



Financing the Purchase of your Shared Ownership Home

A guide to the different finance options available to those wishing to buy a Shared Ownership property

This guide explains the various options available to finance the purchase of your shared ownership home. We recommend that you speak to an independent financial advisor about your options in more depth, however this guide should give you an idea of the various ways you can get onto the property ladder and their possible advantages and disadvantages.

If you are buying a property through the Newbuild HomeBuy scheme, otherwise known as Shared Ownership it is more than likely the first property you have bought and may seem slightly daunting. This guide will help you identify the different options available to you and with the help of your independent financial advisor you will be able to choose the right product for you to buy your new home.

If you have applied for shared ownership and have attended an interview with a member of the Home Ownership Team and have not already spoken to an independent financial advisor it is now the right time to be thinking about how you are going to buy your home.

Most people will need to take out a mortgage, however some people may have enough capital to buy their initial share outright. Either way we recommend that all people looking to buy their home through shared ownership speak to an independent financial advisor who is familiar with shared ownership and can point them in the right direction.

What options do I have?

•Option 1 - Purchase using Savings

You may have enough savings to buy a share in a property but perhaps not enough to buy on the open market. If so as long as we calculate that you can afford the rent payment for the share that you do not own, you may be able to buy a shared ownership property without a mortgage

You will need to have saved a lot of your own money to be able to do this. Alternatively you may have inherited a sum of money or you may have even had a small lottery win!

•Option 2 - Purchase using the sale proceeds from another property

You may currently be selling your house due to a relationship break up for example. In

the settlement you may come away with some capital but perhaps not enough to buy on the open market. If so, as long as we calculate that you can afford the rent payment for the share that you do not own, you may be able to buy using the proceeds of sale of that property.

•Option 3 - Take out a mortgage

Taking out a mortgage is the most common option used when purchasing a home through shared ownership. A mortgage is a special type of loan secured against your property. This loan covers the sale price of the property you have bought plus interest. Mortgages are usually spread over 25 years and paid by monthly instalments.

There are different types of mortgages available provided by a variety of lenders. Please note that not all mortgage providers lend on shared ownership schemes therefore it is important that the mortgage provider and your financial advisor is aware you are buying through shared ownership.

What types of mortgages are available?

There are 2 types of mortgages - repayment mortgages and interest only mortgages. If you wish to buy one of our shared ownership properties using a mortgage you must choose a repayment mortgage.

When you have a repayment mortgage your monthly payments to the lender go towards reducing the amount you owe as well as paying the interest they charge. So each month you are paying off a small part of your mortgage.

The advantage of this type of mortgage is that it is a simple, clear approach and you can see your loan getting smaller.

The disadvantage of a repayment mortgage is that in the early years your payments will be mainly interest, so if you want to repay the mortgage or move house in the early years, you will find that the amount you owe will not have gone down by very much.

There are various types of interest rate deals available to you when choosing a repayment mortgage. Your independent financial advisor will be able to discuss the different types with you, however the following table will help to explain the different options, highlighting the advantages and disadvantages of each product.

Type of interest rate deals	How does it work?	Early repayment charges	What does it mean for you?
Standard variable rate	Your payments move up or down with the lender's own mortgage rate, which is usually driven by the Bank of England's base rate.	Not usually, but check and see.	<p>Usually you can leave your lender without any penalties or problems.</p> <p>You're in control. You can usually pay back extra amounts (and cut your interest costs without a penalty).</p> <p>It moves with interest rates. So if interest rates go up, so will your monthly payment.</p> <p>It will almost certainly be expensive compared to other deals.</p> <p>The lender may not reduce, or may delay reducing, their variable rate even if the Bank of England rate goes down.</p>
Tracker rate	A variable rate loan with an interest rate that's at a set amount above or below the Bank of England or some other base rate, set independently from the lender. It tracks (moves up or down with) that	Sometimes during any special deal period and maybe even after the period too.	<p>It can pay to go for a tracker if you can afford to pay more when interest rates go up, in exchange for benefiting when they go down.</p> <p>It's not a good choice if your budget won't stretch to higher monthly payments.</p>

