Shared Ownership Mortgage Guide

Shared ownership schemes combine renting and buying, and they're designed primarily for first time buyers to help them get on the property ladder.

With a shared ownership property, you'll own a share of the property and then rent the remainder that you don't own.

But what does shared ownership involve?

And what deposit would you need to buy a shared ownership property?

In our shared ownership mortgage guide, we'll explain who can benefit from this housing scheme, the eligibility criteria and more.

Contents

What is Shared Ownership?

When it comes to the various schemes available to help people get a start in the property market, shared ownership is one of the most popular.

But what is shared ownership?

This housing scheme helps first time buyers or those who don't own a home the chance to purchase a share in a new build or a resale property. The deposit requirements are much lower for a shared ownership property, as the mortgage is only for the percentage that you are buying, rather than the full value.

So, how does shared ownership work?

The buyer pays a mortgage on the share they own, as well as paying rent to a housing association on the share that they don't own. This share is usually between 25% and 75% of the property, with the option to purchase additional shares in the future, up to 100% of the property.

Once the individual has purchased 100% of the shares, they will just pay their mortgage on the property, along with ground rent and service charges, and no longer pay the housing association rent.

But what is a shared ownership mortgage and does it differ from a standard mortgage?

The difference is that you can apply for a mortgage with a smaller deposit, and apply for a smaller amount overall than you would with a standard property. When you apply for a shared ownership mortgage, there are two costs which will need to be factored into your affordability – the rent that you'll pay in addition to your mortgage, and the ground rent and service charges that you'll be responsible for.

Benefits of Shared Ownership for First Time Buyers

Hopefully the above guide has helped give you more insight to shared ownership, as you can see there are many benefits of shared ownership for first time buyers, including:

- The opportunity to get on the property ladder with a smaller deposit
- Greater accessibility to mortgages for those on a lower wage
- Monthly repayments can be cheaper than with an outright mortgage or renting privately
- The option to buy more shares at a later date, all the way up to 100% of the property
- The option to sell your shares at any time
- Security against a landlord increasing your rent excessively, or asking you to move out, and then struggling to find a suitable property in a difficult overcrowded rental market.

What deposit will you need?

The good news is that a minimum deposit on a shared ownership property is 5% of the share you are purchasing.

So even if the property is worth £200,000, if you purchase 50% share (£100,000), you will only need to pay 5% deposit of £100,000, so £5,000.

How to find Shared Ownership properties for sale?

You can't buy part of just any property – it needs to be a property which is managed by a housing association (usually a new build property)

There are several options when it comes to finding a share ownership property:

- Work with a Help to Buy agent who can help you find properties in your local area

- Search online for shared ownership homes, such as on the Share to Buy website

- Speak to the housing team at your local council, or housing association, who can advise you of local areas where the scheme is running.

How to apply for Shared Ownership

There are a few different steps when you're ready to apply for share ownership, so it's worth doing your research in advance so you know what to expect. Bear in mind that you'll need to have a budget in place before you start your search for a property to ensure that you can afford the associated costs.

When you've found the property for you, you will need to:

- Put down a reservation fee to secure your home
- Go through a full financial assessment with the housing association.
- Complete credit check with your broker

Once these steps have been carried out, you'll know what kind of share you can afford to purchase and what the rental payments will be. You can then arrange your mortgage, speaking to a mortgage broker who can help you determine which lenders offer mortgages for this scheme.

How much rent will you pay?

The answer depends on two factors:

- The property price
- The size of the share you're purchasing.

Usually, rent is around 3% of the value the housing association owns, for example:

- Value of property - £200,000
- Share purchased - 40%
- Rent is due on 60% of the property value = £120,000
- Maximum rent is 3% of £120,000 = £3,600 per year
- £3,600 divided by 12 = £300 per month

Shared ownership qualifications

To qualify for shared ownership, you need to:

- Have a household income of £80,000 or less (£90,000 if you're in London)
- Be a first-time buyer or a previous homeowner who can't afford to buy now, or renting from a council or housing association

Military personnel are typically given priority over other groups for shared ownership schemes.

If you have a long-term disability, you can also qualify for shared ownership under the Home Ownership for People with Long-Term Disabilities scheme (HOLD).

What is staircasing?

Staircasing is a term you're likely to hear when you look into a shared ownership property and it refers to the buyer's ability to increase the shares they own of the property.

The cost of increasing your share will depend on the market value of your home at the time, and you'll need to pay the housing association to value your property to assess this.

Every housing association has their own rules regarding staircasing, but it's typical for the individual to need to buy at least a 10% share when staircasing, and increments of 5% after that.

Some housing associations might not let you staircase more than three times, so check the rules with your housing association so you can plan accordingly.

Selling a Shared Ownership property

Selling shared ownership properties can worry some people and put them off using the scheme, but you can sell your shared ownership property at any time. You just need to be aware of the fees and costs that need to be factored into the process.

When it comes to selling a shared ownership property, the housing association has the right to find a buyer before you put it on the market. This process is known as the nomination period and times can vary between housing associations. If they fail to find a buyer, you can market it yourself but you'll need to find a buyer who fulfils the eligibility criteria for shared ownership.

How to repay a Shared Ownership mortgage

Understanding how to pay off shared ownership mortgage loans is a key factor in your decision to buy a property under this scheme, so it's important to have a plan in place for how you will do this.

In most cases, the remainder of your mortgage will be paid through the profit you make from selling the property.

The amount of money you and the housing association will receive from the sale will depend on how much the property has increased in value since you bought it, and how much of the property you own a share in.

What happens when you move?

While there are a few additional steps in the process, you can sell and move whenever you want. The process typically involves the following:

- Inform the housing association that you want to sell

- A valuation will be undertaken to assess the value of the property, which is paid for by the seller

- The housing association will issue a report confirming the sale price which the seller has to approve and then you can instruct them to begin marketing the property or approve the property going on the open market until a buyer is found

- When a buyer is found they will undergo affordability checks, reserve the property and the legal proceedings will begin for the buying process

- The conveyancer will issue the contract and the exchange date will be set within 28 days of the contract being issued