

SHB - 1 GENERAL PRINCIPLES

- 1 Introduction
- 2 Fixing the Grant
- 3 Funding arrangements
- 4 Disposal proceeds fund
- 5 Consent to dispose
- 6 Property charged to private lender
- 7 Eligibility criteria for properties
- 8 Publicity
- 9 Standard Letters, Forms and Leaflets
- 10 Discount Levels
- 11 Summary of SHB programme

SHB - 2 FUNDING PRINCIPLES

- 1 Purpose
- 2 Timing of Application
- 3 Other sources of funding
- 4 Rents
- 5 Submission Requirements
- 6 HACON6
- 7 Financial Viability
- 8 Checklist

SHB - 3 PROGRAMME

- 1 General
- 2 Changes identified after programme approved
- 3 Changes identified at Confirmation of grant and Payment Request Stage
- 4 Schemes failing to reach completion target dates

SHB - 4 PURCHASE GRANT CLAIM

- 1 General
- 2 Timing of Purchase Grant claim
- 3 Checklist for scheme
- 4 Interest on delayed payments on schemes
- 5 Supporting Documentation
- 6 Admissible deductions from sales proceeds

SHB - 5 SOCIAL HOMEBUY MONITORING

- 1 Introduction
- 2 Initial SHB requirements
- 3 Reporting Annual Outputs
- 4 DPF recording
- 5 CORE

SHB 6 APPLICANT ELIGIBILITY

- 1 Eligibility criteria for applicants
- 2 List of public sector landlords
- 3 Refusal of a SHB application due to Anti-social behaviour

SHB - 7 PROPERTY ELIGIBILITY

- 1 Eligible properties
- 2 Excluded properties
- 3 RSL's Discretion to exempt other categories of properties

SHB - 8 VALUATIONS

- 1 Introduction
- 2 Validity period – Initial sale
- 3 Purchase of further shares- staircasing

SHB 9 SALES AND APPLICATION PROCESS

- 1 The Sales Process
- 2 The tenant's application
- 3 Action by the RSL
- 4 Qualifying Lenders
- 5 Tenant's response
- 6 RSL's response
- 7 Discount Calculation
- 8 Repayment of discount
- 9 Repayment of discount covenant

SHB 10 LEASES

- 1 Introduction
- 2 General Features of a SHB lease
- 3 Fundamental Clauses
- 4 Sub letting
- 5 Conveyance of freehold and grant of lease
- 6 Legal charges

SHB 11 RENTS

- 1 Rents
- 2 Rent increases

SHB 12 SERVICE CHARGES

- 1 Service Charges

SHB – 13 SAMPLE LETTERS**SHB 14 POST SALES ISSUES**

- 1 Mortgage Difficulties
- 2 Mortgage Default

ANNEXES

- 1 Matrix

INDEX

SHB-4	6	Admissible deductions from initial sales proceeds
SHB-4	7	Admissible deductions from staircasing sales proceeds
SHB-6	3	Anti-Social Behavior – refusal of claim
SHB-6		Applicant eligibility
SHB-9		Application processing
SHB-3	2, 3	Changes to the programme
SHB-2	8	Check List
SHB-2	2	Claiming Grant
SHB-4	2	Claiming Grant - Timing
SHB-3	4	Completion Target not met
SHB-1	5	Consent to Dispose
SHB-5	5	CORE requirements
SHB-2	5	Data requirements
SHB-9	8.5	Deferred Resale Agreements
SHB-1	10	Discount Levels
SHB-9	7	Discount - calculation
SHB-9	8	Discount – repayment
SHB-1	4	Disposal Proceeds Fund
SHB-5	4	Disposal Proceeds Fund
SHB-6	1	Eligibility Criteria - applicants
SHB-7	1	Eligibility Criteria – properties
SHB-7	2	Excluded properties
SHB-7	3	Excluded properties – RSLs discretion
SHB-9	8.6	Exempt disposals
SHB-2	7	Financial Viability
SHB-1	2	Fixing the Grant
SHB-1	9.2	Forms
SHB-10	3	Fundamental Clauses
SHB-1	3	Funding Arrangments
SHB-2		Funding Principles
SHB-1		General Principles
SHB-9	8.4	Improvement values
SHB-4	4	Interest due - late payments of claim
SHB-10	1	Leases – Introduction
SHB-10	2	Leases – General Features
SHB-10	3	Leases – Fundamental Clauses
SHB-10	2.3	Leases –Premium
SHB-10	2.13	Leases –Mortgage Protection
SHB-10	2.7	Leases – Rent
SHB-10	2.8	Leases – Rent waiver clause
SHB-10	2.14	Leases – Right of First Refusal
SHB-10	2.4	Leases – Staircasing provisions

SHB-10	7	Legal charges
SHB-1	9	Letters – standard examples
SHB -13		Letters – standard examples
Annex 1		Matrix
SHB-5		Monitoring
SHB-15	3	Mortgage default
SHB-15	2	Mortgage difficulties
SHB-2	3	Other public subsidy
SHB-2	3	Other sources of funding
SHB-7		Property eligibility
SHB-6	2	Public Sector Landlords
SHB-1	8	Publicity
SHB-1	1.5	Purpose of the scheme
SHB-8	3	Purchase of additional shares - staircasing
SHB-9	4	Qualifying Lenders
SHB-2	4	Rent
SHB-11	1	Rent -Introduction
SHB-11	2	Rent increases
SHB-9	9	Repayment of discount covenant
SHB-5	3	Reporting – annual outputs
SHB-10	2.14	Right of First Refusal
SHB-9	1	Sales process
SHB-13	1	Sample letters
SHB-13	1, Stage 1	Sample letters – tenant has registered an interest
SHB-13	1, Stage 2	Sample letters – confirming tenant eligibility
SHB-13	1, Stage 3	Sample letters – formal valuation offer
SHB-12	1	Service Charges
SHB-8	3	Staircasing – purchase of additional shares
SHB-10	4	Sub-letting
SHB-1	11	Summary of the Programme
SHB-4	5	Supporting Documents
SHB-9	2	Tenant’s application
SHB-9	3, 5, 6	Tenant’s application – RSL action
SHB-8	1	Valuations -Introduction
SHB-8	2	Valuations –Initial Sale

1 INTRODUCTION

- 1.1 The Social Homebuy section of the guide applies to all schemes that receive Purchase Grant (PG) confirmation on or after 1 April 2006. This section sets out the characteristics of Social Homebuy schemes and provides guidance on the procedures to be followed by RSLs.
- 1.2 The Social Homebuy Scheme (SHB) was introduced in April 2006 (with four early pilots from October 2005) and allows Registered Social Landlords (RSLs) and Local Authorities to dispose of their rented housing at a discount on shared ownership terms i.e. part buy/part rent and outright, to its secure and assured tenants who occupy properties eligible for the scheme. The programme for 2006-08 is a two year pilot and there are some specific monitoring arrangements for the pilot programme. *See SHB-5* Proceeds from the sale of properties, including grant previously received and grant claimed, must be paid into a Disposal Proceeds Fund. *See DPF paragraphs 1 and 2*
- 1.3 This guide is intended to be used by RSLs operating the scheme and the Corporation when approving payment of the purchase grant (PG), to cover the discount to the eligible purchaser. SHB grant is not Social Housing Grant (SHG) but is a purchase grant paid under section 21 of the Housing Act 1996. SHB discounts, which are purchase grants, can only be paid by the Corporation and so an RSL SHB scheme cannot be funded by local authorities in respect of RSL properties.
- 1.4 **It is a condition for the payment of grant that the RSL complies with these procedures and any subsequent guidance.**

Purpose of Social Homebuy Scheme

- 1.5 The SHB Scheme gives the RSL the opportunity to:
- sell its permanent rented housing stock to secure or assured tenants at a discount;
 - offer home ownership to tenants who do not have or cannot afford the Right to Buy/Acquire;
 - provide replacement affordable housing by using the recycled receipts from sales together with private finance;
 - develop mixed, balanced and sustainable communities.

For tenants it gives the opportunity to:

- purchase their current home which may have previously been excluded from the RTB or RTA
- purchase their current home on shared ownership terms that makes the purchase affordable and sustainable
- benefit from a pro-rata purchase discount regardless of whether they buy outright or on shared ownership terms.

- 1.6 From April 2006 all RSL applications for Confirmation of grant and claims for payment of PG must be submitted via the Internet using the Corporation's Investment Management System (IMS). IMS guidance documents are on the Corporation's IMS web site - www.housingcorp-online.org

Individual and Programme

- 1.7 Scheme submissions must comply with the Funding Conditions as accepted by the RSL and confirmed on line by the RSL's System Administrator at the beginning of the financial year, plus any further conditions issued by the Housing Corporation in year. *See GENERAL-1*
- 1.8 On receipt of a submission for Confirmation of grant by an RSL, the local office of the Corporation will assess the proposal to confirm that the scheme is the one for which the allocation was given. The arrangements for SHB purchase grant recovery differ from those for the recovery of SHG. *See the DPF chapter of this Guide*

Changes to the programme

- 1.9 The RSL must notify the Corporation of any change to their programme from the original bid and provide reasons for the change. The Corporation will decide whether to accept the changes on the basis of whether the strategic need for which the allocation of PG was given is still being met and whether the programme still offers value for money, particularly in light of other bids for similar schemes *see SHB-3*.
- 1.10 The Corporation may reject the programme and withdraw allocation commitment where changes are not acceptable, regardless of how far the programme has progressed. For this reason it is in the RSL's interest that it seeks the Corporation's acceptance of the change as soon as possible.

2 FIXING THE GRANT

- 2.1 The allocation of PG for the RSL's Social Homebuy programme is agreed as part of the bid round. The individual scheme PG is confirmed and fixed at legal completion. The grant is the discount payable in relation to the share that the buyer is purchasing based on the RTA discount payable in that area, pro rata to the share that is purchased. Grant is claimed after the initial sale is completed.

3 FUNDING ARRANGEMENTS

- 3.1 RSLs wishing to operate the scheme are able to bid for funds from the Corporation each bid round. Allocations for the SHB programme are subject to cash limits and where demand for the scheme exceeds the RSL's allocation, the RSL should operate a waiting list as long as it continues to operate the scheme and approach the regional office to see if further funding is available

4 DISPOSAL PROCEEDS FUND

- 4.1 RSLs operating the scheme are required to pay the sales proceeds into a Disposal Proceeds Fund (subject to the statutory provisions of S.24 of the Housing Act 1996). Proceeds can only be applied to the provision of homes in accordance with the direction of the Housing Corporation as laid down within the special determination approved in November 2005. The Corporation is responsible for monitoring SHB and ensuring the proper use of the Disposal Proceeds Fund. RSLs are required to complete an annual return providing details of income and expenditure. Where the agreed use is not facilitated within the prescribed timescale, the Corporation may recover the receipts credited to the Disposals Proceed Fund, (*See SHB-5*).

5 CONSENT TO DISPOSE

- 5.1 Disposals under SHB are currently covered by General Consent No. C29452 issued in March 1996. In complying with the general consent, RSLs must complete form HACON 5 and retain it together with accompanying information, on its register of disposals. RSLs should ensure they are able to comply with the certifications A to F in part 2 of the HACON 5 as failure to comply will render the consent void.

6 PROPERTY CHARGED TO A PRIVATE LENDER

- 6.1 The RSL should consult its private lenders prior to bidding for an allocation to ensure properties can be released from the lender's security.

7 ELIGIBILITY CRITERIA FOR PROPERTIES

- 7.1 The RSL may only include self-contained property for rent. Properties which do not qualify for Right to Buy or Right to Acquire may be included in a Social HomeBuy programme. However, properties which are exempt from the Right to Acquire scheme are also exempt from Social Homebuy unless they have been included by the Landlord in the SHB programme. In some cases, where tenants are in agreement, the RSL may offer an alternative property for sale to the tenant's existing home. *See SHB-6 and 7 for details of tenant /property eligibility*

8 PUBLICITY

- 8.1 RSLs operating the scheme are responsible for distributing publicity material, to their tenants and publishing their policy. The Corporation has produced publicity information which is available from the Corporation's website. RSL's can download this information to provide to tenants in its entirety as a supplement to its own publicity/promotional material. General information about the scheme should be available from HomeBuy Agents.

