Appendix C

Summary of SWT Equity Loan for owner occupiers available when SWT is purchasing private homes during regeneration

During Council led housing regeneration schemes it is sometimes required to purchase back properties purchased from the council through the Right to Buy. This is currently happening at NTWP.

The government sets statutory compensation for property owners providing homeloss compensation at market value plus 10%. However, in some cases the compensation is insufficient to purchase a similar property on the open market.

The Equity Loan is designed to provide additional finance to allow the owner to relocate in the private. Equity loans have been used successfully at NTWP to make moving as easy as possible for the owners. The Equity Loan is an added incentive for owners to seek accusation by mutual consent and reduce the risk of the Council pursuing compulsory purchase order powers.

How does the Equality loan scheme work?

The Council will contribute part of the purchase price of an alternative property and this will be secured by way of a first mortgage where the property is free of funding from a mortgage lender or otherwise a second mortgage may be considered.

The Equity Loan is provided to a homeowner which will be secured against the new home being purchased as a percentage of the market value rather than a fixed sum with interest.

The loan paid back may be different from the initial loan as it is a percentage of the property value. If the property has increased in value, the loan value will also increase. For example, if the house was worth £200,000 and the homeowner took out an equity loan of £40,000 (20%). When the property is sold, it is now worth £250,000, so 20% of the market value would be £50,000.

Eligibility for the Loan:

Home Owners (Owner/occupiers) affected by regeneration and have been informed by the Council that they wish to purchase their home to enable the regeneration scheme (currently NTWP phase A-D and Wordsworth Drive and Coleridge Crescent Regeneration) AND be unable to afford to purchase an alternative similar sized property on the open market.

The Loan will only be available to the registered owners of the properties that the Council will purchase and no additional purchasers such as spouses or children.

Only one Loan per property being purchased by the Council.

The Loan is not available for private landlords/private investors or non-resident homeowners.

Loan Limit:
There is a cap on the lending of 25% of the market value of the house being purchased on the basis of the deflated value of the Woolaway properties to a maximum of £70K.

Maximum Age Limit:
There is no maximum age limit, but the owner must be over 18 years of age.

The maximum term of the loan:
30 years.

Interest be charged on the Loan:
The Loan will be interest free provided that the terms of the mortgage are complied with. Whilst interest would incentivise those who take up the offer to repay sooner if in receipt of a windfall, there was concern that those who would potentially be interested in the loan would be put off.

Securing the Loan:
The Equity Loan will be secured by a Charge on the property. The initial preference is First Charge. The Council's Charge can be registered as a Second Charge, with the First Charge being the principal lender (Bank or Building Society). The Council will ensure the principle lender keeps the Council appraised of any attempt to take a further advance via appropriate wording via a covenant in the Mortgage Deed.

If another mortgage is taken out this will rank in priority below the Council's mortgage unless the Council agrees to a postponement of its' loan. The question of loan to value will be relevant where another lender will have priority and the Council will need to be certain that there is sufficient equity in the property to provide adequate security from all monies that are secured on the property. This will be considered on a case by case basis.

Repayment of the Equity Loan:
The Equity Loan is repayable on death, sale of the property, end of term (maximum term is 30 years) whichever is the earlier OR upon failure to comply with the mortgage terms. The Borrower would also be free to repay the loan early if they wish.

On repayment, the Council will receive either the amount that it has advanced **or** the sum that is an equivalent percentage of equity value which its investment represents in the gross sale price, whichever is the greater. If it lends 25% loan to value, it will receive 25% gross sale price so that in a strong property market there will be some return for its investment. If the prices fall, the Council will remain entitled to the amount that it has advanced and there may be no or a small return. There will be no contribution by the Council towards the costs associated with the sale of the replacement property as it will have paid all costs in connection with the acquisition of the property.

There is no ability to transfer the equity loan to another property, the loan is repayable upon sale of the property or any of the events mention in 3.9 above.

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