



# **Equity Loans Policy**

**Local Housing Strategy  
2012 – 2017**

**May 2013**

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## **1. Introduction**

- 1.1 The policy sets out how Aberdeenshire Council proposes to provide equity loans for homeowners in Aberdeenshire to help them to repair, maintain, improve or adapt their homes.

## **2. Background**

- 2.1 The Housing (Scotland) Act 2006 introduced new powers for local authorities to extend financial assistance from grants to include standard and subsidised loans.
- 2.2 An equity loans fund would be able to assist those homeowners who genuinely cannot afford to pay for repairs and maintenance to their homes. This reflects the council's principles of investing early and preventing both the deterioration of the property and of the homeowner falling into housing need.
- 2.3 The overall objective of offering any financial assistance to homeowners would be to meet the gap in capability faced by the homeowner, which is represented by what the owner can do and what they need to do.
- 2.4 Many homeowners cannot access commercial lending on terms that are fair and affordable and in these circumstances the objective of financial assistance would be to provide a suitable lending product. There are many homeowners who are "asset rich" and "cash poor." They have no real means of accessing affordable loans to allow them to pay for repairs and maintenance to their homes. Importantly, if no action is taken by the homeowner it could end up with them losing their home and put more pressure on the Council's housing waiting list.
- 2.5 Equity release type loans are a way of raising money against the value of the home. Whilst there has been negative press surrounding such loans; the way this scheme operates is linked to house price inflation which may be deemed to be a much fairer way of operating. This loan would require no repayment of capital or interest during the life of the loan and is expressed as an agreed percentage of the property value. When the property is sold, the borrower repays the same percentage of the sales proceeds. The loan therefore benefits from any appreciation in the property value.
- 2.6 For example, if the house was valued at 200k and the owner needed 20k of repairs carried out, the Council would have a 10% equity stake in the property. When the property was sold at a later date and it was worth, say 250k, the Council would still own 10% of the property and 25k would go back to the Council which would then allow more homeowners to be assisted in the same way.

### **3 Strategic Outcome**

3.1 The overarching aim of the Private Sector Housing Strategic Outcome Statement is to improve the quality of private sector housing. The Equity Loans policy aims to:

- Provide equity loans to homeowners who do not have the ability to access funds or cannot afford to repay commercial finance to pay for repairs, maintenance, or adaptations to their homes.

### **4 Lifespan of the policy**

4.1 The Equity Loans Policy forms part of the Local Housing Strategy 2012 - 2017. This strategy is subject to annual review, the outcome of which will be published as part of the Private Sector Housing Strategic Outcome Statement annual update. The Equity Loans Policy has been approved by Social Work & Housing Committee in June 2013 and will be reviewed in 2014.

## Policy Statement

The Equity Loans policy aims to:

- Provide equity loans to homeowners who do not have the ability to access funds or cannot afford to repay commercial finance to pay for repairs, maintenance, or adaptations to their homes.

## Supplementary Guidance

### 1. Purpose of loan

- 1.1 The loans may only be used for repairs, maintenance or adaptations to private sector homes. The loan may not be used for any other purpose.

### 2. Eligibility criteria

- 2.1 Due to the legal requirements within the Financial Services and Markets Act 2000 the loans provided under this scheme may only be granted if the loan, which is secured on the property, can take first ranking charge on the homeowner's property. In practice, homeowners will therefore need to be mortgage free as mortgage lenders are extremely unlikely to agree to their mortgage ranking beneath the council's loan. Any other loans or debt the homeowner has secured against their property would similarly require to rank beneath the council's loan for the homeowner to remain eligible for the scheme. Again, it is thought that in practice, many lenders would be unwilling to agree to rank beneath the council's charge and that the homeowner will need to be free of any other secured debt.
- 2.2 The loans are only available to those homeowners who genuinely cannot afford to pay for repairs or access commercial finance. A test of resources will initially be carried out. This will involve looking at the homeowner's income and expenditure to establish if there is any affordability for high street lending. If there is no affordability then the homeowner may be suitable for a loan. If there appears to be some levels of affordability the homeowner would have to evidence the fact that they have been unable to access high street loans.
- 2.3 After assessment of the homeowner's eligibility and financial resources and subject to those requirements, the loans will be offered to the following customer groups who are either free of secured debt (whether mortgage or other loan) on their home (or have a lender that agrees to the council's equity loan taking first charge) and have demonstrated they cannot afford to repay a loan:
- Homeowners with a disability who require adaptations to their homes to allow them to continue to live at home independently. Grant is available to this customer group as a statutory requirement, but the loans can be used to meet any gap between the grant available and the cost of the work.
  - Homeowners who are over 60, or living with a disability, where the work is being project-managed by Aberdeenshire Care and Repair Project.
  - Homeowners involved in mixed tenure projects led by Housing & Social Work.