9 STANDARD LETTERS, FORMS AND LEAFLETS

- 9.1 The Housing Corporation has produced some sample letters (*SHB -13*) that RSLs may wish to use. It is important that all contact between the RSL and the applicants is documented and letters retained on file for audit purposes.
- 9.2 The Housing Corporation does not propose to produce sample application forms. RSLs should ensure that sufficient information is captured on their own application form to determine eligibility and initial financial suitability to be able to afford and sustain home ownership. The completion of CORE Sales Logs is required in respect of all successful purchases so processing the application should capture all of the required information.
- 9.3 The Housing Corporation will produce information about the scheme in a leaflet format that will be published on our website www.housingcorp.gov.uk . RSLs can download these and provide them to tenants as appropriate, however they must be reproduced in their entirety and unaltered.

10 DISCOUNT LEVELS

- 10.1 Right to Acquire Discounts and Areas as at April 2006 are set out in the Housing (Right to Acquire)(Discount) Order 2002 (SI 2002 No 1091).

11 SUMMARY OF THE SOCIAL HOMEBUY PROGRAMME

- 11.1 Social Homebuy purchasers are allowed to buy an equity share based on a percentage of the full market value of the social rented property they occupy where their landlord has decided to participate. The range of initial equity shares can be any amount between 25% (minimum purchase) and 100%. All Social Homebuy leases must allow the purchaser to buy further shares and staircase to 100%. The purchaser can buy the property outright at the outset. The purchaser is entitled to a discount on initial share purchase which is linked to the percentage of the equity that they are purchasing in the property. The discount limits are the same as those applying to properties that could be bought on Right to Acquire terms in that locality, pro- rata to the size of the share purchased. For example if a 50% share of a property is purchased then 50% of the applicable RTA discount will be payable to assist the purchase. Subsequent staircasing will not benefit from any discount not maximised on initial purchase. Landlords may offer an alternative property in certain circumstances - *see SHB-1*.

1 PURPOSE

- 1.1 The programme submission must comply with the Funding Conditions as accepted by the RSL's Committee and confirmed on line by the RSL's Security Administrator at the beginning of the financial year. Where there are proposed changes to the programme since bid stage the RSL must seek Corporation approval to the changes. *See GENERAL-1 and SHB-3 for changes to schemes.*
- 1.2 All RSL applications for Confirmation of grant and claims for payment of PG must be submitted via the internet using the Corporation's Investment Management System (IMS). IMS guidance documents are on the Corporation's IMS web site - www.housingcorp-online.org
- 1.3 On receipt of a submission for Confirmation of grant and payment by an RSL, the local office of the Corporation will assess the proposal to confirm that the individual scheme is within the programme for which the allocation was given and that there is sufficient funds within the allocation.

Changes to a programme

- 1.4 The allocation for the programme is set at Bid stage and will hold for the whole project. Where there are proposed changes to a programme since the Bid stage the RSL will need to notify the Corporation who will decide whether the programme still meets the criteria on which an allocation of PG was originally given. *See SHB-3 on changes to a scheme from Bid stage.*
- 1.5 Any change to the programme since the bid stage must be notified to the Corporation. The RSL must keep supporting documentation on file for compliance audit purposes. *See SHB-3 on programme changes*

2 TIMING OF APPLICATION

- 2.1 When the RSL has completed the sale of the property a submission for Confirmation of grant and payment is required 10 working days from the date of legal completion
- 2.2 The RSL must keep the Corporation informed where a programme is not proceeding according to the timetabled milestones. Funding may be withdrawn if it fails to do so.

3 OTHER SOURCES OF FUNDING

Recycled Capital Grant Fund and Disposal Proceeds Fund

- 3.1 Please read the *REC* and *DPF* chapters of this Guide for the permitted uses of these funds.

Other public subsidy for housing and non-housing costs

- 3.2 To ensure that public funds from different sources are not paying for the same costs twice the RSL must identify any other proposed source of public subsidy on their submission for participation in the programme. If RSLs want to offer a voluntary sales programme to their tenants that does not conform to the Social Homebuy programme they are free to do so. However, purchase grants will not be available from the Housing Corporation to fund any discounts being offered by the RSL in these circumstances *See GENERAL-6 for details of which subsidies are deductible or non-deductible from SHG.*

RSL's own funds and private sector contributions

- 3.3 It is not permitted to use contributions from the private sector or from the RSL's own reserves to provide discounts higher than those payable in respect of RTA purchases in that locality. RSLs can however, if they wish, assist purchasers with the costs and expenses associated with home purchase, from their own resources.

4 RENTS

Social Homebuy rent and service charges

- 4.1 The RSL is required to provide rents and service charge information for Social Homebuy schemes. Details of rents, including HB eligible service charges, must be kept on file by the RSL for Compliance Audit purposes.
- 4.2 RSLs may charge SHB rents up to a maximum of 3% of the capital value of unsold equity with a target average across their SHB properties of 2.75%. RSL's are therefore expected to base initial rents on an average of 2.75%. Within these parameters the RSL is expected to propose levels of rents that are considered affordable to SHB purchasers and based on the rents payable by tenants in similar properties in the locality. Annual rent increases are to be limited to RPI plus 0.5%, using the September RPI figure published annually.
- 4.3 The level of service charge should not vary from the proposed service charge at formal offer stage (*see SHB-13*).
- 4.4 Unacceptable levels of rent could lead to Grant being denied or PG being withheld until the rents including HB eligible service charges are brought in line.

5 SUBMISSION REQUIREMENTS

For all schemes

- 5.1 The RSL must submit the following data following legal completion onto the Corporation's IMS system for a scheme to receive confirmation of grant and payment approval. (*IMS guidance can be found at www.housingcorp-online.org*):

- property details;
- Cost and Grant calculations including discount and percentage share to be purchased, if relevant;
- rent and HB eligible service charge data;
- date of legal completion of sale.

5.2 The RSL will not be able to submit a claim where the total purchase grants required (in money terms) exceed the amount approved as the programme allocation by the Corporation ; only the Corporation can make the changes to the programme allocation in order for the RSL to Allocation Match and submit the scheme in IMS. The Corporation may require a revised bid submission from the RSL before confirmation of grant will be given.

5.3 The RSL must be able to confirm acceptance of the on screen certifications that appear at confirmation of grant and payment stage.

5.4 Where a charge is to be given to secure private finance, form HACON 6 Application for Section 9 Consent may be required and should be sent to the local Regional office of the Corporation. *See current Corporation guidance on Consents.*

6 HACON 6

6.1 Once the PG has been confirmed form HACON 6, if required, will be scrutinised by Regulation staff and authorised by the Regulation Manager, to enable consent to be issued to the RSL.

7 FINANCIAL VIABILITY

7.1 It is expected that the proposed Social Homebuy receipt and rent income will have been considered and that, in the long term operational costs including the repayment of loan principal and interest can be met. Any initial revenue deficits should be within the general capacity of the RSL. The Regulation teams of the Corporation will monitor the effect of development and the general financial status of the RSL. RSLs need to be mindful of the permitted uses under DPF rules in regards to the proposed application of these receipts.

8 CHECKLIST

8.1 When submitting an application for Confirmation of grant and payment the RSL will be certifying that the submission conforms to the Funding Conditions as accepted by the RSL's Committee and confirmed on line by the RSL's Security Administrator at the beginning of the financial year.

8.2 It is a Condition of Grant that the programme and individual scheme complies with all published procedures. This checklist should assist you in checking the

key requirements for a scheme for Social Homebuy. NB The list is not exhaustive and should not be used instead of reading the full procedures.

1.	Social Homebuy schemes: arrangements are in place for publicising the landlord's policy and marketing the scheme to the appropriate tenants; and carrying out affordability checks to assess sustainability prior to purchase.
2.	Social Homebuy schemes: the Corporation's model SHB lease is used, or the lease complies with the Corporation's requirement for inclusion of fundamental clauses
3.	Any public subsidy has been properly calculated and deducted where appropriate. <i>SOCIAL HOMEBUY-2 paragraph 3.2</i>
4.	Any procedural requirements for insurance have or are being met. <i>GENERAL-1</i>
5.	Where PG is being claimed the disposal has taken place.
6.	All requirements relating to Disposal are met. Where land or property is in the RSL's ownership any eligible costs have been properly calculated and are supported by a valuation. <i>GENERAL -3 and SOCIAL HOMEBUY-4.</i>
7.	All requirements relating to confirming and claiming grant payment are met. <i>SOCIAL HOMEBUY-9.</i>
8.	The RSL must advise the Corporation at the relevant stage where there is any change to the programme after Bid stage <i>SOCIAL HOMEBUY- 3</i>
9.	Supporting documents have been retained on the RSL's file for Compliance Audit purposes. <i>GENERAL-9.</i>

1 GENERAL

- 1.1 The RSL must promptly notify the Corporation of any changes to a programme for which the allocation of PG was given by the Corporation. The Corporation may reclaim grant paid on a programme where changes are not acceptable, regardless of how far the programme has progressed. For this reason it is in the RSL's interest that it seeks the Corporation's acceptance of any changes as soon as possible.
- 1.2 The local office of the Corporation will consider whether the criteria on which the programme was given the allocation of PG is still being met by the changed programme. Where the programme no longer meets the strategic need or offers value for money the Corporation may terminate the programme and reclaim any SHG paid.

2 CHANGES IDENTIFIED AFTER PROGRAMME APPROVAL HAS BEEN GIVEN

Changes identified before any payment of PG has been made

- 2.1 The RSL must notify the Corporation of any changes to the programme before claiming the first payment of PG. The Corporation will decide whether to accept the changes or terminate the programme.
- 2.2 Where the termination occurs for the same financial year as the programme approval the allocation of PG may be made available for an alternative scheme that offers value for money and meets local strategic needs. The RSL may submit a bid for a new programme however the local office of the Corporation will decide which of the bids received from all RSLs best meets this criteria.
- 2.3 Where the termination occurs after the financial year the programme approval was given, the allocation cannot be used on alternative schemes.

3 CHANGES IDENTIFIED AT CONFIRMATION OF GRANT AND PAYMENT REQUEST STAGE

Changes to programme after a payment of PG has been made

- 3.1 The Corporation must be notified of any change and reasons behind changes to be satisfied that that the programme still meets the original criteria on which the programme approval was given. The Corporation may terminate the programme and reclaim any PG paid where the programme no longer meets the allocation criteria.
- 3.2 All changes must have been identified at the correct stage, i.e. before any further claims of PG were made by the RSL. Where changes were not disclosed to the Corporation at the correct stage, even if the changes are not fundamental, the RSL will have been falsely certifying on IMS that the data was correct and complies with funding conditions.

- 3.3 Where the changes are acceptable the Corporation will pay the PG.
- 3.4 Differences in the programme revealed by data input following legal completion to the data input at programme approval will require the RSL's to give reasons for the variations in order for the Corporation to approve.
- 3.5 In order for the RSL to be able to Allocation Match and submit a changed scheme within IMS the RSL must seek prior approval of the changes from the Corporation. Where the changes do not affect the criteria on which the bid was originally accepted, the Corporation may agree to change the allocation for that scheme so that the RSL can make their submission. However, the Corporation may decide that the changes are significant enough to justify a revised bid from the RSL, which will be considered before re-allocating PG to the scheme. The Corporation may withdraw the allocation where the scheme no longer meets strategic need or offers value for money, particularly in light of any alternative bids for similar schemes.

Where extra PG sought for the programme

- 3.6 The RSL will need to contact the Corporation to review the programme allocation. The Corporation will assess whether the revised Bid still offers value for money.

Where demand has gone down from Bid stage

- 3.7 The RSL must notify the Corporation in order for the Corporation to change the allocation of PG for the programme

Significant changes

- 3.8 Where there have been any significant changes (e.g. rises in programme costs, fewer units sold) or a number of other changes the local office of the Corporation may ask the RSL to review the programme allocation. The programme may be terminated if it no longer meets the strategic needs or offers value for money on which the allocation of PG was given.

