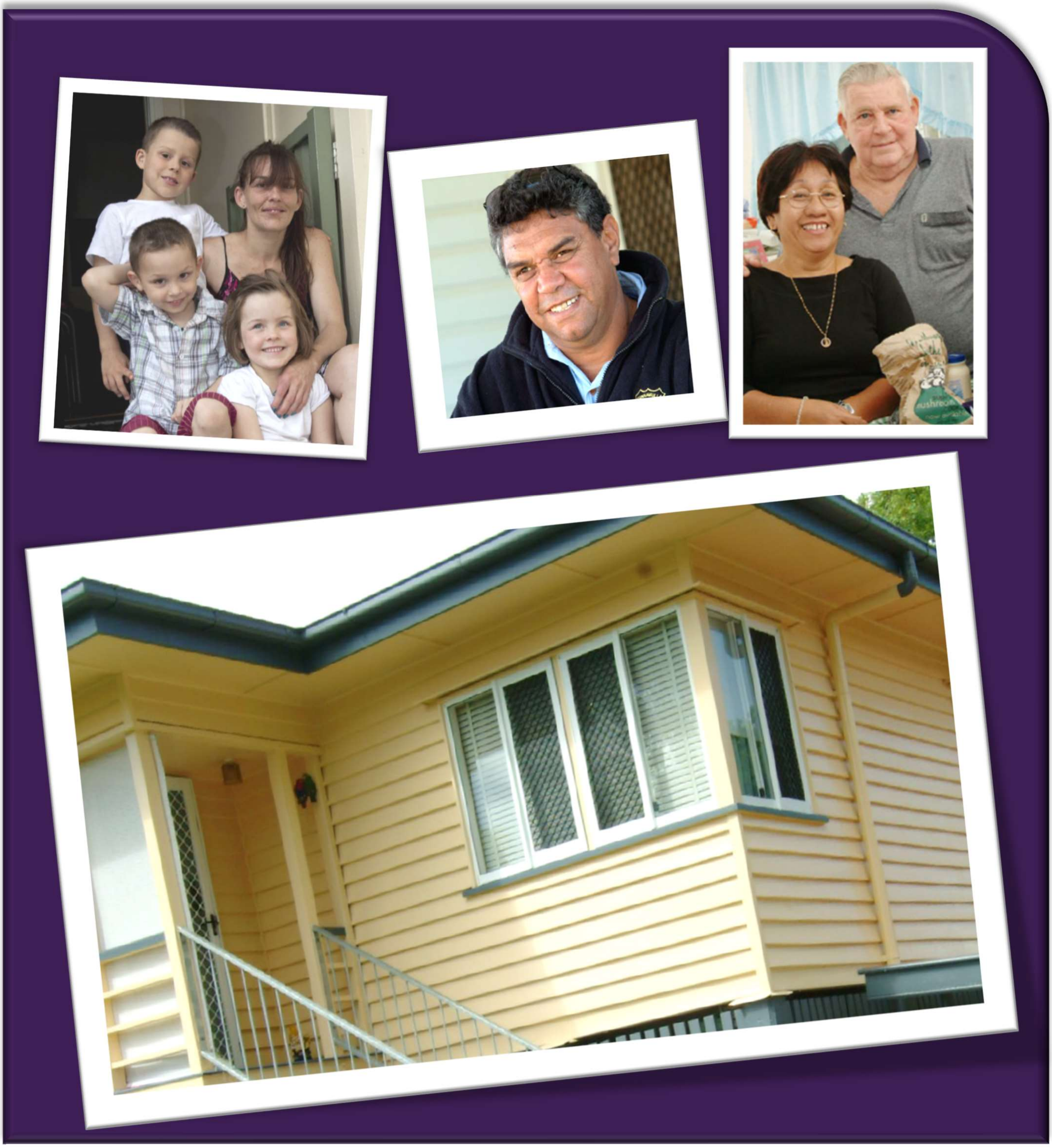
Pathways Shared Equity Loan

Become a home owner by purchasing a share of the property you are renting

Questions and Answers booklet



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General Information

Q. What is Pathways Shared Equity Loan?

A. It is a loan which assists tenants to purchase a share in the property they are currently renting from the Department of Communities, Housing and Digital Economy.

Q. Am I eligible?

A. To be eligible for the Pathways Shared Equity Loan you:

- must be a departmental tenant at the time of application
- must be a permanent resident of Australia
- cannot own or part-own another property at the time of application
- cannot be in a position where the department considers that you could buy 100% of your rental home with a standard mortgage loan
- should not have other significant debts that will prevent you from repaying the shared equity loan. The manner in which you repaid other loans will also be considered in determining your eligibility
- must demonstrate that you are able to afford home purchase without hardship, taking into account your costs of living and the ongoing costs of home ownership
- must be purchasing the property as your home and undertake to live in the home for the term of the loan agreement
- must not have an outstanding debt with the department.

