

Leeds Building Society requirements in respect of Shared Ownership Schemes, Shared Equity Loan Schemes, Section 106 Agreements and Properties Purchased at a Discount which includes First Homes

This is applicable to England and Wales only.

You are instructed to follow these instructions in addition to the Society's Instructions to Solicitors and Licensed Conveyancers in the UK Finance Mortgage Lenders' Handbook for conveyancers, known as the UKF Handbook.

These instructions apply to both purchases and re-mortgages.

Shared Ownership

- Section 1: Shared Ownership Requirements which must be complied with for all Shared Ownership Leases.
- Section 1(a): In addition to Section 1, Shared Ownership Requirements which must be complied with for all Shared Ownership Leases granted on or before 6 April 2010.
- Section 1(b): In addition to Section 1, Shared Ownership Requirements which must be complied with for all Shared Ownership Leases granted after 6 April 2010.

Shared Equity Loan Requirements

Section 2: Shared Equity Loan Requirements which you must follow when a Borrower is acquiring 100% ownership of the property but is using an equity loan to fund the purchase, for example if the Borrower is purchasing through the Help to Buy equity loan scheme or a similar scheme.

Section 106 Agreements and Discount Purchases

Section 3: Requirements where there is a restriction on the disposal contained within a Section 106 Agreement including, for example, where the property is being purchased at a discount.

For clarity, where a property is being purchased under a Shared Ownership Scheme or a Shared Equity Loan Scheme then the requirements set out in Section 1, 1(a) or 1(b) (as applicable) or Section 2 of these instructions will also apply (as appropriate).

It is the responsibility of the acting solicitor or licensed conveyancer to ensure that any properties purchased pursuant to these instructions meet all requirements.

The Society will not review any lease or provide any advice as to whether a property meets these requirements.

If the instructed solicitor or licensed conveyancer identifies that a property does not meet these requirements you must inform the Society immediately, confirming that these requirements are not met. The Society will not lend in such circumstances.

Section 1

Requirements for all Shared Ownership Leases

1. Landlord

The landlord must be regulated by a regulatory authority that is responsible for regulating the landlords in a shared ownership lease.

2. Purchase Price

2.1. The purchase price must be a defined percentage of the full open market value and must not include any additional costs connected with the purchase of the property, for example any costs payable to the builder.

2.2. You must notify the percentage purchase price to the Society's Mortgage Lending Department, see UKF Handbook for contact details and check with them that the property has been valued accordingly.

3. Percentage Share

3.1. The initial share to be purchased by the Borrower must not be less than 25% of the market value of the whole property.

3.2. If the percentage of the property to be purchased is different from that set out in our mortgage offer, you must inform us and await further instructions.

4. Consent to Mortgage

4.1. Before exchange of contracts, you must ensure that the Landlord is shown a copy of the mortgage offer, including any subsequent amended mortgage offer and terms of the mortgage to be taken out by the Borrower. The Landlord must provide written consent to the mortgage and if appropriate written consent to the assignment of the lease.

4.2. You must not complete the purchase/re-mortgage without the Landlord's written consent and a copy of this written consent must be sent to us before completion.

5. Possession Undertaking

5.1. You must ensure that the lease granted by the Landlord provides that the Landlord will give us at least 28 days' written notice of the Landlord's intention to forfeit the lease or commence proceedings under the Housing Act 1988.

5.2. If the lease does not make provision for this, you must obtain a written undertaking from the Landlord in the form set out at Appendix A, to provide us with not less than 28 days' written notice of intention to forfeit the lease or commence proceedings.

6. Term

6.1. The remaining term of the lease must be at least 85 years at the outset of the mortgage.

6.2. If the lease does not meet this requirement, you must obtain a deed of variation from the Landlord to grant an extension to the lease and the Landlord will be required to obtain any requisite consent which may be required from Homes England and Regulator of Social Housing, formerly the Homes and Communities Agency.

7. Ownership

- 7.1. The property must be wholly owned by the Borrower(s) and not held on trust for others.
- 7.2. The lease must be granted to the Borrower(s) alone.

8. Staircasing¹

- 8.1. The lease must allow the Borrower to acquire further shares in the property up to 100% of its total value.
- 8.2. The Society will not lend where the lease does not allow staircasing up to 100% of the value of the property.
- 8.3. The Society will therefore not lend on a Protected Area Shared Ownership Lease, where the lease has restricted staircasing, however for the avoidance of doubt the Society will lend on a Protected Area Shared Ownership Lease where the lease allows staircasing above 80% but contains a mandatory buyback provision whereby the leaseholder is under an obligation to sell back to the Landlord or a nominated housing association.