4. SCHEMES FAILING TO REACH COMPLETION TARGET DATES

- 4.1 The RSL must notify the Corporation as soon as it becomes evident that the programme is unlikely to meet either or both its sale targets in terms of units or spend.

1 GENERAL

- 1.1 Following legal completion the Corporation makes the PG payment to the RSL. There will be one payment of PG, based on the discount available to the purchaser in respect of the share purchased. The share purchased should be between 25% and 100% of the market value. The discount payable is based on the RTA discount applicable to that location pro-rata to the initial share purchased and is only available respect of the initial purchase.

2 TIMING OF PG CLAIM

- 2.1 PG cannot be claimed in advance of need nor before disposal.
- 2.2 The RSL can only apply for the single tranche of PG after the legal completion of the sale. The HC will pay the PG for each sold property when the RSL confirms that legal completion has taken place.
- 2.3 After the sale of the property has been completed, the RSL will be in a position to make a submission for combined confirmation of grant and payment of the discount amount current at legal completion. Entering the details of the legal completion of the sale together with the required data will trigger a request for payment. This information should be submitted within 10 days of the date of sale.
- 2.4 At the point of claiming PG the RSL must confirm that the application for Grant payment is correct and conforms with the Funding Conditions as accepted by the RSL at the beginning of the financial year.
- 2.5 All RSL applications for Confirmation of grant and claims for payment of SHB purchase grant must be submitted via the internet using the Corporation's Investment Management System (IMS). See *www.housingcorp-online.org for guidance on IMS*
- 2.6 The RSL should determine its estimated receipts and final costs, together with confirmation of the agreed rents and service charges at the point of exchange of contracts for the sale for each dwelling as this information will be required to complete the DPF return that will be initiated at confirmation of grant and payment stage.
- 2.7 The Corporation will pay PG, upon receipt of a correct and accurate claim following legal completion, within 8 working days provided the claim is within the RSL's agreed programme allocation.
- 2.8 The RSL must be able to confirm acceptance of the three certifications that appear on screen when the scheme has been submitted.
- 2.9 It is in the RSL's interest to submit its PG claim as soon as possible after the key event.

3 CHECKLIST FOR SCHEMES

3.1 Confirmation of grant and payment submission following legal completion of the sale

1. Can the RSL programme allocation accommodate the scheme? *If 'yes' go to 9, if 'no' go to 2.*
2. RSL requests the Corporation to action a programme allocation change for the scheme. Are changes acceptable? *If 'yes' go to 3, if 'no' go to 4.*
3. Corporation agrees to RSL's request to programme allocation change on IMS. RSL may now submit the scheme. *Go to 9.*
4. Corporation reverts the programme allocation back to a bid. *Go to 5.*
5. RSL consults with the Corporation on what would be acceptable for a revised bid submission. *Go to 6.*
6. RSL submits the revised bid at Corporation's request. *Go to 7.*
7. Corporation approves the agreed revised bid and transfers as an allocation. *Go to 8.*
8. RSL submits scheme submission for Confirmation of grant and payment which can now be Allocation Matched. *Go to 9.*
9. Corporation approves the submission and issues Confirmation of grant and payment approval.

4 INTEREST ON DELAYED PAYMENT OF CLAIMS

- 4.1 The Corporation will compensate the RSL with an interest payment on the delayed payment of a PG claim only for that part of the delay due solely to the Corporation.
- 4.2 Interest to cover delays in payment will only be paid in exceptional circumstances and where the RSL can demonstrate it has suffered a direct financial loss as a result of that delay.
- 4.3 Any claim for such interest must be made after the payment of PG to which it relates. The RSL should submit a claim substantiated with appropriate documentation, e.g. the breakdown of the calculation and evidence of the interest rate.
- 4.4 There is no timetable for the payment of claims for interest however the Corporation will endeavour to make payments as quickly as possible.

5 SUPPORTING DOCUMENTATION

- 5.1 The RSL must retain on file the following for Compliance Audit purposes. *See GENERAL-9:*
 - solicitors' letter confirming that the purchase has been completed and setting out the sum paid and date of

- a property schedule showing addresses, floor areas, and valuations for the completed properties, together with actual rents and HB eligible service charges. This is populated by valuation and rents so is useful.

6 ADMISSIBLE DEDUCTIONS FROM INITIAL SALES PROCEEDS

6.1 For initial SHB sales (regardless of the % share being bought - which could range from 25% to 100%) RSLs will follow the existing DPF policy guidelines (DPF-1 section 2). The SHB allowance on initial sale, which mirrors that for Shared Ownership, consists of two figures one for houses and one for flats, the allowance is higher for flats as there are often additional leasehold/freehold issues to be resolved. The admissible deductions from the proceeds of a SHB sale are summarised below:

- attributable loan debt;
- valuation fee;
- legal fees;
- survey fees (flats only);
- SHB allowance;
- Other elements as may be specified by the HC.

The balance is accounted for in the RSL's Disposal Proceeds Fund.

6.2 Refer to the Disposal Proceeds Fund (DPF) chapter of this guide for full details of these items and how to deal with the cost of abortive sales.

7 ADMISSIBLE DEDUCTIONS FROM STAIRCASING PROCEEDS

7.1 Where an initial sale is less than a 100%, and the Social Homebuy purchaser purchases further shares, a similar approach as used for Traditional Shared Ownership is adopted, whereby RSLs are able to deduct an allowance to cover their legal and admin costs in relation to sales of further shares. The SHB allowance to be deducted from the proceeds of staircasing sales will be a standard rate equivalent to the initial sales allowance for a house regardless of whether the property is a house or flat.

7.2 The sale proceeds less the admissible deductions ascribed to the DPF must not be below the applicable proportion of a Valid Valuation by an Independent Qualified Valuer. The eligible deductions from the sale proceeds are the Deemed Loan Debt outstanding (if insufficient were recoverable from the initial receipt) and the Staircasing Allowance. The valuation must be paid for by the prospective purchaser. If the net sales proceeds are insufficient to enable the recovery of all the attributable deemed loan debt, then the shortfall can be deferred.

7.3 When the property is subsequently staircased to outright ownership, and it is still not possible to discharge the deemed loan debt attributable to that dwelling the final shortfall will be written off.

1 INTRODUCTION

1.1 Social Homebuy sales monitoring is an additional stage in the capital funding process and applies to all properties sold under this programme. As RSLs funded through the 2006-08 programme are participating in a two-year pilot programme we will be asking for additional information to be collected and retained for programme evaluation purposes. Details of the specific monitoring reports are to follow but we are looking to build on the information that RSL would normally collect within good governance. The main area of information collection will focus on providing the Corporation with:

- information on the RSL's marketing performance, e.g. actual against target, levels of pent up but unrealised demand amongst the participants' tenants to provide data on the level of sales, shares purchased and discounts etc.
- rent and service charge data at the point of sale
- the data collection required for the DPF returns and in particular, the use made of the receipts.

2 INITIAL SOCIAL HOMEBUY REQUIREMENTS

2.1 Following legal completion of the initial purchase and to initiate confirmation of grant and payment approval the RSL will input initial Social Homebuy sales data into IMS.

2.2 IMS will not facilitate action for confirmation of grant and payment approval where Social Homebuy records are incomplete or incorrect.

3 REPORTING ON ANNUAL OUTPUTS

3.1 The RSL is required to provide the Corporation and local authorities with monitoring information on SHB transactions. With effect from 1 April 2006 the RSL will be required to record data via the internet using the Corporation's IMS system. The RSL will be required to record all income and expenditure data concerning the Disposal Proceeds Fund, together with details of replacement properties. This annual return should be a national return for each RSL including all SHB transactions and the required data must be input to IMS. The RSL should provide a copy of the return to each local authority in which sales have taken place.

4 DISPOSAL PROCEEDS FUND (DPF)

4.1 Details of how to calculate contributions to the DPF, permitted uses of the DPF and accounting and administration arrangements are set out in the Disposal Proceeds Fund chapter of this guide – further revisions to the DPF chapter will follow in due course.

- 4.2 The receipts in the DPF which have been generated as a result of sales through Social Homebuy may, with the Housing Corporation's consent, be used for other purposes in addition to those currently listed in the DPF chapter – please contact your local Regional Investment Officer.
- 4.3 It is expected that Social Homebuy receipts will be applied to create social lettings to assist in relieving homelessness and overcrowding. RSL's are required to seek approval from the Housing Corporation in respect of other uses but we are content for RSL's to undertake the following activities using Social Homebuy receipts:
- Extensions/loft conversions undertaken to provide additional bedrooms /living areas in social rented homes to reduce the need for larger families to move to meet their housing requirements;
 - Buying existing satisfactory properties to address the medical needs / overcrowding of existing tenants and shared owners. In the latter instance, the properties released by the shared owner to be sold on shared ownership terms to social housing tenants or households in priority need to release a home for social rent;
 - A sum equivalent to the discount payable to a qualifying tenant in their current home to assist with the outright purchase of another home, not owned by their landlord which will release the current social rented property. However, provision will need to be made so that the grant/ discount equivalent is recoverable should the property be sold within five years of the purchase.
- 4.4 RSLs will be required to provide information as to the use to which these receipts have been put and have assisted in relieving homelessness and overcrowding.

Certifications

- 4.5 The information provided by the RSL on the annual DPF return is the means by which the outputs will be monitored. Therefore the Corporation is reliant on RSLs certifying compliance with the SHB procedural requirements and ensuring that a print off of the annual DPF return is shown to the RSL's external qualified auditor and signed by the RSL's authorised signatory.
- 4.5 The annual return should be submitted to the Corporation's IMS in line with guidance in the *DPF* chapter.
- 4.6 The RSL's external auditors will report on this annually in their consolidated regularity report. *See circular R2-40/98 and GENERAL-9*

5 CORE

- 5.1 RSLs are required to complete CORE sales logs in respect of all homes sold through Social Homebuy.

1 ELIGIBILITY CRITERIA FOR APPLICANTS

1.1 To qualify for the scheme tenants must be:

- secure or assured tenants (excluding shorthold assured tenants and long leaseholders) of the RSL and occupy self contained accommodation (tenants may jointly purchase with up to 3 members of their family who currently live with them in the RSL property);
- have been a public sector tenant for a minimum of 2 years (5 years for tenancies granted after 18 January 2005) (See 1.5 and 1.6 below) Previous public sector tenancies (*see RTA-2 for list of Public Sector landlords*) can count towards the qualifying period and need not be continuous. The one exception is where the RSL acquired the property under a mortgage rescue arrangement and the previous owner is now the tenant. In these cases the tenant must have been a tenant of their current home for two complete years (or 5 years as set out above) ;
- occupy an eligible property.

1.2 The following categories of tenants are not eligible for the scheme:

- tenants occupying property on an assured shorthold tenancy, licence or a long lease;
- tenants of Abbeyfields or Almshouses;
- tenants of fully mutual co-operatives;
- tenants of co-ownership societies;
- an undischarged bankrupt or who has a bankruptcy petition pending against him/her or has an arrangement with creditors, the terms of which remain to be fulfilled;
- a tenant who is obliged to give up possession of the tenanted property in pursuance of an order of the court or will be obliged to at a date notified in the order
- is the subject of a 'suspension order' or 'suspension status' *see SHB-6, 3 etc*

1.3 Tenants meeting the eligibility criteria at application stage must continue to do so up to the exchange of contracts.