Q. What is shared equity?

A. Shared equity programs are designed to help people on moderate incomes to purchase a home. Through a shared equity program, a homebuyer applies for a loan to purchase a share in their home, entering into an arrangement with another party which owns the remaining share.

Shared equity loans are designed to assist people who are unable to afford the repayments on a mortgage loan for the full purchase price of a property, but whose incomes do allow them to repay a smaller loan.

Q. What property can I buy?

A. The Pathways Shared Equity Loan is only available to assist you to buy the property you currently rent from the department. The loan is not available to purchase other departmental properties or properties which are for sale in the private market.

Not all social housing properties are available for purchase. Those not available include properties in very high demand areas, sites that have future redevelopment potential, townhouses, units and cluster houses.

Q. What is the minimum share that I must buy?

A. Under the Pathways Shared Equity Loan, you are obliged to buy at least 60% of the property you are renting.

The size of the share you buy will be determined by a number of factors, including:

- your income now and expected future income
- your current costs of living
- the size of your deposit
- current interest rates, and
- the current market value of your rental property.

You will be required to purchase the largest share that your income will allow at the time of purchase. For example, if you are assessed as being able to afford the repayments on a 75% share, you will need to purchase this larger share, rather than the minimum 60% share.

If the department's assessment indicates that you can afford a loan to buy 100% of the property, you will not be eligible for a Pathways Shared Equity Loan.

Q. How much will I be able to afford?

A. Monthly home loan repayments will not be more than 35% of your gross monthly household income. Your repayments will be calculated on a case by case basis and will depend on the amount you borrow, interest rates at the time, and your household commitments.

Q. How will my income be calculated?

A. When calculating the size of the initial share you can afford to buy, the department will use your agreed continued income. This is your before-tax income that you and the department agree will continue throughout the term of your loan.

Q. Will overtime or penalty rates be included in assessing my agreed continued income?

A. This depends on the nature of your employment. In some industries, overtime is an essential part of the job and regular overtime and/or shift allowances may be included when assessing your income.

Q. Who owns the rest of my home?

A. You will own at least 60% share of your home. The remaining share of the property (maximum 40%) will be owned by the department on behalf of the State of Queensland.

Q. Do I have to pay rent on the Queensland Government's share of the property?

A. No. The department will not charge you rent for the use of its share of the property, but you will be responsible for the full costs of owning the property, including local council rates, building insurance, and maintenance and repairs to the property.

Q. Can I buy more shares in my home?

A. Yes, you may be able to buy further shares of your home from the department in the future. This can be done at any time by either re-negotiating your loan with the department (if your financial circumstances allow you to do so), or by paying cash for the additional shares. The department does not charge any fees to renegotiate your contract. However, you will have to pay the cost of registering the new mortgage with the Titles Office.

When you buy further shares, you must purchase at least a 5% share at one time. The price will be based on the market value of your home at that time of purchase. The value of the property will be determined by an independent valuer.

The department will pay for the cost of the valuation. As property prices generally increase over time, it is probable that you may have to pay more for any additional share you buy in the future.

Changes in the market value of your property

Example 1.

When your property *increases* in value

Initial property value	$300,000
Your share (60%)	$180,000
The department's share (40%)	$120,000
The value of a 1% share at the time of purchasing the initial share is	$3,000
Subsequent property value (as determined by an independent property valuation)	$350,000
Your share (60%)	$210,000
The department's share (40%)	$140,000
The value of a 1% share at the time of purchasing further shares is	$3,500
Therefore, the cost of a further 5% share is	$17,500

Example 2.

When your property *decreases* in value

Initial property value	$300,000
Your share (60%)	$180,000
The department's share (40%)	$120,000
The value of a 1% share at the time of purchasing the initial share is	$3,000
Subsequent property value (as determined by an independent property valuation)	$280,000
Your share (60%)	$168,000
The department's share (40%)	$112,000
The value of a 1% share at the time of purchasing further shares is	$2,800
Therefore, the cost of a further 5% share is	$14,000

Costs of home purchase

Q. What up-front costs can I expect when I buy my home?

A. There are a number of up-front costs which you will need to allow for when buying your home.

Deposit

You will be required to pay a minimum deposit of $2,000 on your loan. This deposit must be paid from your own cash savings. You cannot use money that you borrow from another source or money that was given to you as a gift.

However, when the department assesses your eligibility for a loan, consideration will be given to whether you have paid your rental payments to the department on-time. If your rental payment history is favourable, the department may agree to reduce the minimum cash deposit you will be required to contribute and/or allow you to use gift monies to pay some of the minimum deposit.

