September 2006

# FSA Factsheet

# Open Market HomeBuy Scheme

Financial Services Authority

## This factsheet is for you if:

- a HomeBuy Agent has said you are eligible to use the Open Market HomeBuy scheme to buy a home.

## It sets out:

- some important points for you to think about when considering borrowing through the Open Market HomeBuy scheme.

Plain Language Commission Clear English Standard Winning Document

This factsheet is from the Financial Services Authority (FSA), the UK's financial watchdog set up by government to regulate financial services in the UK and protect your rights.

The **Open Market HomeBuy** scheme is led by the government in partnership with a small group of mortgage lenders. It helps key workers, social tenants, priority groups on a housing register and priority first-time buyers to borrow money to buy a home.

- **The Open Market HomeBuy scheme is just one way for you to raise money to buy a home. You need to decide whether it is right for you.**
- **The mortgage lenders offer different Open Market HomeBuy mortgages with different terms and conditions. Make sure you shop around and choose the right deal for you. Use the document keyfacts™ *about this mortgage* to help you compare – see below.**
- **If you are unsure about the scheme or want to know more about the other types of home loan available, consider getting independent financial advice. Your HomeBuy Agent may be able to give you details of a specialist adviser.**

## How does the Open Market HomeBuy scheme work?

The scheme involves borrowing money from a mortgage lender and a HomeBuy Agent. HomeBuy Agents manage the money that the government puts into the scheme.

If you borrow under the scheme, you will take out **three** different loans. Each works in a different way, so it's important that you understand the features of each one. These are:

- **A standard mortgage loan from a mortgage lender.** The mortgage lender will charge interest and you'll make monthly payments. This loan will usually be the largest of the three.
- **An 'equity loan' from the same mortgage lender.** This works in a very different way from the lender's standard mortgage loan. When you pay off this loan the mortgage lender **takes a share of any increase in the value of your home**. The share it takes is based on the percentage of the property's value you originally borrow through the equity loan. The example on page 3 shows how this works. The lender won't charge you interest for the first five years. **After this time you will pay interest.** The rate you pay will depend on the lender you choose.
- **Another 'equity loan' from the HomeBuy Agent.** As with the mortgage lender's equity loan, the HomeBuy Agent will take **a share of any increase in the value of your home** when you sell the property or repay the loan. However, the HomeBuy Agent won't ever charge you interest and there are no monthly payments.

We regulate the mortgage lenders involved in the Open Market HomeBuy scheme, which means they have to meet our standards. The mortgage lender has to give you details about the loans in a document called keyfacts™ *about this mortgage*. This will tell you:

- what you are borrowing;
- what you'll be charged; and
- what your repayments will be.

Use this document to help you compare products from different mortgage lenders to see which is most suitable for your needs.

We don't regulate HomeBuy Agents, so the document won't include information about their equity loan. Ask your HomeBuy Agent for more information.

**Remember:**

**If you can't pay back the money you owe, there is a risk you could lose your home, because all three loans are secured against your property. And when you sell your home, the loans must be paid off before you get any of the money from the sale.**

## Example 1 – The value of your home increases

Adam buys a house for £150,000. He has a deposit of £3,750. In addition to a standard mortgage loan of £112,500, he takes out a £18,750 equity loan from the mortgage lender and another equity loan for £15,000 from the HomeBuy Agent.

- The mortgage lender's equity loan is 12.5% of the property's value (£18,750 is 12.5% of £150,000).
- The HomeBuy Agent's equity loan is 10% of the property's value (£15,000 is 10% of £150,000).

When Adam decides to sell his home, the value of his house has increased by 20% to £180,000. This is an increase of £30,000. So what would he owe on the mortgage lender's equity loan and what would he owe on the HomeBuy Agent's equity loan?

### The mortgage lender's equity loan

Adam originally borrowed 12.5% of the property's value from his mortgage lender. So, in addition to the £18,750 he originally borrowed, he will also owe 12.5% of the £30,000 increase, which is £3,750.

So, on the mortgage lender's equity loan, Adam now owes £18,750 plus £3,750, giving a total of £22,500.

