First Homes Guidance for first time buyers



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LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

First Home Guidance

What are First Homes?

- First Homes are newly built properties for first-time buyers.
- They are offered at a discount of at least 30% compared to prices of equivalent properties on the open market. Local authorities can choose to set deeper discounts of 40% or 50%.
- The discount will apply to all future sales of the First Home. This means the same percentage discount as applied to the original sale will be passed on to the new buyer every time the property is sold and the seller of the First Home will only receive the discounted amount, not the full market value

What type of properties are First Homes?

- First Homes are properties suitable for first-time buyers.
- First Homes are of the same type and quality, and meet the same standards, as other properties in the same development. First Homes will look exactly the same as homes sold normally on the open market.
- The maximum price of a First Home, after the discount has been applied, will be £250,000 (£420,000 in London). Local authorities are able to set lower price caps as part of local policy. In subsequent sales the price will reflect the market value minus the percentage discount.

Who can buy First Homes?

- All purchasers must be first-time buyers.
- Purchasers will need to comply with any local connections restrictions, or key worker restrictions, set by the local authority. These criteria are designed to prioritise local people or people with particular priority occupations. Some buyers may be exempt (details below).
- Any local connections or key worker criteria will apply for the first 3 months once the First Home is offered for sale. After the first 3 months have come to an end, the local connections or key worker restrictions will fall away and the property will be available to first-time buyers nationwide.
- To be eligible for a First Home, your household's income must be no more than £80,000 in England or £90,000 in London. For the first 3 months of marketing, local authorities will be able to set lower income caps. If the home is not sold within those 3 months, the local caps fall away and the national caps will apply.
- Buyers will need a mortgage covering at least 50% of the price of the First Home (after the discount is applied).
- These criteria apply to all future sales of each First Home.

How can I use my First Home?

- Your First Home belongs to you. You can decorate and update your First Home as you wish, in keeping with planning and building regulations, any leasehold restrictions that apply, and the terms of your mortgage.
- Your First Home must be your only or main residential property for the duration of your First Home ownership. You are allowed to let out the First Home for up to 2 years in total, and in some exceptional circumstances, the local authority may approve an extension to this period. Approval from your mortgage lender is needed to let out the First Home for any period of time.
- Lodgers are permitted, as long as the home remains your only or main residence.
- Should you wish to move home, you can sell your First Home to another eligible buyer. The percentage discount that applied when you bought the First Home would also apply on the sale price. The percentage discount is fixed and cannot change, even if you have made improvements to your home.

Buying a First Home

Introduction

Buying a First Home is similar to buying a normal market home. The main difference is that the buyer's eligibility has to be confirmed by the local authority near the start of the purchase process. If approved, the local authority will in turn notify the customer, their solicitor/conveyancer, the home seller and the mortgage company that the sale can proceed. At a later stage, once the conveyancer has confirmed that the purchase is fully compliant, the local authority will issue the formal approval to let purchasers exchange contracts.

The other important difference is that a First Home restriction on its future resale will be registered on the title of the property by your conveyancer. This means you can only sell in the future to another qualifying First Homes buyer at the same discount to the market value, ensuring the First Home continues to benefit others when you have moved on.

Process for buying a First Home

In summary, the following steps would be taken to purchase a new build First Home from a house builder:

1. Visit the house builder selling First Homes to see what is available to purchase.
2. If there is a First Home that you would like to buy, the house builder, and probably a mortgage advisor, will initially check your eligibility to buy against the local and national criteria.
3. If you have not already done so, it is strongly recommended that you seek financial advice about mortgage availability from a mortgage advisor. You should also have a solicitor/conveyancer to advise you on the purchase. The builder may suggest some names for you to try but you are free to choose your own advisors.
4. If it looks like you could be eligible, the builder will assist you to complete a First Homes application to the local authority.
5. The builder and mortgage advisor will need information and evidence from you to:
    a. check local and national eligibility;
    b. check household income; and
    c. determine whether you are likely to be able to obtain a mortgage, through for example a "decision in principle" from a mortgage bank or building society.

    You are advised to first check the privacy notice of the builder and the mortgage adviser, and only to proceed if you are happy with how they will use your personal data.
6. Once the application information has been completed you will then:
    a. sign the legal declarations on the application form, including confirmation that you and anyone you are purchasing with are first time buyers; and
    b. reserve the home from the builder and pay a reservation fee to the builder (maximum of £500 permissible). This is refundable if you are found not to be eligible.