Independent building inspection

Some applicants may choose to obtain an independent building inspection from a licensed building inspector before purchasing their home. The purpose of this inspection is to provide an independent evaluation of the condition of your home prior to purchase. This gives you an opportunity to raise any matters of concern with the department.

Legal fees

It is strongly recommended that you engage a solicitor to assist you with the legal processes associated with buying your home. Fees can vary so it is worthwhile obtaining more than one quote before choosing a legal representative.

Note: All applicants for the Pathways Shared Equity Loan are required to prove they have obtained independent, professional legal and financial advice as a condition of loan approval.

Registration fees

When you purchase a share in your rental home, a transfer document is lodged with the Titles Offices to transfer the share that you are buying from the department to your name. The Titles Office charges a registration fee to record this transfer on the title.

Registration fees are also payable for the department's mortgage over your share. The department will collect these registration fees from you when you sign your loan documents.

Rates and water adjustments

As the owner of the property, you will be responsible for annual local government rate and water charges from the date you acquire title of the property (the settlement date). There may be an adjustment made to the purchase price of the property to take into account these charges.

These charges will have either been pre-paid by the department for the period during which the transfer takes place, which means you will reimburse the department. Alternatively, the rates notice may have not yet been paid for the period during which the transfer takes place, and you will need to pay the outstanding share owed by the department. In either case, you may need to pay an extra amount to the department when the transfer takes place or obtain a credit for paying the department's share and not need to borrow the full loan amount. The department will calculate the adjustment to the purchase price for you and let you know in writing the details prior to settlement.

Insurance

It is a condition of the Pathways Shared Equity Loan that you take out and maintain building insurance cover for the property you have purchased from the date of settlement. This policy must also include public liability insurance which protects you if someone is injured on the property.

The Queensland Government's interest in the property must also be noted on the building insurance policy and you will need to provide the department with a copy of this policy.

Independent legal and financial advice

If you decide to purchase a share of your rental home through the Pathways Shared Equity Loan, you will need to seek independent financial and legal advice as a condition of the loan. The purpose of the advice is to ensure that you fully understand the legal and financial obligations of buying the property, which for many people is the largest financial commitment they will ever make.

The department will provide you with a reimbursement of up to $500 towards the cost of this advice (up to $250 for each service).

Q. What are the ongoing costs of purchasing my home?

A. **Loan repayments**

Once settlement of your loan has occurred, you will make monthly (or fortnightly) repayments on the loan for your share of the property. Your loan repayments may need to increase over time in line with interest rate increases.

If you choose a variable interest rate for your loan, repayments will change as interest rates change in the broader lending market. If you choose a three-year fixed interest rate, you will be protected from repayment increases during the three-year period. However, once the fixed loan period is over your repayments may increase if interest rates in the broader market have increased.

Local government rates

As a homeowner, you will be required to pay all rates and charges on the entire property (not just your share) to your local council. Your rates bill will include a general rate charge and levies for services such as sewage and waste removal.

Insurance

As outlined in the section relating to up-front costs, you are required to take out building and public liability insurance for your home (not just your share). The cost of these insurance premiums will be an ongoing annual expense for you as a home owner.

Repairs and maintenance

As a home owner you will be responsible for all the maintenance and repair costs associated with your home. It is helpful to include an allowance in your weekly budget for home maintenance costs. Regular preventative maintenance such as clearing gutters and re-painting can reduce the need for significant maintenance costs in the future.

Q. What legal documents will I have to sign?

A. When your Pathways Shared Equity Loan is approved, you need to sign the following documents:

- A contract of sale and co-ownership agreement

  This is a contract to buy a share in a property, which is subject to a number of conditions that you should carefully consider. Discuss anything in the contract you don't understand with your independent legal advisor (solicitor).

- A shared equity loan agreement and a shared equity mortgage

  These are signed after the finance has been approved and you have received independent financial advice. You can ask for copies of these documents when you make your application for the loan.

- Transfer documents

  Your solicitor will prepare the transfer documents which transfer the title of the property from the department into your name and the department's name. These documents are registered at the Titles Office.

Q. How do I make repayments?

A. You will be required to establish a direct-debit facility to make repayments on your loan. Repayments will then be automatically deducted from your bank account and paid into your loan account. Direct-debit repayments can be set up to occur on a monthly, fortnightly or weekly basis.

You can also make additional lump sum payments at any time. You will be provided with a payment card for this purpose. Additional payments can be made at any Australia Post Office or agency.

How long will it take to repay my loan?

The time it takes to repay your loan will depend on the amount you borrow, the interest rate and the amount of your repayments.

If you borrow to your maximum capacity and interest rates remain steady, you could repay your loan in approximately 25 years. Making additional payments or paying more than the minimum monthly repayment can reduce the term of your loan.

