

First Home Fund Information for Lenders and Independent Financial Advisers

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Introduction

The information below is intended for lenders and Independent Financial Advisers to help understand the Scottish Government's First Home Fund.

This new scheme operates as a shared equity scheme that will help first-time buyers in Scotland buy their own home by making a contribution of up to £25,000 towards the purchase of a property.

This will sit alongside the Scottish Government's existing home ownership schemes and aims to help first-time buyers purchase a home that meets their needs in the location where they want to live. This scheme will be administered by an external agent (the 'Administering Agent') on behalf of Scottish Ministers.

Copies of the scheme documentation and application forms can be found at the following [link](#) :

- Administrative Procedures
- Standing Instructions
- Application Form

Do lenders have to register to provide mortgages through the scheme?

There is no requirement for lenders to register with the Scottish Government in order to offer mortgages through the scheme. However it would be appreciated if you could advise the Scottish Government by emailing us at housingmarket@gov.scot. This will allow us to notify the Administering Agent and update our website.

Who can apply to the scheme?

The scheme is open to first-time buyers in Scotland who are taking out a mortgage. Unlike other Scottish Government shared equity schemes the scheme applies to both existing and to new build properties. Applicants do not need to demonstrate that they require support in order to afford the purchase, however they will need to demonstrate to the Administering Agent as part of their application that their outgoings will not exceed 45% of their net income once mortgage payments have been taken into account.

For the purpose of this scheme, a first-time buyer is a person who does not own nor has previously owned a dwelling in Scotland, the rest of the UK or the rest of the world, at any time. This includes both sole and joint ownership. All forms of ownership in the applicable legal system which are equivalent to ownership in Scotland are treated as ownership for this purpose.

Eligibility criteria

Although the scheme is open to all first-time buyers wishing to purchase a property in Scotland there are some specific requirements that applicants must meet.

Applicants must take out a mortgage to qualify for the scheme as it is not intended to help cash buyers. The mortgage must be capital repayment and be for at least 25%

of the purchase price. Applicants will not qualify for the scheme if they are taking out an interest-only mortgage.

The applicant must provide a minimum deposit of around 5% of the purchase price from their own funds (subject to individual lender requirements) but any amount over valuation must be cash funded.

There are no caps on the value of the property that can be purchased through the scheme. The Scottish Government contribution cannot exceed £25,000 or 49% of the value of the property or purchase price (whichever is the lower amount). The £25,000 contribution is the maximum allowed, but an applicant can choose to take a smaller amount if they wish, therefore reducing the Scottish Government's equity share in the property.

Applicants are able to purchase properties above market value and still take part in the scheme. However equity shares will always be calculated against the open market value of the property, or purchase price, whichever is lower, for existing builds. In the case of new build properties, the valuation will either form part of the mortgage offer or be provided in a separate valuation report given to the lender. The equity shares will be calculated by reference to the valuation of the property, unless the purchase price is lower than valuation in which case the equity shares will be calculated by reference to the final purchase price. All equity shares will be calculated to two decimal places when expressed as a percentage.

Joint applications are permissible and only one of the applicants needs to be a first-time buyer in order to qualify for the scheme. If one of the applicants currently owns a property, this must be sold before an award is made through the scheme. There is a limit of one award per property, so if two first-time buyers make a joint application they will be only be eligible for a single award through the scheme.

The property being purchased must be the applicants' sole residence as the scheme is not intended to assist buy-to-let investors.

Applicants cannot combine this scheme with any other shared equity scheme offered by the Scottish Government (Help to Buy (Scotland) Affordable New Build, Help to Buy (Scotland) Smaller Developer, Open Market Shared Equity or New Supply Shared Equity schemes). However they are able to use the proceeds of a Help to Buy ISA or a Lifetime ISA towards their deposit.

There is no restriction on builder incentives, but part exchange is not allowed, although assisted purchase is permitted.

A sustainability check will be completed by the administering agent as part of the application process. This will involve checking that the monthly mortgage and other debt repayments do not exceed 45% of the applicants' net disposable income.

Application process and evidence required

Before applying to the scheme an offer must have been made and accepted on a property. Applications can be submitted if an offer has been orally accepted, or in the

case of new build properties, a plot must have been reserved with the developer. Applications cannot be submitted once missives have been concluded. The offer must be formally accepted (i.e. missives concluded) before any funds are released.

Applications must be submitted using the online form available here <https://linkhousing.org.uk/firsthomefund>. The completed form should be sent to the Administering Agent and an affordability assessment will then be completed, to check that the applicant's monthly costs do not exceed 45% of their net disposable income (a copy of the calculator used to complete this assessment can be found [here](#)). As part of this assessment the Administering Agent will require a Decision in Principle for a mortgage and documentary evidence of an applicant's income, such as payslips, benefit statements and relevant evidence of earnings.

