



# Defence Internal Brief

SERIAL: 2014DIB/09

DATE: 20 February 2014

ISSUE: **Forces Help To Buy: Detailed Scheme Rules Launched, including those for Tranche 4 Redundancy Scheme.**

AUDIENCE: **All Service Personnel and all Service Personnel leaving on Tranche 4 Redundancy**

TIMING: **Routine**

ACTION: **To be briefed for Information Only**

KEY POINTS:

- **Joint Service Publication (JSP) 464 containing the full rules for the general 'Forces Help to Buy' (FHTB) scheme as well as the new FHTB scheme which relates specifically to Service Personnel leaving as part of Tranche 4 redundancies (FHTB T4) has been published today and can be found [HERE](#).**
- **The eligibility criteria and a summary of the policy rules for FHTB T4 are detailed below and at Annex A. An overview of the general scheme was provided in [DIB 07/14](#).**
- **FHTB T4 allows Personnel to apply to borrow up to 90% of their redundancy lump sum, capped at a maximum amount of £68,000. They can purchase a home between their date of notification of redundancy and the date they will leave the Armed Forces. The loan amount will be recovered from their redundancy lump sum.**
- **This scheme is intended to provide those leaving, either as an applicant or non-applicant, greater flexibility and options in their transition to civilian life. The loan can be used by those who wish to buy their first home, modify their existing one or move locations.**
- **Personnel with an existing Long Standing Advance of Pay (LSAP) arrangement can also apply for FHTB T4, with the outstanding LSAP amount being consolidated into one arrangement under FHTB T4.**
- **Those leaving through this final Tranche of the Armed Forces redundancy Programme will be sent FHTB T4 application forms as part of the redundancy notification process. Application forms will also be available on the JPA forms page, but must be printed and posted to Service Personnel and Veterans Agency (SPVA)**

- **Applications cannot be made until written notification of redundancy is received, so this scheme will launch on 12 Jun 14.**

DETAIL:

## **BACKGROUND**

1. [Joint Service Publication \(JSP\) 464](#) containing the full rules for the general 'Forces Help to Buy' (FHTB) scheme as well as the new FHTB scheme which relates specifically to Service Personnel leaving as part of Tranche 4 redundancies (FHTB T4) has been published today (20 Feb 14).
2. The 'Forces Help to Buy' scheme for Tranche 4 (FHTB T4) is aimed at Service Personnel who are leaving the Armed Forces under the Tranche 4 redundancy programme, either as an applicant or non-applicant, with no further eligibility restrictions..
3. It allows these personnel to apply for a short-term loan of up to 90% of their redundancy lump sum or £68,000, whichever is the lower. The loan amount will automatically be recovered from their redundancy lump sum when they leave the Service.
4. Personnel will not be able to apply until written notification of redundancy is received. This scheme will therefore launch on 12 Jun 14.
5. The FHTB T4 loan can be used to purchase a home within the UK or Republic of Ireland, or, alternatively, used to carry out building work on property those leaving through Tranche 4 redundancy already own (where they meet the qualifying criteria as set out in the FHTB T4 scheme rules).
6. Service Personnel who already have a Long Service Advance of Pay (LSAP) loan can still apply for a FHTB T4 loan. The outstanding LSAP amount will be consolidated into one FHTB T4 loan but will not exceed the maximum limit.

## **Short-Term loans**

7. It is important to note that approval for a FHTB T4 loan does not necessarily guarantee that Service Personnel will be advanced a mortgage by a mortgage lender. The potential to secure a mortgage offer is based on a mortgage lender's assessment of individual personal circumstances and their ability to make repayments. Therefore, the likelihood of securing a mortgage offer may be increased if Service Personnel can provide evidence of affordability, such as a firm offer of employment after leaving the Service, or alternative income, for example, from a spouse.

## **Eligibility and Scheme Rules**

8. See Annex A for the FHTB T4 scheme eligibility criteria and rules.

9. The FHTB T4 scheme will run under the broad intent of the general FHTB scheme, the details of which were published in [DIB 07/14](#), although there are fewer restrictions on how the loan can be used.

10. JSP 464 which contains details of both the general FHTB and the specific FHTB T4 scheme has been published today (20 Feb) and can be found at:

[http://defenceintranet.diif.r.mil.uk/Reference/DINsJSPs/Pages/JSP464Tri-ServiceAccommodationRegulations\(TSARS\).aspx](http://defenceintranet.diif.r.mil.uk/Reference/DINsJSPs/Pages/JSP464Tri-ServiceAccommodationRegulations(TSARS).aspx)

### Home purchase advice

11. Advice on options for home purchase can be sought from the [Joint Service Housing Advice Office](#) and from the [Homes and Communities Agency website](#) (www)

### How to apply

12. Those leaving through Tranche 4 redundancy will be sent FHTB T4 application forms as part of the redundancy notification process. Application forms will also be available on the JPA forms page, but must be printed and posted to SPVA.

