



Shared Ownership Policy

August 2007



1 INTRODUCTION

- 1.1 The purpose of this policy is to set out CHA's approach to the development and subsequent management of its shared ownership housing.

2 POLICY STATEMENT

Overall

- 2.2 A key corporate objective of CHA is to achieve sustainable growth, as set out in its Corporate Strategy and Business Plan. In pursuance of this growth objective, CHA aims to provide high quality and affordable homes that people want to live in, and which contribute to the broader regeneration of the communities in which CHA operates.
- 2.3 CHA supports and actively engages in the development of shared ownership housing as one aspect of CHA's overall contribution to the development of vibrant, mixed and sustainable communities. It is provided by CHA to people who are in housing need, who cannot usually afford to buy a home outright, to widen the opportunities for such persons to participate in home-ownership who otherwise would not be able to do so.

Defining Shared Ownership

- 2.4 Shared ownership is a vehicle that enables persons in housing need to purchase a share of a property from a housing association such as CHA, with rent paid to the housing association on the remaining share.
- 2.5 Where CHA sells a property on a shared ownership basis, the purchaser will be afforded the same rights and responsibilities as a full owner occupier. They will be a leaseholder of CHA, who will retain the freehold interest in the property. This will normally be on a standard lease. The initial lease period is usually 99 years though this may vary due to the conditions of purchase of the site.
- 2.6 A shared ownership purchaser will normally purchase an initial 50% share of the property. However, this will vary from scheme to scheme where greater flexibility may be offered.
- 2.7 The minimum initial share that CHA would permit to be purchased in Housing Corporation funded schemes is 25% and the maximum is 75%.

Staircasing

- 2.8 Following the initial purchase of a share in the property, the leaseholder is permitted to purchase further shares in the property through a process known as "staircasing".

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- 2.9 Staircasing in principle can operate both upwards and downwards. Upwards staircasing involves the leaseholder purchasing increased shares in the property. Downward staircasing involves the housing association agreeing to purchase shares in the property back from the leaseholder.
- 2.10 All shared ownership leaseholders will generally be permitted to staircase to 100% and become outright owners of their property. This will be subject to restrictions in relation to some rural developments where staircasing may be restricted to 80%, and leasehold schemes for the elderly where staircasing will be restricted to 75%.
- 2.11 Staircasing will normally be permitted in tranches of 10%. Any subsequent purchasing of shares in the property by the leaseholder will be purchased at the market value at the prevailing time.
- 2.12 Following the initial shared ownership purchase, leaseholders will not normally be permitted to purchase further shares in the property during the first 12 months following the initial purchase.
- 2.13 Where the shared ownership accommodation is for key-worker living, and the participant changes their employment, they must notify CHA within 7 days. Where the leaseholder ceases to be a qualifying key worker, they must either staircase to 100% within two years or dispose of their interest to a nominee of CHA.
- 2.14 Downward staircasing is subject to Housing Corporation restrictions, as set out in their Capital Funding Guide. It is only permitted in instances of “flexible tenure”, defined as follows:
- the repurchase of equity by a housing association from a shared owner in difficulty, but not necessarily in arrears, with his/her mortgage repayments; or
 - in the case of property specifically built as shared ownership for the elderly, the repurchase of equity to pay for essential repairs or maintenance if the leaseholder cannot afford to pay for the work.
- 2.15 The option for CHA to participate in downward staircasing is confined to the use of finance from the Recycled Capital Grant Fund (RCGF), and no other finance can be made available to undertake this activity, including SHG, the Disposal Proceeds Fund, or the Rent Surplus Fund.
- 2.16 There is no right for shared owners to flexible tenure. Downward staircasing will only be used by CHA as a last resort, in instances where the leaseholder has got into or is about to go into mortgage arrears and potentially lose their home. Before any decision to grant flexible tenure is made, CHA will do the following:
- Require the leaseholder to produce evidence of their financial difficulty which is causing them difficulty in meeting mortgage payments