### The HomeBuy Agent's equity loan

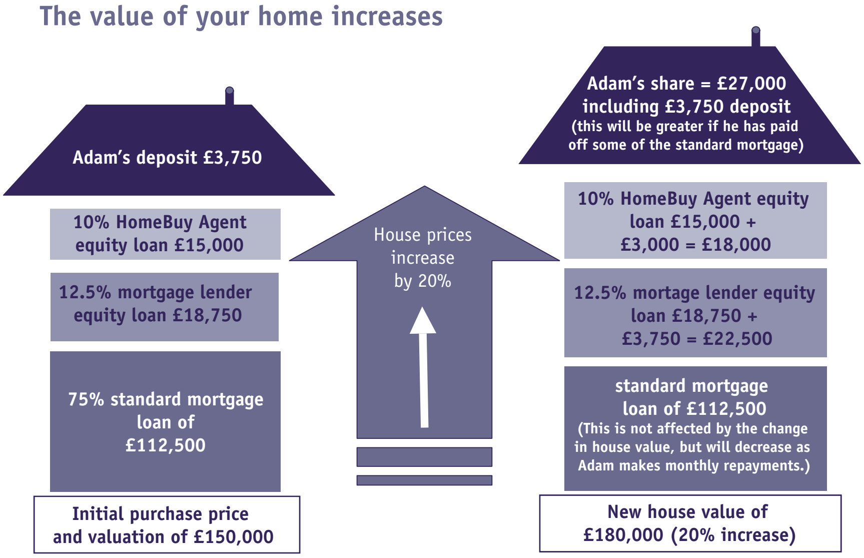
Adam originally borrowed 10% of the property's value from the HomeBuy Agent. So, in addition to the £15,000 he originally borrowed, he will also owe 10% of the £30,000 increase, which is £3,000.

So Adam now owes the HomeBuy Agent £15,000 plus £3,000, making a total of £18,000.

## What happens to the equity loans if the value of my home increases?

The amount you finally repay to the mortgage lender and HomeBuy Agent on the equity loans will depend on the value of your home at the time you repay the loans. The share of any increase in value that you owe will be based on the percentage of your home's value you originally borrowed.

**The value of your home increases**




**Remember:**

**If you borrow under the scheme, part of any increase in the value of your home will belong to the mortgage lender and the HomeBuy Agent. This means that the amount you owe them both will increase if the value of your home increases. The more the value of your home goes up, the more money you'll owe on your equity loans. This could mean a big increase in the amount you owe. You need to keep this in mind – think about what you owe and how you will repay it.**

Adam will also have to pay back the amount he borrowed on the **standard mortgage loan** from his mortgage lender, but this isn't affected by changes in the value of his home.

## What would happen to the equity loans if the value of my home falls?

Different mortgage lenders deal with a fall in value differently, so it's important to understand how any loan you apply for works.

With some mortgage lenders, the amount you owe will fall if the value of your home falls. Mortgage lenders who take this approach will share any fall in value, in the same way that they share any increase.

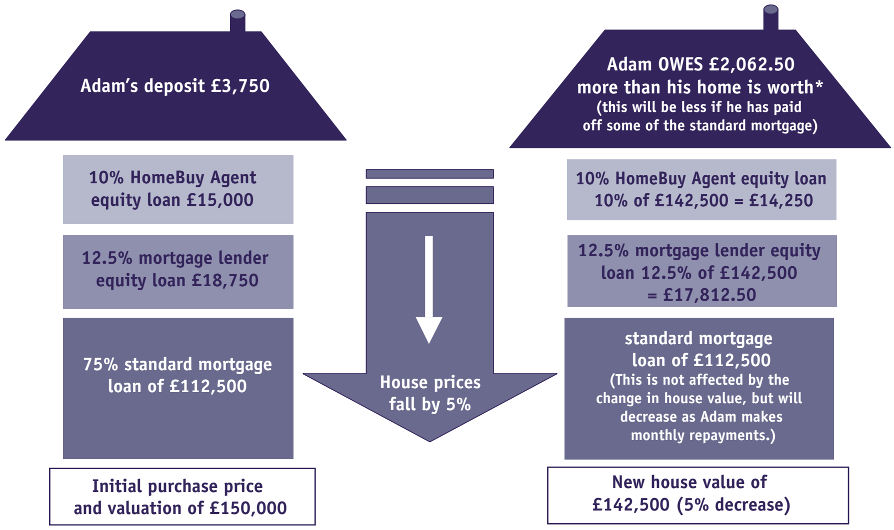
### Example 2 – The mortgage lender shares any fall in value

Remember, Adam bought a house for £150,000 using an equity loan of £18,750 from his mortgage lender (12.5% of the property's value).

Suppose the value of the house falls by 5% when he decides to sell his home. It is now worth £142,500. What does he owe the mortgage lender?

Because his mortgage lender is sharing any fall, what Adam owes is based on the new value of the property. He originally borrowed 12.5% of the property's value so he now owes 12.5% of £142,500, which is £17,812.50. That's £937.50 less than he originally borrowed.

