

# **First Home Fund Guidance for buyers.**

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## **What is the First Home Fund?**

The First Home Fund is run by the Scottish Government and aims to help first-time home buyers purchase a property. Up to £25,000 is available to all first-time buyers towards the purchase of both new build and existing properties.

A first-time buyer is anyone who does not own, or has previously owned, a property in Scotland or anywhere else in the world.

In order to take part in the scheme, you will be required to provide a minimum deposit of 5% of the purchase price (subject to individual lender requirements) and your mortgage must be at least 25% of the purchase price. Although the Scottish Government will have an equity share in the property, you will own the property outright. There are no monthly payments to be made towards the Scottish Government and no interest will be charged.

**Please note that lenders will have their own individual requirements when providing a mortgage. The lender or a mortgage advisor will be able to fully explain these requirements to you.**

You will normally repay the Scottish Government's percentage equity share when you sell your home, however you can choose to pay this off earlier (see 'Increasing your Equity Share' section on page 7 for more details).

## **What is Shared Equity?**

Buying through a shared equity scheme means you split the cost of purchasing the property with the Scottish Government. You will fund your share through a deposit and a mortgage, with the remaining share being provided by the Scottish Government.

There are no monthly payments or interest payments to the Scottish Government for their contribution. Instead, you will normally pay it back when you sell your property, or you can choose to increase your equity share over time.

As an example, if your deposit and mortgage pays for 85% of your home's value when you buy, the Scottish Government will hold a 15% share. This means that when you sell, you will receive 85% of the final sale price and the Scottish Government will receive 15%.

This does not mean that the Scottish Government has an ownership right to the property. You will own the property outright and hold the full title.

## **Who is it for?**

The scheme is open to all first-time buyers in Scotland who are taking out a mortgage. You will not be able to apply to the scheme if you are a cash buyer or if you have previously owned a property in the UK or abroad at any time (as either a sole or a joint owner).

While the scheme is open to all first-time buyers there are a few requirements that you will need to be aware of:

- The maximum contribution from the Scottish Government is £25,000 or 49% of the property valuation figure or the purchase price (whichever is lower). If you purchase a property for less than the valuation figure then the maximum Scottish Government contribution is £25,000 or 49% of the purchase price.

#### **Example of different equity shares**

##### **John's Purchase**

|                                       |          |
|---------------------------------------|----------|
| Property valuation and purchase price | £100,000 |
| John's deposit and mortgage           | £75,000  |
| SG contribution                       | £25,000  |
| SG equity share                       | 25%      |

##### **Amy's Purchase**

|                                       |         |
|---------------------------------------|---------|
| Property valuation and purchase price | £50,000 |
| Amy's deposit and mortgage            | £25,500 |
| SG contribution                       | £24,500 |
| SG equity share                       | 49%     |

In this example, John can receive the full £25,000 contribution as this would be a 25% equity share for the Scottish Government.

Amy is not awarded the full £25,000 because the Scottish Government equity share cannot exceed 49%. The maximum amount she can receive is £24,500.

- There is a limit of one application per property. You can submit a joint application however you will be limited to one award of £25,000.
- Your mortgage must be at least 25% of the purchase price.
- Your mortgage must be capital repayment.
- The property must be the sole residence of all applicants. The scheme is not available for buy-to-let properties.
- You cannot apply to other Scottish Government shared equity schemes (e.g. Help to Buy (Scotland) Affordable New Build, Help to Buy (Scotland) Smaller Developer, New Supply Shared Equity or Open Market Shared Equity) while also applying to this scheme. If you have an open application to any other shared equity scheme in Scotland you must withdraw this before you apply to this scheme. However you are able to use a Help to Buy: ISA or Lifetime ISA to go towards your deposit.

#### **Application Journey**

**We would recommend that you consult with an Independent Financial Adviser (IFA) before applying to the scheme. There are a range of shared equity schemes available to applicants in Scotland and an IFA will help you choose**

**the most appropriate one for your situation. Please see the 'Where to find an IFA' section on page 9 for more information.**

So you've found the perfect home and your offer has been accepted, what next? Here we will set out how you go about applying to the scheme and securing a financial contribution to your home purchase from the Scottish Government.

You will need to appoint a solicitor to act on your behalf. They will complete much of the work involved in buying a home for you and work with the Administering Agent for the scheme, who have been appointed by the Scottish Government to manage it on their behalf.