    It is very important that all buyers make this reservation commitment with their application. Applications cannot be considered by local authorities if you have not reserved your First Home, or if any required information is missing.
7. The completed application is then sent by the builder to the local authority for their consideration.

8. The local authority will check your application. If you meet all the requirements it will issue a First Homes 'Authority to Proceed' and Eligibility Certificate to you, the builder, mortgage advisor and your conveyancer. Your conveyancer will also receive instructions from the local authority. You can usually expect a local authority to issue their Authority to Proceed in approximately five working days of application receipt. It is very important that your application is completed in full before submitted to the Local Authority because they will not be able to consider partial applications, and this will cause delay.
9. You can now apply for your mortgage. It is very important that you do not submit your full mortgage application until you have the Authority to Proceed. Securing a 'decision in principle' can be done before this, but submitting a full mortgage application will incur cost and you should not do this until you know you are approved to buy.
10. Your conveyancer will work on your purchase and follow the local authority's instructions. You will have to make a further legal declaration that you are eligible and understand the terms of the First Homes scheme and that you can only resell the home in the future to another eligible First Homes buyer.
11. Once your mortgage offer is made and the contract agreed with the builder, your conveyancer will request approval to exchange contracts from the local authority.
12. The local authority will check the conveyancer's request and, if it is a compliant sale, will issue an 'Authority to Exchange' and Compliance Certificate to your conveyancer. It is very important that you keep the Compliance Certificate. This shows you are eligible and entitled to be a First Homes owner.
13. With the Authority to Exchange, you should now pay your deposit (usually 5%) and exchange contracts to buy. At this point you are legally committed to buy. It is acknowledged that customers cannot always pay their full deposit at exchange of contracts, for example when using the Help to Buy ISA. It is therefore permissible to exchange contracts with less than a 5% deposit, as long as the full balance is paid at Legal Completion.

    PLEASE TAKE GREAT CARE WHEN IT COMES TO PAYING YOUR DEPOSIT TO YOUR CONVEYANCER.

    Fraudsters can impersonate conveyancers and request payment. Follow your conveyancer's instructions very carefully when you reach this stage. You are recommended to use the "Take 5" advice to avoid fraud. https://takefive-stopfraud.org.uk/advice/general-advice/
14. At the point of exchange your builder will have confirmed how long it will take to complete your home so that you can move in (Legal Completion). This is usually done by agreeing a short period of notice that they will give you. The time between exchange and legal completion (when you move in) is usually expected to be no more than six months.
15. Once the builder has given notice of legal completion, your conveyancer will get your mortgage money from your lender to pay the builder. On the date of legal completion, you will get the keys and can move into your First Home.

Who is paying for the discount?

For the main rollout of the First Homes scheme, the discounts will be funded by contributions from developers. Developers are usually asked to contribute a number of affordable homes as part of their planning agreement with the local authority; First Homes are a type of affordable housing, and form part of this contribution.

To help launch First Homes as a new tenure, the Government is also supporting some early delivery programmes in which it is funding the discounts directly.

How is the discount secured?

The First Homes programme is designed to make sure that discounted homes are available in perpetuity so that, in addition to the initial buyer, future generations of first-time buyers can continue to benefit from access to an affordable way to own their home. When an existing First Homes owner decides to sell their property, it is essential that they pass on the same percentage discount they received to the next buyer of the home.

For this reason, the discount on a First Home is secured by a legal agreement between the developer and the local authority, which is noted on the title deed of the property (as a 'restriction on title') at the Land Registry. The legal agreement specifies the percentage discount that was applied on the initial sale, which then needs to be applied for all future sales. It also notes the local authority that is responsible for setting any additional local criteria concerning income thresholds, local connection or key worker criteria; these criteria only apply for the first 3 months of any resale (see the eligibility section below for further details). The restriction on title ensures that the discount is passed on as a condition of future sale.

Are there price caps on First Homes?

First Homes will be subject to a price cap to ensure that they are available to people who need them. The cap, *after* the discount has been applied, is £250,000 across England and £420,000 in London. Local authorities will be able to set lower price caps to ensure that First Homes are right for the local market. These price caps apply for the initial sale only.

Do I have to get a mortgage or home purchase plan to buy a First Home?

Yes. The First Homes scheme is intended to help people who would otherwise find it difficult to get onto the property ladder. For this reason, buyers must get a mortgage or home purchase plan that covers at least 50% of the cost of the First Home, after the discount has been applied.

How much stamp duty land tax will I need to pay?

The stamp duty calculation for a First Home is based on the amount of money that is actually paid for the home, after the discount has been applied.