SUBJECT  
CONTACT:

Please contact the Forces Help to Buy team at [Pers Trg-NEM-Mailbox@mod.uk](mailto:Pers Trg-NEM-Mailbox@mod.uk) or on (9)621 80384 / 80971

FURTHER  
INFORMATION:

Further advice on options for home purchase can be sought from:

JSP 464:

[http://defenceintranet.diif.r.mil.uk/Reference/DINsJSPs/Pages/JS P464Tri-ServiceAccommodationRegulations\(TSARS\).aspx](http://defenceintranet.diif.r.mil.uk/Reference/DINsJSPs/Pages/JS P464Tri-ServiceAccommodationRegulations(TSARS).aspx)

Joint Service Housing Advice:

<http://defenceintranet.diif.r.mil.uk/ORGANISATIONS/ORGS/TRI SERVICES/JSHAO/Pages/JSHAO.aspx>

Homes and Communities Agency website:

[www.homesandcommunities.co.uk](http://www.homesandcommunities.co.uk) (www)

[www.Helptobuy.org.uk](http://www.Helptobuy.org.uk) (www)

New Employment Model:

[http://defenceintranet.diif.r.mil.uk/Organisations/Orgs/HOCS/Organisations/Orgs/CDP/DSPPol/Pages/NewEmploymentModel\(NEM\).aspx](http://defenceintranet.diif.r.mil.uk/Organisations/Orgs/HOCS/Organisations/Orgs/CDP/DSPPol/Pages/NewEmploymentModel(NEM).aspx)

MoneyForce: [MoneyForce.org.uk](http://MoneyForce.org.uk) (www)

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For past DIBs see: <http://authdefenceintranet.diif.r.mil.uk/Reference/Briefs/DIBS/Pages/DIBIndex>

## **FORCES HELP TO BUY TRANCHE 4 REDUNDANCY SCHEME – ELIGIBILITY AND SUMMARY OF SCHEME RULES**

1. From 12 June 2014, Regular Service personnel who are due to leave the Armed Services on the Tranche 4 redundancy scheme can make an application to borrow up to 90% of their redundancy lump sum (to a maximum of £68,000) in order to buy a home, move to a new location (as long as the sale of their old house has completed) or extend an existing property. The loan will be available to applicant and non-applicant redundees. The Forces Help to Buy Tranche 4 (FHTB T4) loan will be automatically recovered from the redundancy lump sum when the Service Person leaves the Service on redundancy.
2. For the purpose of this scheme, redundancy lump sum is defined as: any special capital payments or compensation lump sums payments, or any other benefits earned during service, which may include resettlement grants, early departure payments, or terminal grants.

### **Eligibility**

3. All personnel leaving the Service under the Tranche 4 redundancy scheme, as applicants or non-applicants, are eligible to apply.

### **Loan Value and repayment**

4. Eligible personnel may borrow up to 90% of their redundancy lump sum, capped at £68,000. The loan will be interest free, unless applicants choose to let out the property purchased. The loan amount will automatically be recovered from the redundancy lump sum when they leave the Service. It is important to note that approval for a FHTB T4 loan is no guarantee that a mortgage lender will advance a mortgage. The potential to secure a mortgage offer is based on a borrower's ability to make repayments. Therefore, the likelihood of securing a mortgage offer may be increased if Service Personnel can provide evidence of affordability, such as a firm offer of employment after leaving the Service, or alternative income, for example, from a spouse. Personnel should speak in detail to their mortgage lender at the earliest opportunity. In some circumstances, the mortgage company may place restrictions within their mortgage offer that require applicants to take less than the full amount.
5. The property to be purchased must be in the UK (or Republic of Ireland for those recruited there or that are of Irish parentage), but there are no further restrictions on its location. The FHTB T4 loan can be used in conjunction with the other Government wide schemes such as the Department for Communities and Local Government's (DCLG) Help to Buy Equity Loan Scheme, but not the Mortgage Guarantee scheme.

## **Access to Single Living Accommodation (SLA) and Service Families Accommodation (SFA)**

6. Personnel using a FHTB T4 loan will not have their entitlement to SFA and/or SLA affected prior to their exit date.

### **Permitted property purchases**

7. FHTB T4 loans may not be used to buy a second property in any circumstances. However, applicants can choose to purchase a property and immediately let it out, prior to leaving the Service on redundancy. In such cases, interest rates will be applied to the loan (this rate is set annually, but is currently 4%).

