



# **Affordable Homes Scheme: Equity Loan**

## **Buyer's Guide**

**July 2023**

## Key Information

<b>Amount of loan</b>	<b>The equity loan value is equivalent to 30% of the full purchase price of the property purchased.</b>
<b>Buyer deposit required</b>	<b>The minimum deposit requirement is 5% of the full purchase price of the property purchased.</b>
<b>Repayment of the loan</b>	<b>The loan is repayable at the end of the term of 25 years or earlier upon the sale of the property. The loan can also be repaid in part or full at any time.</b>
<b>Total Amount Repayable</b>	<b>The amount to be repaid is proportional to the property value and is dependent upon the market value at the time of the repayment. This may be higher or lower than the original loan amount.</b>

## What is the affordable homes equity loan scheme?

The Wigan Council equity loan scheme provides assistance to qualifying purchasers to buy a selected new build home. Qualifying purchasers must meet the local connection and affordability criteria applied by Wigan Council. Before purchasing through the scheme, you must have been assessed by Wigan Council and an approval letter issued.

The equity loan available is for 30% of the full purchase price of the property. The remaining 70% of the value will be from your deposit (minimum 5%) and mortgage.

For example;

Full property price £120,000

30% Equity Loan = £36,000

5% deposit = £6,000

Mortgage required = £78,000

<b>Full property price</b>		
<b>5% Deposit</b>	<b>65% Mortgage</b>	<b>30% Equity Loan</b>
You	Bank/Building Society	Wigan Council

## **The Equity Loan**

When you buy a home through our equity loan scheme you are required to enter into an equity loan agreement that will be registered against your property as a second charge with the Land Registry. The equity loan charge sets out all of the terms of the loan. Your solicitor will deal with the equity loan and you should speak to them to ensure that you understand the equity loan charge before you sign it.

The equity loan will be for a term of 25 years, and must be repaid to Wigan Council;

- At the end of the term
- Before then
  - If the property is sold or
  - If you voluntarily choose to repay all or part of the equity loan

The amount repaid to Wigan Council will be dependent upon the property value at the time. An independent valuation of the market value of the property by a qualified surveyor will be required to determine the amount to be repaid. You will be responsible for paying the cost of the valuation report.

There are no monthly repayments, rent or interest charges due to Wigan Council for the term of the equity loan.

Please note that your mortgage term should not exceed the term of the equity loan.

It is important to remember that the equity loan must be repaid after 25 years, or earlier, and you should budget on that basis so that you are in a position to repay the loan at the end of the term, rather than relying on the possibility that your property has increased in value and you will be able to borrow additional funds and add them to your mortgage.

We will write to you on an annual basis to remind you of the importance of making savings towards the repayment of the equity loan, as well as advising you of the term remaining on your loan.

## **Your obligations**

As a purchaser of a home through our equity loan scheme, you have certain obligations;

The property purchased must be your only or principal home. The affordable homes scheme is not available to assist buy-to-let investors or those who will own another property after completing the purchase.

If you wish to rent out your property, you must obtain our consent. We may agree to a temporary letting period of 6 months, but you must intend to return to the property at the end of the letting period. You cannot rent out your existing home and buy a second home through Wigan Council's Affordable Homes Scheme.

You must inform Wigan Council in writing and obtain our prior written consent when you would like to do any of the following:

- Re-mortgage your affordable home
- Secure additional borrowing on your affordable home
- Carry out improvements/ alterations to your affordable home
- Sell your affordable home
- Let your affordable home
- Voluntarily repay the equity loan in part or full

If you are found to have acted fraudulently or to have breached the terms of the equity loan, we will request immediate repayment of the equity loan.

## **Budgeting**

It is essential that you keep up repayments on your mortgage with your lender. Your home will be at risk if you fail to do so. If you are having difficulty making your monthly mortgage payments, please speak to your lender and seek advice as soon as possible.

You should consider the cost of all regular outgoings related to home ownership, including;

- Mortgage repayment
- Council Tax
- Buildings and contents insurance
- Life insurance
- Utilities
- Repairs and maintenance
- Estate or service charges, if applicable, see "what other charges will I pay" below

In addition, you should consider how you will repay the equity loan when required. You should not rely on the value of your home increasing to fund the repayment of the equity loan.

## **Frequently Asked Questions**

### **Will I own 100% of the affordable home?**

Yes, under the equity loan scheme, you will be the owner or joint owners of the property and will have full title. Wigan Council's interest is secured by the equity loan charge, which is similar to the interest that your mortgage lender has.

### **Will I have to pay Stamp Duty?**

If the full open market value of the property you are buying is more than the current stamp duty threshold you will be required to pay stamp duty on the full purchase price of the home.

### **What other charges will I pay?**

You should check with the developer.

If the property is sold on a leasehold tenure you will be required to pay an annual ground rent to the Freeholder.

