

Revised interim guidance on SHG funded HomeBuy in Wales, May 2009

Introduction

- 1.1 This guidance is issued following consultation and consideration by Essex Workstream A (Better use of Existing Properties). It applies to SHG funded Homebuy during 2009/2010. We have endeavoured to take on board comments made by those who responded to the consultation. However, a range of significant issues were raised which will be discussed by Essex Workstream A whose deliberations will inform the approach to Homebuy and other intermediate housing products in future years.
- 1.2 Alongside the analysis of the consultation responses, work was undertaken to identify the level of potential demand for Homebuy. Looking at income levels and house prices, this analysis indicated that, of the 20,000 newly forming households in Wales each year, around 2,400 could afford 70% Homebuy if they had a 10% deposit and were purchasing a 2 bed property at lowest decile prices. Clearly, not all these households will want Homebuy – they may prefer to rent or purchase a smaller property or buy at the very bottom of the housing market. However, these figures indicate a substantial level of potential demand for Homebuy relative to the scale on which the Welsh Homebuy scheme operated in recent years (200-250 homes a year).
- 1.3 The Welsh Assembly Government considers that SHG funded Homebuy has a role to play and can support a number of important local authority priorities such as sustaining rural communities, including Welsh speaking communities and supporting the creation of mixed tenure communities, as well as enabling first time buyers, (or those in the same position as first time buyers such as those who have experienced relationship breakdown), to get a foot on the housing ladder.
- 1.4 Our overall aim is to develop DIY Homebuy so that it is better evidenced, better targeted, more sustainable and co-ordinated with other measures designed to meet housing need and sustain communities across Wales.
- 1.5 We note the concerns raised by a number of respondents to the consultation paper in relation to funding for Homebuy during 2009/10. However, our position remains that any local authority wishing to re-introduce Homebuy next financial year will need to make space in the Social Housing Grant programme by re-allocating other activities. Funding arrangements for 2010/11 and subsequent years will be announced in due course.
- 1.6 Although the Welsh Assembly Government will not require a deposit from DIY Homebuy purchasers, it is acknowledged that lenders may require a deposit from purchasers in order for them to access a mortgage. Publicity material for the scheme should reflect this.

Purpose/objectives of DIY Homebuy

- 1.7 We propose that the main objectives of DIY Homebuy are:

- to enable access to sustainable home ownership by assisting people who cannot afford to buy on the open market, in particular first time buyers, to do so and thereby help meet the need for affordable housing in areas of shortage
- to ease pressure on social housing waiting lists (albeit that the extent to which this will be possible will be limited). However, for example, waiting lists may include people requiring adapted accommodation where their existing housing cannot be effectively adapted to meet their needs whose housing need could be met through DIY Homebuy
- to provide an option for home ownership for existing social housing tenants who will release a unit of social housing should they take up DIY Homebuy (again acknowledging that the scope for this may be limited)
- to meet wider strategic objectives of local authorities such as sustaining rural communities, including Welsh speaking communities, supporting the creation of mixed tenure communities, renewal areas, bringing empty homes back into use, enabling clearance schemes to go ahead and buying back second homes in areas of housing pressure

Targeting

- 1.8 The Welsh Assembly Government would like to see DIY Homebuy targeted to first time buyers or those re-entering the property market who are essentially in the same financial position as first time buyers (such as owner occupiers who are going through relationship breakdown). The existing experience of partnership working between local authorities, registered social landlords and lenders can be built upon in order to achieve this. Practical mechanisms will include revised WAG material on Homebuy and publicity about the scheme on the WAG website, developing signposting mechanisms for lenders who turn down applicants who may be able to afford a Homebuy purchase and the establishment of affordable housing registers at a local level.
- 1.9 In addition, the Welsh Assembly Government has agreed to the commitments set out in the July 2008 Service Command Paper ***The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans*** (online at www.army.mod.uk/documents/general/Command_Paper.pdf), one of which is making service people a priority group within shared equity schemes. We have also extended this commitment further in the Welsh Government Package of Support for the Armed Forces Community in Wales, 2011. The widows and widowers of personnel who have been killed in Service should also be given priority for HomeBuy products where housing problems result from events linked to service. In the light of this, the Welsh Assembly Government would also like to see SHG funded DIY Homebuy targeted at service personnel provided they meet the other eligibility criteria for the scheme. However, any lump sums paid to eligible members of the armed forces as a result of illness or injury are to be disregarded when assessing eligibility and sustainability.
- 1.10 In order to respond to the criticism of the previous scheme that it was not targeted effectively, local authorities may wish to consider targeting purchase of properties through Homebuy that are within the lower decile of property prices. Local authority level information on house prices is available through Hometrack or similar housing market intelligence systems.
- 1.11 DIY Homebuy is not intended for people who can afford to buy a property suited to their needs without assistance from government or for those who are adequately