- Homeowners where Statutory Notices have been served by Environmental Health or Building Standards.
- Homeowners living in BTS housing.
- Homeowners living in certain regeneration areas.

2.4 The long term aspiration is to make the loans available to all homeowners who meet the legal requirements within the Financial Services and Markets Act 2000 and where they have demonstrated they cannot afford to repay a loan. The initial loan fund is currently limited to ensure funds are managed and prioritised in such a way to assist those homeowners in the greatest need.

### **3. Homeowners' contributions**

3.1 The homeowner is expected to use savings to contribute to the repair costs but would be permitted to keep up to a maximum of £16,000 of savings after they have contributed to the cost of repairs. This figure is in-line with Department of Work and Pensions' rules in relation to benefits which states that if a person has more than £16,000 in savings, they are not entitled to benefits.

### **4. Legal documentation**

4.1 In order for the loan to be issued the following documents would have to be issued from Aberdeenshire Council's Legal Services:

- Standard Security
- Minute of Agreement

4.2 The Standard Security is a legal document which is the main type of mortgage deed in Scotland and secures a loan of monies and / or obligations against property. If the grantee of a standard security fails to repay all monies and / or comply with their obligations then the property the security is registered against is at risk of being sold to meet the cost of all outstanding monetary sums or obligations. The homeowner's solicitor should independently advise them of these risks prior to them signing a standard security.

4.3 The Minute of Agreement is an explanation of the relationship and rights and responsibilities between the parties. It allows conditions to be determined at the outset so each party knows their responsibilities.

### **5. Set up costs**

5.1 The homeowner is required to obtain independent legal advice and services from their own solicitor. The cost of this will vary and the homeowner is advised to seek estimates from a number of firms of solicitors prior to proceeding.

- 5.2 The property will need to have an independent valuation carried out. The costs of this are likely to be in the region of £250 which the homeowner will be required to pay.
- 5.3 As the total set up costs are likely to be in the region of £1,000 or more and not all homeowners will have sufficient available funds, these costs may also be included within the loan. Due to the relatively high set up costs, the loans will only be granted for a minimum of £5,000.

## **6. Delivery**

- 6.1 Independent Financial Advisors (IFA) will deliver the loans scheme in partnership with Aberdeenshire Council. Any suitable homeowners will be referred to the IFA so that a test of resources can be carried out to establish if the homeowner is suitable for a loan.

## **7. Benefits**

- 7.1 The framework for the loans fund will enable access to financial assistance to a wider group of homeowners than has previously been possible.
- 7.2 The establishment of a revolving loan fund linked to house price inflation will help secure the long term sustainability of investment in private sector housing by generating additional subsidy for future investment.
- 7.3 The proposed approach will enable Aberdeenshire Council to effectively address the private sector housing strategic outcome of improving the quality of private sector housing and encouraging homeowners to take responsibility for the repairs and maintenance of their homes.
- 7.4 Analysis from the Scottish House Condition Survey (2008 - 2010) estimates that £118 million is required to be invested in private sector housing in Aberdeenshire to tackle comprehensive repair problems and improvements. Not all homeowners have access to funding that is required to help them to improve the quality of their homes. The loans fund will help address this in a fair and sustainable way.

## **8. Targets, Monitoring & Review**

- 8.1 The private sector housing strategic outcome statement aims to assist the improvement of the quality of private sector housing by reducing the number of properties that has disrepair to critical elements by 350 per year and to improve the energy efficiency of 3,500 houses per year.

- 8.2 The private sector housing strategic outcome statement also aims to improve 400 houses each year to ensure elements of the Tolerable Standard are addressed.
- 8.3 These targets will be reported on annually as part of the Local Housing Strategy. The targets will be monitored and reviewed each year to ensure they are realistic and achievable. The Equity Loans scheme will help Aberdeenshire Council to meet the targets as the loans will be only be provided to those homeowners who require repairs, maintenance or adaptations to their homes.

## **9. Resources**

- 9.1 The source of funding for the loans fund is the General Fund.

## **10. Conclusion**

- 10.1 The loans fund is a fair and sustainable approach to providing assistance to help homeowners improve, maintain and repair their homes. It will maximise the impact of public resources by leveraging in homeowners' contributions where available and assist a far greater number of homeowners than was previously possible. It will also encourage homeowners to recognise that they have the primary responsibility for repairing and maintaining their homes.