9. Downward or Reverse Staircasing

Shared ownership leases sometimes contain a provision for downward or reverse staircasing, this is where the Landlord is permitted to buy back a share in the property. Where this right exists, there must be a provision for the Landlord to ensure that the offer is approved in writing by the Society and the Landlord's mortgagee and that the sale proceeds are paid direct to the Society.

10. Nomination Rights²

- 10.1. If nomination rights apply, the owner must have the right to assign the lease on the open market free of the nomination right or marketing restriction. This must have no restriction on who can purchase or occupy the property if either the landlord fails to nominate or the nominee fails to exchange contracts within 26 weeks from the date of the leaseholder notice of an intention to sell.
- 10.2. Nomination rights will apply in all instances where (1) the current standard Homes England and Regulator of Social Housing, formerly the Homes and Communities Agency model leases are utilised; or (2) any marketing restrictions apply.

11. Pre-emption rights³

- 11.1. If the lease includes a pre-emption right applicable on resale;
 - 11.1.1. the owner must be permitted to sell free of the pre-emption right if the sale under pre-emption is not completed within three months of the date the owner gave notice of intention to sell; or

¹ Staircasing allows a borrower to purchase additional shares in the property.

² A right provided in the lease that allows the landlord to 'nominate' a purchaser should the borrower /mortgagee wish to sell the property.

³ Pre-emption rights provide the landlord with the right of first refusal upon sale of the property. Pre-emption rights may apply even if the borrower has purchased 100% of the property under the 'staircasing' provisions. In cases where the standard HCA model lease is utilised pre-emption rights will apply during the Term subject to the lease provisions and for a further 21 years from the date of final staircasing.

11.1.2. where the pre-emption is part of a nomination/marketing procedure the owner must be permitted to sell free of the pre-emption right within three months of the date when the pre-emption/marketing procedure becomes operative.

11.2. The price for the sale under a pre-emption right must be the full open market value of the relevant share in the property.

12. Restrictions on the disposal of the property

If the lease contains any restrictions on the disposal of the property, you must also comply with Section 3 below.

13. Payment on assignment or surrender

13.1. There must not be any requirement to make payment on assignment or surrender other than a reasonable amount, maximum 2% of sale price, in respect of valuation, legal and administrative costs.

13.2. No payment on surrender or assignment to a sinking fund is permitted.

Section 1(a)

Requirements for Shared Ownership Leases granted on or before 06 April 2010

1. Mortgagee Protection Clause

1.1. The lease must contain a mortgagee protection clause which will protect the Society against any losses it may sustain should it have to take the property into possession, exercise its right to complete the final staircasing and assign the lease.

1.2. The mortgagee protection clause should provide that the amount payable by the Society to complete the final staircasing shall be the lesser amount of either:

1.2.1. the sum as calculated under the terms of the lease; or

1.2.2. the sale price less the total sum of the following: the total principal and interest, which shall not exceed 12 months, due under the terms of the mortgage; estate agents, legal fees and other costs and disbursements incurred by us in completing the final staircasing and assigning the lease; and rent, service charge or other sums due to the Landlord or due under an endowment or mortgage protection policy.

2. Staircasing

2.1. The lease must provide that a mortgagee in possession has the option to (a) assign the lease as it is, or (b) staircase to 100% and then assign.

2.2. There should be no time limits in the lease with regard to staircasing.

3. Definition of Market Value

3.1. **For staircasing purposes:** If the Borrower acquires further shares in the property, the price of the shares will be determined by the open market value of the property as at the date of the Borrower's notice to the Landlord setting out the Borrower's intention to acquire such further shares. We will not accept any prejudicial restrictions on the definition of market value. The market value will be assessed disregarding the following:-

- i. Any improvements made by the tenant.
 - ii. Any failure by the tenant to comply with the repairing obligations in the lease.
 - iii. The rights of any third parties in the property.
 - iv. Any mortgage over the property.
- 3.2. **For surrender or assignment purposes:** There should be no onerous restrictions in respect of the market value in the event of the interest of the Borrower being assigned or surrendered. The value of any improvements should be taken into account. After surrender, the Landlord should be allowed to deduct any sums due under the lease.
- 3.3. **In the event of a dispute:** The lease should provide for a valuation by an independent expert in the event of any disagreement between the Landlord and the tenant. The independent expert should be one agreed by the Landlord and the tenant or one appointed by the President for the time being of the Royal Institution of Chartered Surveyors or, where the Landlord is the Local Authority, the District Valuer.