- 1.4 The RSL may offer the SHB scheme to tenants who have the RTB, RTA or preserved RTB but in that case the tenant must opt for one scheme or another. Discounts cannot be combined, nor can an RSL claim Grant other than for sales through SHB or RTA.
- 1.5 For new tenancies created on or after 18.1.2005 SHB can only be exercised in cases where the tenant has been a tenant of a public sector landlord, *see paragraph 2 below*, for a qualifying period of at least five complete years, (s180, Housing Act 2004).
- 1.6 For tenancies created before 18.1.2005 the qualifying period continues to be two complete years.
- 1.7 As at April 2006 tenants, with RTA, RTB or PRTB whose landlords have chosen to include their properties within a SHB programme, will have the additional option to purchase on shared ownership terms under Social HomeBuy if they cannot afford to buy 100% under the statutory schemes. Those tenants whose homes attract a higher RTB discount than the local RTA discount will be limited to the RTA discount limits if purchasing on shared ownership terms through SHB.

2 LIST OF PUBLIC SECTOR LANDLORDS

- 2.1 A tenancy of any of the public bodies listed below will count as an eligible residency for SHB purposes.
- a district council
 - a county council
 - a London borough council
 - the Common Council of the City of London
 - a Council on the Isles of Scilly
 - any of the following bodies which were set up when the Greater London Council and the metropolitan county councils were abolished:
 - ⇒ a metropolitan county policy authority the Northumbria Police Authority
 - ⇒ a metropolitan county fire and civil defence authority
 - ⇒ the London Fire and Civil Defence Authority
 - ⇒ a metropolitan county passenger transport authority
 - ⇒ the London Waste Regulation Authority
 - ⇒ the West London, North London, East London and Western Riverside Waste Disposal Authorities
 - ⇒ the Merseyside and Greater Manchester Waste Disposal Authorities
 - ⇒ the London Residuary Body
 - ⇒ a metropolitan county residuary body
 - a new town or urban development corporation
 - the Commission for the New Towns
 - the Development Board for Rural Wales

- a housing action trust
- a Registered Social Landlord which is registered with the Housing Corporation or Housing for Wales (including charitable RSLs and RSLs which do not get public funds, but not fully mutual co-ops)
- The Housing Corporation
- Housing for Wales
- Fire authorities
- Internal drainage boards
- London Regional Transport
- Parish councils
- Passenger transport executives
- Police authorities
- AFRC Institute for Grassland and Animal Production
- Agricultural and Food Research Council
- Area Electricity Boards
- British Airports Authority
- British Broadcasting Corporation
- British Coal Corporation
- British Gas Corporation British Railways Board
- British Steel Corporation British Waterways Board
- Central Electricity Generating Board Church Commissioners
- Civil Aviation Authority
- Electricity Council
- English Sports Councils
- Government Departments+
- Historic Buildings and Monuments Commission for England
- Lake District Special Planning Board
- Lee Valley Regional Park Authority
- Medical Research Council
- National Bus Company
- National Health Service Trusts
- National Rivers Authority
- National Environment Research Council
- Nature Conservancy Council for England
- Peak Park Joint Planning Board
- Post Office
- Science and Engineering Research Council
- Trinity House ++
- United Kingdom Atomic Energy Authority
- United Kingdom Sports Council
- Water Authorities
- Community councils in Wales
- Countryside Council for Wales
- National Library of Wales
- National Museum of Wales
- Sports Council for Wales

- Welsh Development Agency
- Commissioners of Northern Lighthouses
- Highlands and Islands Enterprise Board
- North of Scotland Hydro-Electric Board
- Scottish Homes
- Scottish Natural Heritage
- Scottish Sports Council
- South of Scotland Electricity Board
- Education and Library Boards in Northern Ireland
- Fire Authority for Northern Ireland
- Northern Ireland Electricity Service
- Northern Ireland Housing Executive
- Northern Ireland Transport Holding Company
- Police Authority for Northern Ireland
- Sports Council for Northern Ireland

AND ANY PREDECESSOR OF THESE LANDLORDS

+ Includes National Health Service properties

++ Only in its capacity as a lighthouse authority

2.2 **Armed forces accommodation**

For the purposes of establishing a qualifying public sector tenancy, time spent in accommodation provided by the armed services qualifies.

3. **REFUSAL OF A SHB APPLICATION DUE TO ANTI-SOCIAL BEHAVIOUR**

3.1 Sections 192 -193 of the Housing Act 2004 introduced provision from June 6th 2005 for Right to Buy/Acquire applications to be suspended on the grounds of anti-social behaviour. In RTB/RTA cases RSLs may apply to a court for a 'suspension order'. Whilst Social Homebuy is not a statutory scheme, the same principles as introduced by the Housing Act 2004 to RTB/RTA applications will apply to SHB applications. Where a 'suspension order' exists in respect of RTB/RTA, RSLs should apply a 'suspension status' to Social HomeBuy applications also. RSLs should also consider the application of 'suspension status' to other applications as necessary.

3.2 When producing their SHB sales policy (*see SHB-7, 2.1*) RSLs should include guidance regarding the possibility that 'suspension status' may be applied to relevant tenancies. The application of a 'suspension status' may be considered only if RSLs are satisfied that the tenant or a person living in the property, or visiting the property, has engaged or threatened to engage in anti-social behaviour (which includes using the premises for unlawful purposes), and that it is reasonable for a 'suspension status' to be applied. The reasoned consideration of and application of a 'suspension status' to a tenancy should be

fully documented and the existing tenants notified that it has been applied to their tenancy for SHB purposes.

- 3.3 Following a SHB application RSLs will need to decide whether a ‘suspension status’ should be applied in respect of the tenancy. Once applied, ‘suspension status’ will have the effect of suspending an existing Social HomeBuy application and purchase grant claim and/or preventing new applications and claims being made during the period the ‘suspension status’ covers. RSLs may also consider whether it would be appropriate for any existing ‘suspension status’ to be extended.
- 3.4 Formal consideration of applying a ‘suspension status’ will also remove RSLs obligations to complete sales (e.g. convey the freehold or grant a lease) during this consideration and also while the application for a ‘suspension order’ in respect of statutory RTB/RTA schemes is pending. Having submitted an application for a ‘suspension order’, RSLs are under no obligation to complete a Social HomeBuy sale until such time as they decide not to apply a ‘suspension order’, or withdraw it.
- 3.5 The existence of a ‘suspension order’ or ‘suspension status’ does not affect the accumulation of a tenant’s purchase grant qualifying period.
- 3.6 As explained at SHB-6 para 1.4 some tenants may be eligible to apply for SHB whilst also having the Right to Buy or Acquire. Tenants cannot apply to buy under both statutory and voluntary schemes, but when processing SHB applications RSLs will need to take into account which of the following categories a SHB applicant falls into:
- SHB applicants who may have title to RTB/RTA and who are already subject to a ‘suspension order’
 - SHB applicants who could be subject to an application for a RTB/RTA ‘suspension order’ during their SHB claim and sales process
 - SHB applicants who don’t currently have the Right to Buy/Acquire but are in the process of meeting the two/five year tenancy qualification period and could not be the subject of a ‘suspension order’ until they qualify for RTB/RTA but where RSLs may wish to apply a ‘suspension status’
 - SHB applicants who don’t have the Right to Buy/Acquire and will therefore never be the subject of a ‘suspension order’ but where RSLs may wish to apply a ‘suspension status’

As advised in para 3.1 above where a RTB/RTA ‘suspension order’ already exists RSLs should apply a ‘suspension status’ in respect of SHB applications. Where RSLs are in the process of applying for a RTB/RTA ‘suspension order’

they should simultaneously consider applying a 'suspension status' to any SHB applications. .

- 3.7 In cases of doubt RSLs should initially approach the Corporation for further guidance.

1 ELIGIBLE PROPERTIES

- 1.1 The purchase grant only applies to secure and assured tenants occupying self contained accommodation for rent. Assured shorthold tenancies, those who hold long leases or tenants of shared accommodation will not be eligible for the scheme. *See RTA-2*
- 1.2 The RSL may dispose of self-contained properties for rent that are not included in the list of exempted properties below

2 EXCLUDED PROPERTIES

- 2.1 The RSL is obliged to exclude certain categories and in addition may determine other categories. The RSL is required to publish their sales policy making it clear to applicants which properties are excluded from the scheme and which areas they will be operating the scheme in.
- 2.2 Properties to be excluded from SHB include the following:
- properties where the landlord has insufficient legal interest i.e. where the property is a house, a lease with a term less than 21 years and for a flat, a lease with a term less than 50 years;
 - the landlord is a co-operative housing association;
 - properties situated in a rural area designated by order of the Secretary of State under Section 17(1)(b) (Right to Acquire: Supplementary Provisions) of the Housing Act 1996 ;
 - properties let in connection with employment;
 - properties designed with special features for letting to people with physical disabilities. To gain exemption the property should be one of a group of properties normally let to people with physical disabilities and a social service or special facility is provided close by wholly or partly to assist the tenants;
 - properties with special facilities let to tenants who are suffering or have suffered from a mental disorder. As above the property must be one of a group of properties and a social service or special facility must be provided close by wholly or partly to assist the tenants;
 - properties which are one of a group of properties which it is the practice of the landlord to keep for occupation by persons who have special

needs and require intensive housing assistance and such intensive housing assistance is provided either directly or indirectly by the landlord;

- properties let to persons of pensionable age. Such properties must be one of a group of properties let to the elderly and have special facilities consisting of or including a resident warden, a non-resident warden with a calling facility and a common room close by;
- properties held on Crown tenancies;
- properties where the attributable loan debt is equal to or greater than its current market value.

2.3 RSLs are advised to take their own legal advice in determining whether properties may be excluded from the provisions of the purchase grant requirements for reasons additional to the above.

3 RSLs' DISCRETION TO EXEMPT OTHER CATEGORIES OF PROPERTY

3.1 In addition to the mandatory exclusions listed above, the RSL may exclude other categories of properties. Examples are where, because of their type or location, they would be difficult to replace. However, RSLs should remember that they have the opportunity to exercise the right of first refusal in respect of future re-sales and therefore should limit the exercise of this restriction as far as possible. The RSL may decide to target properties for sale where it wishes to introduce tenure mix on an estate.

3.2 The RSL has complete discretion over which properties it decides to include in the scheme in each local authority area but must draw up a published policy, specifying a list of properties, or types of properties, that are excluded from the programme which is available to tenants and can be seen to be operated on a fair and consistent basis. It would not be acceptable, for example, for the RSL to decide whether to sell on a case-by-case basis in response to demand from individual tenants. Once published, the policy must stay in place for the whole programme to which it applies. However, the RSL can vary the list of eligible properties that it would wish to include in the scheme during the programme period subject to the agreement of the HC regional office. Where a tenant has received a formal offer provided that the tenant responds within 8 weeks and otherwise complies with the requirements of the scheme, they must be allowed to complete the purchase even if the policy has changed and that property is now in an exempt category.

3.3 When drawing up their policy (which has to be in place at the beginning of the sales and marketing programme), the participating RSL should consult the local authorities in which it is proposing to offer SHB to its tenants. **If no policy is in place by the start of the sales and marketing programme, it**

will be assumed that all properties in that local authority will be included in the scheme, other than those covered by the mandatory exemptions

- 3.4 Other examples of categories the RSL may consider for exclusions are:
- homes where the current value is below the cost of provision, including the costs of rehabilitation or conversion but not repair;
 - homes subject to restrictive covenants or agreements regarding their continued use, excluding nomination agreements which are not part of a Section 106 agreement or similar covenant;
 - homes where the RSL is carrying out major works improvement or can demonstrate that the contract will be let within the next three years.

