



*Question and
Answer booklet*

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



Pathways Shared Equity Loan



Queensland Government
Department of Housing



General *information*

Q: What is the Pathways Shared Equity Loan?

A: The Pathways Shared Equity Loan provides Department of Housing tenants with an opportunity to become a home owner by purchasing a share in the property they are currently renting.

Q: Am I eligible?

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

- you must be a Queensland Department of Housing tenant at the time of application
- you must be a permanent resident of Australia
- you cannot own or part-own another property at the time of application
- you cannot be in a position where the department considers that you could buy 100% of your rental home with a standard mortgage loan
- you 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
- you 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

- you must be purchasing the property as your home and undertake to live in the home for the term of the shared equity agreement, and
- you must not have an outstanding debt with the Department of Housing.

Q: What is shared equity?

A: 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 your 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: Who owns the rest of my home?

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

Q: Do I have to pay rent on the Department of Housing's share of the property?

A: No. The Department of Housing 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 will be able to buy further shares of your home from the Department of Housing 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.

When you buy further shares, you must purchase at least a 5% share. The purchase price of the new shares will be based on the market value of your home at that time. The value of the property will be determined by an independent valuer. As property prices generally increase over time, it is probable that you may have to pay more for any additional shares you buy in the future.



Example:

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 the purchasing further shares is	\$3,500
Therefore, the cost of a further 5% share is	\$17,500

Example

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 the purchasing further shares is	\$2,800
Therefore, the cost of a further 5% share is	\$14,000

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 is most likely to 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.



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 how well you have paid your rental payments to the department. 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 or grant monies (including the First Home Owners Grant) to pay some of the minimum deposit.

Independent property inspection

It is a condition of the Pathways Shared Equity Loan that all applicants obtain an independent building inspection from a licensed building inspection contractor before purchasing their home. The purpose of this inspection is to provide you with 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.

Note: you will be required to provide the department with a copy of this report prior to settlement¹.

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.

¹ Settlement is the day on which you legally take possession of your share of the property. Settlement day is also when the loan for the purchase of your share is advanced by the Department of Housing. The settlement date will be arranged by your solicitor and the department.



Registration fees

When you purchase a share in your rental home, a transfer document is lodged with the Queensland Department of Natural Resources and Water (the Titles Office) to transfer the share that you are buying from the Department of Housing 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 of Housing'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 local government rates and water charges from the date you acquire your title, and there may be some adjustments 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 of Housing for the period during which the transfer takes place (in which case you need to reimburse the department), or alternatively they may have not yet been paid for the period during which the transfer takes place (in which case you will end up paying the department's share to the Council when you pay the rates notice).

You may therefore need to pay an extra amount to the department when the transfer takes place, or alternatively you may get a credit for paying the department's share, and not need to borrow the full loan.

The Department of Housing will calculate the relevant adjustment to the purchase price for you and let you know.

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 Department of Housing'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 of Housing will provide you with a reimbursement of \$500 towards the cost of this advice.



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

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 have to increase in the future if the interest rate on your loan 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, your repayments may have to increase at the end of that period 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 property (not just your share) to your local council. Your rates bill will include a general rate charge and levies for services such as water, 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: How do I make repayments?

When your Pathways Shared Equity loan is approved, 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 by the Department of Housing every three months providing you with the following information:

- the amount you owed at the start of the three month period
- 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.

Q: What legal documents will I have to sign?

When you have been approved for a Pathways Shared Equity Loan, you will have 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.

- **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**

These are prepared by your solicitor as part of the conveyance of the property from the department to you.



Additional information

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

A: Yes, as a homeowner, you are able to make improvements or alterations to your home. However, as the Department of Housing 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.

Any improvements you make to your home that increase its value will be taken into consideration when you sell the property or purchase further shares.

Q: Can I sell my home?

A: You can sell your home at any time. The Department of Housing 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.

However, when the property is sold, the loan you have obtained from the department to buy your share will have to be repaid, so the amount you attain from the sale will be less the balance outstanding on your loan. Also, when the property is sold, you will need to pay your share of the costs related to selling the property, such as real estate agent's commission.

Example

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

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
<p>In this example, the property value has decreased by \$20,000 and the value of your 60% share has decreased by \$12,000.</p>	

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 the department's Loan Management Branch immediately on 1300 654 322. Depending on your circumstances, we may be able to help. You should also consider speaking with an independent financial advisor.

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

A: The Pathways Shared Equity Loan is provided specifically to assist Department of Housing 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 Department of Housing 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). If you die (or all applicants die where there is more than one applicant) then the property needs to be sold, to repay the loan. Your estate would receive proceeds from the sale to the same extent as you would if you had sold the property yourself.

To talk to a loan officer about your eligibility to buy a share in your home, contact the Department of Housing Loan Information Hotline on 1300 654 322 (toll free). The hotline is open Monday to Friday between 8.30am and 5.00pm. Callers outside Queensland should call 07 3224 7202.

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	
Food: groceries	
Clothing: seasonal needs, school clothes, shoes	
Household expenses: gas/ electricity	
Rates: <i>Council</i>	
<i>Water</i>	
Telephone	
Property maintenance	
Public transport	
Petrol	
Car maintenance	
Parking	
Registration	
Car insurance	
Education expenses: school fees	
Child minding	
School books/excursions	
Personal expenses: entertainment	
Pets: food, vet	
Fees: newspapers, clubs, donations, memberships	
Gifts: special occasions, birthdays, Christmas	
Court order: child support	
Insurance: <i>Superannuation</i>	
<i>House insurance</i>	
<i>Contents insurance</i>	
<i>Life insurance</i>	
<i>Medical insurance</i>	
<i>Other</i>	
Medical: <i>Doctor</i>	
<i>Dentist</i>	
<i>Optical</i>	
<i>Chemist</i>	
Savings	
Holidays	
Other	
Total expenditure	

Income

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

Note: the budget planner should not be relied on solely to determine eligibility. You may have extra expenses to take account of.

Housing Loans

Queensland Department of Housing

GPO Box 690
Brisbane QLD 4001

Free call: 1300 654 322

Email: loaninformation@housing.qld.gov.au

Web: www.housing.qld.gov.au



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