Section 1(b)

Shared Ownership Requirements for Shared Ownership Leases granted after 06 April 2010

1. Alienation, Mortgagee Protection Clause, Rent Review, Staircasing and Termination in the event of damage or destruction
 - 1.1. Clauses relating to Alienation, Mortgagee Protection, Rent Review and Staircasing are fundamental clauses of the model lease and must be in the same form as those contained in the current model shared ownership leases for flats, houses or Social HomeBuy houses or flats as the case may be which can be found on the government website below:

<https://www.gov.uk/guidance/capital-funding-guide>
 - 1.2. The lease must contain a mortgagee protection clause which shall provide that if a mortgagee in possession wishes to sell the property it has the choice of either:
 - 1.2.1. assigning the lease to the buyer as it is; or
 - 1.2.2. staircasing to 100% and then assigning.
 - 1.3. The lease must also include the termination in the event of damage or destruction (Frustration) clauses as contained in the Homes England and Regulator of Social Housing, formerly the Homes and Communities Agency model leases.

Section 2

Shared Equity Loan Requirements

1. The Society will lend on the Government Help to Buy: Equity Loan scheme; available in England and Wales.
2. The arrangement for the equity loan must be through either Registered Housing Association, Registered Social Landlord or through a Government or Local Authority approved and funded schemes.
3. These requirements are different from circumstances where a borrower is only purchasing a percentage of the property and this is not being done under a Shared Ownership Lease as set out at Section 1 and Sections 1(a) and 1(b) above. If this is the case then the property falls outside the Society's lending policy and the Society will not lend. In such cases, you should notify the Society in writing confirming that the scheme does not meet these requirements.
4. Where a Shared Equity Loan will be used to assist with the purchase of the property, the Society's requirements are as follows:
 - 4.1. The Borrower must pay a percentage of the full open market value, for example 75%, but must acquire ownership of 100% of the property on completion.
 - 4.2. The remaining balance must be provided by way of a deposit funded by the Borrower and also an equity sharing lender which is secured by a second charge on the property. For example, where the Borrower is paying 75% of the open market value, the remaining 25% could be funded by a 5% Borrower deposit and 20% from an equity loan. The initial equity loan must be no more than 40% of the current market value.
 - 4.3. Any future change in the value of the equity in the property, on a disposal or sale, will be shared between the Borrower and the equity sharing lender in the relative percentages.
 - 4.4. The right of the equity sharing lender, to share in the equity, will be secured by the terms of the second charge. When ascertaining the amount to be repaid to the equity sharing lender, the calculation must disregard any increase in the overall total value of the property as a direct result of material home improvements made by the Borrower.
 - 4.5. The Shared Equity Loan must be provided on either an interest free basis or at a maximum rate of interest of 1.75%, rising annually at a rate no higher than the rate of CPI inflation plus 2%.
 - 4.6. No rent, fee or other payment is paid by the Borrower in respect of the equity sharing lender's percentage.
 - 4.7. On disposal of the property, or earlier on expiry of the term of the Borrower's agreement with the equity sharing lender, the equity sharing lender's percentage must be repaid, allowing 100% equity share for a future purchaser or the existing borrower.

- 4.8. The repayment term of the Borrower's agreement with the equity sharing lender must be at least the term of the mortgage.
- 4.9. If the equity sharing scheme gives the Borrower the right to "buy out", repay the equity sharing lender's percentage or part of it, prior to the disposal of the property or expiry of the term of the Borrower's agreement with the equity sharing lender, any such "buy out" or repayment must be at the current open market value.
- 4.10. The Society, as mortgagee in possession, must have the ability to sell the property on the open market and at full open market value, with access to 100% of the equity of the property in satisfaction of its charge, and free of any restrictions in this regard.
- 4.11. The Society's mortgage must be secured by a first legal charge on the property.
- 4.12. You should check the terms of the mortgage offer to ensure that the Borrower has selected a shared equity product. The Society will only lend on a shared equity basis when a shared equity product has been selected.
- 4.13. You must ensure that the cumulative total borrowing does not exceed 100% of the value.
- 4.14. You must ensure that the Society's mortgage does not exceed the amount which represents the percentage of the purchase price which is to be paid by the Borrower.

Section 3

Restrictions on the disposal of the property in a Section 106 Agreement or equivalent, including properties purchased at a discount

In new developments, a proportion of houses are often sold as 'affordable housing'. Local authorities often attach conditions to the way these houses can be sold through what are known as 'Section 106 Agreements' or 'Restrictive Covenants'.