Can I use a Help to Buy ISA or a Lifetime ISA to purchase a First Home?

Yes, as long as the purchase also complies with the rules of the Help to Buy ISA and Lifetime ISA schemes. The ISA schemes have price caps, which are currently:

- Help to Buy ISA: £250,000 (£450,000 in London)
- Lifetime ISA: £450,000

For a First Home purchase, these caps would apply to the price of the home after the discount has been applied.

Can I use a Help to Buy: Equity Loan to purchase a First Home?

No. First Homes is intended as an additional option for affordable home ownership, and the Help to Buy: Equity Loan cannot therefore be used for a First Homes purchase.

How do First Homes compare to other affordable home ownership products offered by the Government, such as the Help to Buy: Equity Loan and Shared Ownership?

First Homes is a new scheme. It offers homes with a significant discount compared to the market price, lowering deposit and mortgage repayment costs, thereby making home ownership

accessible to many more people. The discounted portion is funded by developer contributions or government grant. By comparison:

- The Help to Buy: Equity Loan scheme offers a government loan of between 5% and 20% (40% in London) of the value of a new build home to first-time buyers, with purchase prices subject to regional caps. The loan is interest free for 5 years and repayable in full when you sell the property. *The First Homes discount is not a loan, and therefore the discounted portion doesn't ever have to be repaid.*
- The Shared Ownership scheme enables customers to buy a share of a home and to increase their share of ownership over time, while paying rent on the portion they do not own. *In the First Homes scheme, the discounted portion isn't owned by another party, meaning no rent needs to be paid on it.*

Are First Homes the same as Starter Homes?

No. Starter Homes was a home ownership scheme led by a previous Government which is not being taken forward. The First Homes programme offers significant benefits over Starter Homes, including that the discount on the property is available in perpetuity, allowing future generations of buyers to benefit from access to affordable home ownership.

Eligibility

Introduction

First Homes are intended to help first-time buyers onto the property ladder. A set of national criteria has been put in place to help ensure that First Homes go to those who would otherwise struggle to buy a home. In some areas, priority may be given to people who work in certain occupations, or who already have a connection to the area. This additional local criteria is set by the relevant local authority. Any local criteria falls away if the First Home has been on the market for more than 3 months.

To purchase a First Home, do I have to be a first-time buyer?

Yes. This means you have not (either alone or with others):

- previously acquired via purchase, gift, trust or inheritance a major interest in a dwelling or an equivalent interest in residential land situated anywhere in the world; and/or
- benefited from any form of sharia mortgage finance.

The full 'first-time buyer' definition is set out in paragraph 6 of schedule 6ZA of the Finance Act 2003 for the purposes of Stamp Duty Relief. To buy a first home, you will need to sign a declaration confirming that you are a first-time buyer.

If I'm buying with a partner, do they also have to be first-time buyers?

Yes. If the First Home is being bought by more than one individual all purchasers must be first-time buyers, in keeping with the definition described above.

Can one member of a couple buy the home on their own, and would this mean the other does not have to be a first-time buyer?

Couples looking to buy a First Home should always take legal and financial advice on the implications of purchasing jointly or by just one party, the same as any other home purchase. Your conveyancer will be able to advise on this.

To ensure First Homes only benefit those that are eligible, and for the future good order and administration of the scheme, it is reasonably expected that couples will purchase a First Home together. This means that each party always meets the first-time buyer requirement, the household income threshold and at least one purchaser meets the (as applicable) local connection criteria.

It is recognised however that sometimes couples cannot buy jointly e.g. because their mortgage lender may only wish to lend to one party.

In this the scenario, the couple can still buy a First Home even if the purchase is only in the name of one person. But to do this both parties must still meet the first-time buyer criteria, meaning both need to sign the first-time buyer declaration at the application stage and later make the same declarations to their conveyancer. They must also jointly fall within the relevant household income threshold and be able to provide evidence of this to the local authority. Any local connection, key worker or Armed Forces criteria will still need to be satisfied.

Are there income caps?

To be eligible for a First Home, your household's gross income must be no more than £80,000 in England or £90,000 in London. However, local authorities will be able to set lower income caps for the first 3 months after a First Home goes on sale.

Can those connected to the Armed Forces buy First Homes?

Yes. Members of the Armed Forces, the divorced or separated spouse or civil partner of a member of the Armed Forces, the spouse or civil partner of a deceased member of the Armed Forces (if their death was caused wholly or partly by their service) or veterans within five years of leaving the Armed Forces can purchase First Homes without having to satisfy any local connection or key worker restrictions set by local authorities. In such cases, all other eligibility criteria, including first-time buyer status and the household income caps, would still have to be met.

