



# An introduction to the **Shared Equity Scheme**



## What is the Shared Equity Scheme?



**The Sale to Tenant Shared Equity Scheme is aimed at providing an alternative home ownership opportunity to public housing tenants. It is made possible by Housing ACT, partnering with IMB.**





## **Housing ACT's share**

Housing ACT will take up to 30% of the sale price as its share in the property.

## **Your share**

You will purchase a minimum of 70% of the value of the property as your share.

## **Borrow from IMB**

IMB and Housing ACT have entered into an agreement that makes this scheme possible. If you need to borrow money, you will have to borrow it from IMB, and enter into a loan agreement with IMB.

## **Full ownership of property and no rent**

You will be the full owner of the property and will no longer need to pay rent.

## **Repayments to IMB**

You will be required to make repayments to IMB in accordance with your loan agreement (e.g. monthly repayments). IMB will hold a mortgage over your property until all monies owing are paid.

## **Repayments to Housing ACT**

You will be required to make at least two lump sum payments. The payments will be calculated based on the market value of the property at the time of making a payment. As a result, you and Housing ACT will share in increases or decreases in the property value (i.e. share the equity in the property). Housing ACT will hold a mortgage over your property until all monies owing are paid.

## Who is an eligible tenant?



You are eligible to buy your Housing ACT property if you:

- have been a continuous public housing tenant for a minimum of three years
- are a current head tenant and are occupying the dwelling you are applying to purchase
- have no rental arrears or legal action pending regarding tenancy matters.



# Are all Housing ACT homes available for sale?



No. There are several reasons why Housing ACT may not approve the sale of a property, for example:

- it is not separately titled (e.g. a flat)
- it was constructed less than 10 years ago
- it is in a suburb where Housing ACT own less than 5% of properties in the suburb and a suitable replacement property is unlikely to be sourced
- it has recently undergone expensive upgrade or maintenance works
- it is a larger property and would be difficult to replace
- the property has redevelopment potential
- the property has a potential for upgrading
- the property would be hard to replace due to current market activity.

Housing ACT will also take into consideration the:

- age of the property
- size of the property including the number of bedrooms
- location/zoning of the property (suburb)
- level of public housing ownership in the suburb
- demand and waitlist need in the suburb
- availability of replacement properties
- development potential of the property.

# What are the steps for purchasing the property?



## Step 1: Registration of Interest form

The first step in commencing the process of purchasing a property is to lodge a *Registration of Interest* form with Housing ACT. On receipt of the form, Housing ACT will assess your eligibility and your property's eligibility for purchase (as outlined on pages 4 and 5 of this brochure).

If you have been assessed as eligible you may wish to approach IMB to determine your capacity to borrow and obtain conditional loan approval prior to paying the \$300 Administration Fee in Step 2.

## Step 2: Proceed with Market Valuation form

If you have been assessed as eligible by Housing ACT you then need to complete a *Proceed with Market Valuation* form and pay a \$300 administration fee. On this form you will be required to list all relevant improvements you have made to the property.

Once you have done this, no further maintenance work will be carried out on the property other than urgent repairs of a health, safety and security nature.

Housing ACT will then initiate a formal market valuation of the property by one of its and IMB's qualified independent valuers.



The valuer will contact you to make an appointment to gain access to the property. They will compile the valuation report and will send it to Housing ACT.

On receipt of the valuation report, Housing ACT will advise you in writing of the sale price.

The final sale price of the property will be based on the current market valuation, less the added value of any approved assessable improvements you have made to the property.

### **Step 3: Arrange finance**

You then need to arrange finance with IMB if you are going to borrow money to purchase your share of the property.

IMB will assess whether you are financially eligible to proceed with the scheme.

### **Step 4: Proceed to Reports form**

If you obtain finance from IMB and you wish to proceed with the purchase then you need to complete a *Proceed with Reports* form and pay a \$700 assurance fee.

On receipt, Housing ACT will arrange for building, pest and energy rating reports.



## Step 5: Acceptance of offer

On receipt of the building, pest and energy rating reports, Housing ACT will mail them to you together with a *Letter of Offer* and an *Acceptance of Offer* form for you to complete and return to Housing ACT, by the due date specified in the letter.

