

**Policy on Home Ownership**

(Approved 28 Jul 89 M89.59)

This document is CONFIDENTIAL to the Trustees for use in development and application of policy on assistance with home ownership. It is not intended for publication or for release to applicants or their representatives.

**General Policy**

1. The Macfarlane Trust is established to relieve the needs of a strictly defined group of people, and the Trustees recognise that in some cases housing is a primary area of need.
2. Home ownership is not recognised per se as an area of need, but it may be the most cost-effective or even the only method of meeting the need for housing.
3. A prime objective of the Trust is to enable beneficiaries to preserve a balance of disposable income after housing costs have been met and it is inherent in such an objective that the selection and provision of housing remains the responsibility of the individual concerned.
4. The Trust recognises that assistance with home ownership could require the allocation of large sums of money to a limited group of people eligible for help from the Trust. Even though this would mostly be by loan or investment rather than grant it would still reduce the capital otherwise available to generate income for the purpose of the Trust. Also the preferential nature of such allocation might be regarded as in conflict with the Trustees' duty to use the resources of the Trust for the benefit of all beneficiaries in a fair and equitable manner.
5. For these reasons:
  - a. The Trust will only be prepared to allocate monies to the provision of private housing where this is the only option available to help provide or maintain satisfactory living accommodation.
  - b. The Trust will not help with home ownership as a form of insurance to provide security for dependants after the death of the principal.
  - c. Very large grants are not available as an option for dealing with housing needs.

d. The Trust has embarked upon a mortgage policy of limited application in the belief that if it is seen to meet a real and irrefutable need, further funds for the purpose will be forthcoming from the Government.

e. The Trust cannot afford to canvass and invite applications, and funds will, therefore, be available to be 'first come - first served'.

f. Because any assistance with home ownership is highly preferential, it must be subject to conditions that may appear quite severe. Ordinary prudence demands that any application is rigorously examined, and to avoid frustration and disappointment, the situation must be made clear from the outset to potential applicants. All new applications are to be met with a friendly but firm letter stressing the difficulties and the number of hurdles which will have to be crossed before a large sum of money can be allocated. (If highly preferential nature of such assistance is explained, there should be no need to apologise unduly for the rigorous nature of the conditions imposed).

#### **Means of Providing Assistance**

6. The prime criterion in providing assistance is that it shall be done by the means which are most economic to the Trust and provide optimum use of its resources. This involves both the preservation of Trust Fund capital and minimising the loss of income which arises through making interest free loans.
7. To preserve capital in the longer term the main instrument will be through equity sharing of property, achieved by making interest free loans to establish a percentage share of the property value which should on redemption yield a capital gain to offset the loss of interest.
8. To minimise loss of income a finite limit is placed both on the amount per loan and the total of the Trust's resources which may be committed to non-interest bearing loans for housing purposes (see financial limitations).
9. Assistance by the Trust may be called for on two distinct types of occasion:
  - a) The replacement of an existing mortgage which is threatened with foreclosure. It is believed that the majority of cases justifying intervention will fall into this category.
  - b) Assistance by the provision of mortgage finance for a first or subsequent purchase.

10. Equity sharing will be the final option on both these occasions.
11. In support of threatened mortgages two further means of assistance will be considered:
  - a) Where the capital outstanding is considered to be too low to justify the administrative and legal costs of equity sharing, a grant in settlement may be an economic option.
  - b) Where term costs are low or of short duration, support or partial support of running costs may be accepted in preference to commitment of capital.

#### Evaluation of Options

12. Before agreeing any commitment to assistance with home ownership the Trustees will require to be satisfied that the decision is the only or most effective solution in financial and personal terms, and that where assistance is to be offered the method used is the most cost-effective available.
13. In every case it will be necessary to show that the housing need is caused or seriously aggravated by the HIV condition and also that no other form of housing is available.
14. Evaluation of the options will vary according to the type of occasion as defined in paragraph 9 above. The criteria and actions to follow are considered separately for each.

#### A Rescue of Existing Mortgage

15. Where reduced circumstances result in threat to a mortgage, maintenance of the family in its existing home is clearly the preferred solution in personal terms. It will also in the majority of cases be the most economical but both these assumptions should be tested:

- a) Have housing requirements reduced since the mortgage was taken out?

- b) Is other accommodation available and would moving be economic?

If the status quo is the preferred solution the following sequence should be attempted:

- a) To persuade the lender to forgive the debt, or part of it.

- b) To persuade the lender and borrower to convert the debt to interest only payments.

c) To obtain assistance from public funds or other sources to meet the interest payments.

d) Assess the relative costs over the remaining term of the mortgage of (i) subsidising or assuming the residual running costs and (ii) replacing the existing mortgage. Of particular relevance in this respect will be whether the borrower has endowment insurance covering the loan, in which case subsidising the mortgage until the endowment/life policy matures is more likely to be the cost effective solution, provided that provision is made for the Trust to be able to recover its subsidy plus interest on or after redemption of the endowment policy.

e) To make a grant in settlement or offer an equity-sharing mortgage.

#### **B Provision of a New Mortgage for Purchase**

16. It should not be assumed that because applicants currently have a mortgage as owner-occupiers their case for continuing ownership as a solution to a change of housing need is any greater than those who do not already have a mortgage. The following questions must be answered:

a) Is there an overriding need to move?

b) Is suitable public sector/housing association accommodation available?

c) Is private sector rented accommodation available and what is the cost?

d) Is the proposed purchase the minimum size to meet foreseeable needs and the lowest cost to provide adequate standards?

e) Are applicants committing all their available capital and does this meet the minimum 20% equity required by the Trust?

f) If assisted will applicants be capable of maintaining the property without returning to the Trust for further help with the costs of home ownership?

#### **Finance**

17. **Limitations.** Assistance with mortgages will be subject to the following limitations, which will be reviewed if further resources become available to the Trust.

a) Until otherwise determined, up to £1 million will be made available for making non-interest bearing loans and

grants for housing purposes, and the aggregate amount of loans outstanding and grants paid at any one time must not exceed the said maximum of £1 million.

b) Loans whether equity-sharing or any other form subsequently agreed will normally be subject to a maximum of £40,000 per loan.

c) Grants for settlement will not exceed £10,000 (ten thousand pounds).

18. **Nominees.** The Trustees will appoint from among themselves four persons to be the legal holders of property in which the Trust has an equity investment. At the Trustees' meeting on 22nd June 1989 the following four Trustees were appointed as Nominees: Rev A Tanner, Mr C H Grinsted, Mr A Palmer and Mr P Stevens.

19. **Authorisation of Expenditure.** Each application shall be brought to a plenary session of Trustees for final approval and authorisation of the sum to be loaned. Where timing is critical Trustees may give approval in principle and set a maximum sum leaving the final figure to be approved out of session by at least two of the Nominee Trustees, one of whom shall be the Chairman or Deputy Chairman.

#### **The Administrative Process**

20. Within the authority and as an integral part of this policy various documents will be approved as guidelines, terms and conditions, and as the means of implementation of the policy. These documents are:

	Paper	Reference	Status
1	Equity Sharing Mortgage for Purchase of Property	MORT/PUR 8906 June 1989	Approved
2	Equity Sharing Mortgage for Substitution of Existing Mortgage	MORT/SUB.8907 July 1989	Approved
3	Letter of Offer	OFFER/8907	Final Draft
4	Form of Application	In preparation	

21. The general administrative sequence is listed at Annex A.