



DEPARTMENT OF INFRASTRUCTURE



SHARED EQUITY PURCHASE ASSISTANCE (FIRST HOME FIXED) SCHEME 2014

Explanatory Leaflet

August 2022

Shared Equity Purchase Assistance (First Home Fixed) Scheme 2014

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These notes and the examples within are offered for guidance purposes only and are not intended to be a definitive interpretation of the Shared Equity Purchase Assistance Scheme (First Home Fixed) 2014.

You must read these notes carefully. Before considering home ownership you should seek advice from your mortgage provider or independent financial advisor and if you decide to proceed, you should also seek advice from an Advocate. Your Advocate should explain the terms and conditions upon which you will be purchasing a property so that you are fully aware of them and the restrictions on any future sale.

1. Introduction

The purchase of a home is a major decision and is likely to require your largest ever financial commitment. Buying a property involves not just monthly mortgage repayments, but also rates, insurance and repairs and maintenance. **Before considering home ownership you should seek advice from an independent financial adviser. In addition please read carefully the following sections which should provide an explanation of what kind of assistance may be available through this scheme, the type of property that is eligible for assistance, and how you can make an application or get some further advice.**

2. What is the Shared Equity Purchase Assistance (First Home Fixed) Scheme?

First Home Fixed offers a more affordable option of home ownership to you, by providing financial assistance to allow you to buy less than a 100% share in your home (with an option to increase your share up to 100% at a later date). The remaining share of between 5% and 30% would be purchased by the Department. **The First Home Fixed Scheme is targeted at applicants on low incomes.**

If, in the opinion of the Department, you do not require the level of assistance provided by this Scheme you may be redirected to the First Home Choice Scheme.

3. What is the Register of First Time Buyers?

The Department of Infrastructure maintains a **Register of First Time Buyers** (the Register) for those interested in purchasing a home for the first time. To qualify for inclusion on the Register you must satisfy the criteria of the **First Home Fixed Scheme**.

You must be on the Register to be considered for first time buyer "approved dwellings" usually available on new housing developments.

Alternatively, you can apply to the First Home Choice Scheme which provides financial assistance for the purchase of properties on the open market. Further information about the First Home Choice Scheme is available at www.gov.im/firsttimebuyers.

4. Who is eligible for assistance under the Scheme?

- You and your spouse/partner (if the application is joint) must have lived on the Island continuously for five years up to the date of your application, or for periods totalling at least fifteen years up to that date (but you must have been permanently resident on the Island for a period of at least six months prior to your application to the Scheme).

- Single persons **without** children applying to the Scheme must have a gross income of **no more** than **£33,000** per annum. Couples **without** children must have a total gross income of **no more** than **£44,000** per annum. Single persons or couples with one or more children must have a total gross income of no more than **£55,000** per annum.
- You must be able to acquire a mortgage for the balance from your chosen Bank or Building Society.
- You must be able to demonstrate your ability to contribute the required 5% deposit.
- **If you have previously owned a property either solely or jointly, whether on the Island or in any other country, you must demonstrate that you need help to be able to afford to purchase a property suitable to your housing need.** To do this, you will be required to provide additional documentation such as a settlement statement showing how much you received out of the sale of your interest in the property and recent bank statements for all accounts showing current savings and funds available to you etc.
- The Scheme is budget limited. Therefore, in order to help as many people as possible, your circumstances and housing need will be taken into account when making a decision. As such, eligibility for assistance does not constitute a right to receive it.

5. Which properties are eligible?

Only "approved" dwellings offered for sale by the Department, to eligible applicants listed on the Register of First Time Buyers, will be eligible for assistance under the First Home Fixed Scheme.

- An **"approved" dwelling** is a new or buyback property on an "approved" development undertaken by the Department or private developer built to spatial and technical standards determined by the Department.
- The maximum purchase price under the Scheme for the dwelling is determined by the circumstances of the applicant(s). If a single person or a couple without children is the applicant then they can apply for assistance on two bedroom flats and two bedroom houses up to a maximum discounted purchase price of **£150,000** and **£175,000** respectively. For single or joint applicants with one or more children assistance can be provided on two or three bedroom houses up to a maximum discounted purchase price of **£175,000** and **£185,000** respectively. **Priority will always be given to existing families when allocating larger properties.**

6. What is approved Income?

Approved income is calculated as follows:

- For a single employed applicant, the gross basic income, plus regular overtime (exceeding 10% of basic income). Gross income includes income from all sources such as regular bonuses, savings interest and regular shift allowances.
- For a self-employed applicant, the average of the last three years gross income as shown by audited accounts.
- Approved income will also include all other income from other sources to the extent allowed by the Department.
- For joint applicants the whole of both gross basic incomes, including regular overtime (exceeding 10% of basic income). Gross income includes income from all sources such as regular bonuses, savings interest and regular shift allowances.