Owning a First Home

Introduction

In most respects, owning a First Home carries the same rights and responsibilities as owning a normal market home. You will not pay rent, and you can decorate and update the home just as any home owner can, in keeping with planning rules, any lease restrictions and the terms of your mortgage. Insurance and maintenance of the home rests solely with the owners, as would be the case with any market sale home.

There are however some restrictions: as First Homes are intended to help people onto the property ladder, it should be the only or main residence of the buyer. Some restrictions are also in place for lettings.

Will I only own part of my First Home?

No. If your First Home is a house, you will own the freehold on the property. This means that you own all of the home.[1] If you own a First Home flat, you will own a leasehold on the property.[2] You will not be required to repay the discount and there will be no rent owing on the discounted portion of the property.

[1] Subject to completing repayments to your mortgage or home purchase plan provider.

[2] For further information, see https://www.gov.uk/government/publications/how-to-lease/how-to-lease

It is recommended you seek independent financial advice before you purchase so you are clear on how First Homes works.

Can I make improvements/extend my First Home?

If your First Home is a house, you can make any improvements you wish to your home subject to planning regulations and your mortgage agreement. However, you should bear in mind that you may not recoup your investment when you decide to sell your First Home as the original percentage discount you received at purchase must be passed on to the next buyer.

If you own a First Home flat, you will be able to make improvements subject to the conditions of your lease, planning regulations and your mortgage agreement.

All First Homes owners should remember that, irrespective of any improvement that they make to the home, the restriction on the title means it can only ever be sold at the specified percentage discount to the market value.

Can I let my First Home?

You can let your First Home for a period of up to 2 years provided you notify the relevant local authority, and subject to the terms of your mortgage agreement. This is allowed to offer owners the ability to respond to changes in their circumstances, such as unexpected life events. The 2-year period is in aggregate; it does not have to be continuous, and does not have to be to the same tenant. The 2-year period is allowed for each span of ownership: if the First Home is resold, or inherited, the 2-year period resets. There is no restriction on how much rent is charged.

You may be able to let out your First Home for longer than 2 years in exceptional circumstances, including:

- For a short job posting elsewhere
- For deployment elsewhere (Armed Forces)
- In relationship breakdown
- Fleeing domestic violence
- Redundancy
- Caring for a relative or friend.

You will need to get permission from your local authority to rent out for longer than 2 years. Local authorities should not unreasonably withhold consent in the situations listed above, and can consider other situations on a case-by-case basis. You may, however, also need agreement from your mortgage lender.

Can I have a lodger in my First Home?

Yes, and with no time restriction, provided that the property remains your only residence. This is subject to the terms of your mortgage agreement.

Should I pay buildings insurance in relation to the discounted price of the home, or the full price?

Buildings insurance should be paid in relation to the full market price of the home.

Can I remortgage the property or use equity release schemes?

Yes, however this will be in relation to the discounted value of the home.

What happens if a First Homes owner's circumstances change so that they no longer meet the eligibility criteria?

If owners have purchased the First Home on the basis of meeting key worker criteria set by the local authority, or on the basis of the Armed Forces criteria, they do not have to continue meeting that criteria after completion of the purchase (meaning they can, for example, change their job whilst still being a First Homes owner). Also, their income does not have to stay within the household income cap. In addition, if a First Homes owner re-mortgages the home during the period of their ownership, this can be for less than 50% of the purchase price.

However, the First Home should be the owner's only or main residence, and aside from some specific exceptions they will not be able to let the First Home for more than 2 years (further details are set out under the section 'can I let my First Home'). If an owner does not comply with these requirements, they will be in breach of the legal obligations related to their First Home.

If a First Homes owner fails to keep up their mortgage payments this may put the home at risk, as is the case for any homeowner with a mortgage. Owning a First Home does not prevent a mortgage lender following its own policies and procedures; for example, if the owner falls into arrears, the home may be repossessed.

Can I leave my First Home to friends/family in my will?

Yes. Subject to any outstanding mortgage or home purchase plan payments, you own the First Home and you can leave your property to whomever you wish. They would, however, have to abide by the conditions of owning a First Home, meaning it would need to be their only or main residence and they would not be able to let out the home for more than 2 years in aggregate without permission from the local authority. If they do not abide by these conditions, they will be in breach of the legal obligations related to the First Home which will carry serious consequences.

Do First Home owners pay less council tax?