Application Fee

The Administering Agent will request a fee of £550 when the Award Letter is issued. This must be paid by the applicant at least 3 weeks prior to settlement. Failure to pay the fee will prevent the Scottish Government's contribution being paid. The application fee cannot be deducted from the Scottish Government's contribution.

The fee will be refunded in full to the applicant should their application fail at any time, except in cases where there has been misrepresentation or fraud on the part of the applicant.

If the applicant meets the eligibility criteria for the scheme then an Award Letter will be issued to the applicant, their IFA (if applicable), their solicitor and to the Scottish Government's solicitors.

Missives for the transaction must be concluded within 3 months of the date of the issue of an Award Letter. If the missives are not concluded within this timescale then the application will be cancelled, and the applicant would need to submit a new application if they still wished to receive financial support from scheme.

Following conclusion of missives, a further period of up to 6 months is given to allow settlement of the purchase to take place.

In addition to the Award Letter, the applicant's solicitor will also be sent a set of Standing Instructions that will explain what must be done in order to facilitate the transaction. This includes confirming that the applicant is a first-time buyer. The applicant's solicitor will normally carry out all necessary title and property due diligence on behalf of Scottish Ministers.

Once an Award Letter has been issued a full mortgage application can be submitted, in line with the details contained in the letter. If the applicant has a Help to Buy ISA or a Lifetime ISA then the solicitor will be required to register with the UK Government in accordance with the ISA rules.

Further detail on the application process can be found in the Standing Instructions, which are available [here](#).

Repayment of Scottish Government Equity

There is no set deadline for repayment of the Scottish Government's equity share in a property and no interest will be charged on it. The applicant has the option of acquiring all or some of the Scottish Government's retained equity share at a time of their choosing. Alternatively, the equity can be repaid upon the occurrence of certain events, the most common being the sale of the property.

If the applicant chooses to increase their equity share the minimum increase must be at least 5%. If the previous equity share was 90% or higher, then any further increase must be to purchase equity up to 100%. This can be done at any time, regardless of the current market value of the property, and the applicant will be responsible for meeting all costs involved.

The equity repayment will be based upon the value of the property at the time of repayment, or the final sale price if it is sold. This applies irrespective of whether the applicant purchased above or below valuation.

Remortgages

As there is no set deadline by which purchasers must repay the equity contribution to the Scottish Government, shared equity agreements run for as long as, or longer, than the primary mortgage. The equity contribution need not be taken into account when assessing mortgage affordability under the Mortgage Markets Review 2014 guidance. This also applies to remortgages in Scotland, resulting in there being no payment event regardless of the term of the remortgage.

Repossessions

If a home purchased through the scheme is to be repossessed it is expected that lenders will notify the Scottish Government of the intention to start the repossession process (calling up notice), as well as the relevant scheme administering agent. Lenders are reminded of the provisions of the Ranking Agreement which each Lender enters into and are encouraged to ask their legal advisors to refer to the same when any repossession process commences.

More information on repaying equity, remortgages and repossessions can be found in the After Sales Shared Equity Procedures here .
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Sustainability Calculator

The Scottish Government has designed a [sustainability calculator](#) sustainability calculator available at: <https://www.gov.scot/publications/first-home-fund-sustainability-calculator/> which may be helpful to lenders and IFAs to determine if an application is affordable for the applicant.

Further Information

If you would like any further information on the First Home Fund please contact the Administering Agent at the details below:

Link Housing
Watling House
Callendar Business Park
Falkirk
FK1 1XR
Telephone: 0330 303 0125
firsthomefund@linkhalt.co.uk

Case Studies

Case Study 1 - Purchase at Valuation

Iain currently rents a flat in Glasgow but wants to purchase his own home. His gross salary is £32,000 and he has been advised by his bank that the maximum mortgage he can receive is £144,000.

He has had an offer accepted on a property with a value of £140,000 and submits an application for support through the First Home Fund. His bank requires a 5% deposit contribution from him and he has decided to accept the full £25,000 contribution from the Scottish Government.

This means that the Scottish Government's equity share of the property is 17.86%, while Iain holds the remaining 82.14%.

		Equity Stake
Value and purchase price	£140,000	100.00%
5% deposit	£7,000	
Applicant Mortgage	£108,000	
Total Applicant Contribution	£115,000	82.14%
SG Equity Stake	£25,000	17.86%

Case Study 2 - Purchase by a non first-time buyer

Louise and Sarah are recently married and are buying a new home. They currently live in a flat owned by Louise, however Sarah has never owned a property before.