You will also need to obtain a valuation of the property from an independent professionally qualified valuer who is registered with the Royal Institution of Chartered Surveyors (RICS) – this may be included in the Home Report for the property, or be instructed by your mortgage provider. For more information on home surveys and valuations please see the RICS 'Home Surveys' guide, available [here](#).

**You will be responsible for paying the balance of the purchase price for your property, along with legal costs and any other costs associated with buying property, in the usual way. Land and Buildings Transaction Tax is applicable on properties over £145,000. Your solicitor will be able to advise you on the terms of all documentation. You should ensure you understand and are comfortable with these terms before entering into any legal commitment.**

Once your offer on a property has been accepted (even if just orally) you can then complete the application form for the scheme, available at <https://linkhousing.org.uk/firsthomefund>. This form will ask you for personal details, as well as information about the property you are purchasing. You will also be able to set out how much of a contribution you want to receive through the scheme, up to a maximum of £25,000 or a 49% equity share.

**You will not be able to apply to the scheme if your solicitor has already concluded legal missives on your property purchase. You must submit your application before this happens in order to be considered for support from the First Home Fund.**

If you are applying for a joint mortgage, only one applicant needs to be a first-time buyer to qualify for the scheme, provided that none of the joint applicants still own another property by the time you are ready to complete the purchase of your new property. If you and your partner are both first-time buyers you will only be able to receive one contribution towards the property from the Scottish Government.

The application form also includes several monitoring questions. In answering these questions you will be helping the Scottish Government evaluate the scheme and understand who is applying.

The completed form will then be sent on to the Administering Agent for the scheme. The Administering Agent will complete a Sustainability Assessment when they

receive your application, to assess whether you can meet the monthly mortgage payments for the property.

If your application is accepted then an Award Letter will be issued by the Administering Agent. This is sent to you, your IFA (if you have one) and your solicitor as well as to the Scottish Government's solicitors. This letter allows you, or your IFA, to complete a full mortgage application that will take into account the Scottish Government contribution towards the deposit.

The Award Letter is valid for 3 months, during which time you are expected to conclude missives. You will need to contact your IFA and lender as soon as you receive this Award Letter to start the process for a full mortgage offer. The settlement of the purchase must be completed within 6 months of the date when you conclude missives.

If you do not conclude missives within this 3 month period then your application will be cancelled. A new application would then need to be submitted by you if you still wished to take advantage of the scheme.

**Providing incorrect or misleading information on your application form can result in support being delayed or withdrawn. It is a criminal offence to knowingly or recklessly make a false declaration or withhold information reasonably required in connection with an application.**

A fee of £550 will be charged and collected by the Administering Agent once they receive your application. This will be refunded to you if your application fails at any time, except in cases where there has been misrepresentation or fraud on your part.

The equity percentage that the Scottish Government will hold is based on the property valuation, not the final purchase price. You are able to pay above the property valuation, however the Scottish Government's percentage equity share will be calculated based on the property valuation figure, if the valuation is lower than the purchase price you agree to pay.

### Example of buying property above market value

|                        |                              |
|------------------------|------------------------------|
| Property valuation     | £100,000                     |
| Applicant contribution | £95,000 (including mortgage) |
| SG contribution        | £25,000                      |
| Purchase price         | £120,000                     |

|                        |     |
|------------------------|-----|
| SG Equity share        | 25% |
| Applicant equity share | 75% |

In this example the property has been purchased for £120,000, £20,000 over the property valuation. The Scottish Government has provided a contribution of £25,000.

If the equity stake was based on the purchase price then the Scottish Government would hold a 21% share. However, where the purchase price is higher than the valuation, then even if you pay above valuation, Scottish Government's equity share is still based on the valuation figure. Therefore the Scottish Government share is still 25%.

**By paying above the valuation figure you are increasing your risk of negative equity which is when your borrowings exceed the market value.**

### Your Responsibilities

If you decide to take part in the First Home Fund you will own your property outright and have full title to the property.

Home ownership brings certain responsibilities and obligations. You will be responsible for all maintenance, insurance, tax and repair costs, and ensuring the property is kept in a habitable state. These costs are not shared with the Scottish Government based on the equity shares, and you are responsible for the **full** amount.

Before buying a property you should carefully read the Home Report survey as this will set out any repairs that are needed. You will be responsible for completing these repairs, so you need to ensure you can afford to pay for them. To be eligible for the scheme the property must meet the [Tolerable Standard](#).

## **Tolerable Standard**

The Tolerable Standard is a legal definition set out in Section 86 of the Housing (Scotland) Act 1987. It sets out a range of requirements that a property must meet in order to be fit for purpose, such as being structurally stable, properly heated and having a stable water supply (among others).