**The value of your home falls and the mortgage lender shares the fall**



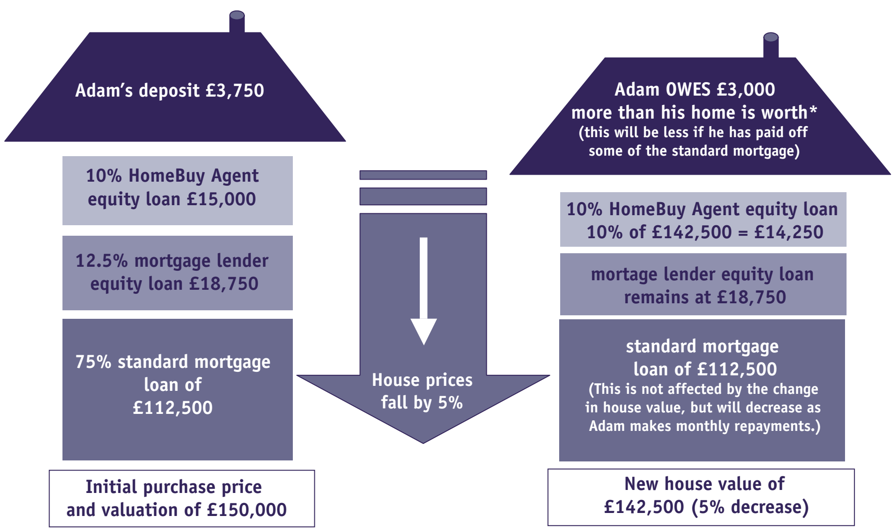

*See **Could I lose money with this scheme?** on page 6 for what happens if you owe more than your home is worth.

Other mortgage lenders won't share a fall in value, although they will take a share of any increase, so the amount you owe them on the equity loan will never fall below the amount you originally borrowed.

### Example 3 – The mortgage lender *doesn't* share any fall in value

If Adam's equity loan from his lender worked like this, then if prices fall he will still owe the lender the amount he originally borrowed – in this case £18,750.

**The value of your home falls and the lender *doesn't* share the fall**




*See **Could I lose money with this scheme?** on page 6 for what happens if you owe more than your home is worth.

## The HomeBuy Agent's equity loan

The amount you owe the HomeBuy Agent will always fall if the value of your home falls. Adam originally borrowed 10% of his home's value from the HomeBuy Agent. So he will owe the HomeBuy Agent 10% of its new value. 10% of £142,500 is £14,250. That's £750 less than he originally borrowed.

Again, Adam will also have to pay back the amount he borrowed on the **standard mortgage loan** from his mortgage lender. This doesn't change if the value of his home falls.

**Remember:**

**If the value of your home falls, it may not reduce the amount you owe on the mortgage lender's equity loan. Make sure you understand how the loan will work before you apply for it.**

**Use the keyfacts™ *about this mortgage* document to find out if the mortgage lender will share any fall in the value of your home with you.**

## Repaying the equity loans

Because the amount you owe on the equity loans is based on the value of your home, when you repay them your property will have to be valued. You will have to pay for this valuation.

### Repaying the mortgage lender

The mortgage lender's equity loan will run for the same length of time as your standard mortgage loan – often known as 'the term'. You will agree this with the mortgage lender when you take out the loans. At the end of this time, you must pay whatever you owe on the equity loan. The mortgage lender will often allow you to repay your loans earlier, but they may charge you a fee for this, known as an 'early repayment charge'.

You may also have to repay the mortgage lender's equity loan if you move home – check whether your lender will allow you to transfer the loan to a new property.

The amount you owe on the equity loan will have gone up if the value of your home has increased. Think about how you will repay this money.

### Repaying the HomeBuy Agent

The HomeBuy Agent's equity loan won't have a fixed date for repayment. You repay the loan when you sell your home, or if you are no longer eligible for the scheme – for example, if you leave your qualifying employment. Your HomeBuy Agent will tell you more about how this could happen.

You can repay the HomeBuy Agent's loan earlier if you wish, but remember that whenever you repay the loan, if the value of your home has increased you will need to give the HomeBuy Agent their share of the increase. You have to pay back the full amount of the loan and any increase in one go – you can't pay it in stages.

## Can I move to a new home without having to repay the loans?

When you sell your home, you will always have to repay the HomeBuy Agent's loan, including the HomeBuy Agent's share of any increase in the value of your current property. But you may be able to apply for another Open Market HomeBuy loan to buy a new home. Your HomeBuy Agent will be able to tell you if you are still eligible for the scheme.

And remember you may also have to repay the mortgage lender's loans if you move home. This may mean paying early repayment charges. The keyfacts™ *about this mortgage* document will give you this information.

Bear in mind that you may have to repay the loans earlier than you planned – you may need to sell your home to move with your job for example.

## Could I lose money with this scheme?

In some cases when house prices fall, you could owe more than the house is worth. This is known as 'negative equity'. It would make it difficult for you to move. This is a risk with any mortgage.