1 INTRODUCTION

- 1.1 Social Homebuy sales must be based on a full open market valuation of the property carried out by a qualified independent valuer. Sales on shared ownership terms are based on a percentage of the full market value of the property. Valuations are required at the initial Social Homebuy stage and on staircasing. The cost of the valuation for an initial sale is met by the RSL and can be met from the proceeds of sale. The cost of valuation for staircasing sales is met by the purchaser under the terms of the staircasing provisions in the lease.
- 1.2 RSL's cannot set Social Homebuy prices above the valuation.
- 1.3 If the RSL wishes to reduce prices below the valuation it must have the prior agreement of the Corporation. Agreement will not be given where the reduced price is below the cost of providing the homes. The RSL would also need to demonstrate how these reductions would benefit subsequent purchasers.
- 1.4 The value of the property must be based on its open market value at the time of the initial application, and subsequent staircasing requests, based on the following assumptions:
 - disregarding the tenant's improvements and failure of the tenant to keep the property in good repair;
 - any service charges or improvement contributions payable will not be less than the estimates contained in the landlord's offer ;
 - for freehold property, the landlord is selling a freehold interest with vacant possession;
 - for leasehold property, the landlord is selling with vacant possession for the appropriate term, i.e. not less than 125 years (where applicable) or a term expiring 5 days before the term of the landlord's lease is to expire.
- 1.5 Where SHB discount represents more than 50% of the value of the property the maximum amount of discount available shall be 50% of the value of the property. This will apply to situations where the purchaser is looking to purchase the property outright.
- 1.6 The valuation on initial sale, carried out by an independent valuer on behalf of the landlord, is final and the applicant has no right of appeal. The landlord has discretion to re-value the property where the tenant has made written representations.

2 VALIDITY PERIOD FOR A VALUATION - INITIAL SALE

- 2.1 Where no validity period is given for the valuation it will be assumed that the valuation is valid for 3 months. When an offer is made on a property, the valuation current at the time of the offer will be assumed valid for three months from the date of the offer.

3 PURCHASE OF FURTHER SHARES - STAIRCASING

- 3.1 The price paid for further shares is based on the full open market value of the property. No discount is provided on the purchase of further shares.
- 3.2 Under the terms of the Corporation's sample lease, the leaseholder is responsible for the cost of the valuation and has three months to complete the purchase from the date the RSL receives the valuation from the valuer. RSLs have discretion to extend the 3 month period to 6 months where there has been a delay, which is outside the control of the leaseholder and RSL, for example if documents were lost in the post or there were legal delays. Where the RSL applies its discretion, it must retain on file documentary evidence explaining the reasons for waiving the 3-month validity period. The lease makes provision for the resolution of disagreement or dispute that may arise, between the landlord and the leaseholder, in respect of the valuation.
- 3.3 Details of the staircasing requirements are set out in the shared owner's lease.
- 3.4 For details on the requirements of what proceeds should be credited to the Disposal Proceed Fund please refer to the *DPF* chapter which will be revised in due course.

1 THE SALES PROCESS

- 1.1 It is not the Housing Corporation's intention to be prescriptive as to the sales process, administration and timescales involved but to identify serious purchasers and minimise unnecessary administration and costs we would suggest that RSLs consider a two stage sales process to determine the tenant and property eligibility together with the sale price and the discount payable.

Stage 1

- 1.2 The first stage will confirm the tenants' eligibility to proceed with the purchase of their home and provide 'broad brush' information to enable them to make an informed choice as to whether to proceed or not with their application based on affordability and sustainability criteria.

Stage 2

- 1.3 Stage 2 involves the calculation of the sale price, the equity to be purchased, and the discount entitlement based on the formal mortgage offer, together with the associated costs and provisions that will be the basis of the formal offer and will appear in the contract documentation.

2 THE TENANT'S APPLICATION

- 2.1 Tenants must make a formal written application to purchase their property. The application must be completed by the tenant(s) and returned to the landlord.
- 2.2 RSLs must formally respond to all applications. RSLs may wish to restrict the number of application forms sent out, if demand is such that it may not be possible to keep within its allocation of funds. In these circumstances tenants should be told of the waiting list arrangements and whether the RSL intends to apply for additional funds.

3 ACTION BY THE RSL

- 3.1 On receipt of the application the landlord RSL will determine the tenant's eligibility by checking:
- the application form has been correctly completed and signed and dated by the tenant(s);
 - the tenant(s) are secure or assured (assured shorthold or long leaseholders are excluded from the SHB scheme);
 - the property is not in an exempt category;
 - the tenant(s) has been a public sector tenant for the appropriate two or five year qualifying period; *See SHB-6.*

- where the property is charged to a private lender the lender is willing to release their charge;
- whether there is an effective possession order;
- whether the tenant is the subject of a suspension order, (*see SHB-4 para 10*).
- the tenant has certified in the application that he/she is not an undischarged bankrupt;
- whether the tenant or co-purchasers have previously received a discount to purchase a property from a public sector landlord e.g. a cash incentive through the Tenants Incentive Scheme or Cash Incentive Scheme by a local authority, a discount under the Right to Buy/ Preserved Right to Buy , Right to Acquire or Voluntary Purchase Grant. Where a tenant has previously received a discount to purchase a property from a public sector landlord, the amount of discount due under SHB is reduced by the amount previously received. This is not applicable to cases where the tenant repaid the whole of the discount on disposal within a repayment period.

Example:

Tenant lives in an area where the discount is currently £16,000. The tenant previously purchased a property through the Right to Buy and say received a £10,000 discount.

Discount due for SHB	£16,000
Previous discount/grant to be deducted	£10,000
SHB discount reduced to	£6,000

(and then pro-rata to the share purchased).

3.2 On completion of the checks the RSL should respond to the tenant either confirming or denying eligibility stating reasons. A standard response letter should be used (*for example see SHB-13*) detailing the terms of the sale. The stage 1 information must contain the following:

- an open market guide valuation of the property to be sold. At this stage a formal valuation is not required but can be based on comparative house price details from appropriate websites, such as Hometrack, Up my street or local estate agents’ particulars. By using a web based assessment tool to determine the actual, or an approximate, house price valuation, costs can be confirmed or minimised at this point for both the RSL and the potential purchaser should they decided not to proceed.

- the total cost of purchasing a share and how it is calculated;
- the total amount of discount applicable at that time in that location;
- the total rent payable on the property;
- an estimate of the annual service charge/including sinking fund contributions (*see SHB-12 for further guidance*).

3.3 The letter and information should be sent to the tenant within 4 weeks from receipt of the initial application. *See Annex 1 for an exemplar matrix.*

3.4 The RSL should tell the tenant that where a mortgage is to be obtained, this must be from a 'qualifying lender'. The RSL may wish to direct prospective purchasers to nominated Independent Financial Advisers (IFAs) to assist with affordability checks and securing appropriate mortgage finance.

3.5 Using the standard multiple of 3 x joint income or 3.5 x single, the purchaser will be able to judge what entry level would be realistic given their mortgage potential together with the likely discount entitlement and their anticipated monthly outgoings.

3.6 Tenants should be encouraged to buy as large a share as they can afford and sustain. The RSL should ensure a rigorous affordability check is carried out which includes looking at savings and outgoings, to assess the sustainability of the purchase.

4 QUALIFYING LENDERS

4.1 Under current arrangements a mortgage can only be secured as a first charge if it is provided by a "qualifying lending institution".

4.2 A qualifying lending institution is defined by the Social Landlords (Additional Purposes or Objects) Order 2005 (SI 2005 No.2863)

4.3. Qualifying lending institution includes the Housing Corporation as well as institutions who are authorised under the Financial Services and Markets Act 2004, and who have permission to enter into regulated mortgage contracts. The FSA keeps a register of authorised firms on its website along with a list of "permissions" i.e. activities an authorised firm has permission to undertake. The register can be found at www.fsa.gov.uk/register and accessed via the lenders reference or postcode.

5 TENANT'S RESPONSE

5.1 Following confirmation from their landlord that they are eligible to proceed the tenant has 4 weeks in which to confirm they wish to proceed to stage 2 of

the purchase process. The RSL has discretion to extend the period for responding if there are reasonable grounds for doing so.

- 5.2 Where the number of stage 2 applications received exceeds the RSL's allocations the RSL must operate a waiting list and should prioritise applications e.g. based on the tenant's length of tenancy with their current landlord. The criteria to be used must be appropriate to the circumstances and indicated in the published policy statement.
- 5.3 Where the tenant and the property meets the eligibility criteria for the scheme the landlord may offer to sell an alternative property to the one the tenant occupies. In such circumstances the tenant must be made aware there is no obligation placed on them to accept an alternative property and they may proceed to purchase their current property if they so wish provided it is included in the scheme.
- 5.4 There may be circumstances where the landlord wishes to offer an alternative property where the tenant is eligible but the property they occupy is not.
- 5.5 The RSL should only consider offering an alternative property if the property is a naturally occurring void; the RSL is not permitted to deliberately keep properties vacant for sale under SHB or offer new grant aided properties built under any other programmes.

6 RSL's RESPONSE

- 6.1 Following confirmation of the tenants intention to proceed the RSL will need to initiate actions to provide them with the following:
 - Formal open market valuation of the property to be sold (*see SHB-8*);
 - The total rent payable on the property;
 - An estimate of the annual service charges /sinking fund contributions;
 - Details of any known structural defects;
 - The provisions which, in the opinion of the landlord should be contained in the conveyance or lease;
 - A suitable identification plan showing the boundaries of the property including the land to be sold;
 - Details of any discounts received by the tenants in respect of a previous purchase.
- 6.2 The RSL may decide to undertake a survey to determine the future need for repairs and improvements. Where the RSL does commission a survey, the survey costs may be deducted from the sale proceeds.
- 6.3 On receipt of the tenant's mortgage offer or other evidence of the means to purchase, the RSL will be in a position to instruct its solicitors and determine both the discount to be made available and total share the tenant is purchasing (if doing so on part buy/part rent terms), so that a formal offer can be made.

- 6.4 We would expect that the financial checks via the lender would determine the realistic borrowing potential of the purchaser, based on the commercial affordability and lending criteria.
- 6.5 The RSL should carry out the following checks before it exchanges contracts:
- the tenant is not in rent arrears;
 - a possession order has not been served during the period the tenant's application has been processed;
 - is not the subject of an ASB suspension order/status, (*see SHB-6*);
 - the mortgage offer is from a qualifying lender (*see SHB-9*);
 - where a mortgage is not required by the tenant, evidence of funds to finance the purchase;
 - the RSL's private lender is prepared to release the property from its security.
- 6.6 The tenant has 3 months from the date of the formal valuation to exchange contracts and a further month in which to complete the purchase. Where the tenant fails to exchange contracts on the property within the period the application may be deemed to be withdrawn (except in circumstances where the delay is as a result of the landlord's inaction). The landlord may extend the 3 month period at its discretion, mindful of the validity period of the valuation and the potential need for revaluation if the period is significantly extended. It is expected that the RSL will keep in regular contact with the purchasers to ensure that the sale proceeds in a timely fashion.
- 6.7 Instructions to the RSL's solicitor must include the requirement to secure the repayment of discount if sold within 5 years by way of a covenant in the conveyance/transfer. Subject to the RSL being satisfied with the details provided by the tenant and the solicitors, it will then be in a position to complete the sale. *See paragraph 8 below.*

7 DISCOUNT CALCULATION

- 7.1 The discount is only available on initial purchase so, we would expect it to be unusual that a purchaser would do anything other than maximise their mortgage, the share that they can buy and the discount entitlement. However, it must be recognised that there may be purchasers who do not do so. It is essential therefore that the implications are clearly spelt out to them, i.e. that no further discount is payable, but they should be able to exercise choice as to the level of indebtedness they wish to incur and that they can sustain.

7.2 The discount is based on the RTA discount applicable in that locality and the current levels are listed in Annex 1. If the tenant buys a 50% share of the property the discount they receive is 50% of the applicable RTA discount. The purchase price is funded as follows:

Property Value	£200K
Share purchased	£100K
Mortgage/deposit	£ 92K
Discount	£ 8K (ie 50% of the RTA discount)

7.3 The mortgage offer/deposit and applicable level of discount are added together to determine the share that can be purchased. Worked examples are included as Annex 2 to this chapter.

8 REPAYMENT OF DISCOUNT

8.1 All leases/ conveyancing documentation must contain a repayment of discount clause, as the discount is repayable in certain circumstances. RSLs are encouraged to use the Corporation's model SHB lease which includes a discount schedule.