How will I be able to track my loan progress?

A loan statement will be sent to you every three months providing you with the following information:

- the amount you owed at the start of the three month period
- the interest you have been charged each month
- the repayments you have made during the three month period
- the amount you owe at the end of the three month period.

The statement will also show the interest rates which applied to your loan during the three month period and what your interest rate is at the end of the period.

Additional Information

Q. Can I make improvements or alterations to my home?

A. Yes, as a home owner, you are able to make improvements or alterations to your home. However, as the Queensland Government also owns part of the property, you will need to gain approval from the department to make any improvements which require local government approval, or which alter the fabric of the building and/or land. Improvements you make to your home that increase its value will be taken into consideration if you sell the property or purchase further shares.

Q. Can I sell my home?

A. You can sell your home at any time. The Queensland Government will of course be entitled to claim the value of the share it owns at the time of sale. This includes its share of any capital gain (or loss) that is realised at the time of sale.

Example 1.

When your property *increases* in value

Property value when shared equity agreement commenced	$300,000
The value of your share (60%)	$180,000
The value of the department's share (40%)	$120,000
Sale price achieved for property	$350,000
Your 60% share is now worth	$210,000
The department's 40% share is now worth	$140,000

In this example, the property value has increased by $50,000 and the value of your 60% share has increased by $30,000

Example 2.

When your property *decreases* in value

Property value when shared equity agreement commenced	$300,000
The value of your share (60%)	$180,000
The value of the department's share (40%)	$120,000
Sale price achieved for property	$280,000
Your 60% share is now worth	$168,000
The department's 40% share is now worth	$112,000

In this example, the property value has decreased by $20,000 and the value of your 60% share has decreased by $12,000

Q. Can I increase my loan in the future?

A. Under the Pathways Shared Equity Loan, you can only increase your loan to purchase further shares in your home. You are unable to borrow extra funds to finance renovations or home extensions or for your personal use.

Q. What happens if I lose my job or have problems making repayments?

A. If you have problems making repayments, you should contact Loans and Debt Management on 1300 654 322

Depending on your circumstances, the department may be able to help. You should also consider speaking with an independent financial advisor who can help you with your budgeting and help you to make the best decision in your circumstances.

Q. Can I rent my house out to someone else?

A. The Pathways Shared Equity Loan is provided specifically to assist tenants to purchase their home. The loan is not intended to assist property investors.

You will need to remain living in your home while the Queensland Government owns a share of the property.

Q. Can I leave the house to my children?

A. The Pathways Shared Equity Loan is only available for the benefit of the original applicant(s). Should you pass away (if there is more than one applicant and you both die) the property will be sold to repay the loan. Your estate would receive any proceeds from the sale to the extent as you would have if you had sold the property yourself.

More information

To talk to a loan officer about your eligibility to buy a share in your home, contact the Loan Information Hotline on 1300 654 322 (toll free). The hotline is open Monday to Friday between 8.30am and 4.30pm. Callers outside Queensland should call 07 3007 4782.

Budget Planner

This budget planner can help you check how affordable home ownership will be for you. To convert annual costs, take the yearly total and divide this by either 52 weeks, 26 fortnights or 12 months, depending on whether you are paid weekly, fortnightly or monthly.

Expenditure

Mortgage repayments / rent	
Other loans	
Credit cards (Bankcard, Mastercard, Visa, store cards)	
Groceries	
Clothing (seasonal needs, school clothes, shoes)	
Household expenses (gas, electricity, Internet)	
Rates - *Council*	
Water	
Telephone	
Property maintenance	
Public transport	
Petrol	
Car maintenance	
Car parking	
Car registration	
Car insurance	
Education expenses (school fees)	
School books & excursions	
Child care fees	
Personal expenses (entertainment)	
Pets (Vet & food)	
Fees (newspapers, clubs, donations, memberships)	
Gifts (Christmas, birthdays, special occasions)	
Court order (child support)	
Insurance - *Superannuation*	
House insurance	
Contents insurance	
Life insurance	
Health insurance	
Medical - *Doctor*	
Dentist	
Optical	
Chemist	
Savings	
Holidays	
Other	
Total Expenditure	$

Income

Wages / salary (after tax)	
Benefit / pension	
Family allowance / maintenance	
Spouse's income	
Other income	
Other	
Total income	$

Note: the budget planner should not be relied on solely to determine eligibility for a Pathways Shared Equity Loan. You may have other expenses to take into account and it is important to consider these and talking to a financial planner before committing to a mortgage.

For more information

Housing Loan Information Hotline – 1300 654 322

(Monday to Friday 8.30am – 4.30pm)

www.qld.gov.au/housing/buying-owning-home/pathways-shared-equity-loan/