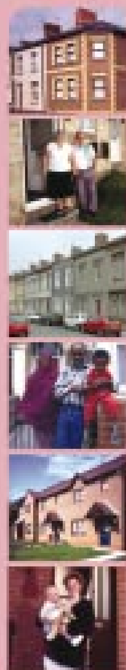
Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Homebuy



A guide for applicants in Wales

Important - Information on repaying the Homebuy loan

When you sell the home that you buy through the Homebuy scheme, you have to repay the loan you took from the registered social landlord (housing association).

Under the terms of the loan there are no interest or other credit charges so the loan has no annual percentage rate (APR). But the amount you will have to repay when the loan comes to an end is linked to the value of your home at the time you sell it. You may have to repay less than you borrowed, but it is likely that you will have to repay more.
If you have to repay more than you borrowed, the effect will be similar to a loan under which you pay credit charges at the rate at which your home has increased in value. For example, if your home increases in value by 4 per cent a year, the sum you will repay will be equivalent to borrowing under a loan with an APR of 4 per cent.

If your home reduces in value the amount you will have to repay under the Homebuy loan will also reduce. However, the amount you will have to repay your bank or building society will not reduce. Remember that house prices can go down as well as up.

ISBN 0 7504 3105 9
Designed by CartoGraphics G/511/02-03

Typeset by TPS

What is Homebuy?

This booklet is a guide to the Homebuy scheme in Wales. Homebuy helps people to buy a home on the open market. The scheme is operated by registered social landlords (housing associations) in Wales but is only available where the local authority decides that money should be allocated for it. This guide does not cover all the rules of the scheme but sets out the main features. For more information, please ask one of the housing associations that operate the scheme. You can find out who they are from your local council or from the National Assembly for Wales.

Homebuy is not intended for people who can afford to buy a property suited to their needs without assistance or those who are adequately housed but wish to move to a more expensive location.

Where it is available, funding for Homebuy will be limited, so not everyone who qualifies to obtain assistance will be able to do so. In areas where the scheme is in operation, housing associations will keep a waiting list if the demand exceeds the money available. To see if you qualify to apply for Homebuy, please read pages 3 to 5.

Before deciding to buy a property, you should take your own independent financial advice to get a clear idea of the costs and obligations of home ownership.

How does Homebuy work?

Homebuy is funded and supervised by the National Assembly for Wales, which has responsibility for housing associations in Wales.

If you qualify for the scheme, you will normally need to contribute 70% of the purchase price of a home through a mortgage and/or personal savings, although in certain circumstances you could contribute as little as 50% of the purchase price. The housing association will lend you the rest.

To fund your percentage of the purchase price you will need to arrange a mortgage from an approved lender. For the purposes of the Homebuy scheme your mortgage **must** be obtained from a building society, a bank, a friendly society or an insurance company. The housing association will give detailed definitions of these to applicants when they are accepted onto the scheme. Applicants should, under no circumstances, incur any costs in obtaining a mortgage (for example, for a property valuation) until the lender offering to provide the mortgage has confirmed that it is one of these types of lender. Mortgage repayments are usually made on a monthly basis, with the amount sometimes varying if there are changes in interest rates.

There are no monthly payments on the loan from the housing association that covers the remaining percentage of the purchase price. Instead, you repay it when you sell your home. The amount you repay will be the equivalent percentage value of your home at the time you sell it. If you want to, you may repay the loan before you sell, in which case what you repay will be based on the value of your home when you pay back the loan. It is important to remember that the loan **must** be repaid when you sell the home.

If someone who buys through Homebuy dies and a member of their family or their partner is left, they may take over ownership and continue to live in the home. If so, the costs of running the home and keeping up the mortgage repayments will normally transfer to whoever goes on living in the home. If not, the home will be sold to repay the outstanding loan. You may wish to take out insurance that pays off the mortgage on death, although you do not have to.

Who qualifies for Homebuy?

To qualify for the scheme, you must first be approved (in writing) by housing association operating Homebuy. To find out who runs the scheme in your area, contact your local council or the National Assembly for Wales.

In considering your application, the housing association must use the rules currently in place at the time you apply. These are published by the National Assembly for Wales. As a guide, you will need to meet at least the following requirements:

- You must be able to show the housing association either that you are not adequately housed or that you can no longer afford to occupy your current home.

- You must be able to show the housing association that you cannot buy a home suitable for your needs without help from Homebuy. The housing association may turn you down if you could afford to buy a home without help.

- You must be able to obtain a mortgage to cover your contribution and have savings to cover the other costs of buying a home, such as legal costs. The mortgage must be from a qualifying lender such as a bank, building society or insurance company. Other lenders may be acceptable but you need to check first with the housing association whether the lender can provide a mortgage for the Homebuy scheme.

