

CIRCULAR

The Housing (Service Charge Loans) Regulation 1992

July 2006

03/06

Summary

Advises Housing Associations of the Right to a Loan from the Housing Corporation for the year ending 31 March 2007. Replaces Circular 05/04.

Introduction

- 1.1 The Housing (Service Charge Loans) Regulations 1992 came into force on 17th August 1992. They state that, provided certain conditions are met, some leaseholders have the right to request a loan from the Housing Corporation towards the cost of service charges for major repairs.
- 1.2 The conditions which have to be met are set out below. Any RSL who issues a demand to pay service charges relating to major repairs must check this circular and, if it believes (having sought legal advice if necessary) that the leaseholder may be entitled to a mandatory loan from The Housing Corporation, it must inform the leaseholder of their rights and how to claim the loan.
- 1.3 The amounts in the following text relate to the period 1 April 2006 to 31 March 2007.

2 Leaseholders entitled to a mandatory loan

- 2.1 Under these Regulations, a leaseholder has the right to request a loan from The Housing Corporation to cover the cost of major repairs to the property demanded as part of the annual service charges, provided that:
 - The leasehold of the property was purchased under the Right to Buy legislation (not the preserved right to buy). (If the RSL sold the leasehold to the leaseholder voluntarily, the leaseholder is not entitled to a mandatory loan from The Housing Corporation.)
 - The leasehold was purchased less than ten years before the date of the invoice for service charges.
 - The amounts demanded for service charges in respect of major repairs and routine service charges are such that they qualify for a loan within the limits and calculations set out in Section 3 below.

3 Financial restrictions

3.1 Calculations and Limits

Accounting Period

- 1 First, find the accounting period to be used. This is established from information in the lease. "Accounting period" is one of two possible annual time periods;
 - If the lease states that service charges are to be paid in respect of a defined twelve month period, (that is the accounting period. e.g. the period 1st April to 31st March).
 - If the lease does not specify a term, the accounting period is the twelve months starting from the date of the lease being granted or anniversary thereof.
 - An accounting period must be within ten years commencing with the start of the first defined twelve month period or the granting of the lease.

Maximum loan

- 1 The difference between the sum of both annual service charge and major repair service charge within the accounting period, less £2,140 (which must be met by the leaseholder) will qualify for a loan up to the lesser of the maximum of the major repair element or £28,530.

Minimum loan

- 2 The minimum eligible amount qualifying for a loan is £720.
- 3 You will not qualify for a loan if your annual service charge is less than £2,140, your major repair charge is less than £720 and you exercised your right to buy more than ten years from the commencement of the current accounting period.

3.2 Adjustment for inflation

The thresholds in the regulations are adjusted by the Retail Price Index for January each year. The January 1992 index was 135.60. The current thresholds (January 2006, 193.40) are:-

	1 April 2006 to 31 March 2007	In the original legislation
Leaseholder must pay the first: of all service charges issued that year	£ 2,140	£ 1,500
Minimum amount eligible for a loan	£ 720	£ 500
Maximum loan per leaseholder at any time under these provisions	£ 28,530	£ 20,000

The revised limits will be issued in late March each year.

4 How to claim a loan

4.1 The leaseholder must apply in writing to The Finance Division, The Housing Corporation, 149 Tottenham Court Road, London W1T 7BN, within six weeks of the date of the invoice. If all of the above conditions are met, The Housing Corporation will offer the leaseholder a loan on terms set out in Section 5.

5 Terms of the loan

Length of loan

5.1 The period over which repayment is to be made shall not exceed:-

Loans less than £1,500, three years

Loans of amounts between £1,500 and £4,999.99, five years

Loans of or greater than £5,000, ten years.

5.2 The above thresholds are for loans advanced during the period from 1st April 2006 to 31st March 2007.

Costs

5.3 Lender's expenses up to a maximum of £100 may be charged to the borrower. These may be added to the amount of the loan if the borrower wishes

Security

- 5.4 The loan will be secured by a mortgage on the property, whether or not it affords adequate security. For this reason borrowers are advised to seek the services of a Solicitor or similar qualified person.

