

Are you or a member of your family disabled?

Benefits Based Buying

How to buy a home using a mortgage when
your main source of income is state benefits

2

Introduction

Many disabled people rely on state benefits for part or all of their income. What you may not know is that the benefit regulations can assist disabled people who need a loan to buy a house. They may be eligible for additional benefit which helps with almost all the costs of mortgage interest. This booklet explains when your benefit may be increased to help you buy a home. It highlights the things you should consider before taking out a benefits-based mortgage and explains the process of obtaining one.

For simplicity, we refer to a 'disabled person' but the rules described apply equally to a household which includes a disabled person. A disabled person can be someone with learning difficulties or mental health problems, as well as someone with sensory or physical impairments.

In summary, this booklet is relevant to you if:

- you or a member of your household is disabled
- your main source of income is state benefits
- you wish to buy a home that the disabled person will occupy

Help to buy a home

To qualify for an increase in your benefits to meet the cost of a new mortgage you need to receive specific state benefits. These are:

- Income Support
- Income-Based Job Seekers Allowance
- Pension Credit (Guarantee Element only)

The additional benefit is often referred to as Income Support Mortgage Interest (ISMI) payments, regardless of which benefit you receive.

Can I get help immediately?

If you receive the Guarantee element of Pension Credit you can receive help with the cost of a new mortgage immediately.

If you receive Income Support or Income-Based Job Seekers Allowance you normally have to have been entitled to the benefit for 9 months. This period is reduced for carers and single parents, amongst others.

When am I entitled to help?

Your benefit may be increased to pay a new mortgage if:

1. You need to move to a house more suited to the needs of a disabled person

If you can show a need to move, your benefits can increase to meet a mortgage of up to £100,000.

Apart from its physical design, your new home could be more suitable because, for example, it is located nearer support or employment, or it means a disabled person can live independently.

Or,

2. You receive Housing Benefit

If you receive Housing Benefit your benefits can be increased to help you buy a home. You do not need to prove that you are moving to house more suited to a disabled person in this case.

The increase in your benefit will match the amount of Housing Benefit you receive, subject to a mortgage limit of £100,000.

In either case the home you buy must not be bigger, or more expensive, than you need.

Will my mortgage meet the cost of my new home?

Whilst your benefits can increase to help meet the costs of a mortgage of up to £100,000, you may not be able to get a mortgage this large. The size of mortgage you will be offered depends upon the value of the house, your circumstances and the percentage of the property's value your mortgage lender is prepared to lend against.

For example, John buys a house for £110,000 which a surveyor values at £100,000. John's mortgage lender restricts the loan to 75% of the value of the house. This is known as the Loan To Value ratio. John would therefore be offered a mortgage of £75,000 leaving him to fund the remaining £35,000.

What if I don't have enough money?

Help may be available if, after adding your savings to the maximum mortgage you can afford, you don't have enough money to buy a suitable property. This could be through the Government's Homestake scheme or a similar grant scheme. Contact Ownership Options for more information.

How much will a benefits-based mortgage cost me?

A benefits-based mortgage should cost you very little. If eligible, your benefit will increase to help meet the cost of paying your mortgage. This additional benefit increases and decreases as the cost of borrowing money increases and decreases.

You may occasionally need to top up the mortgage payments made to your lender. This is because the increase in your benefits may not exactly match the payments required by your mortgage lender. These top-up payments are normally small.

What other costs are there?

You may, depending upon your mortgage lender, need to pay a financial adviser and possibly pay a fee to set up the mortgage. You may also choose to take out life insurance cover and arrange a means of repaying the original sum you borrowed from the mortgage lender.

Don't forget that you will be responsible for the home buying costs such as legal fees, moving and furnishing expenses and paying for buildings, as well as contents, insurance.

When will I pay off the mortgage?

The additional state benefit you receive only covers the interest charged by your mortgage lender. It will not repay the money you borrowed to purchase your home. If you wish to repay the original sum you will have to fund this separately. See 'Do you want to pay off your mortgage' on page 9.