Type of interest rate deals	How does it work?	Early repayment charges	What does it mean for you?
Discounted interest rate	Your monthly payments can go up or down, but you get a discount on the lender's standard variable rate for a set period of time. At the end of the deal, you usually change over to the standard variable rate.	During the special deal: yes, almost always. They can apply even after the end of the special deal period as well.	<p>It gives you a gentler start to our mortgage, at a time when money may well be tight. But you must be confident you can afford the payments when the discount ends.</p> <p>The discount period is limited, so don't get used to those early low repayments.</p> <p>You may not be able to make overpayments and pay off the loan early without penalties</p> <p>The lender may not reduce, or may delay reducing their variable rate even if the Bank of England rate goes down.</p>
Fixed interest rate	Your payments are set at a certain level for an agreed period. At the end of that period, they'll usually switch you to the standard variable rate.	During the special deal period: yes, almost always. They can apply even after the special deal period, too.	<p>Your payments will stay the same in that period, even if interest rates go up.</p> <p>This gives you the security of knowing that you can afford your payments and will make it easier for you to budget.</p> <p>If rates go down, you won't benefit. Your payments will stay at the higher rate.</p> <p>You may not be able to make overpayments and pay off the loan early without penalties.</p>

Type of interest rate	How does it work?	Early repayment	What does it mean for you?
Capped rate	Your payments are variable and often linked to a base rate, but fixed not to go above a set level (the 'ceiling' or 'cap') during the period of the deal. At the end of the period, you are usually charged the lender's standard variable rate.	During the special deal: yes, almost always. They can apply even after the end of the special deal period as well.	You know the maximum you will pay for a set period of time. Useful if you want the security of knowing that your payments can't rise above the set level, but still benefit if rates fall.
Collared rate	May be used in conjunction with a capped rate or a tracker (or both). Your payments are variable but will not fall below a set level (the 'collar').	Not usually, unless it is used in conjunction with a capped rate or a special-deal tracker rate (or both). But check and see.	It may be part of another interest-rate deal which otherwise appears attractive. But note that if the rate payable is only just above the 'collar' and you think rates will fall, you may not get the full benefit of a reduced payment.

*Table taken from the Financial Services Authority website - The UK's financial watchdog

What options do I not have?

•Option 1 - Purchase using savings

You may have enough savings to buy a property which is suitable to your needs, outright on the open market. This may occur if you have saved up enough money over the years, you may have inherited a sum of money, a lottery win or perhaps a combination. If so, unfortunately you will be unable to buy through shared ownership.

The reason for this is that to be eligible for shared ownership you must not be able to afford to buy on the open market as this goes against the purpose of the scheme.

•Option 2 - Purchase using the sale proceeds from another property

You may currently be selling your house due to a relationship break up for example. In the settlement you may come away with some capital. Although the amount you receive may mean that you are unable to buy a property similar to the one you were previously living in, you may be able to buy a property on the open market which is still suitable to your needs. If this is the case you will not be able to purchase a home through shared ownership. Again, the reason for this is that to be eligible for shared ownership you must not be able to afford to buy on the open market as this goes against the purpose of the scheme.

•Option 3 - Interest only mortgages

We do not allow shared owners to take out interest only mortgages. As the name suggests, an interest only mortgage means that your monthly payment only pays the interest charges on your loan and you are not actually reducing the loan itself. This is why it is very important you arrange some other way to repay the loan at the end of the term; for example, through an investment or savings plan.

When choosing an interest only mortgage you need to check that your investment or savings plan grows accordingly, so that at the end of the term you will have enough money to pay off the loan. If it does not grow as planned, you will have a shortfall and you will need to think about ways of making this up.

The advantage of taking out an interest only mortgage is that as you are only paying off the interest and not the loan itself, therefore your monthly payments will be lower.

This disadvantage of taking out an interest only mortgage is that the debt is not going to go away. Throughout the life of the mortgage, you will need to check your investment or savings plan is on track to repay your loan at the end of the term. If you cannot repay it at the end of the term you could lose your home.

Why do you not allow shared owners to purchase using an interest only mortgage?

We do not allow shared owners to buy one of our shared ownership properties using an interest only mortgage. If you do not keep up with your mortgage payments, Coastline Housing may be required to meet certain costs should your home be repossessed, therefore in order to protect our financial interests, it is Company policy not to approve interest only mortgages.

How to contact us

If you would like more information about anything in this leaflet or would like it in another format please contact the Home Ownership Team by:

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We are continually monitoring and reviewing the services we provide. If you have any comments regarding this leaflet, please e-mail us at homeownership@coastlinehousing.co.uk.