- Income will need to be verified by the employer or by production of audited accounts or tax assessments where applicable.
- Where an application to purchase a property is made by an applicant in their sole name, any assistance provided under the Scheme shall take account of the income of your spouse or partner, if applicable.

The Scheme is intended to help bridge any shortfall between the funds you have or could reasonably expect to obtain from your mortgage lender, deposit, additional funds/savings and the purchase price. You will be expected to have obtained as high a mortgage as possible. The Department would generally expect your mortgage to be at least three and a half times your gross income (joint gross income in the case of a joint application). The Department will not consider your application if you have personal loans or other financial liabilities that would prevent you from obtaining the required level of mortgage.

The Department may **refuse** an application if in the opinion of the Department, you have, or will shortly have, sufficient means to buy a dwelling without assistance under this Scheme.

7. What level of deposit/funds must be contributed towards the purchase?

All First Time Buyers are expected to contribute as much as they can to their purchase and are therefore required to demonstrate that they are able to provide a deposit of **at least 5%** of the purchase price of the property. In addition you will be expected to contribute a proportion of any savings/additional funds you may have in excess of this amount. The definition of savings/additional funds includes all funds available to you. For example, it includes savings, gifts and inheritances.

For any savings/additional funds held in excess of the 5% deposit, the Department may allow applicants to retain £15,000 of these funds to pay for costs such as legal, mortgage and valuation fees. However, if the total additional funds available to you are higher than £15,000, you are required to contribute the remaining amount towards the purchase. For example, if you have additional funds of £20,000, you would retain the initial £15,000. This would mean an extra contribution of £5,000 would be required in addition to the 5% deposit.

In order to assess the overall funds available to you, applicants and their spouse or partner are required to submit details of gifts/inheritances and savings. In the case of savings, up to date Bank Statements for all relevant accounts should be provided.

Please note that failure to disclose details of all funds available to you and any other relevant information is an offence under the Housing (Miscellaneous Provisions) Act 2011. This will be regarded as an attempt to defraud the Department and appropriate action will be taken.

8. What kind of financial assistance is available under the Scheme?

The Scheme provides financial assistance by way of purchasing an equity share of between 5% and 30% of the purchase price of the property. The Department's equity share lasts for the life of your ownership of the property.

As 'approved' properties are sold at a subsidised rate there is an element of 'discount' within the purchase price of the property. Along with its Equity Share the Department will also hold 50% of this discount. This example, for illustration purposes only, shows how the Department's full Equity Share is calculated at the point of purchase.

| | | |
|----------|---|--------------|
| A | Market Value | £225,000 |
| B | Purchase Price | £175,000 |
| C | Discount £ (A minus B) | £50,000 |
| D | DOI Equity Loan £ (30% of Purchase Price (B)) | £52,500. |
| E | Value of DOI Equity Share £ (inc. 50% of discount) (D plus half of C) | £77,500. |
| F | DOI Equity Share % | 34.4% |

With the above example, after five years, the Department's actual share in the property is 34.4% for the lifetime of your ownership of the property, unless you purchase the Department's equity share in whole or in part at any time after the fifth anniversary of the property purchase.

After the first anniversary of your purchase, interest becomes payable and will be charged against the Department's share at whichever is the lesser of either 1% per annum, rising by 1% each year or the Bank of England Base Rate plus 3%, as applicable on the anniversary of your purchase each year. Interest will be payable on an annual basis and the Department may take payments in advance at regular intervals to facilitate budgeting.

You should be aware that your home may be at risk if you fail to keep up with all repayments associated with this scheme.

9. Can I purchase the Department's equity share?

A pre-emption period of five years from the date of purchase will exist which limits the value of your property to the purchase price for that period and your resale options.

After five years you may buy out the total or part of the Department's share in your dwelling, at the prevailing market rate, at any time provided that:-

- (a) The amount of the equity purchased is either
 - The whole of the remaining share; or
 - £1,000 or greater.
- (b) You have not previously purchased a part of the Department's equity share in the previous six months;
- (c) You pay the £50 administrative fee to the Department
- (d) You pay all professional, mortgage, registration and any other fees and expenses incurred by yourself in connection with the purchase of the Department's equity share.