The communal areas and open spaces on some new estates are managed by a private company and you may need to pay an estate management charge.

There may also be a car parking or service charge payable for some types of accommodation (usually apartments). Service charges cover costs such as window cleaning, communal hallway cleaning and maintenance of communal areas and gardens.

### **Who pays for repairs and on-going maintenance to my home?**

As the homeowner, it is your responsibility to repair and maintain your home. New homes often come with a guarantee that will cover certain defects for up to 10 years. The guarantee usually only covers defects in the house builder's workmanship. Your solicitor/conveyancer will be able to advise in more detail on this.

### **Who provides the contribution for the equity loan?**

This is provided by Wigan Council via discounts agreed with the developers when planning permission is granted.

### **Can I let my affordable home?**

The scheme is intended to help people access home ownership and you should occupy the property as your only or principal home. It is not intended to assist with buy to let properties. If you wish to let the property, then you should repay the equity loan beforehand.

We may consent to a temporary letting period of six months, for example if family or work commitments mean you cannot live in the property for a short period of time, however, you must intend to return to the property at the end of the agreed period.

You will also need the consent of your mortgage lender before letting your property.

### **Can I own another home as well as my affordable home?**

No, the affordable homes scheme is designed to help people get on or, on occasions, move up the property ladder.

Before buying on the scheme you will be expected to have sold your current property before you complete the purchase of the affordable home. We will take account of any proceeds of sale to ensure that you still need the assistance of this scheme and could not afford a similar property without our assistance.

Once you have bought your affordable home, if you intend to buy another property you will need to repay your affordable home equity loan to Wigan Council first.

### **Can I add another owner to the equity loan agreement?**

Wigan Council may agree to add another owner to the equity loan at your request, for example should you marry. A deed of accession will be required from you to allow the changes. An administration fee to cover our legal costs will apply.

Please note that adding new names is classed as a new application and requires a new affordability check and other scheme eligibility criteria to be met in order to be approved.

### **What happens if my partner moves out and no longer wants to be party to the equity loan?**

Wigan Council will need to arrange for a deed of release and new charge agreement in your sole name. An administration fee to cover our legal costs will apply.

You will also need the consent of the first mortgage lender. You will need to provide evidence that you can meet your housing costs and still have a reasonable standard of living, permission should be a formality.

### **What happens if I die?**

If you are the sole owner of the affordable home, then the home will be dealt with in accordance with your will or, if there is no will, through the laws of intestacy. Any equity loan repayments required will be made by your estate.

If you are joint owners and one dies, the ownership may either transfer to the surviving co-owner(s) or transfer under the terms of the will or, if there is no will, through the laws of intestacy.

It is recommended that legal advice is sought about this.

## **Can I carry out improvements or alterations to my affordable home?**

You will need to seek written consent from Wigan Council, before undertaking any substantial improvement or alteration to an affordable home (e.g. adding a conservatory, installing a new kitchen, bathroom or different heating system). You will, however, remain responsible for obtaining any necessary statutory consents, such as planning permission.

If your property is leasehold, you may also need the written consent of the freeholder.

When you resell the property or repay the equity loan, the value of any substantial improvements or alterations will be excluded, provided that you have notified us and obtained our written prior consent.

## **Can I re-mortgage or secure additional loans on my affordable home?**

You will need to obtain written consent from Wigan Council if you would like to re-mortgage or take out a secured loan.

Such requests will be approved provided:

- that the proposed lender is an approved lender
- If you are re-mortgaging but not increasing your borrowing above the amount of the existing mortgage (i.e. you are changing lender but not increasing your mortgage.)

If you are proposing to increase your borrowing this will be approved by the Council subject to:

- The additional borrowing being for repairs or improvement of the affordable home

And



- The new level of borrowing is no more than the equivalent open market value of the property at that time minus the Council's equity loan value at that time.

Or

- The additional borrowing being for the full or part repayment of the equity loan to Wigan Council. If the additional borrowing is for part repayment you can only borrow the amount you are repaying.

The Council will need to ensure that the new lender is aware that the property is an affordable home and subject to the equity loan charge. An administration fee will apply.

## **I wish to sell my affordable home**

You will need to notify Wigan Council in writing in advance that you wish to sell the property. We will require an independent valuation of the market value of the property by a qualified surveyor. This should be an open market valuation, assuming vacant possession. (NB – an estate agent's market appraisal will not be accepted). We will confirm that we are satisfied your chosen surveyor is RICS accredited. You will be responsible for paying the cost of the independent valuation.