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- Although it is not essential for the leaseholder to be in mortgage arrears, this will normally be treated by CHA as a major factor in the decision as to whether to grant flexible tenure
 - The leaseholder must demonstrate that other short and long term options have been exhausted. This will include:
 - Loan rescheduling
 - Selling and moving to a cheaper property within a reasonable distance from work
 - Require an assessment of the leaseholders ability to meet future repair and maintenance liabilities.
 - Require that the assessments made above are based upon advice from an independent debt counselling agency, and include an assessment of Housing Benefit eligibility.
 - Ensure that any offer to repurchase a share in the property is acceptable to the leaseholders lender.
 - It would be made a condition of the repurchase that any proceeds paid to the leaseholder are paid directly to their lender who has first charge over the property, so as to prevent any misuse of funds.
 - Prior to any 100% purchase of a shared ownership property, CHA would also require a survey of the property to be undertaken to determine the extent of any repairing and maintenance obligations that it may need to meet.
- 2.17 Where any downward staircasing is to take place, the amount to be paid may be no more than the percentage of the open market value, as determined by an independent and qualified valuer, paid for by the leaseholder.
- 2.18 Whilst 25% is usually the minimum amount of equity that may be purchased in shared ownership schemes, in these exceptional circumstances where downward staircasing takes place, it is permissible for the shareholder to staircase down to a position where they own no equity. In such circumstances, the share holder will become an assured tenant of CHA and the lease will cease and will require formal termination. In such circumstances, the tenant would have no Right to Acquire, as the property would not have been funded with SHG.
- 2.19 CHA would reserve the right as to whether it would offer the property on a shared ownership basis in the future. The decision would be dictated by prevailing market conditions within an area, any commitments to tenure diversification in the area, and the overall effect of the decision on CHA's business plan.

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Development Activity

- 2.20 It will be the responsibility of the Development Department, working within the PLUS-Harvest Development partnership, to proactively identify sites for development, and to bid to secure funds for shared ownership development.
- 2.21 When assessing the viability of developments for shared ownership, affordability will be a key issue. In order to support this, CHA will consider a wide range of equity share sales in order to promote affordability.
- 2.22 Where capital subsidy is required to fund any shared ownership development activity, it will be necessary for the Director of Finance to be satisfied that sufficient funds can be raised to fund the activities, in accordance with CHA's overall Business Plan, Budget and Cash Flow constraints.
- 2.23 The standard of homes built for shared ownership will be in accordance with CHA's Design Brief, and any other Housing Corporation design requirements that may stipulated from time to time. From time to time, it may be necessary to exceed minimum standards in order to assist with marketability of schemes. This will not exceed overall agreed scheme feasibility.

Shared Ownership Leases

- 2.24 CHA will use leases that accord with the Housing Corporation's specifications and contain the fundamental clauses that they have set down in order to ensure that the leases are acceptable to lenders so that the purchaser may obtain a mortgage to buy an initial share. These must include the following:

- **Alienation provisions:** This is to ensure that the price payable for the lease is no greater than the appropriate percentage of the market value of the property. In addition, these provisions prevent the shared owner from sub-letting or parting with possession of part of the property so as to protect public funds and ensure that applicants are not entering shared ownership for commercial gain.

The only exception to where CHA may consider sub-letting as permissible relates to exceptional circumstances (e.g. relationship breakdown), but this would only be done in consultation with the lender.

- **Service charge provisions:** The shared owner will have to pay a proportion of the total service charge costs which will be set by CHA with reference to any cash flow implications that the charges may create.
- **Mortgagee protection clause:** The mortgagee protection clause (MPC) is designed to cover part of a lender's loss should the lender have to take possession of the property on default. The MPC only operates where the sale proceeds are insufficient to cover:
 - a. the principal amount due under the mortgage;

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- b.** the reasonable cost of recovering or trying to recover any money due under the mortgage, and acquiring and selling the freehold (including a reasonable allowance for legal, valuation and estate agency work undertaken by the lender's employees);
 - c.** any mortgagee protection or endowment policy premiums payable by or recoverable from the leaseholder and secured by the mortgage; and
 - d.** not more than 12 months' unpaid interest due under the mortgage
- 2.25 Before a shared ownership sale is completed, it is also necessary for CHA to be shown a copy of the mortgage terms being taken out by the purchaser, and provided these terms are acceptable, it will be required to consent to these terms in writing. This will enable CHA to make an assessment of any risks prior to the sale proceeding.
- 2.26 Where any subsequent variation to the initial shared ownership lease is to take place, CHA must first obtain the consent of the Housing Corporation. The Housing Corporation produced information leaflets on variations to leases. One of these is specifically intended for shared ownership purchasers and will be included by CHA in all of its Sale Information Packs.
- 2.27 Whilst shared ownership leaseholders have no statutory right to lease extension, in accordance with Housing Corporation guidance, CHA will agree to grant lease extensions wherever possible, subject to the standard restriction to lease variation which requires Housing Corporation consent.
- 2.28 Where a leaseholder staircases upwards to 100%, the standard leases imply that 3 months should elapse before transfer of the freehold title. However, it is unlikely that this will provide the requisite security for any lenders, and accordingly, transfer of freehold title will normally take place simultaneously with the completion of the staircasing transaction.