Who owns the home I buy?

You are the owner of the property. You must insure, maintain and repair your home. If you sell it you are entitled to keep any money left over after the mortgage and other loans are repaid.

How will I pay for repairs and maintenance?

You will need to save money to pay for small repairs and improvements. If arrangements are in place for performing repairs and maintenance (called 'factoring') your benefits may increase to meet the costs of this.

Your benefits can also increase to help with the cost of some repairs. These include window replacement, structural or damp works and repairs to heating systems.

If there is a Care and Repair scheme in your local area, they will usually offer free advice and assistance to help you repair and adapt your home.

What if I need to adapt my home?

You can ask a local authority occupational therapist to advise you on the suitability of a home you plan to buy.

If you are buying through a Government supported shared equity scheme, adaptations can be funded at no cost to you before you complete a purchase. Otherwise, you can apply to your local authority for grant funding.

What happens if I can't repay my mortgage?

If you become unable to repay a mortgage or loan on your home, you may have to sell it and look for a cheaper property to buy or rent.

Alternatively, the Scottish Government's Mortgage to Rent Scheme may be able to help. The Scheme can, in certain circumstances, buy your home. It is then rented to you, normally by a housing association.

Do you plan to pay off your mortgage?

The increased benefit you receive each month only helps with the costs of interest charged by a mortgage lender. It does not repay any of the original sum of money borrowed. So, if this is the only payment you make to the mortgage lender, you will owe as much to the mortgage lender at the end of a 25 year mortgage as when you started.

You must repay the original sum of money you borrowed at the end of the mortgage period, normally 25 years. You might do this by selling your home or using other money available to you such as an inheritance, or by re-mortgaging for an extended period.

Alternatively, you may decide (or be required by your lender) to put some money aside each month to help you repay your lender at the end of the mortgage period. There are benefit rules that allow you to save money to do this without it affecting your benefits.

What type of mortgage should I choose?

Everyone's circumstances are unique. So the type of mortgage that suits one person may not suit another. This is why it can be a good idea to seek independent financial advice. Ownership Options can also help you to think through the options.

In general, if your income is solely from benefits the most affordable type of mortgage will be an 'interest only' mortgage. Many lenders now offer 'interest only'

Things to consider

Do you plan to work?

If you, or another member of your household, take paid employment in the future a large benefits-based mortgage may not be suitable for you. This is because the earnings may remove your entitlement to Income Support, Income Based Job Seekers Allowance or Pension Credit (Guarantee Element).

If you no longer receive these benefits, you will no longer receive additional benefit to help you pay your mortgage. This point is particularly relevant if you receive Income-Based Job Seekers Allowance, where you are expected to be looking for paid employment.

Planning to take paid employment in the future does not mean that a benefits-based mortgage is unsuitable. However you will want to be sure that any mortgage you do take out will still be affordable from your likely earnings from your employment.

A financial adviser can assist you to work out if this would be the case. They can also advise whether cheaper mortgages would become available when you start earning money from employment.

mortgages that do not require you to pay back any of the money borrowed on a monthly basis. You effectively 'rent' the money for the period of the mortgage. Your benefits will pay most of the cost of this type of mortgage during the entire mortgage period.

However your family circumstances may mean it is important to you to consider how you can repay the 'capital' amount of the loan.

You should seek further advice from a financial adviser if you are unsure as to how you will afford a mortgage now or in the future.

Who will live in your new home?

The benefit you receive to help pay a mortgage can be reduced if you live with people over 18. This includes adult children or older relatives.

This may not affect you if you or your partner gets the care component of Disability Living Allowance, Attendance Allowance, or are blind. An adult paid to provide support or care who lives with you, but who is not a relative, will not affect your benefits.

You should get benefits advice if you plan to ask people who live with you to pay rent. The rent they pay could reduce or stop your benefit, meaning you cannot pay your mortgage.