8.2 The discount is repayable if the property is sold or the share is assigned within 5 years from the date of initial purchase. The amount due to be repaid is calculated as a percentage of the resale value equivalent to the percentage of the discount when compared to the purchase price and reduced by a fifth each year as follows;

- sale within year 1, repay an amount equal to the % that the discount bore to the purchase price
- sale within year 2, repay 80% of the amount calculated as in 1) above
- sale within year 3, repay 60% of the amount calculated as in 1) above
- sale within year 4, repay 40% of the amount calculated as in 1) above
- sale within year 5, repay 20% of the amount calculated as in 1) above
- no repayment is required after year 5.

Example: if the property value at purchase was £160,000 and the discount received was £16,000, the discount would be the equivalent of 10%. If the property value subsequently rose and was sold for £180,000 during year 1 the repayment would be £180,000 x 10% =£18,000. If the same property sold within year 3 for £220,000 the repayment due would be £220,000 x 10%, = £22,000, x 60% = £13,200.

8.3 Where property values fall the same calculation method is to be followed. Continuing the above example, if the property value dropped to £150,000 within year 1 the repayment would be £150,000 x 10% = £15,000.

Disregard of improvements value

- 8.4 Any increase in a property's value attributable to improvements made by the owner after acquiring it, will be disregarded if the property is sold within the five-year period. The resale value is treated as net of the value of those improvements. Where the value of any improvements is disputed, consideration may be given to referring the matter to a qualified Independent valuer to arbitrate- where is it reasonably practicable to do so. Any costs associated with reference to the Valuer are to be borne by the person disposing the property. If the arbitrating Valuer does not make a determination no disregard for the value of improvements is allowed.

Deferred resale agreements

- 8.5 Should tenants enter into transfer agreements with third parties to buy properties, and immediately sell the property to that third party, but transfer ownership at a later date to avoid repaying any discount, these transfer agreements will be treated as a relevant disposal. This has the effect of triggering the discount repayment from the date of the transfer agreement and not the date of the property transfer.

Exempted disposals

- 8.6 These do not trigger repayment of the discount. They are set out in S.15 of the Housing Act 1996 as amended by the Housing Act 2004. A summary of exemptions from the repayment provisions is listed below:
- disposal to any member of the family who joined in the original application or who has resided in the property 12 months immediately before the date of disposal;
 - disposal to a spouse;
 - disposal to a person under the terms of a will or on a intestacy;
 - disposal arising from compulsory purchase by a public body;
 - disposal of the whole of the property in pursuance of an order under:
 - Section 24 /f the Matrimonial Causes Act 1973
 - Section 2 of the Inheritance (Provision for Family and Dependants) Act 1975
 - Section 17 of the Matrimonial and Family Proceedings Act 1984 (property adjustment orders or orders for the sale of property after overseas divorce, &c);
 - Paragraph 1 of Schedule 1 to the Children Act 1989 (orders for financial relief against parents) or
 - Part 2 or 3 of Schedule 5, or paragraph 9 of Schedule 7, to the Civil Partnership Act 2004 (property adjustment orders, or orders for the sale of property, in connection with civil

partnership proceedings or after overseas dissolution of civil partnership, etc).

- 8.7 The RSL must ensure that a conveyance or lease has an appropriate repayment covenant included (*see paragraph 9 below*). The requirement to repay discount will rank immediately after the qualifying lending institution that has provided the tenant's mortgage). Where further lending is needed to fund **essential** works to the property the RSL may postpone its charge in favour of the lender. The charge should not be postponed for any other reason.

9 REPAYMENT OF DISCOUNT COVENANT

- 9.1 The RSL must ensure that any Conveyance/Transfer/Lease under SHB scheme incorporates an appropriate repayment covenant. The Corporation has produced a model repayment of discount clause (see Ninth Schedule of Flat Lease and Sixth Schedule of House Lease) however the RSL should seek its own legal advice to ensure that the repayment covenant is adequate for its needs.
- 9.2 The repayment of discount covenant is a charge that will rank in priority as if it was a statutory charge under Sections 11 and 12 of the Housing Act 1996 as amended by the Housing Act 2004.
- 9.3 Repayment of the discount for a 5 year period is protected by a restriction that must be entered on the Land Register. The wording of the restriction is set out in the discount schedules (see 9.1 above) in the model SHB lease
- 9.4 RSLs's solicitors must insert the discount % figure in the particulars of the Lease. This figure must equate to the percentage value of the discount given to the buyer compared to the property's sale price.

Example - Property sale price = £150,000
 RTA discount for area = £16,000
 Share purchased 75%
 Discount given to the buyer= £12,000
 Percentage value = 8% (£150,000 divided by
 £12,000)

1 INTRODUCTION

- 1.1 RSLs providing shared ownership programmes must ensure that leases are mortgageable and contain provisions that qualify the scheme for grant. In all cases, RSLs should consult their solicitors on the form of lease to be used.
- 1.2 To assist RSLs, the Corporation has published sample house and flat leases for Social Homebuy. Copies of both can be located via a direct link from the Capital Funding Guide homepage on the Corporation's website, www.housingcorp.gov.uk
- 1.3 RSLs are not obliged to adopt the Corporation's sample lease; however the Corporation encourages RSLs to do so. But in order to qualify for PG RSLs must ensure that leases contain the fundamental clauses. *See paragraph 3 below.*
- 1.4 Where the RSL is not using the Corporation's sample leases as published, it must certify at Confirmation of grant stage that leases comply with the Corporation's project/Grant criteria and contain the fundamental clauses identified by the Corporation.
- 1.5 The RSL should retain a copy of the form of lease granted for each scheme at their registered office or solicitor's office.
- 1.6 In the sample leases issued by the Corporation is a restriction, which is entered when shared ownership leases are registered. The restriction ensures that the Corporation's consent is sought to any variation to the terms of the registered lease, and is intended to protect public funds. Following the introduction of the Land Registration Rules 2003 such a restriction can no longer be entered as part of the lease, but must be applied for separately. RSLs should refer to the Corporation's Regulation Circular number 12/03 for further information, which can be located in the library at www.housingcorp.gov.uk.

2 GENERAL FEATURES OF SOCIAL HOMEBUY LEASES

The term of the lease

- 2.1 To qualify for grant funding the term of the lease must be at least 25 years longer than the term of the RSLs long term loan and be acceptable for mortgage purposes. For information the Corporation's sample lease provides for a 125 year term.
- 2.2 Where the RSL's interest (the landlord's interest) is leasehold and that interest is 125 years or less, the term of the lease granted on the initial Social Homebuy should be for a period which terminates 5 days prior to the termination of the landlord's interest. RSLs can grant leases for a period of more than 125 years. Short term leases e.g. less than 55 years will make the scheme ineligible for grant.

The premium

- 2.3 The premium payable by the tenant plus the discount (Social Homebuy price of the lease) on the grant of the lease must be equal to a percentage of the full market value of the property as assessed by an independent qualified valuer (*see example in SHB 9 para. 7*). The range of initial shares purchased can be between 25% and 100% i.e. the purchaser can buy the property outright from the outset. Purchasers should buy as much as they can afford to the nearest percentage point. Shares are not restricted to the nearest 5% e.g. they can be 26%, 27% etc

Staircasing provisions

- 2.4 Social Homebuy leases must contain provision allowing the leaseholder to buy further shares up to 100%. Leases containing restrictive staircasing provisions will make a scheme ineligible for grant funding.
- 2.5 Although RSLs may vary the size of equity shares that may be purchased, the initial share must not be less than 25% of market value. The lease must provide that the leaseholder can staircase to 100% in minimum tranches/ shares of 10% including the final share. However, should the **initial** tranche be over 90% then the final staircasing tranche can be less than 10% as a single transaction to purchase the 100% interest.

Exclusion from leasehold enfranchisement (houses and bungalows only)

- 2.6 All leases granted in respect of houses and bungalows must be excluded from the provisions of the Leasehold Reform Act 1967. Schemes not excluded from the enfranchisement provisions will not qualify for grant. RSLs must take their own legal advice on appropriate ways of avoiding leasehold enfranchisement.

Rent

- 2.7 RSLs must ensure that there are appropriate rent provisions and a means of reviewing rent increases. The sample leases published by the Corporation include rent review provisions linked to the September Retail Price Increase (RPI). RSLs must ensure their solicitors are properly instructed on rent review provisions. It is a fundamental clause requirement that annual rent increases are to be limited to RPI plus 0.5%. The initial rent must not exceed 3% of the unsold equity. RSL's should aim for an average initial rent of 2.75% across the properties sold under the programme.

Rent Waiver clause

- 2.8 Some RSLs have decided not to charge rent on 25% of the equity to make the schemes more affordable and to expand the market for SHB. For example

where someone buys a 50% share they pay rent on 25% of the equity instead of the remaining 50%. In these circumstances the HC is content for the following amendments to be incorporated in the third or fourth schedule of the sample leases, as appropriate.

THE THIRD / FOURTH SCHEDULE above referred to
CALCULATION OF SPECIFIED RENT

1 In this Schedule the following expressions have the following meanings:-

1(1) **“New Gross Rent”** shall mean the Gross Rent increased pursuant to Paragraph 2 hereof on each Review Date

1(2) **“Reduced Relevant Percentage”** shall mean (a) the Relevant Percentage less 25%, or (b) 0%, whichever is the greater

1(3) **“Reduced Specified Rent”** shall mean a sum equal to the Reduced Relevant Percentage of the New Gross Rent

1(4) **“the Relevant Percentage”** shall mean at any time 100% less the aggregate of the Initial Percentage and any Portioned Percentage or Portioned Percentages paid for pursuant to Clause 2 and the Fifth Schedule hereto

1(5) **“the Review Date”** shall mean [] and each successive [] during the term

1(6) **“RPI”** shall mean the United Kingdom General Index of Retail Prices or in the event that such ceases to be published (as to which the Landlord's decision shall be conclusive) or if the said Index or the basis on which it is calculated or published is altered to a material extent (as to which the Landlord's decision shall be conclusive) then the Landlord may give written notice to the Leaseholder of some other published index of general prices or the value of money as a substituted index and in that case the substituted index so selected shall thereupon be the RPI

OPTION A

2(a) On each Review Date the New Gross Rent shall be such figure as is notified to the Leaseholder by the Landlord provided that the New Gross Rent shall not exceed the Gross Rent increased by the percentage increase of the RPI from the RPI published for September [] to the RPI published for the September prior to the relevant Review Date plus 0.5%

OPTION B

2(a) On each Review Date the New Gross Rent shall be such figure as is notified to the Leaseholder by the Landlord provided that the New Gross Rent shall not exceed the Gross Rent increased by the percentage increase of the RPI from the RPI published for

September [] to the RPI published for the September prior to the September immediately previous to the relevant Review Date plus 0.5%

2(b) On each Review Date the Specified Rent payable hereunder shall be reviewed to an amount equal to the Relevant Percentage of the New Gross Rent as at the relevant Review Date

2(c) Immediately following each Review Date the Landlord shall serve written notice on the Leaseholder specifying the amount of the Specified Rent then payable

WAIVER OF RENT OPTION

.1 The Landlord agrees that until the first assignment of this Lease it will only require payment of the Reduced Specified Rent;

.2 Whilst clause 3.1 above applies the Landlord's notice under clause 2(c) shall in addition specify the Reduced Specified Rent.

Sinking Funds

2.9 RSLs are required to establish and manage sinking funds to provide for the long term repair and maintenance of communal facilities. Sinking funds may apply to houses as well as flats, in some instances e.g. communal car parks, unadopted roads. Provision for the on-going upkeep needs to be incorporated in transfer documentation as necessary. The mechanism for collecting the contributions will be determined in the lease/ conveyancing documents and should be appropriate to the client group and mindful of the context in which these charges are to be levied.

Stamp Duty and legal fees

2.10 Purchasers of shared ownership leases are responsible for the payment of their own legal fees and Stamp Duty Land Tax (SDLT). The Revenue gives beneficial treatment of Shared Ownership leases for SDLT purposes, if the lease contains an appropriate statement that the tenant wishes to take advantage of this treatment (schedule 9 to the Finance Act 2003). The shared ownership leases should contain, for discussion with the purchaser, an appropriate SDLT statement which gives an option to the purchaser of paying SDLT on the actual premium and rent paid and on future staircasing; or for example, on the open market value plus minimum rent at the time of purchase (as set out in the SDLT statement).