Rent Levels

- 2.29 The rent levels for all shared ownership properties will be based upon the percentage of unsold equity. This percentage will be calculated to promote affordability, but also ensure that income is sufficient to cover CHA's long term loan commitments, and any management and administration costs.
- 2.30 Rent review will be determined by the provisions set out in the lease. The rent review schedule will ordinarily be linked to RPI, although this will need to be assessed against the loan commitments particular to that development. In all circumstances, the rent levels will be set in accordance with and not exceed Housing Corporation standards and regulations. The normal level of initial rent to be set will equate to 3% of the unsold equity per annum

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Management

- 2.31 CHA will be responsible for managing all of its shared ownership properties. This will include tenancy sign-up, tenancy management, and tenancy termination.
- 2.32 CHA will meet all of its contractual and statutory repairing obligations in relation to its shared ownership properties. Following completion, there will be a defect period, which will normally be for 12 months. Following the end of the defect period, CHA will normally only be responsible as freeholder for the external fabric of flats. In relation to houses, the lease holder will have full repairing responsibility.
- 2.33 All shared owners will however be treated in accordance with the Housing Corporation's Tenants and Residents Charter, which will be issued to all purchasers as part of the Sale Information Pack. Shared owners will also be treated in accordance with CHA's own internal service standards.

Possession Proceedings

- 2.34 In the case of a breach of tenancy (e.g. non payment of rent) the decision as to what action will be taken will be determined in accordance with CHA's standard Tenancy Management and Income Management policies and procedures.
- 2.35 The exception to this in relation to where CHA is giving consideration to the possibility of seeking possession of the property under the provisions of the Housing Act 1988. It is standard CHA policy to treat such actions as a last resort. This is particularly applicable in the case of shared ownership properties, where any action to seek possession under a mandatory ground would place the leaseholder's lender's security as provided for under the Mortgage Protection Clause (MPC) at risk.
- 2.36 For all shared ownership properties, CHA will provide a written undertaking to give reasonable notice to the leaseholders' lender before any legal proceedings are commenced. This is to provide the lender with sufficient opportunity to resolve the problem, avoiding the need for CHA to take legal action which could also result in a loss of mortgage security for the lender. The form used for this undertaking will be in accordance with the Housing Corporation's model form.
- 2.37 Where CHA is considering taking any legal action under the Housing Act 1988 for shared ownership properties, CHA will provide the lender with 28 days written notice of its intention to commence possession proceedings under the Housing Act 1988, and stating the grounds for which the action will be based.

3 IMPLEMENTATION

- 3.1 It will be the responsibility of the Development Department, working within the PLUS-Harvest Development partnership, to proactively identify sites for development, and to bid to secure funds for shared ownership development.

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- 3.2 It will be the responsibility of the Homelife team, as led by the Branch Manager, to provide on-going management of all CHA's shared ownership properties. This will be supplemented by guidance and advice provided by the Housing Services Department where required (e.g. arrears pursuance; possession proceedings).

4 RESPONSIBILITY

- 4.1 Overall responsibility for this policy resides with the Director of Development.
- 4.2 Responsibility for identification and securing of capital funding for shared ownership developments resides with the Director of Finance.
- 4.3 Day to day responsibility for the management and implementation of this policy resides with CHA's Homelife team, as led by their Branch Manager.

5 CONSULTATION

- 5.1 This policy has been subject to review by the following prior to requesting approval by the Association's Board of Management:
- Relevant staff members
 - Management Team
 - Other relevant stakeholders

6 REVIEW

- 6.1 This policy will be subject to review every 3 years, or at an earlier point in time should changes in policy, regulation or legislation make such changes necessary.

7 TRAINING

- 7.1 It will be necessary to ensure that all staff engaged in the development and subsequent management of CHA's shared ownership properties receive regular training to ensure that their knowledge remains up to date and in line with relevant regulation, legislation and industry best practice.

8 ASSOCIATED DOCUMENTS

8.1 This policy is linked to the following:

- Checklists Policy
- Key Stage Notices Policy
- Design Brief
- Environmental Sustainability Policy
- All CHA Income Management Policies
- All CHA Tenancy Management Policies

8.2 The following documentation has been referred to when producing this policy:

- *'Shared Ownership: Joint Guidance for England'*, Housing Corporation, Council or Mortgage Lenders and National Housing Federation (October 2004)

9 POLICY REVIEW SUMMARY

Policy Title	Shared Ownership Policy
Dated Created	August 2007
Person Responsible	Director of Development
Version	1.2
Date last amended	7 th August 2007
Authorised by	Board of Management
Review Period	3 Years
Review Committee	Board of Management
Date of last review	N/a
Date of next review	August 2010