housed, but who wish to buy in a more expensive location. Neither is DIY Homebuy intended to substitute for significant amounts of financial assistance being provided by relatives to enable households to buy. However, a relatively low level of financial assistance from relatives may enable households to put a deposit together enabling access to a mortgage; this is acceptable within the scope of the scheme.

A strategic priority

- 1.12 In order to attract SHG, local authorities will need to demonstrate that Homebuy is a strategic priority in their area and to provide evidence for this. Given that SHG is a limited budget and is used to support both rental and affordable home ownership options, it is important that local authorities are able to clearly demonstrate the need for SHG to be used to support DIY Homebuy alongside social housing for rent.
- 1.13 Evidence may exist in analysis of the intermediate housing market at a local level, results of housing market assessments and, where DIY Homebuy is being used to support wider strategic objectives such as supporting rural communities, an indication of the level of demand. In relation to rural communities, such information could come from the work of rural housing enablers in individual communities. It might be expected that relevant evidence, ie an assessment of the need for Homebuy in the area, will be set out in Affordable Housing Delivery Statements, Local Housing Strategies and/or Affordable Housing Policies.

Outline of scheme

- 1.14 An individual eligible to take part in the scheme will be provided with an equity loan by the registered social landlord to purchase a qualifying property. The balance of the purchase price will be funded by the applicant through a conventional mortgage and/or savings. The applicant is responsible for the costs associated with the purchase (including, where relevant, stamp duty on the property). We do not consider it appropriate for registered social landlords to assist with the costs associated with purchasing a property – DIY Homebuy is about both access to and sustainability of home ownership – assisting with such costs could encourage unsustainable purchases.
- 1.15 The loan from the registered social landlord is funded by SHG and will be paid by the registered social landlord on the purchase completion date. The loan will be secured on the property; no rent or interest is paid on the loan, but the amount repaid, (when the property is sold or the property bought outright), will be the same percentage of the value of the property at the date of repayment as the equity loan was of the original purchase price.
- 1.16 A DIY Homebuy owner can choose to repay the loan at any time during occupation and must repay the loan on selling or transferring ownership of the home (unless they are transferring the subsidy to their next **Homebuy** property). Loan repayments/sale proceeds are recycled through the registered social landlord Recycled Capital Grant Fund. Registered social landlords may currently retain any surpluses from sales, but also take the risk of losses where property values fall.

- 1.17 The equity loan will normally be for 30% of the approved purchase price of a qualifying property. This may be increased to 50% in the following circumstances:
- in rural communities (rural being defined at local authority level)
 - in schemes that offer a mix of tenures as an aid to community sustainability (but not for schemes specifically provided for low cost home ownership)
 - to assist owner-occupiers whose homes are required for demolition
 - where individuals need to purchase a specially adapted home or one which can be adapted to satisfy their specific needs
- 1.18 DIY Homebuy owners are responsible for repairs and maintenance and it will not normally be acceptable for a registered social landlord to levy service charges. However, there is flexibility for service charges to be levied where it is in the interests of maintaining a good quality and safe environment. Registered social landlords can offer a repair and maintenance service on a contractual basis provided that no obligation is placed upon the DIY Homebuy owner to enter into such a contract (clearly DIY Homebuy owners do not have the same rights as social housing tenants).
- 1.19 Homebuy owners will be subject to a covenant requiring them to offer the relevant registered social landlord the option to purchase the property or to nominate a qualifying household to buy the property on Homebuy terms. In order to balance the needs of the individual owner, the lender and the registered social landlord, it is considered appropriate to require registered social landlords to make the decision about whether to invoke their repurchase right within 6 weeks of being informed by the Homebuy owner that they wish to sell the property and complete the purchase within a further 8 weeks. In situations where the registered social landlord is responsible for identifying a qualifying household to buy the property on Homebuy terms, this should also be done within 6 weeks.