2.11 The discount will be treated for SDLT purposes in the same way as the discount for RTB/RTA/VPG transactions i.e. SDLT is not paid on the discounted amount.

2.12 The Finance Act 2004 provides additional relief in respect of staircasing. Where a shared ownership lease granted after 17 March 2004, subject to

certain conditions, and irrespective of whether or not the SDLT statement is included in the lease, when staircasing takes place, the shared owner will not be liable for SDLT on the staircasing. However, this is subject to the condition that immediately after staircasing, the shared owner's share in the property must not be greater than 80%.

Mortgagee protection

- 2.13 All leases (for PG funded programmes) must contain an appropriate mortgagee protection clause (as set out in the Corporation's sample lease). The Corporation has agreed with the Council of Mortgage Lenders the terms of mortgagee protection for lending on shared ownership. *See REC chapter.*

Right of First Refusal / Pre-emption

- 2.14 For 21 years from the date of conveyance of the 100% interest, the purchase and any subsequent purchaser is obliged to offer the property back to the original landlord who can purchase it at the prevailing market value or nominate another RSL to purchase it. (*see 3.1 below*).
- 2.15 RSLs also have rights to nominate purchasers or to buy back the property if the shared owner of a flat wishes to sell their share. The option to buy back the share by the Landlord does not apply to houses although the nomination provisions still apply.
- 2.16 RSLs are required to have a public policy in place that outlines the circumstances in which and how the RSL would expect to exercise the option to buy back either as a pre-emption or under the right of first refusal provisions. Vendors should expect to have a formal indication of the RSL's intentions to proceed or otherwise within 4 weeks of offering the property back.

3 FUNDAMENTAL CLAUSES

- 3.1 The following clauses are set out in the sample leases published by the Housing Corporation and must be included in any shared ownership lease to qualify a scheme for grant funding:
- Alienation provisions (refer to clause 3(15) in the sample flat lease - clause 3(14) in the house lease);
 - Mortgagee protection (refer to clause 8 in the sample flat lease - clause 6 in the house lease);
 - Staircasing provisions (refer to the fifth schedule of the sample flat lease - fourth schedule in the house lease);
 - Rent review (refer to the fourth schedule of the sample flat lease - third schedule in the house lease);

- Service charge provision (where appropriate) (refer to clause 7 of the sample flat lease);
- Repayment of discount provisions (refer to the ninth schedule of flat lease and sixth schedule of house lease);
- Right of First Refusal and pre-emption clauses.

4 SUB-LETTING

- 4.1 Social Homebuy leases must prohibit sub-letting by the shared owner.
- 4.2 RSLs may consider, on a case-by-case basis, requests to sub-let in certain controlled circumstances. RSLs should consider the following criteria when dealing with requests:
- the reasons for sub-letting are genuine and unavoidable, and are not for speculation or gain;
 - the person (s) to whom the leaseholder sub-lets also satisfies the RSL's criteria for affordable housing ;
 - the terms of the sub-let are for a fixed period after which the lease must revert back to the original shared owner;
 - the permission of the mortgage lender will also normally be required.
- 4.3 In all cases RSLs should seek their own legal advice before agreeing to sub-letting.

5 CONVEYANCE OF FREEHOLD AND GRANT OF A LEASE

- 5.1 The Corporation's model leases are located on the Capital Funding Guide webpage of the Corporation's website. RSLs must consult their own solicitors on the conveyance or lease to be used, in relation to the schemes in which they are participating.

Right of First Refusal

- 5.2 A standard clause or covenant is to be inserted into all conveyances that, during the period of 21 years from the date of conveyance the tenant (purchase) or any successor in title, must make an offer of first refusal to the former landlord.
- 5.3 The covenant must be a local land charge and must be entered into the property's register of title by the Chief Land Registrar. This should avoid the covenant being overlooked at the point of resale.

6 DISCOUNT REPAYMENT COVENANT

- 6.1 The covenant for repayment must be inserted in conveyances and leases and is included in the model lease. The covenant must be protected during the 5

year discount repayment period by the entry of a restriction on the title at the Land Registry.

7 LEGAL CHARGES

- 7.1 The RSL is required to dispose of the property to the tenant free of any legal charge on the property e.g. a secured mortgage. It is essential therefore that the RSL obtains its lender's consent to the disposal prior to processing SHB applications.

1 RENTS

- 1.1 Shared ownership leases after 15 January 1989 are assured tenancies and as a result are not subject to rent control under the Rent Act 1977. The setting of rents for shared ownership is a matter for the RSL to agree with the leaseholder at the point at which the lease is granted. However initial rents must be set at a level not exceeding 3% of the capital value of the equity retained by the RSL. RSLs are expected to aim to achieve an average of 2.75% across all homes sold through the social Homebuy programme.
- 1.2 In setting rents the RSL must have regard to the affordability of the rents to the intended client group and ensure the rents are sufficient to cover the RSL's long-term loan repayments. In addition to the rent, the RSL will need to determine an appropriate service charge that should include the cost of management and insurance. (*see SHB-12*). The landlord should ensure, in consultation with the leaseholder, that the insurance policy provides adequate/appropriate cover particularly in respect of alternative accommodation for the leaseholder should the property become uninhabitable. The RSL should comply with the Leaseholders' Guarantee and Landlord and Tenants Acts in respect of setting service charges.
- 1.3 The RSL should note that leases granted for the disposal of houses must be excluded from enfranchisement under the Leasehold Reform Act 1967 and should seek their own legal advice.

2 RENT INCREASES

- 2.1 Annual rent, including HB eligible service charges, increases must conform to the Investment Contract and Regulatory Code. However, once the method of setting increases has been decided on and written into the lease, then the provisions of the lease will be binding.
- 2.2 The RSL is required to charge a rent based initially on a sum not exceeding 3% of the capital value of the unsold equity. Annual rent increases are to be limited to RPI plus 0.5%, using the September RPI figure published annually.
- 2.3 The RSL can choose whether to increase rents on the anniversary date of each lease, or whether to increase all its shared ownership rents on the same date each year e.g. 1st April.
- 2.4 Notice of any rent increase should be given in writing to the leaseholder according to the manner and time stated in the lease.

1 SERVICE CHARGES

- 1.1 Where RSLs are selling flats and maisonettes on a leasehold basis it will continue to be responsible for the repair and maintenance of the building and the provision of services such as lighting in communal areas. RSLs will need to apportion these costs to the individual unit and recover the costs from the leaseholders by way of the service charges.
- 1.2 It is a mandatory requirement of the Housing Corporation that RSLs set up and maintain sinking funds for the provision of funds for the long term upkeep of flats. It may also be appropriate, in some instances, to levy an estate rent charge for houses on estates with communal facilities. However, the contribution to a sinking fund for freeholders is a contractual obligation, as a condition of conveyance, rather than a statutory one. RSLs will need to consider the most appropriate mechanism for the recovery of this monies bearing in mind the client group involved.
- 1.3 Although SHB is not subject to the statutory provisions of the Right to Buy/RTA, RSLs are required to give leaseholders similar protection as Right to Buy/ Right to Acquire purchasers with regard to service charge and improvement contribution estimates. Provisions concerning service charge estimates and sinking fund contributions must be set out in the lease.
- 1.4 RSLs must advise prospective purchasers of flats, either outright or on shared ownership terms, of the anticipated average annual amounts (at current prices) for the next five years or the end of the fifth accounting year as their improvement contributions for the improvement works to be carried out in the five years following the initial sale of the property. RSLs are however, able to add an inflation allowance to the original costs. The revised figure can then be compared with the lowest tender and the lower figure actually charged to the leaseholder. The information to include:
- Works Description
 - Total Estimated Cost
 - Purchasers' contribution.
- 1.5 Every effort must be made to provide realistic and accurate estimates of these costs and the required contributions. As far as possible RSLs are required to keep the costs incurred and to be recovered within the five years within the charges notified to the purchaser during the initial sales process. RSLs must also ensure that the purchasers are made aware of any structural defects that they know about and the potential financial implications of remedying them, in advance of the purchase.
- 1.6 Whilst RSLs are expected to limit the recoverable improvement contributions to the sums indicated at initial sale, there are no such restrictions on the day to day running costs such as caretaking, cleaning, and gardening. However, the costs of these works and services have to be carried out to a reasonable

standard and at a reasonable cost. RSLs should aim to limit the increases to the annual service charge for repairs in line with inflation during the first five years of the lease.

- 1.7 In summary, landlords are required to provide accurate estimates of service charges for tenants wishing to purchase. In respect of anticipated major repairs and improvements RSLs selling flats under SHB are expected to look to only recover the costs indicated in the estimates for the first five years of the lease. RSLs must also inform applicants of any known structural defects affecting the building and ensure that if they are to be repaired in the first five years they are included in the service charge estimates for repairs. Estimates of other service charges, apart from repairs and improvements, such as amounts to be charged for caretaking or communal lighting, must also be provided but can be recovered each year at cost.
- 1.8 RSLs may wish to seek their own legal advice on deciding the various elements making up the service charge.

1 INTRODUCTION

- 1.1 This section contains three sample letters that RSLs can use for Stage 1 and Stage 2, together with a sample response form for tenants. It is RSLs' responsibility to come up with a procedure that works best for them – the sample letters do not set out a prescribed process but have been included to give helpful pointers.
- 1.2 The **Stage 1 letter** is a response to the tenant who has registered an interest in Social Homebuy. It is anticipated that it would be included in an information pack which contains an application form.

Sample Letter 1 – Stage 1 Following tenant registering interest

Dear

Thank you for registering your interest in Social Homebuy. Enclosed is a table showing the estimated costs of buying a share in your current home. The house valuation we have used is based on information from the internet website, www There are other websites you may wish to look at together with estate agents and property papers that should give you comparative figures. .

These are guide figures for your property based on limited information. It is not a formal offer. The on-going costs of buying your home are likely to be different and will depend on the formal valuation of your home. However, we hope we have supplied sufficient information in this pack to enable you to decide whether social Homebuy is an option for you. The formal market valuation will be obtained when you advise us that you want to go ahead

If you want to proceed with buying your home, then please complete the enclosed application form and send it back to us. We will contact you to arrange a mutually convenient time for you to discuss the scheme in more details with one of our advisers. Until you receive a formal offer from us you should avoid incurring any legal costs or mortgage fees.

I hope the enclosed information is self explanatory but please do get back to us, if you require further explanation or clarification.

Yours sincerely

Sample letter 2 letter advises the tenants as to their eligibility.

SAMPLE LETTER 2 - TENANT ELIGIBILITY FOR SCHEME

Dear

Social Homebuy Scheme

Further to your application to purchase your property received by us on

Option 1

I can confirm that it would appear that you and the property you occupy would be eligible under the terms of the Social Homebuy Scheme.

The next stage is for you to meet with one of our advisers to discuss the scheme and in particular, the financial implications of the purchase.

Following that meeting and confirmation that you still wish to proceed with the purchase we will organise for a formal valuation of the property to be carried out. To this end would you please contact to arrange a meeting with one of our advisers at your convenience.

Please do not arrange a mortgage or appoint a legal representative until you receive details of the purchase price and are sure you wish to proceed with the purchase, as expenses you may incur cannot be reimbursed if you choose not to proceed.

Option 2

Unfortunately you are unable to buy your home at a discount because

Option 3

Unfortunately you are unable to buy your home at a discount because However, you may be interested in buying another property in our ownership or buying on the open market with the assistance of an equity loan through the Open Market Homebuy scheme. If you wish to take up one of these alternatives please contact(to include the HomeBuy Agent).....

Yours Sincerely,

- 1.3 The **Stage 2 letter** advises the tenant of their eligibility for the scheme and provides the additional information for them to make an informed decision as to whether to proceed with the purchase, together with actions required. It

represents the formal offer on the basis of which the tenant will be looking to secure a mortgage.

Sample Letter 3 Stage 2

Formal Valuation and offer

Dear

Further to your application to purchase your property at through the Social Homebuy Scheme, I can confirm that the Association is able to sell you the property at a discount.