Open Market HomeBuy gives you some protection against negative equity. If the money from the sale of the house won't pay off all the loans, then you don't have to pay the HomeBuy Agent their full share – just what is left over after everything you owe to the mortgage lender has been paid. But in these circumstances you won't get any money from the sale – whatever money there is must go towards paying as much of the HomeBuy Agent's loan as possible.

All the loans secured against your home need to be paid off before you get any of the money from the sale – you are last in line. So any money you put down as a deposit could be at risk.

**Remember:**

**As with any mortgage, if house prices fall you could end up owing more than your home is worth. The HomeBuy Agent's share offers some protection against negative equity, but you could still have to pay back more than your home is worth if the fall in value is greater than the HomeBuy Agent's loan. And you could lose any deposit you put down.**

## What if I want to switch to a different mortgage deal?

If you want to switch the standard mortgage loan to a different deal, you will have to pay back what you owe on the mortgage lender's equity loan as well. That means paying back the standard mortgage loan, the original equity loan and the mortgage lender's share of any increase in the value of your home. You will need to think about whether you can afford to do this. You may also need to pay an early repayment charge.

**Don't forget**

- **With Open Market HomeBuy, you get an equity loan from a mortgage lender and a HomeBuy Agent, as well as a standard mortgage loan.**
- **You pay interest on the standard mortgage loan, and after five years on the lender's equity loan too. You won't ever pay interest on the HomeBuy Agent's equity loan.**
- **The amount you owe on the equity loans will increase if the value of your home increases. Over time, this could mean you owe much more than you originally borrowed. Think about how you would repay this.**
- **Any money from the value of your home that you have to pay the mortgage lender and the HomeBuy Agent will mean you have less to put towards buying a new house if you want to move home.**
- **Make sure you understand what you will owe if your home falls in value.**
- **All the loans must be repaid before you get any money from the sale of your home.**
- **If your home is worth less than the amount you owe, you usually won't have to repay the HomeBuy Agent in full.**
- **Whenever you repay one of the equity loans, you'll have to pay for a valuation of your home.**

## Is this type of mortgage right for you?

- There are many types of mortgage available and different ways to get onto the property ladder. Open Market HomeBuy gives you an extra option, but it's important to consider all the choices available to you before you decide what's right for you. Perhaps you could get a conventional mortgage by choosing a cheaper property, buying with a friend or building up a deposit. There are also other government housing schemes that your HomeBuy Agent can tell you about.
- If you do decide to use the Open Market HomeBuy scheme, you'll also have to decide which mortgage lender to borrow from. The keyfacts™ *about this mortgage* document will help you compare different mortgages and choose the one that is best for you.
- If you are unsure about all the different options available, consider getting some independent financial advice. Your HomeBuy Agent may be able to give you details of a specialist adviser.

**What is right for you will depend on your needs and circumstances. Before making a decision about an Open Market HomeBuy mortgage, you should make sure you have considered all the options open to you.**

## Useful FSA publications

**0845 numbers will be charged at the local rate based on current charges from BT landlines. Charges for calls from mobile phones and other networks may vary.**

Available from our website:
**www.fsa.gov.uk/consumer**
or on our **Leafletline** on: 0845 456 1555

- Choosing a mortgage – taking the right steps
- You can afford your mortgage now but what if...?

**Work out what you can afford using our online mortgage calculator:**

**FSA mortgage calculator:**
www.fsa.gov.uk/consumer

## Other information

More information about the Open Market HomeBuy scheme, including eligibility and the application process can be found in the Housing Corporation leaflet, *Have you heard about Open Market HomeBuy?* This is available from the Housing Corporation's website at www.housingcorp.gov.uk

**The FSA's consumer publications aim to give you general information to help you make financial decisions. The information does not constitute financial or other professional advice; for advice about your own circumstances, you should consult a professional adviser.**

**The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.**

We produce a range of user-friendly factsheets and booklets which are available from our website and helpline.

If, after reading this factsheet, you have any general queries, our helpline will try to clarify things for you.

We can tell you if a firm is authorised and help you if you have a complaint and don't know who to contact. But as the regulator, we can't recommend firms or advisers, or tell you whether a particular product or investment is right for you.

**If you would like this factsheet in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone 08457 300 104 (call rates may vary).**

To help us maintain and improve our service, we may record or monitor calls.

## Our website, www.fsa.gov.uk/consumer, aims to help you understand financial services and get a fair deal.

## Use the site to:

- shop around with our comparative tables – including mortgages, pensions and ISAs;
- check a firm is authorised by the FSA, or is the agent of an authorised firm. If they are not authorised you will not have access to complaints procedures and compensation schemes if things go wrong;
- order any of our wide range of consumer publications;
- report any misleading financial advertising;
- see explanations of financial products in plain English;
- read recent alerts that we have issued.