Applicant eligibility

- 1.20 Within the context of the targeting of Homebuy set out in paragraphs 1.8-1.11, applicants for DIY Homebuy should:
- currently be inadequately housed (eg homeless, overcrowded, living in unsanitary conditions etc) and be unable to buy a suitable home without assistance from government. This may include those who currently own their home where there are clearly exceptional circumstances and there is a genuine need to move (eg relationship breakdown, extreme overcrowding). Applicants who own or part own a property must sell their interest at the same time as buying through DIY Homebuy. Registered social landlords should apply affordability thresholds with clear criteria for defining the ability of applicants to purchase a suitable property without assistance; this should be done in conjunction with the relevant local authority which will have set affordability thresholds as part of the strategic housing role (likely to be set out in its Affordable Housing Delivery Statement). These criteria should be based on an assessment of disposable income and assets, and should take account of the value of any equity already held by the applicant, and the ability of the applicant to realise that value

- be able to qualify for, and access, a mortgage. If funds are borrowed from another source such as a family member, the registered social landlord must secure the equity loan as a first charge on the property. In other circumstances, the lender will have first charge on the property
- be able to sustain the financial demands of home ownership. This will be determined by an assessment of disposable income and assets and financial commitments/debts, including all costs associated with home ownership and considering any history of rent or mortgage arrears. The registered social landlord is responsible for carrying out a financial assessment of all applicants in order to determine whether they can afford to buy an equity share of 70% (or between 70% and 50% where applicable). We are aware of the expertise that has built up in the registered social landlord sector in relation to undertaking such assessments and the work that local authorities are doing to define local affordability measures and thresholds. Expertise has also built up with Independent Financial Advisers providing independent assessments and helping people access the mortgage market. The assessment should include financial commitments such as purchase and maintenance costs and any service charges that will apply

1.21 Applicants can be in receipt of Housing Benefit or have been in receipt of Housing Benefit in the 12 months prior to their application, but must meet the other criteria.

1.22 The determination of local priorities for the scheme over and above these criteria is a role for local authorities and is likely to have been set out as part of the evidence that DIY Homebuy is a strategic priority. For example, in rural areas, access to the scheme may be restricted to people who meet additional local residency, or employment rules, where the local authority has formally adopted local residency policies as part of their wider commitment to deliver affordable housing (as set out in Affordable Housing Policies and/or Affordable Housing Delivery Statements). Some local authorities have targeted DIY Homebuy at certain household types, eg families. In setting such criteria, local authorities should be mindful of the impact on the value and saleability of properties bought under Homebuy.

1.23 Applicants should be advised to seek independent financial advice in relation to their prospective DIY Homebuy purchase.

Property eligibility

1.24 The home selected for purchase must be in Wales, can be a new property or an older property and meet the following criteria:

- the sale price of the home agreed with the vendor is within the approved purchase price limit (see below)
- the size of the home is normally no more than one bedroom larger than the household's 'need'. Exceptions may be made, eg where the housing available in the area is predominantly of one size, where Homebuy is being used to support clearance or other strategic objectives etc, provided these exceptions are agreed with the relevant local authority and the purchase will support the strategic purposes for which the authority wishes DIY Homebuy to be used