## Step 6: Sign contracts

Once the completed *Acceptance of Offer* form is received, Housing ACT will instruct its solicitor to prepare the *Contract for Sale* of the property and Housing ACT's loan agreement.

IMB will provide its relevant loan agreement to you directly.

Your solicitor will need to sign a *Solicitor's Certificate* which certifies that he/she has explained all of the above documents to you. This will be attached to the *Contract for Sale*.

## Step 7: Exchange contracts

Your solicitor should then arrange for your signed *Contract for Sale* for the property to be exchanged with a *Contract for Sale* executed by Housing ACT.

You will not have to pay any further money at this stage. Your \$1,000 already paid will be credited as the 'deposit'.



## Step 8: Settlement

At settlement you will pay your share of the price for the property (less the \$1,000 deposit already paid and subject to adjustments for land charges and rental payments).

This should occur within the specified timeframe on the contract (usually 30 days). Once settlement takes place you become the homeowner and you will no longer have to pay rent.

You will also be responsible for making payments usually required by homeowners such as being responsible for all maintenance, rates and water consumption.

# What loan repayments will I be required to make?



IMB and Housing ACT will have mortgages over your property and you will need to make repayments.

## What repayments will I need to make to IMB?

You will be required to make repayments to IMB in accordance with your loan agreements (e.g. monthly repayments). You should make your own enquiries with IMB concerning the amount and frequency of your repayments.

IMB will hold a mortgage over your property until all monies owing are paid.

## What repayments will I need to make to Housing ACT?

### *Why do I need to make repayments to Housing ACT once I own the property?*

At settlement when the property is transferred into your name, you do not need to pay the full purchase price for the property.

Housing ACT therefore retains an equity share in the property. This equity share is repayable to Housing ACT in accordance with your loan agreement.



### ***Are monthly repayments required to be paid to Housing ACT?***

No. Regular monthly payments are not required like a standard lending arrangement. You will be required to make at least two lump sum payments.

The first repayment is due five years from the date that you own your property (the Fifth Anniversary Payment).

The second repayment is due 15 years from the date that you own your property (the Fifteenth Anniversary Payment). This repayment will reduce Housing ACT's equity share to zero.

All repayments will be calculated as a percentage of the market value of the property at the time of making the repayment. As a result, you and Housing ACT will share in increases or decreases in the property value (i.e. share the equity in the property).

Your improvements to the property will not be deducted from the market value of the property (like they were when the original price for the property was determined).

### ***How is the Fifth Anniversary Payment calculated?***

The Fifth Anniversary Payment will be 15% of Housing ACT's equity share. If at this stage Housing ACT has a 30% equity share then this means that you will need to pay 4.5% of the value of the property.

For example, if after five years the property is valued at \$400,000 this means you will need to pay:

$$\$400,000 \times 4.5\% = \$18,000$$

Housing ACT's equity share will then be reduced to 25.5%.



### ***How is the Fifteenth Anniversary Payment calculated?***

The Fifteenth Anniversary Payment will be for the remainder of Housing ACT's equity share.

If after 15 years Housing ACT has a 25.5% equity share and the property is valued at \$600,000 then you will need to pay:

$$\$600,000 \times 25.5\% = \$130,050$$

Housing ACT's equity share will then be reduced to zero.

Housing ACT will hold a mortgage over your property until such a time as you have repaid its equity share.

### ***Can I make additional repayments?***

You are encouraged to make additional repayments as soon as you can to increase your equity share in the property.

If you would like to make an additional repayment then you need to notify Housing ACT by submitting a *Notice of Intention to Increase Your Equity Share* form. Housing ACT will not accept a repayment of less than 5% of Housing ACT's equity share.

# Frequently asked questions



## What is equity?

Equity is the remaining value in the property once all liabilities are paid. For example your equity in your home will be the difference between the amount your home could be sold for and the amount that you still owe.

## What does it mean to share equity?

This means that you and Housing ACT own a share of the property's value.

You will own the property outright but the interests of Housing ACT will be secured by a mortgage over the property.