In most cases a lender will not provide you with a mortgage on a property that does not meet the Tolerable Standard. Your solicitor will be able to advise you further on this.

Your property may also be subject to common maintenance or service charges (for example for common stairs in a block of flats) and factors fees – your solicitor will be able to advise you of these costs before you complete your purchase.

## **Increasing Your Equity Share**

If you are looking to increase your equity share you should speak to the Administering Agent in the first instance.

There are costs involved when increasing your equity share and you will be responsible for meeting all of these costs.

The Scottish Government's share in the property will normally be repaid when you sell, however you have the option of increasing your share beforehand. There are some conditions on how you can increase your share, which are covered below:

- You must increase your equity share by at least 5%.
- If your equity share is 90% or higher, any further increase must be to 100%.
- You may increase your equity share up to 100%

In order to increase your equity share, a property valuation must be undertaken. This will provide you with the open market value of the property which will be used to calculate equity shares. You will have three months from the date of this valuation to increase your equity share and make payment.

For the purposes of increasing your equity share, calculations will be based on the open market valuation of the property. This means that if your property has gone up in value from the time you purchased it, then the Scottish Government's equity share will be of a greater value. The example below demonstrates how an increase in property value changes the value of each party's equity share:

**Example – Increasing your equity share where a property has increased in value**

|  |          |
|--|----------|
| Original valuation and purchase price                        | £100,000 |
| Your equity share  | 80%      |
| Scottish Government equity share                             | 20%      |
| Current open market valuation                                | £130,000 |
| Your equity share (80% of £130,000)                          | £104,000 |
| Scottish Government equity share (20% of £130,000)           | £26,000  |
| Owner's new equity share (85% of £130,000)                   | £110,500 |
| Owner's payment to SG (5% of £130,000 (£110,500 - £104,000)) | £6,500   |
| Scottish Government's new equity share (15% of £130,000)     | £19,500  |

**Selling Your Property**

If you are looking to sell your property you should speak to the Administering Agent in the first instance.

There are costs involved when selling a property and you will be responsible for meeting all of these costs. Your solicitor will be able to set out what these costs are as well as their own fees. Please note these costs are not deducted from the proceeds of the final sale of the property.

You will repay any outstanding Scottish Government equity share when you sell your home. The amount repaid is dependent upon the equity share held by each party. For example, if you sell your home for £140,000 and hold an 80% share, you will pay £28,000 to the Scottish Government to cover its 20% equity share. This applies irrespective of whether you purchased above or below valuation.

The value of your property may have decreased when you sell it, however the split of the sale price based on the equity shares remains the same.

You cannot sell your property below 95% of the valuation figure without the agreement of the Scottish Ministers.



## Example

### An example of when the value of your property decreases

|  |          |
|--|----------|
| Initial property value and purchase price (whichever is lower) | £100,000 |
| Your share – 80 per cent                                       | £ 80,000 |
| Scottish Government's share – 20 per cent                      | £ 20,000 |
| Sale price   | £ 90,000 |
| You receive 80 per cent  | £ 72,000 |
| Scottish Government receives 20 per cent                       | £ 18,000 |

For more information on increasing your equity share or selling your property please see the Shared Equity After Sales guide available After Sales Shared Equity Procedures: Guidance 2019

## Where to Apply

You can apply to the scheme by completing the online application form at <https://linkhousing.org.uk/firsthomefund>

## Where to find an IFA

The Financial Conduct Authority has an advice page on how to find an IFA (<https://www.fca.org.uk/consumers/finding-adviser>), as well as a register of IFAs that are regulated and approved by them (<https://register.fca.org.uk/>).

Please note that if you take advice from an unregulated IFA you will **not** have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme if things go wrong.

## Qualified lenders

A qualified lender is any lending institution that is authorised under the Financial Services and Markets Act 2000 and who have permission to enter into regulated mortgage contracts.

This will include most banks and building societies. As with IFAs, the Financial Conduct Authority maintains a register of authorised persons on its [website](#).

Each lender will have their own terms and conditions for their mortgage products. These should be fully explained to you by the mortgage adviser.

## Further Information

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

Link Housing  
Watling House  
Callendar Business Park  
Falkirk  
FK1 1XR  
Telephone: 0330 303 0125  
[firsthomefund@linkhaltd.co.uk](mailto:firsthomefund@linkhaltd.co.uk)