- where the home is not the present home of the applicant, it can be bought with vacant possession and is immediately habitable
- the property will provide adequate security for its equity loan. Where a leasehold interest is to be acquired, it must be for a term of not less than 60 years
- the home is in a reasonable state of repair as evidenced by a survey and valuation report or equivalent (a full structural survey is not required). The applicant is responsible for the cost of the survey. A registered social landlord may reject homes it considers are in poor condition, based on the information provided in the survey (or through its own survey if it chooses to undertake one). Where the vendor has agreed to carry out works before completion, the registered social landlord may approve the home on condition that the applicant provides the registered social landlord with evidence that the works have been completed to a satisfactory standard, and are acceptable to the applicant's mortgage provider
- the property will be the sole residence of the applicant(s). Exceptions may be made here for service personnel who may be posted away from the area in the future and need to let the property (as determined by the July 2008 Service Command Paper ***The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans***). Such letting arrangements will need to be agreed with the registered social landlord with the equity share in the property

1.25 Again, further locally-specific criteria may be decided by the local authority.

1.26 The following types of property cannot be purchased through DIY Homebuy:

- property that contains any element of commercial use (this does not exclude flats over shops)
- mobile homes (including fixed homes covered by the Mobile Homes Act 1983) caravans and houseboats
- a home offered with a subsidy or discount from any public body
- properties owned or part-owned by the applicant or the applicant's spouse/partner, a family member (parent, aunt, uncle, sibling, child, nephew, niece), business associate or someone joining in the application (business associate means someone who is a business partner or fellow director of the applicant). Exceptions may be made here, eg in cases of relationship breakdown where the remaining partner is unable to sustain a mortgage of the whole property, but may be able to sustain a 50%-70% mortgage. As with other exceptions, the local authority needs to be assured that agreeing such purchases will support the strategic purposes for which it wishes DIY Homebuy to be used
- properties being sold with sitting tenants

- 1.27 Where an applicant or property has been deemed ineligible, the registered social landlord should give the applicant a written explanation.

Purchase price limits

- 1.28 In the short-term, the Welsh Assembly Government has decided to keep purchase price limits linked to Acceptable Cost Guidelines. This is an interim position; the Welsh Assembly Government acknowledges the shortcomings of using Acceptable Cost Guidelines as this does not support effective targeting of Homebuy to the lower end of the market. A new mechanism will be developed and further guidance for the financial year 2010/11. As noted in paragraph 1.10, in order to respond to the criticism of the previous scheme that it was not targeted effectively, local authorities may wish to consider targeting purchase of properties through Homebuy that are within the lower decile of property prices.
- 1.29 The Welsh Assembly Government will therefore continue to publish Maximum Purchase Price Limits based on Acceptable Cost Guidelines. Registered social landlords will determine the purchase price limit for each application according to the needs of the household and the location of property. It is proposed to change the existing arrangement so that the Acceptable Cost Guideline band appropriate to the location of the property is used as the norm rather than the highest band for the authority. As noted above, a home one bedroom larger than the 'need' of the household can be purchased through DIY Homebuy. Flexibility is available to use the highest Acceptable Cost Guideline band applicable in the relevant local authority area, eg where property prices are above average or there is limited availability of properties in the particular area, provided the relevant local authority is content that agreeing such purchases will support the strategic purposes for which it wishes DIY Homebuy to be used.
- 1.30 In the case of applications from owner occupiers whose houses are required for demolition and who would otherwise need to be re-housed in alternative registered social landlord or local authority accommodation, registered social landlords have discretion to base the purchase price limit on the size of house currently occupied.
- 1.31 Decisions on the exceptions outlined in the above paragraphs can be taken by local authorities. In addition, the Welsh Assembly Government may waive purchase price limits in exceptional cases where:
- the needs of a permanent member of the household who has a disability can only be met by a larger property or one in an area where prices are above published purchase price limits
 - no suitable properties within published purchase price limits are available in locations where the applicant could reasonably be expected to purchase
 - providing suitable rented housing would require a higher level of subsidy

Where such cases emerge, the relevant registered social landlord will discuss the case with the local authority before asking the Welsh Assembly Government to waive the purchase price limits. Again, the local authority needs to be content that agreeing such purchases will support the strategic purposes for which it wishes

DIY Homebuy to be used. The Welsh Assembly Government would not normally withhold approval where supported by a local authority.

- 1.32 The purchase price limit and the equity loan will be based on the purchase price excluding the value of any incentives in cash or kind or debt roll-over. The purchase price will be the open market value with vacant possession at the date of exchange of contracts as certified by an independent qualified valuer.