No. Council tax rates will be the same as for an equivalent open market home.

Selling a First Home

Introduction

A First Home restriction on its future resale will be registered on the title of the property by your conveyancer. This means you can only sell in the future to another qualifying First Homes buyer at the same percentage discount and ensures the First Home continues to benefit others.

How do I sell my First Home?

The process for selling First Homes is broadly similar to the process for selling properties on the open market. However, there are some differences:

1. You should first notify the local authority that you wish to sell your First Home.
2. The local authority will issue you with instructions for marketing and confirming the eligibility requirements. These must be used by your estate agent to ensure they can market to eligible purchasers. Please note that it is the local authority's eligibility requirements at the time of sale that would apply – these may differ from the requirements that existed when you bought your First Home.

3. You should then instruct your estate agent and give them the eligibility requirements for their marketing. Owing to the additional legal requirements involved in selling a First Home, it is not advisable to attempt a private sale.
4. You must initially attempt to sell your First Home to buyers who meet any local connection and/ or key worker criteria set by your local authority. If, after 3 months of active marketing through an estate agent, you are unable to sell your First Home, you must then attempt for a further 3 months to sell your property through an estate agent to buyers who meet the national criteria for purchasing First Homes.
5. Your estate agent will check potential purchasers and complete an application pack (like the one you completed when you bought the First Home) for the new purchaser:
    - The purchaser would need to meet all the eligibility criteria; be able to make an offer (subject to their eligibility); and be, in the estate agent's professional judgement and advice to you, the most proceedable purchaser.
    - At this point, you will also need to submit to the local authority a valuation demonstrating the sale is at a discount to the prevailing Market Value The valuation must be from a valuer who is qualified by the Royal Institution of Chartered Surveyors (RICS). You will need to pay for this. The RICS surveyor will value the home's 100% market value before the First Homes discount percentage is applied.
6. The price of your First Home cannot be negotiated upwards from the discounted value set confirmed by your valuation. You can reduce the price, for example if you wish to secure a quick sale, but the price may not be increased even if there are a number of potential buyers.
7. The local authority will consider your purchaser's application and your valuation. If eligible, the local authority will approve the purchaser and issue instructions to their conveyancer, very similar to the process followed when you purchased the First Home. Your purchaser's conveyancer will then follow the local authority's instructions and the sale will proceed in the same way.
8. To ensure that other people can benefit from the discounted home, the same percentage reduction must be applied when you sell your First Home as was applied when you made your purchase. For example, if you purchased your home at a 30% discount compared to the open market price, you must also sell it for a 30% discount compared to its open market value at the time of sale.

Valuations

You must have your First Home valued by a valuer accredited by the Royal Institution of Chartered Surveyors (RICS). The surveyor will assess the market value of your home on the basis of comparable market value homes, and will then apply the original percentage discount you received when you initially purchased your First Home.

What happens if the value of my First Home changes since I first bought it?

As with any privately owned home, the value of your First Home may increase or decrease over time. The same percentage discount must, however, always be applied on future sales. This means you will only gain or lose equity in relation to the value of the First Home *after* the percentage discount has been deducted. For example:

Open market value at time of original purchase	Percentage discount	First Homes price at time of original purchase	Change in home value over time	Price that you can sell your First Home for (subject to RICS valuation)
£100,000	30%	£70,000	+ 10%	£77,000
£100,000	30%	£70,000	- 10%	£63,000

What if I can't sell my First Home?

If you are unable to sell your First Home to an eligible buyer, after six months, you may be required to notify your local authority so that it has the opportunity to purchase your home. If the local authority does not wish to buy your home, you will then be able to sell it on the open market at the open market price; the discounted portion of the sales receipts would then be returned to the local authority.

In this situation, a further stamp duty return to HMRC may be required dating back to your original purchase. This is because the repayment to the local authority becomes in effect a part of the original sale price for stamp duty purposes. However, the repayment to the local authority is net of any additional stamp duty incurred. In other words, any additional stamp duty payable would be deducted from the amount that you are asked to return to the local authority, meaning you would not have to pay back any more than the discounted value of the home. Should this situation arise, please seek advice from your conveyancer.

What if I can't sell my First Home quickly and this is likely to cause me hardship?

If having to market the First Home for 6 months is likely to cause you hardship, such as bankruptcy, you can ask the local authority to switch the property to an open market home. Decisions in this regard are left to the discretion of the relevant local authority. In such cases, the discounted portion of the sales receipts would need to be returned to the local authority, net of any stamp duty, as described above.