- You must not be in rent arrears, or in breach of your tenancy agreement, if you are a tenant of a housing association or local council.

- You must not be receiving Housing Benefit or have received it during the 12 months before you apply for Homebuy.

- If you currently own your home or part-own a property, you can only be considered for Homebuy if the local council accepts that you are in housing need. You would have to sell your interest in that home at the same time as buying a home through Homebuy.

- In rural areas, access to the scheme may be restricted to people who meet additional local residency, or employment rules that have been agreed with the local authority.

In addition, some housing associations may make Homebuy loans available to help their tenants buy the dwellings they currently rent, in which case the first requirement will not apply.

Can you buy with someone else?

You may buy a home with someone else provided your joint income and savings do not enable you to buy a home outright. The housing association will take into account your joint incomes when deciding whether you can afford to buy a home without help from Homebuy.

If the person joining you already owns a home, that property will have to be sold at the same time as buying through Homebuy. Any likely profit from that sale will also be taken into account in considering the Homebuy application.

A joint application will not qualify unless all parties are to jointly own the home. A Deed of Trust providing rights of occupation for a qualifying applicant is unacceptable as an alternative to becoming a joint legal owner. No more than four people can jointly buy a home through Homebuy.

What kind of property can you buy through Homebuy?

You may buy a property provided it meets the following requirements:

- it is within any areas designated by the relevant local authority
- the size of the home is suitable for your current housing needs
- the purchase price of the home is within the published price limits for the scheme. (Price limits vary according to family size because the bigger your family, the bigger the house you will need - please check with the registered social landlord which price limits apply in your case)
- it is in a reasonable state of repair and immediately habitable (you will have to obtain a survey report, such as a Homebuyer's Survey and Valuation Report - the housing association will not need to see a full structural survey)
- it is for sale with vacant possession (that is, no-one is a tenant there)
- it will be your sole residence

- if offered on a leasehold basis (mainly flats) the lease has a remaining term of at least 60 years.

New properties under construction and being marketed by developers may be considered for the scheme if the sale price is fixed and exchange of contracts can be achieved within 6 months of the housing association saying that you can look for a home (the approval to look for a home must be in writing).

The following properties **do not** qualify for the scheme

- property containing any element of commercial use
- caravans, houseboats and other mobile homes
- properties offered to you at a discount by a housing association, local council or other public body
- property owned or part-owned by your spouse/partner, family member (parent, grandparent, child, grandchild, brother, sister,uncle, aunt, nephew or niece), or business associate (someone who is your business partner or fellow director)

What happens after you buy through Homebuy?

When you buy through Homebuy, you will own the property outright. Like other home owners, you will be responsible for **all** the repairs and maintenance, as well as making your mortgage repayments and paying your Council Tax. You will also need to take out buildings insurance, in case your home is damaged by fire or a similar hazard. This is a normal requirement when getting a mortgage and gives you protection against losing your home in a disaster. If you buy a flat, the owner of the block normally takes out the insurance and shares the costs between the owners of the flats. Also, if you buy a flat, you will usually have to pay service charges to cover maintenance costs for common areas of the block.

The housing association needs to protect its loan. Therefore the following conditions apply:

- You must notify the housing association and obtain its approval to alterations or improvements you intend making to the property, such as building an extension or altering the layout of the home.

- If you need to take out further loans for repair or improvement which have to be secured on the home, you need to get the consent of housing association before you take out the loan.

- If you want to sell your home or wish to repay the loan you must ask the housing association for an independent valuation of your home. This is so that the value can be agreed (you will have to pay the valuation fee).

The housing association will give you a more detailed list of requirements when replying to your application.

A step-by-step guide to Homebuy

Step 1 - Making an application

You first need to get an application form from the housing association operating the scheme in your area. For a list of these, please contact your local Council or the National Assembly for Wales.

When you have completed the application form, return it to housing association. Please keep a copy of the form for your records.

Do not make any financial or legal commitment to buy a home at this stage, otherwise you will not qualify for the scheme.

Step 2 - Response to your application

The information you have given on the application form will be checked by the housing association. It may ask you for more information, for example, evidence of income or savings.

If satisfied with the details you have provided, the housing association will inform you in writing whether you qualify for the scheme.

Step 3 - Finding a home

When you have been accepted onto the scheme, the housing association will send you more detailed information on what to do next. You will receive approval to look for a home up to a certain price limit and be told the minimum percentage of the purchase price that you will have to find. It is important to remember that different price limits apply in different areas. If you have changed your mind over where you want to live, you will need to check with the housing association to see if the price limit still applies. You can then agree a price (usually through an estate agent) with the person selling it.