1. Restrictions

- 1.1. Restrictions on the disposal of the property may have an impact on the value and marketability of a property. Particularly where the Society has to take the property into possession due to a failure by the Borrower to comply with their mortgage terms and conditions.
- 1.2. Notwithstanding the provisions of paragraph 2 below, you must provide us with written notice of any such restriction. We may refer such matters to the valuer for consideration in regards to the marketability of the property taking into account the restriction identified.

2. Acceptable Restrictions

- 2.1. Subject to paragraphs 2.2, 2.3 and 2.4 below the Society will accept the following restrictions relating to the disposal of the property ('Acceptable Restrictions'):

The Acceptable Restrictions are separate to any standard restrictions / provisions which are set out in the model Shared Ownership leases.

- 2.1.1. salary restrictions that increase in line with a local plan or are linked to another inflationary measure (typically Affordable Housing/Discounted Housing Schemes);
- 2.1.2. purchase price (if restricted) provided there is no provision which restricts the Borrower's entitlement to benefit from any increase in the market value of the property (e.g. through a fixed monetary cap);
- 2.1.3. local living restrictions;
- 2.1.4. property can only be sold to first time buyers;
- 2.1.5. purchaser age restrictions, which can be minimum or maximum age restrictions; or
- 2.1.6. a combination of the above.
- 2.2. The Acceptable Restrictions will only be acceptable where one (or more) of the following applies to each restriction:
 - 2.2.1. A cascade mechanism⁴ is in place that commences after a maximum of three months from the date of possession where no contracts have been exchanged, with no restriction of any kind after 6 months. The price for the sale must be the full open market value of the property. OR

⁴ A cascade mechanism involves offering the property to a very local market and gradually widening the net until eventually the property can be sold on the open market.

2.2.2.A Mortgagee Exclusion⁵ Clause applies immediately upon possession and will continue in force for successors in title to the mortgagee ensuring that all successors also take free from the relevant restrictions. OR

2.2.3.The restriction only applies to the first transaction, i.e. the initial purchase transaction and is subsequently dis-applied to any future transactions.

2.3. Where a Housing Association is involved:

2.3.1.all pre-emption rights must be removed after three months from the date of repossession, save for any pre-emption rights forming part of the fundamental clauses of the HCA model Shared Ownership leases;

2.3.2.all nomination restrictions must be removed after three months from the date of repossession, save for any nomination restrictions which form part of the fundamental clauses of the HCA model Shared Ownership Leases;

2.3.3.all marketing restrictions must be removed after three months from the date of the repossession;

2.3.4.there must be no pre-emptive rights that allow a discounted sale outside of the scheme rules.

2.4. Where a restriction is in place (as set out at paragraph 2.1 above, you must provide the Society with the specific wording of the restriction and seek confirmation that the property has been valued accordingly.

The Society will not accept any other restrictions that fall outside of the 'Acceptable Restrictions' listed above.

⁵ A Mortgagee Exclusion Clause allows a lender who has repossessed the property to operate free of any Section 106 affordable housing restrictions which are placed upon individual properties. Mortgagee Exclusion clauses should not be confused with mortgagee protection clauses which are clauses designed to cover a lender's loss should a lender have to take the property into possession.

Appendix A

Name of Landlord

Address of Landlord

Postcode

Dear Sir/Madam

Re: Insert applicant name and security address

Leaseholder:

Solicitor/Conveyancer:

Borrower:

Landlord:

Property:

Lease:

Lender:

Mortgage Account No.:

Leeds Building Society has been asked to provide a mortgage for the purchase of the above property and requires your agreement to the undertaking below. This undertaking must be returned to the solicitor/conveyancer named above.

In consideration of the Lender granting the Borrower a mortgage on the Property, the Landlord undertakes not to commence any proceedings to obtain possession of the property under any of the grounds in Schedule 2 of the Housing Act 1988 without:-

- a) Giving the Lender not less than 28 days' notice in writing of their intention to commence proceedings; and
- b) If within such a period of 28 days (or within such other period specified in the notice period, if longer), the Lender indicates in writing to the Landlord that it wishes to remedy such breach, or is going to take such action as may be necessary to resolve the problem complained of by the Landlord, giving the Lender such time as may be reasonable (in view of the nature and extent of the breach/problem) to take such action.

Signed.....

Dated.....

You should retain the attached copy of this undertaking as it details below the address where any notice should be sent:

Leeds Building Society

Customer Services

26 Sovereign Street

Leeds

West Yorkshire

LS1 4BJ