You are not obliged to buy out the Department's equity share, but you should be aware that the Department's share remains for the lifetime of your ownership and any improvements you make to increase the value of the property will also be reflected in the value of the Department's share. (See section 10.4)

10. Are there any other conditions of assistance?

- (1) You will be responsible for paying all fees such as professional (i.e. advocates), mortgage, and any charges incurred in connection with the application.
- (2) There is no fee for First Time Buyer registration but an application for financial assistance under the Scheme is subject to an administration fee of £100.

- (3) **The dwelling must be used for your own full-time occupation, and must not be used for any trade or business, or let or sub-let, without the prior consent in writing of the Department.**
- (4) Whilst the Department retains an equity share of the property you must:
 - (a) keep the dwelling in good repair at all times;
 - (b) pay all outgoings in respect of the dwelling;
 - (c) **seek written permission from the Department for any increases to borrowing, extensions or major alterations to the property**
 - (d) comply with all legal requirements relating to planning and building control;
 - (e) insure the dwelling against fire and all other risks required by the Department in the joint names of yourself and the Department; and
 - (f) allow the Department to inspect the dwelling at any reasonable time

Please be aware that as the Department holds a fixed equity share in your property, the Department would also benefit, in terms of value added to the property, by any extensions or major alterations.

11. What happens if I wish to sell, move to a larger dwelling?

- (1) If you have purchased an approved dwelling and wish to sell the property **the outstanding balance of the Department's equity share, plus any accrued interest, will become repayable.**
- (2) For the first **five years** the value of your property is **fixed** at the purchase price. As such, if you were to sell the property back to the Department in this period you would only receive the amount you paid for it.
- (3) After five years the property may be sold on the open market with the Department recovering its Equity Share as illustrated in **section 8** plus any outstanding accrued interest.
- (4) If you wish to sell the property because you need a larger dwelling due to changes in your family circumstances the Department may, at its discretion and in exceptional circumstances, permit any outstanding Equity Share to be transferred to a second property on the open market, providing that you sell to a First Time Buyer under the provisions of the Scheme.

The equity share held in the second property will also apply for the lifetime of your ownership of that property and the general terms and conditions of the First Home Choice Scheme will apply.

12. Need help?

The purchase of a home is a major decision and is likely to require your largest ever financial commitment. Buying a property involves not just monthly mortgage repayments, but also rates, insurance and repairs and maintenance. **Before considering home ownership you should seek advice from an independent financial adviser. Please note that the Department cannot provide legal or financial advice in respect of your eligibility**

and/or application. However, if you have any general queries or need further information about the Register or the Scheme please contact;

**Department of Infrastructure
Public Estates and Housing Division
2nd Floor, Markwell House
Market Street, Douglas
IM1 2RZ**

**Telephone: (01624) 685955
Fax: (01624) 685943
E-mail: Housing@gov.im**

Data Protection Statement

The information you provide when you apply for assistance towards the purchase of a property will only be processed for the purposes of dealing with your eligibility assessment under the Shared Equity Purchase Assistance (First Home Choice) Scheme 2014 and for anonymised statistical analysis and reporting. Your information may be shared with Income Tax Division for the purpose of making enquiries relevant to assessing your eligibility. Our Privacy Notice explains how we collect, store and handle your personal data in line with current data protection legislation as applied in the Isle of Man. If you would like to find out more please visit our website at www.gov.im/infrastructure/ or contact our Data Protection Officer on 686785 for a paper copy.

Fraud Warning

Please note that provision of false information for the purpose of obtaining a payment under this Scheme is an offence under the Housing (Miscellaneous Provisions) Act 2011. This will be regarded as an attempt to defraud the Department and appropriate action will be taken.

Illustrations for General Guidance Only

Please be aware that the values in these examples are purely for illustration purposes only. Although they show a modest increase, you should be aware that the value of your property may go down as well as up and the value of your share will be affected by the prevailing rate.

| Calculation of Equity Share – First Home Fixed | | |
|---|---|--------------|
| A | Market Value | £225,000 |
| B | Purchase Price | £175,000 |
| C | Discount £ (A minus B) | £50,000 |
| D | DOI Equity Loan £ (20% of Purchase Price (B)) | £35,000 |
| E | Value of DOI Equity Share £ (inc. 50% of discount) (D plus half of C) | £60,000 |
| F | DOI Equity Share % | 26.7% |