As Sarah is a first-time buyer they are eligible to apply to the scheme, even though Louise is not a first-time buyer. However, they must fully complete the sale of the current property before they can be awarded any funds through the scheme.

Case Study 3 - Purchase of £50,000 or less

Deborah is purchasing a property valued at £50,000 and wants to apply to the First Home Fund. She wants to take the full £25,000 contribution from the Scottish Government.

In this scenario the maximum contribution Deborah could receive is £24,500. Any higher than this and the Scottish Government's equity share would exceed 49% which is not allowed under the scheme rules.

		Equity Share
Value and purchase price	£50,000	100.00%
5% deposit	£2,500	
Applicant Mortgage	£23,000	
Total Applicant Contribution	£25,500	51.00%
SG Equity Share	£24,500	49.00%

Case Study 4 - Purchase Below Valuation

Shahid is purchasing a property that has a home report value of £195,000. He has applied to the scheme and has accepted a Scottish Government contribution of £25,000 towards the purchase. However he has been able to purchase the property for £187,000.

Since the purchase price is below the valuation figure, the equity shares are calculated using the purchase price figure.

		Equity Share
Property Value	£195,000	100.00%
Purchase price	£187,000	
5% deposit	£9,350	
Applicant Mortgage	£152,650	
Total Applicant Contribution	£162,000	86.63%
SG Equity Share	£25,000	13.37%

Case Study 5 - Purchase Above Valuation

Alex is purchasing a property that has a home report value of £160,000. She has applied to the scheme and has accepted a Scottish Government contribution of £25,000 towards the purchase. The final purchase price of the property is £168,000.

Alex is able to purchase the property above the valuation figure, however the equity share of the Scottish Government is calculated using the valuation figure, not the final purchase price.

		Equity Share
Property Value	£160,000	100.00%
Purchase price	£168,000	
5% deposit plus amount over valuation	£16,000	
Applicant Mortgage	£127,000	
Total Applicant Contribution	£135,000	84.38%
SG Equity Share	£25,000	15.62%

This means that the Scottish Government has a 15.62% equity share in the property and Alex has 84.38%, as the valuation figure and not the purchase price is used for the calculation. Alex would need to pay the additional £8,000 from her own funds and this would not be included in the equity share calculation.

In this example Alex must contribute £16,000 (i.e. 5% of the valuation as a deposit plus the £8,000 she is paying above valuation) towards the purchase of the property.

Scottish Government Shared Equity Scheme Comparison

	OMSE (Open Market Shared Equity)	Help to Buy	First Home Fund
Affordable housing	Yes	No	No
Threshold/price cap	Variable depending on location and size of property	£200,000	No maximum
House type	Open market	New build	New build and existing properties
Scottish Government equity stake	10-40%	Up to 15%	Up to £25k or 49% of the property value (or purchase price, if lower)
Funding committed to	March 2020	March 2021	Either until the initial £150m budget has been fully drawn down, or until March 2021, whichever is earlier.
Minimum mortgage requirement	No minimum – expected to contribute maximum they can afford	25%	25%
Deposit requirement	Decision of lenders	Decision of lenders- normally 5%	Minimum of around 5% and any amount over valuation must be in cash.
Applicants	First time buyers and priority access groups only	Open to both first time buyers and previous home owners	Open to first time buyers only
Administering agent	Link Homes	Link Homes Grampian Housing Association Highland Residential	Link Homes for initial period. Full tender process to be carried out
Title to property	Owner holds full title and is responsible for all associated costs	Owner holds full title and is responsible for all associated costs	Owner holds full title and is responsible for all associated costs
Tranche up	Minimum of 5% at a time, if remaining	Minimum of 5% at a time, if remaining	Minimum of 5% at a time, if remaining

	equity stake is over 90% must increase to 100%	equity stake is over 90% must increase to 100%	equity stake is over 90% must increase to 100%
Home Improvements	Only with SG permission but SG benefits from any increase in value	Only with SG permission. If permitted SG does not benefit from any increase in value.	No SG permission required unless funded via additional borrowing. SG benefits from any increase in value
Admin Fee	No fee	No fee	Admin Fee (£550)
Property Offer/Reserve	Approve application then property approved then they can make an offer on a property. If their offer is accepted solicitor sends in documents.	Reserve property with builder, seek IFA advice then apply	Offer accepted on a property or reserve with builder then apply. There is no restriction on builder incentives but part exchange is not allowed, although assisted purchase is permitted.