilot is separate from the New Supply Shared Equity scheme which mostly relates to homes that are newly built by registered social landlords. A separate booklet covers that scheme.

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What is the Open Market Shared Equity Pilot and how does it operate?

The Open Market Shared Equity Pilot aims to help people on low incomes who wish to own their home but who cannot afford to pay the full price for a house. It is part of the range of assistance from the Scottish Government under LIFT, the Low-cost Initiative for First-Time Buyers.

The Open Market Shared Equity Pilot is available across Scotland and the table below shows the five registered social landlords or subsidiaries ("registered social landlords") who operate the pilot on behalf of the Scottish Government together with the areas they cover.

Registered social landlord	Administrative area
Albyn Enterprises Limited	Highland Eilean Siar
Grampian Housing Association Limited	Aberdeen City, Central, North and South Aberdeenshire and Moray
Hjaltland Housing Association Limited	Shetland Islands
Link Homes	Edinburgh, East Lothian, Midlothian, West Lothian, Scottish Borders and Fife Angus, Clackmannanshire, Dundee, Falkirk, Perth & Kinross and Stirling Glasgow, East Renfrewshire, Renfrewshire, East and West Dunbartonshire, Inverclyde, North and South Lanarkshire, North, South and East Ayrshire, Argyll & Bute and Dumfries & Galloway
Orkney Housing Association Limited	Orkney Islands

Shared equity means that 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 of the price – and the Scottish Government will hold the remaining share under a shared equity agreement which they will enter into with you. You will own the property outright but the interests of the Scottish Government will be secured by a mortgage (or a 'standard security' as it is known in Scotland) on that property.

If you can afford a 75 per cent share of a property the Scottish Government's 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 an independent professionally qualified valuer.

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, and any other costs associated with the purchase such as registration dues and (if applicable) stamp duty. You do not pay any form of rent on the property.

Who is it for?

The Open Market Shared Equity Pilot 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 Open Market Shared Equity Pilot.

If you are currently a tenant of a local authority or registered social landlord, you will not be able to buy your existing home from your landlord through the Open Market Shared Equity Pilot, but you may be able to buy a property that is for sale on the open market.

How do I know if I am 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 which has one room more than your existing need. For example, a couple would be eligible to buy a home with two double bedrooms.

As the **Open Market Shared Equity Pilot is aimed at low income households**, you will be assessed by the registered social landlord to see whether or not you qualify. To allow this to happen, a form of 'means testing' will be carried out. You will need to show that you cannot buy a house suitable for your needs without help from the Open Market Shared Equity Pilot.

The amount that you contribute must be the maximum mortgage you can reasonably obtain and afford plus any personal contribution that you are able to make. However, 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. You should not exceed these unless you have received independent financial advice as you need to be confident that you can pay your mortgage over the long term, even if mortgage interest rates or other living costs increase. The overall amount must be enough to pay for your stake and cover all the costs of buying a home, such as legal costs.

Limits are set on the price you can pay for a property under the Open Market Shared Equity Pilot. You can find out what these limits currently are at: www.scotland.gov.uk/LIFT or by asking the registered social landlord.

The stake that you hold will normally be determined by the maximum mortgage that you can afford 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.

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 your home.

Example

An example of how the Open Market Shared Equity Pilot works

Mandy is single, lives in Falkirk and earns £18,000 a year.

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

After being accepted onto the Open Market Shared Equity Pilot, she identifies a two bedroom property which has been valued at £79,500. This is within the maximum price of £80,000* that can be paid for a two bedroom property in Falkirk. The maximum mortgage that Mandy can secure is £54,000. This sum, together with her savings of £2,700, means that Mandy can contribute £56,700 towards the purchase of the property.

The Scottish Government is able to fund the balance of the purchase price of £22,800.

After the property has been bought, Mandy has a 71.32 per cent equity stake in it. The Scottish Government holds the remaining equity stake of 28.68 per cent.

* Figure accurate at March 2009.

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.

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

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

In the majority of cases, you will have the option to increase your stake after two years to 100 per cent subject to payment of all valuation and other legal costs and expenses. 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.

The registered social landlord will tell you before you look for a property whether the Scottish Government may wish to retain a golden share.

After two years, if you have a stake of less than 80 per cent you can increase this stake to 80 per cent (or more if there is no golden share). This first increase must take the stake to a minimum of 80 per cent.

At least one year after this first increase (and again assuming that there is no golden share) you may increase your stake once more. This increase must take your stake up to 100 per cent.

Example

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 through the Open Market Shared Equity Pilot. After two years 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 can increase their stake up to 100 per cent, but they must raise it to at least 80 per cent. The couple seek independent financial and legal 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. If they choose to increase their stake again, they must now take it to 100 per cent. Again they receive advice from an independent financial adviser and their solicitor and decide to go ahead with the increase. They now hold 100 per cent of the stake and will receive the whole of any increase or depreciation on the sale price of the house.