The buying process

1. **Make sure** you are entitled to Income Support, Income Based Job Seekers Allowance or Pension Credit (Guarantee Element). Normally you must have been receiving Income Support or Income Based Job Seekers Allowance for at least 9 months (39 weeks) to get help with a mortgage.
2. **Work out** how you will fund the costs of buying that are not met by a mortgage. These may include any element of the purchase price not covered by a mortgage as well as your legal fees, survey costs, moving expenses and buildings and contents insurance.
3. **If** you plan to claim benefit on the basis of the need to move to a home more suited to the needs of a disabled person, get written evidence from an occupational therapist, consultant, social worker or doctor to support your claim.
4. **Confirm** that your benefits office will - in principle - meet the costs of your mortgage interest on a new home. Write to them explaining your current situation, what you intend to do and ask for a 'DLIS/170' letter in reply. Enclose evidence of either your need to move to a house more suited to a disabled person, or your current Housing Benefit claim.

5. **If** you already own a house which you will be selling to buy the new property, write to your benefits office explaining this. If they are not aware of your plans the money from the sale could affect your benefits.
6. **Get** a 'mortgage promise' from a bank or building society. If you have a mortgage already, try your current lender first. A financial adviser may also be able to help you find a willing lender. If you are having trouble with this part of the process, Ownership Options may be able to advise and support you with options.
7. **Consider** the costs of any life cover or 'repayment vehicle' you may decide to take out to repay the money you will borrowing.
8. **Appoint** a solicitor who will act for you when making an offer and completing a sale. If possible, agree a fixed fee before you start as this will help you budget.
9. **If** you are buying a house to suit a physically disabled person, ask an occupational therapist from your local authority to make an assessment of the suitability of any property you find. Be sure that if any adaptation is required to the property you know how much, if anything, you will be expected to contribute towards the cost.

10. **Have** the property surveyed and valued.
11. **Check** whether the expected costs of buying, and ongoing ownership costs, are affordable for you. Bear in mind that you can normally only get a mortgage up to the surveyor's valuation of the property. You will have to fund any offer over valuation from another source, such as savings or gifts from friends and family.
12. **Make an offer** via your solicitor. Once an entry date for the property has been agreed with the seller, and your mortgage is in place, write immediately to your benefits office explaining this.
13. **Sell** your current home if you own one
14. **Fill in** the form 'MI12' from your benefits office requesting extra benefit to meet the interest on your mortgage. Pass it to your mortgage lender for them to complete and return to your benefits office. Your payments should start automatically and will normally be made directly to your lender.
15. **Move in** - and enjoy your new home!

Next steps...

The information in this booklet is complicated. If you need some help understanding it we'll happily talk you through it. You may also get help from:

- a financial adviser
- a lawyer or solicitor
- a benefits adviser at a Citizens Advice Bureau or other welfare rights specialist

If you want more information about applying for a benefits-based mortgage, or need some help in doing so, contact us. Our address, telephone and email contact details are on the back page.

About us

Ownership Options is a Scottish charity which aims to enable disabled people to have equal access to home ownership. We are funded primarily by the Scottish Government, with additional monies provided by charitable trusts.

The DWP benefit regulations can be complicated, and they change from time to time. We aim to keep up to date and offer advice and expertise to disabled people trying to find a suitable home. If you think you might be eligible for help to buy a home, need some advice or just want to talk it over, please contact us. You may also get advice from your local Disabled Persons Housing Service, RSLs offering shared equity schemes, your local Council, Citizens' Advice Bureaux and your local JobCentre Plus.

Buying a home involves financial and legal transactions which can be complex. We can provide information and advice, but we are not lawyers or financial advisers. Everyone should seek appropriate professional advice.

Contact:

Ownership Options
John Cotton Centre
10 Sunnyside
Edinburgh
EH7 5RA

t: 0131 661 3400
f: 0131 478 6098
e: info@oois.org.uk
w: www.ownershipoptions.org.uk