This means that both you and Housing ACT will have a stake in the value of the property whatever changes there are to the property value over time.

## Can I use a lender other than IMB?

No. For the Shared Equity Scheme, Housing ACT has entered into an agreement with IMB in relation to this scheme.



## Will I need a solicitor?

Yes, you will need to find a solicitor to provide you with advice and carry out the legal work involved in buying a home (called conveyancing).

Your solicitor can also:

- offer you advice about your legal agreement with Housing ACT and IMB and what your obligations will be
- help you arrange your mortgage with IMB and Housing ACT
- help you with any other aspect of the purchase.

Housing ACT will not sell the property to you unless you have provided Housing ACT with a solicitor's certificate in which the solicitor certifies that he or she has explained all aspects of the scheme with you.

## How much can I afford to borrow?

You will need to make your own enquiries in relation to this from IMB.



## What costs do I need to consider when purchasing a property?

You will need to consider the costs of repayments that need to be made to IMB and Housing ACT.

You will also need to take into account the other costs of buying a home including:

- a deposit of \$1,000 (i.e. your \$300 application fee payable at Step 1 and the \$700 fee payable at Step 4)
- solicitor's fees
- mortgage protection insurance
- stamp duty.

You should discuss these costs with your solicitor.

## If I am eligible for the First Home Owner Grant can I use this to pay my costs?

Yes.

## Can I pay monthly repayments to Housing ACT?

No. Repayments need to be made for no less than 5% of Housing ACT's equity share.

Before making a repayment, an independent valuation is required to be arranged to determine the amount that is 5% of Housing ACT's equity share at that time.



## When do I stop paying rent?

You should continue making rent payments until two weeks prior to the settlement date (when you will own the property). If you are paying your rent by direct debit you should cancel the deductions before settlement takes place.

Queries about your rent should be directed to your Housing ACT Manager.

Two weeks prior to the settlement date you should arrange to cease your rental 'direct debit' payment arrangements with your bank/building society.

## When do I stop receiving maintenance works?

Once you have advised Housing ACT that you wish to proceed to valuation (Step 2 in the process), Housing ACT will instruct the valuer to assess the property and you will stop receiving maintenance works (other than urgent maintenance works).

Once you own the property you will be responsible for all maintenance works.

If at any stage you decide not to progress with the purchase, all maintenance works will re-commence.



## **What are my responsibilities as the owner of the property?**

You will have full legal title to the property and will no longer be a tenant. For example, as the owner you will be responsible for:

- your legal costs on purchase
- the insurance of the property (e.g. building and contents insurance)
- all maintenance, repair and insurance costs (not just a percentage based on your equity interest)
- rates
- water charges
- other household bills
- other living expenses.

## **Can Housing ACT still conduct inspections once I own the property?**

Yes. Housing ACT is a mortgagee and this is a standard right of a mortgagee. Housing ACT are planning to exercise this right yearly.

## **Once I own the property, if I make improvements to it, will this be taken into account?**

No. Once you own the property, the value of your improvements will not be deducted from the valuation used to assess the amount of your repayments.



## **What happens if I fall behind in my mortgage repayments?**

You should always prioritise your mortgage above all other debts. If you fall behind with your mortgage payments, you may be in danger of losing your home, so it's very important that you take action straightaway.

If you fall behind you should contact IMB and Housing ACT to discuss the situation further.

## **Can I sell the property?**

Yes you can but you must first provide Housing ACT with notice and Housing ACT may exercise its right to purchase the property from you. If Housing ACT decides that it does not wish to buy the property from you then you may sell it privately or publicly. Before selling the property you must pay Housing ACT its equity share.

## **How should I find out more about the scheme?**

For further information regarding the sale of Housing ACT properties under the Shared Equity Scheme please refer to the policy located at [www.dhcs.gov.au/sharedequity](http://www.dhcs.gov.au/sharedequity).

You can get information and advice about mortgages from IMB directly on 133 662 or at IMB website, [www.imb.com.au](http://www.imb.com.au)

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Housing ACT strongly recommends that you make your own enquiries and that you obtain legal, financial and accounting advice prior to making an application and/or purchasing a property under this scheme.