Based on the valuation, we will then confirm the sum that is to be repaid upon completion of sale. Please note that your first mortgage will be paid from the proceeds of sale before the equity loan is repaid. As this is an equity loan, the amount repayable will be dependent upon the value of your home at the time you repay the equity loan. This could be considerably less or more than the original amount loaned depending on property values at that time. See the example below;

	<b>Original purchase</b>	<b>Resale</b>
Full market value	£120,000	£130,000
70% of sale proceeds excluding repayment of equity loan. This will repay your mortgage, with any remaining funds to you.		£91,000
Equity loan value (30%)	£36,000	£39,000

Once a value is agreed, the valuation figure will be valid for three months. Should a sale/ repayment not have occurred within this period, the Council will consider the house price indices at that time to decide whether a further valuation is needed.

Once a sale is agreed, you must supply us with the details of the solicitors acting on your behalf. Upon sale of the property your solicitor will distribute the sale proceeds accordingly between the mortgage lender, the Council and yourself. Once we have received the equity loan repayment, we will notify the Land Registry to remove the charge from the register.

It is also worth noting, that when purchasing a brand new property, should you choose to sell it again within the first few years of purchase, you are unlikely to see a significant increase in the property value, and may in fact find that your home has depreciated slightly since purchase. It is a good idea to plan to remain in your property for the first few years at least if you wish to see any increase in value or at least not see a depreciation of value.

In addition, if you enter into a fixed rate mortgage with a tie-in clause with a lender, and then choose to end this agreement before the end of that tie-in period, you may have to pay an early redemption fee to your lender. This is an agreement between the purchaser and the lender directly and is not something that the Council can assist with.

### **What happens if the property is worth less than when I bought it?**

If, when you sell or repay the equity loan, the property is valued below the value when you bought it. You will pay back less than the original loan value. Provided that the sales value is at the market rate and you have complied with the terms of the equity loan, you will not be required to make up any shortfall. Please note that your first mortgage will be paid from the proceeds of sale before the equity loan is repaid.

	<b>Original purchase</b>	<b>Resale</b>
Full market value	£120,000	£110,000
70% of sale proceeds excluding repayment of equity loan. This will repay your mortgage, with any		£77,000

remaining funds to you.		
Equity loan value repaid to Wigan Council (30% of sale proceeds)	£36,000	£33,000

If the amount outstanding on your mortgage is more than the value of 70% of the sale proceeds, because the value of the property has decreased, the full amount outstanding on your mortgage will be repaid from the proceeds. This means that the council will receive the remaining balance of the sale proceeds, which will be less than 30% of the value.

	<b>Mortgage less than 70% of value</b>	<b>Mortgage more than 70% of value</b>
Full market value	£110,000	£110,000
Mortgage outstanding (first charge)	£70,000	£78,000
Sale proceeds excluding repayment of equity loan (70%). This will repay the mortgage, with any remaining funds to you.	£77,000	£77,000
Mortgage repayment from proceeds	£70,000	£78,000
Equity loan repayment (second charge)	£33,000 (30%)	£32,000 (29%)
Remaining balance to you,	£7,000	-

Additional charges from your lender (e.g., early redemption fees, arrears related charges etc) will not be taken into account when agreeing the final amount to be repaid to Wigan Council to discharge the loan.

## **Can I repay the equity loan voluntarily?**

You can repay the Council's Equity Loan, in part or in full at any point by notifying the Council.

If you would like to repay all or part of the equity loan, you must write to Wigan Council stating the amount you wish to repay. If you intend to repay part of the loan, sometimes called staircasing, this must be a minimum of 10% of the property value.

We will require an independent valuation of the market value of the property by a qualified surveyor. This should be an open market

valuation, assuming vacant possession. (NB – an estate agent’s market appraisal will not be accepted). We will obtain quotes and instruct your chosen surveyor. You will be responsible for paying the cost of the independent valuation.

Repayment should be made within three months.

## **What happens at the end of the term of the equity loan?**

We will send notification to you three months before the end of the loan term. We will require an independent valuation of the market value of the property by a qualified surveyor. This should be an open market valuation, assuming vacant possession. (NB – an estate agent’s market appraisal will not be accepted). We will obtain quotes and instruct your chosen surveyor. You will be responsible for paying the cost of the independent valuation.

Repayment sums will be calculated based on the equity percentage still owing. We will advise you of the repayment amount required based on the independent valuation. Repayment should be made within three months.

Should you be unable to repay the loan at the end of the loan term due to hardship, a further deferment period may be agreed with us depending on your circumstances. The deferment period will initially be granted for one year and reviewed annually. It may be granted for up to five years following the end of the loan term, if you continue to experience financial hardship.

## **Contact Information**

If you have any queries regarding the equity loan scheme, please speak to the sales office on the development you’re interested in, or please contact Wigan Council’s Strategic & Private Sector Housing team at:

Wigan Council Strategic & Private Sector Housing PO Box 100 Wigan WN1 3DS	Email: <a href="mailto:affordablehomes@wigan.gov.uk">affordablehomes@wigan.gov.uk</a>  Telephone: 01942 489204
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