Time limits

- 5.5 The leaseholder must apply for the loan within six weeks of the date of the invoice for major repairs. If all of the above conditions are met and the landlord is a registered social landlord, the Housing Corporation will offer the leaseholder a loan under the terms set out in Section 5 of this circular. The leaseholder will have four weeks from the date of the offer letter to accept the loan, after which time the offer lapses.

Procedure for claiming loans

Introduction

- 1 If you are the leaseholder of a property purchased under the Right to Buy legislation in the last ten years, you may have the right to a loan to cover service charges for repairs carried out by your landlord.
- 2 It does not matter whether you are the original buyer of the property, but your landlord must be a registered social landlord.
- 3 You do not have the right to a loan if you purchased your property under Preserved Right to Buy. Preserved Right to Buy operates after the landlord changes to charitable status, or property qualifying for Right to Buy is transferred to a different landlord such that any new tenants would not be entitled to a Right to Buy option; any tenants who would have been entitled to Right to Buy under the previous landlord have their rights protected as Preserved Right to Buy but do not qualify for a service charge loan.

Can I claim a loan?

- 4 Only service charges relating to repairs on land or buildings qualify, and there are limits on how much can be claimed.
- 5 The limits in this leaflet apply to any claims based on invoices dated between 1st April 2006 and 31st March 2007. These limits are raised on 1st April each year to take account of the rate of inflation for all items as at the end of the previous January. The new limits are issued each year in late March as an amendment sheet.
- 6 First, find out whether your lease specifies if your service charges are based on a particular set of dates. For example, it might say that the service charges are to be paid by reference to 1st April to 31st March each year, in which case your present accounting year would run from 1st April 2006 until 31st March 2007. If it does not mention any dates, your accounting year will always start on the date your lease was sold to you.

- Next, look at any service charges invoiced so far for this accounting year,
- apart from the repairs charges. You will have to pay the first £2,140 of service charges each year yourself.
- So if the amount of service charges invoiced so far this year is less than £2,140, take this amount away from £2,140 and take what's left off the amount of repairs service charges demanded. This is how much can be claimed as a loan, although the smallest amount we will lend is £720, and the most you can borrow under this legislation is £28,530.
- If the amount of service charges invoiced so far this year is £2,140 or more, and the repairs service charge is more than £720, you can claim the whole amount of repairs service charges as a loan. Remember, the most you can borrow under this legislation is £28,530.
- If you have claimed a loan before, the amount still owed to us at the time you claim this loan will be included in the £28,530 maximum.

How do I claim the loan?

- 7 If your landlord is a registered social landlord, you must write to Financial Accountant, The Housing Corporation at 149 Tottenham Court Road, London W1T 7BN, within six weeks of the date of the invoice for repairs. If you are entitled to a loan, your request will be processed and you will receive a letter with the offer of a loan. You will have four weeks from the date of that letter in which to accept the loan or reject it, after which time the offer is withdrawn. Our payment will be made direct to the RSL.

What will the terms of the loan be?

- 8 The loan will be secured by a mortgage on your property.

The Housing Corporation is allowed to charge administrative costs - up to a maximum of £100 - which you can either pay immediately or add to the loan.

Our interest rate is based on current market rates. The Housing Corporation will charge the same rate for these loans as it does for its mortgages.

- If you have borrowed less than £1,500, you will have to repay the loan over three years.
- If you have borrowed between £1,500 and £4,999.99, you will have to repay the loan over five years.
- If you have borrowed £5,000 or more, you will have ten years in which to repay the loan.
- If you want to pay the loan over a shorter length of time, you can do so.

What if I don't agree with the amount of the repairs service charge?

- 9 You can still claim the loan, and should act quickly to get your claim in within the six weeks limit. Make it clear that you are contesting the amount of charge. If the charges are later reduced, the amount of the loan will also be reduced to match.

Help and advice

- 10 You should talk to your landlord. As the loan amount will be secured by a charge on your property, it is also advisable to get independent legal advice.

Enquiries to the Circular should be addressed to The Finance Division,
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