



Ministry of Housing,  
Communities &  
Local Government

## Right to Buy Service Charge Loans

April 2020

Ministry of Housing, Communities and Local Government



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## Introduction

If you own a flat which was originally sold under the Right to Buy scheme in England, you will be the leaseholder of that flat and will have to pay a share of the costs of any repairs and improvements which the freeholder (probably your former landlord) carries out. You may have the right to a loan to help you meet these costs.

You do not have to be the person who originally purchased the flat under the Right to Buy, but your landlord must either be the housing authority which sold the flat (usually a local authority or housing association) or another housing authority.

You do not have the right to a loan if you or a previous purchaser bought your flat under the Preserved Right to Buy. The Preserved Right to Buy applies to housing association tenants who were living in their council home when the council transferred it to the housing association.

If your landlord is a local authority, you apply to them for the loan. The loan takes the form of a right to leave the service charge outstanding for a specific period. This means that you will make monthly payments to your landlord over the specified period. The payments will include interest.

If your landlord is a housing association, Homes England will give you a loan to enable you to pay your landlord the service charge. You will make monthly payments to Homes England over the term of the loan.

## What service charges may qualify for a loan?

You only have the right to a loan in respect of charges for repairs and improvements carried out by the landlord to the flat, the building of which it forms part or any other building or land, where the charges are payable in the **10** years beginning either:

- on the day the property was sold under the Right to Buy, **or**
- on a date specified by the landlord (this is a date not later than 6 months after the landlord has sent the Right to Buy offer notice).

## How much am I entitled to borrow?

You do not have the right to a loan until your service charges in one accounting period total £1,500 or more. The total can include charges for repairs, improvements, maintenance, management etc although the loan itself can only cover charges for repairs and improvements. (Separate service charges bills may be added together for this purpose.)

The accounting period is the annual period for which charges are payable under the lease. If no period is specified, it will be the period of twelve months beginning on the date you bought the property and the subsequent twelve month periods beginning after that.

You may borrow the amount by which the service charges for the accounting period exceed £1,500, but you may only borrow in respect of charges for repairs and improvements. For example, if your charges total £7,000, made up of £2,500 for repairs, £4,000 for improvements and £500 for maintenance, the maximum loan you are eligible for is £5,500 (i.e. £7,000 minus £1,500).

The loan must be for more than £500. You may not borrow more than £20,000 (taking earlier outstanding loans into account).

All the figures mentioned above will be adjusted for inflation by reference to the retail prices index for January 1993 and each subsequent January. Your landlord will be able to provide you with the up-to-date figures.

## **What will be the terms of the loan?**

You will have to repay the loan by equal installments of principal and interest over three years for loans under £1,500, five years for loans which are for £1,500 or more but less than £5,000, and ten years where the loan is for £5,000 or more. You can choose to pay over a shorter period if you wish.

If your landlord is a local authority, you will have to pay interest at the local authority mortgage interest rate. Otherwise interest will be charged at a rate which is decided by the landlord. This rate must be reasonable. The landlord can also charge up to £100 to cover its administrative expenses.

The landlord will take a charge on the flat to protect the loan; this is in effect a mortgage.

## **How do I apply?**

Your landlord must tell you whether or not you will be eligible for a loan when it sends you a demand for service charges. You must let your landlord know in writing within six weeks if you want to take up a loan.

## **What if I intend to dispute the charges with my landlord?**

You can claim a loan while making it clear to your landlord that you do not accept that the charges are right.

## Help and advice

If you have any queries you should approach your landlord for advice first. The Ministry of Housing, Communities and Local Government may also be able to help or, for housing association tenants, Homes England.

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