Illustration below shows repayments of Department's Equity Share where the Market Value at time of purchase is £225,000, the discounted purchase price is £175,000 and the Equity Loan is £35,000. Market value applies after 5 year pre-emption period. Equity share is then made up of original equity loan plus 50% of discount calculated as shown above.

| Year | Equity Loan | Equity Share Payment by Applicant | Equity Share* | Example Market Value | Example Sale Value |
|------|-------------|-----------------------------------|---------------|----------------------|--------------------|
| 1 | £35,000 | | 20.0% | £175,000 | £175,000 |
| 2 | £35,000 | | 20.0% | £175,000 | £175,000 |
| 3 | £35,000 | | 20.0% | £175,000 | £175,000 |
| 4 | £35,000 | | 20.0% | £175,000 | £175,000 |
| 5 | £35,000 | | 20.0% | £175,000 | £175,000 |
| 6 | £35,000 | | 26.7% | £235,000 | £235,000 |
| 7 | £37,010 | -£7,990 | 23.3% | £235,000 | £235,000 |
| 8 | £37,010 | | 23.3% | £237,000 | £237,000 |
| 9 | £37,010 | | 23.3% | £240,000 | £240,000 |
| 10 | £29,508 | -£7,502 | 20.2% | £242,000 | £242,000 |
| 11 | £24,508 | -£4,900 | 18.2% | £245,000 | £245,000 |
| 12 | £24,508 | | 18.2% | £245,000 | £245,000 |
| 13 | £12,153 | -£12,455 | 12.9% | £235,000 | £235,000 |
| 14 | £12,153 | | 12.9% | £237,500 | £237,500 |
| 15 | £0 | -£14,400 | 6.9% | £240,000 | £240,000 |
| 16 | £0 | | 6.9% | £245,000 | £245,000 |
| 17 | £0 | -£10,780 | 2.5% | £249,000 | £249,000 |
| 18 | £0 | | 2.5% | £249,000 | £249,000 |
| 19 | £0 | | 2.5% | £250,000 | £250,000 |
| 20 | £0 | -£6,375 | 0.0% | £255,000 | £255,000 |

** Balance of DOI equity share value divided by prevailing market value. After 5 year pre-emption period Equity Share includes 50% of the purchase discount).*

Application of Interest

The below illustration shows how the interest charged may change from the incremental rate to Base rate plus 3%, depending on how the Bank of England Base Rate rises.

In this illustration up to year 6, interest is charged at the incremental rate as this is the lower rate. In years 6 and 7, the Base Rate plus 3% is the same as the incremental rate. Then from year 8, the Base Rate plus 3% becomes lower than the incremental rate, and therefore becomes the applied rate.

EXAMPLE ILLUSTRATION OF INTEREST APPLICATION – SHARED EQUITY

| YEAR | Interest @1% incremental per | Bank of England Base Rate - example | Base Rate plus 3% | Interest Rate applied * |
|------|------------------------------|-------------------------------------|-------------------|-------------------------|
| 1 | 0.0% | 1.5% | 4.5% | 0.0% |
| 2 | 1.0% | 1.5% | 4.5% | 1.0% |
| 3 | 2.0% | 2.0% | 5.0% | 2.0% |
| 4 | 3.0% | 2.5% | 5.5% | 3.0% |
| 5 | 4.0% | 2.0% | 5.0% | 4.0% |
| 6 | 5.0% | 2.0% | 5.0% | 5.0% |
| 7 | 6.0% | 3.0% | 6.0% | 6.0% |
| 8 | 7.0% | 3.0% | 6.0% | 6.0% |
| 9 | 8.0% | 3.0% | 6.0% | 6.0% |
| 10 | 9.0% | 3.0% | 6.0% | 6.0% |
| 11 | 10.0% | 4.0% | 7.0% | 7.0% |
| 12 | 11.0% | 3.0% | 6.0% | 6.0% |
| 13 | 12.0% | 4.0% | 7.0% | 7.0% |
| 14 | 13.0% | 3.0% | 6.0% | 6.0% |
| 15 | 14.0% | 4.0% | 7.0% | 7.0% |
| 16 | 15.0% | 5.0% | 8.0% | 8.0% |
| 17 | 16.0% | 5.0% | 8.0% | 8.0% |
| 18 | 17.0% | 5.5% | 8.5% | 8.5% |
| 19 | 18.0% | 5.5% | 8.5% | 8.5% |
| 20 | 19.0% | 5.5% | 8.5% | 8.5% |
| Etc. | Etc. | Etc. | Etc. | Etc. |