Having agreed a price you can then:

- apply for a mortgage and get the property surveyed
- appoint a legal representative (solicitor or licensed conveyancer) to handle the purchase on your behalf.

The housing association should have given you guidance notes to pass to your lender and legal representative about how Homebuy operates. If you have not received these, go back to the housing association.

Do not enter any legal agreement to buy the home at this stage as housing association needs to approve the home you have chosen.

As soon as you have received your mortgage offer and survey (if the home you have chosen is not new), you will be able to give details of the home to the housing association for approval.

Step 4 - Approval to enter the legal agreement to buy your home

As soon as the housing association has agreed your application, you may instruct your legal representative to go ahead. Your legal representative will receive some instructions from the housing association about the timetable of the purchase and what they are required to do.

When your legal representative has completed the necessary checks, you will be told when you can sign the legal agreement to buy. After this, your legal representative will tell the housing association, which will then arrange to pay the agreed percentage of the purchase price to your legal representative ready for completing the sale.

Step 5 - Selling your home or repaying the loan

In the future, you may wish to sell your home or repay the loan. When you do, you will need to inform the housing association who gave you the Homebuy loan. They will then get a valuation in order to agree the loan repayment amount. The amount you repay is based on the market value of your home at the time you want to sell or repay the loan. For example, if your loan was 30% of the value of your home, you will be required to repay 30% of the market value of your home at the time you make the repayment. The valuation will not include improvements you have made to your home which the registered social landlord gave you written consent to carry out. You will be responsible for paying the valuation fee.

The cost of buying your own home

It is important to consider the costs and responsibilities of buying your own home before making a decision to go ahead. You should take your own independent advice before making any commitment. Here is a list of some of the costs you have to pay for.

1. Survey and legal costs

You will be responsible for your own legal costs and the costs of getting a mortgage for your contribution to the purchase price of the home. When arranging a mortgage, you will normally have to pay the lender a fee.

You will need to get a survey of the condition of the home (if it is not new) and this cost will be in addition to the mortgage fee. The housing association will not require you to get a full structural survey.

2. Stamp duty

Stamp duty is a tax you may have to pay if the home you buy is above a certain price. Your legal representative will inform you about any stamp duty.

3. Land Registry

When you buy a home, your legal representative has to arrange for its details to be registered at a government office, the Land Registry. You will need to pay a fee for the registration (your legal representative will tell you how much).

4. Mortgage repayments

For your contribution towards the purchase price, you will normally need to take out a mortgage. Most mortgages require you to repay the loan by monthly payments, which may increase or decrease if interest rates change. The amount you can afford to borrow will depend on your income and savings. An independent financial adviser will be able to explain the costs of different types of mortgage.

5. Mortgage payment protection insurance

If at any time you become unable to meet your mortgage repayments because you lose your income through, for example, unemployment or ill-health, your home may be repossessed by the mortgage lender.

Help with mortgage repayments is available through the State benefits system but this assistance is limited and you are unlikely to receive any help with your repayments for the first nine months of your claim. Depending on the size of your mortgage any benefit paid will help with your mortgage interest but not with other expenses on your mortgage or insurance.

When you arrange your mortgage you should consider whether you would benefit from the security provided by Mortgage Payment Protection Insurance (MPPI). There are many such policies available and their terms and conditions vary considerably. You should seek advice from your lender and/or an independent financial adviser to find out whether MPPI will be of benefit to you and to decide on a policy that will suit your needs and give you the cover you require.

6. Insurance

You will have to insure your home in case your property is damaged or destroyed by fire or similar disaster. This is called Buildings Insurance. As well as insuring the building, you may wish to insure your belongings and furniture. You should take your own independent financial advice before making any commitment.

7. Service charges

If you buy a flat or maisonette, you will have to contribute towards the upkeep of the building. The person who owns the block of flats (called the freeholder/landlord) will be responsible for repairing and maintaining the outside of the building and any common parts. The costs of work will be listed in a service charge, which each flat owner has to contribute to.

8. Repairs

When you buy a home of your own, you have to pay for all repairs needed to the property.

9. Services

You will need to pay for gas, electricity and water supplied to your home. You will also be responsible for paying Council Tax.

Further information on the costs of running a home that you own can be found in a number of consumer magazines or books.

Where to go for further advice

If you have questions about the scheme, you should contact housing association. Your mortgage lender and legal representative can advise generally on buying a home, and independent financial advisers can tell you about the different types of mortgage and insurance products on the market.

Further copies

Further copies of this booklet are available from:

Housing Directorate
Welsh Assembly Government
Merthyr Tydfil Office
Merthyr Tydfil
CF48 1UZ

E-mail: shg@wales.gsi.gov.uk