The formal valuation indicates that the market value of the property is £and the maximum discount, if you purchase your property outright, is £.....

You will have been given information at the meeting with our advisor as to the lenders who we know have confirmed their willingness to provide mortgages to finance Social Homebuy purchases. If you are intending to obtain a mortgage from another lender, please check with us that they are qualifying lenders as not all lenders are able to provide mortgages for the scheme. You are advised to seek independent financial advice before obtaining a mortgage.

When you have received your mortgage offer please send a copy to us together with the name and address of your legal representative. If you do not need a mortgage please provide evidence of how you will be funding your purchase.

The amount that you borrow or have available will determine the share you will be able to buy, and the discount you will be entitled to and we are attaching an updated guide to the cost of buying your home on SHB terms. . Don't forget that the discount payable is only available once – on the initial sale.

Also enclosed with this letter is information relating to your property regarding:

- Service charges payable
- Sinking Fund contributions required
- Management and Building Insurance Costs payable
- Known/Anticipated works within 5 years to which purchasers will be required to contribute.
- Any structural defects

The rent payable, if you are buying on shared ownership terms, will be calculated when it is known what share you are purchasing. The initial rent is based on a maximum of 3% of the value of the share that you don't own.

Please let us know if you are ready to proceed with the sale on the basis of the information provided by returning the enclosed form. If it is your intention to proceed,

you should be in a position to arrange your mortgage and instruct a legal representative on your behalf.

We will instruct our solicitors in respect of the sale when we have received your written confirmation that you are proceeding with the purchase. If we do not hear from you within a month of the date of this letter we will assume you are no longer interested in buying your home and your application will be treated as withdrawn..

Yours sincerely

1.4 The form below is the suggested format for the tenant to confirm their intent to proceed with the purchase of their current home through the Social Homebuy Scheme.

Sample Response Form

NOTIFICATION OF INTENTION TO PROCEED WITH SOCIAL HOMEBUY

I/We.....

..... (Names)

.intend to proceed with the purchase of

.....

..... (property address)

Purchase Option

Mortgage – I / We can borrow a maximum of £..... (amount) from

.....

..... (lenders name and address)

I / We intend to borrow £.....

I / We wish to purchase % of the equity of the above property –.

[this proportion of the valuation should corresponds to the amount you wish to borrow above] based on our mortgage potential and the discount applicable

Or I / We have the capital required for this purchase option and do not require a mortgage
(Please delete as necessary)

Legal Representative

My / Our legal representative for the purchase is

.....

..... (name and address)

Independent Financial Advice

I / We have / have not consulted an Independent Financial Adviser (IFA)
(Please delete as appropriate).

If you have, then please put the name of the IFA

Signed

.....

Date

- 1.5 It is advisable to send out an ‘Offer Confirmation’ letter once the applicant has returned the ‘Intention to Proceed’ form. This will confirm the equity share % and other issues pertinent to the sale. It ensures that both parties have an understanding of the agreed position.

1 INTRODUCTION

- 1.1 The shared ownership programme has given rise to various issues. This section sets out guidance on some of them, as they relate to SHB.

2 Mortgage Difficulties

- 2.1 As a last resort option when a purchaser has got, or is about to get, into mortgage arrears and potentially lose their home, an RSL may use its Recycled Capital Grant Fund to act as a 'safety net' and offer flexible tenure. Flexible tenure is designed to enable a shared owner, but not an outright purchaser, to remain in their home. For further information of how RCGF may be used in these circumstances please refer to *REC-5*.
- 2.2 Where the SHB purchaser reduces, but still retains part of the equity in the property no repayment of the discount is required. However, should the SHB purchaser revert to being a tenant within the designated repayment period, the discount is repayable.

3 Mortgage Default

- 3.1 If a purchaser defaults on his/her mortgage payments, the commercial mortgage lender may apply to the courts for a 'judgement' or 'order' seeking to secure the arrears. If the arrears are still not forthcoming, the commercial mortgage lender may apply to a court for an Interim Charging Order (ICO). The ICO enables the commercial mortgage lender to impose a charge on the interest in the property as detailed in the Land Registry Title document. Court rules specify that all known parties with an interest in the property should be served with a copy of the ICO after it is made but before the full Charging Order is made.
- 3.2 As the terms of a purchaser's lease cannot be varied without the Corporation's consent, the Corporation's details are required to be entered on the Land Registry Title document at Section B: Proprietorship Register. Due to these details being recorded on the document, the Corporation, on occasions, is sent a copy of an ICO.
- 3.3 Commercial mortgage lenders are not legally obliged to seek the Corporation's consent when applying for an ICO to be made. This is because the Corporation has no legal interest in the property, which is to be the subject of the order. However should an ICO addressed to the Corporation received in a Field Office it should be forwarded with any accompanying correspondence to the Investment Policy Team at the Corporation's Maple House office.
- 3.4 Legal advice has been sought, and Maple House will inform the lender's solicitor that as the Corporation has no legal interest in the property that is subject to the ICO, there is no objection to the full Charging Order being made. Maple House will monitor any trends for future consideration.

- 3.5 A copy of the ICO should also be received by the RSL who has a legal interest in the property. The RSL should seek its own legal advice before replying to the lenders' solicitor.
- 3.6 Where there are insufficient monies to repay the outstanding loans, charges and /or discount repayment as a result of a forced sale/re-possession action in cases of mortgage default, it is anticipated that RSLs would consider pursuing the ex-shared owner to recover any shortfall, as appropriate.
- 3.7 The mortgagee in possession has first call on any receipts and is able to recover their monies and the associated costs of the action, together with up to 12 months capitalised interest. These would normally be deducted from the proceeds of sale before any balance is forwarded to the RSL and/or the defaulting owner.

**Annex 1 MATRIX
FOR ILLUSTRATIVE PURPOSES ONLY**

Estimated value of your home: £98,000

Maximum Discount £9,000

Your share in percent	Purchase Price	Discount	Share price	Monthly Mortgage	Monthly Rent @ maximum 3% of unsold equity	Monthly Service charge	Total Monthly Charge
25	£24,500	£2,250	£22,250	£120	£184	£35	£339
30	£29,400	£2,700	£26,700	£144	£172	£35	£351
35	£34,300	£3,150	£31,150	£168	£159	£35	£362
40	£39,200	£3,600	£35,600	£192	£147	£35	£374
45	£44,100	£4,050	£40,050	£216	£135	£35	£386
50	£49,000	£4,500	£44,500	£240	£123	£35	£398
55	£53,900	£4,950	£48,950	£264	£110	£35	£409
60	£58,800	£5,400	£53,400	£287	£98	£35	£420
65	£63,700	£5,850	£57,850	£311	£86	£35	£432
70	£68,600	£6,300	£62,300	£335	£74	£35	£444
75	£73,500	£6,750	£66,750	£359	£61	£35	£455
80	£78,400	£7,200	£71,200	£383	£48	£35	£466
85	£83,300	£7,650	£75,650	£407	£37	£35	£479
90	£88,200	£8,100	£80,100	£431	£25	£35	£491
95	£93,100	£8,550	£84,550	£455	£12	£35	£502
100	£98,000	£9,000	£91,000	£490	£0	£35	£525

Monthly Mortgage per £1000 £6.46 Interest Rate 5.90%

FOR ILLUSTRATIVE PURPOSES ONLY

Estimated value of your home:

£174,000

Maximum Discount

£ 11,000

Your share in percent	Purchase Price	Discount	Share price	Monthly Mortgage	Monthly Rent @ maximum 3% of unsold equity	Monthly Service charge	Total Monthly Charge
25	£43,500	£2,750	£40,750	£219	£326	£46	£591
30	£52,200	£3,300	£48,900	£263	£305	£46	£614
35	£60,900	£3,850	£57,050	£307	£283	£46	£636
40	£69,600	£4,400	£65,200	£351	£261	£46	£658
45	£78,300	£4,950	£73,350	£395	£239	£46	£680
50	£87,000	£5,500	£81,500	£439	£218	£46	£703
55	£95,700	£6,050	£89,650	£483	£196	£46	£725
60	£104,400	£6,600	£97,800	£526	£174	£46	£746
65	£113,100	£7,150	£105,950	£570	£152	£46	£768
70	£121,800	£7,700	£114,100	£614	£131	£46	£791
75	£130,500	£8,250	£122,250	£658	£109	£46	£813
80	£139,200	£8,800	£130,400	£702	£87	£46	£835
85	£147,900	£9,350	£138,550	£746	£65	£46	£857
90	£156,600	£9,900	£146,700	£790	£44	£46	£880
95	£165,300	£10,450	£154,850	£834	£22	£46	£902
100	£174,000	£11,000	£163,000	£877	£0	£46	£923

Monthly Mortgage per £1000 £6.46

Interest Rate 5.90%

FOR ILLUSTRATIVE PURPOSES ONLY

Monthly Mortgage per £1000 £6.46 Interest Rate 5.90%

Estimated value of your home: £264,000
 Maximum Discount £13,500

Your share in percent	Purchase Price	Discount	Share price	Monthly Mortgage	Monthly Rent @ maximum 3% of unsold equity	Monthly Service charge	Total Monthly Charge
25	£66,000	£3,375	£62,625	£337	£495	£63	£895
30	£79,200	£4,050	£75,150	£405	£455	£63	£923
35	£92,400	£4,725	£87,675	£472	£429	£63	£964
40	£105,600	£5,400	£100,200	£539	£395	£63	£997
45	£118,800	£6,075	£112,725	£607	£363	£63	£1,033
50	£132,000	£6,750	£125,250	£674	£330	£63	£1,067
55	£145,200	£7,425	£137,775	£742	£297	£63	£1,102
60	£158,000	£8,100	£149,900	£807	£264	£63	£1,134
65	£171,600	£8,775	£162,825	£877	£231	£63	£1,171
70	£182,000	£9,450	£172,550	£929	£198	£63	£1,190
75	£198,000	£10,125	£187,875	£1,011	£165	£63	£1,239
80	£211,200	£10,800	£200,400	£1,079	£132	£63	£1,274
85	£224,400	£11,500	£212,900	£1,146	£99	£63	£1,308
90	£237,600	£12,150	£225,350	£1,213	£66	£63	£1,342
95	£250,800	£12,825	£237,975	£1,281	£33	£63	£1,377
100	£264,000	£13,500	£250,500	£1,349	£0	£63	£1,412

Estimated value of your home £350,000
 Maximum Discount £16,000

Your share in percent	Purchase Price	Discount	Share price	Monthly Mortgage	Monthly Rent @ maximum 3% of unsold equity	Monthly Service charge	Total Monthly Charge
25	£87,500	£4,000	£83,500	£539	£656	£71	£1,266
30	£105,000	£4,800	£100,200	£647	£613	£71	£1,331
35	£122,500	£5,600	£116,900	£755	£569	£71	£1,397
40	£140,000	£6,400	£133,600	£863	£525	£71	£1,459
45	£157,500	£7,200	£150,300	£970	£481	£71	£1,522
50	£175,000	£8,000	£167,000	£1,078	£438	£71	£1,587
55	£192,500	£8,800	£183,700	£1,186	£394	£71	£1,651
60	£210,000	£9,600	£200,400	£1,294	£350	£71	£1,715
65	£227,500	£10,400	£217,100	£1,402	£306	£71	£1,779
70	£245,000	£11,200	£233,800	£1,510	£263	£71	£1,844
75	£262,500	£12,000	£250,500	£1,617	£219	£71	£1,907
80	£280,000	£12,800	£267,200	£1,725	£175	£71	£1,971
85	£297,500	£13,600	£283,900	£1,833	£131	£71	£2,035
90	£315,000	£14,400	£300,600	£1,941	£88	£71	£2,100
95	£332,500	£15,200	£317,300	£2,049	£44	£71	£2,164
100	£350,000	£16,000	£334,000	£2,157	£0	£71	£2,228

Monthly Mortgage per £1000 £6.46 Interest Rate 5.90%