Example

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

Jane bought a flat through the Open Market Shared Equity Pilot and took a 60 per cent equity stake. 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. As it is more than two years since she purchased her home she is able to increase the stake. She must increase her stake to 80 per cent but because of the golden share she cannot raise it above this level. After taking independent financial and legal 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.

What responsibilities does a shared equity owner have?

When you buy through the Open Market Shared Equity Pilot 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. You will need to take costs of this nature into account when assessing whether you can afford to buy a property and should accordingly seek more detailed independent financial and legal advice on the responsibilities that come with being a home owner in relation to any particular property you select and all documentation which you will require to enter into.

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, for example if you are required to move away temporarily for a work posting but plan to return. This is because you are expected to live in the property as your only home. 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.

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.

Example	
An example of when the value of your property increases	
Initial property value	£100,000
Your stake – 80 per cent	£80,000
The Scottish Government's stake – 20 per cent	£20,000
Sale price	£140,000
You receive 80 per cent	£112,000
The 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 Scottish Government does not make a profit. Any surpluses go towards providing more affordable housing.

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
The Scottish Government's stake – 20 per cent	£20,000
Sale price	£90,000
You receive 80 per cent	£72,000
The 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
The 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
The Scottish Government receives 20 per cent of £150,000	£30,000

You will be responsible for meeting the costs of obtaining a Home Report and marketing your house if you sell it on the open market.

How do I apply?

If you think you might meet the eligibility criteria, please contact the registered social landlord operating the scheme in the area you are interested in.

Albyn Enterprises Limited 68 MacLennan Crescent INVERNESS IV3 8DN Telephone: 01463 259895	Highland
	Eilean Siar
Grampian Housing Association Limited Huntly House 74 Huntly Street ABERDEEN AB10 1TD Freephone: 0800 1214496	Aberdeen City, Central, North and South Aberdeenshire and Moray
Hjaltland Housing Association Limited 2 Harbour Street Lerwick SHETLAND ZE1 OLR Telephone: 01595 694986	Shetland Islands
Link Homes Watling House Callendar Business Park FALKIRK FK1 1XR Telephone: 08451 550019	Edinburgh, East Lothian, Midlothian, West Lothian, Scottish Borders and Fife
	Angus, Clackmannanshire, Dundee, Falkirk, Perth & Kinross and Stirling
	Glasgow, East Renfrewshire, Renfrewshire, East and West Dunbartonshire, Inverclyde, North and South Lanarkshire, North, South and East Ayrshire, Argyll & Bute and Dumfries & Galloway
Orkney Housing Association Limited 39a Victoria Street Kirkwall ORKNEY KW15 1DN Telephone: 01856 875253	Orkney Islands

What happens next if I make an application and it is approved?

If your application is approved, you will receive a letter from the registered social landlord confirming that you may now look for a property under the Open Market Shared Equity Pilot. The letter will allow you to find a property within your chosen area. It will confirm the maximum price that you can pay for a home as well as the maximum size of property you are able to buy. The letter will also tell you about the next steps in buying your home.

When you have seen a suitable property you will be asked to obtain a valuation from an independent professionally qualified valuer who is registered with the RICS this valuation will form part of the Home Report unless the property is a new build in which event you will be required to obtain a valuation at your expense.

You will also have to appoint a solicitor to act on your behalf to complete the work involved in buying a home. Scottish Ministers will instruct its own solicitor to deal with their interest in the shared equity documentation. You will pay for your share of the purchase price in the usual way, along with legal costs, and any other costs associated with the purchase including registration dues, and (if applicable) stamp duty.

It is important that you are aware that there are limited funds available for the Open Market Shared Equity Pilot and that a limited number of applications will be approved at any one time.

You should note that the letter you receive from the registered social landlord will be valid for a period of 12 weeks. It may lapse if you have not found a property and had an offer to purchase accepted within that period.

What else do I need to know?

Registered social landlords will have more information on the requirements of the Open Market Shared Equity Pilot. 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 mortgage (or 'standard security' as it is known in Scotland) to secure the rights of the Scottish Government. YOU SHOULD CHECK THAT THIS MORTGAGE WILL MEET YOUR NEEDS IF YOU WANT TO MOVE OR SELL YOUR HOME, OR IF YOU WANT YOUR FAMILY TO INHERIT IT.

How do I find out more?

You will find some more general information about the Open Market Shared Equity Pilot and general information on the house buying process, at:

www.scotland.gov.uk/LIFT

You can also obtain further information, including details of the legal requirements of the Open Market Shared Equity Pilot, by contacting the registered social landlord operating the scheme in the area you wish to live in.

The Scottish Government

This document is also available on the Scottish Government website:
www.scotland.gov.uk

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