### **Tax Implications**

8. FHTB T4 is considered to be a beneficial loan under HMRC regulations and will attract taxation on the 'benefit' of not paying interest on loans over £10,000. An individual who borrows under £10,000 will not be liable for tax. However, if they borrow more than £10,000, they will be liable for additional tax. How much this will be depends on their personal circumstances, however it is likely to be around 1-2% of the total loan value per year. This will be proportionally less if the loan is only in place for less than a year. If the applicant let their property during the Financial Year, and so is charged interest (para 7), there will be no tax liability, irrespective of the size of the loan.

The HMRC website gives more information. A link to the loan calculator is provided below:

<http://www.hmrc.gov.uk/manuals/eimanual/eim26221.htm>

An individual who borrows under £10,000 will not be liable for tax. However, where the annual average loan amount exceeds £10,000 across a financial year, a Cash Equivalent Value (CEV) is calculated by multiplying the average loan amount by the HMRC Official Interest Rate<sup>1</sup>. It is the CEV that attracts a tax liability. For example, where the average loan across the financial year is £11,000, it will be charged at the official interest rate of 3.25%. This will determine a CEV of £357.50<sup>2</sup>, a sum that will be taxed in accordance with the individual's tax circumstances taking all income into account.<sup>3</sup>

For example, if you have a £25,000 FHTB T4 loan for ¼ of the tax year before you leave under T4 redundancy, your liability will be a CEV of £25,000 x

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<sup>1</sup> As at 6 April 14, this rate will be 3.25%. For detail see:

<sup>2</sup> CEV is derived by calculating: £11,000 x 3.25% = £357.50. It is the CEV that attracts a tax liability.

<sup>3</sup> For further guidance see: [www.hmrc.gov.uk/manuals/eimanual/eim26221.htm](http://www.hmrc.gov.uk/manuals/eimanual/eim26221.htm)

3.25% = £812.50, which will be taxed in accordance with the your tax code and the length of time you had the beneficial loan.

### **Waiver of Recovery**

9. Unlike the general FHTB scheme, individuals taking a FHTB T4 loan will not be required to make an insurance premium payment. This is because there will be no circumstances under which recovery of a loan from an individual's redundancy lump sum will be waived.

### **Personnel with a Long Service Advance of Pay (LSAP) arrangement**

10. Personnel who have an existing LSAP loan are eligible to apply for a new FHTB T4 loan when moving home. Part of the FHTB T4 loan will be used to 'buy out' the remaining LSAP balance, so that you are a member of just one scheme. However, those with an LSAP loan cannot apply for a FHTB loan to fund a house purchase which has already completed, only for a new move of home.

## QUESTIONS & ANSWERS

### 1. GENERAL

**a. (Ahead of launch on 12 Jun 14 and freeze of LSAP from April 14). I am considering buying a home. Should I wait for the launch of Forces Help to Buy T4 or take LSAP now?**

This is a personal choice that must be taken based on what suits your circumstances best given that you will be leaving employment through redundancy. FHTB T4 will offer a larger sum of money, but may not suit your individual circumstances.

**b. Can I apply for FHTB and FHTB T4?**

You will only be entitled to utilise one scheme. The FHTB allows an applicant to borrow up to 50% of their salary, capped at £25,000, and is open for applications from 1 Apr 14. The FHTB T4 scheme offers interest free loans of up to 90% of their redundancy lump sum or £68,000, whichever is the lower, but cannot be applied for until personnel receive written notification of their redundancy. Loans under both schemes would be recovered from an applicant's redundancy lump sum when they leave the Service.

**c. The full rules for both schemes have now been published in JSP 464, what else will this cover that has not been highlighted in the information published today?**

[JSP 464](#) explains the rules in more detail, particularly for those in certain situations, for example, how a loan is handled when an individual gets divorced or a property is sold or repossessed.

**d. How much will this cost the MOD?**

As these are short-term loans that will be recovered from money personnel would be receiving anyway when they are made redundant, the direct costs of this programme are comparatively small.

**e. Is it wise to offer large loans to personnel who may be leaving the Service without secure employment in place when their service ends?**

We are keen to ensure that personnel leaving service as a result of redundancy, either as applicants or non-applicants, are supported in their transition to civilian life. For some, this will include moving from service provided accommodation into home ownership. Recognising the initial cost of purchasing a home, we are keen to offer financial support by allowing personnel to borrow against their terminal benefits to help find the deposit for a home. As with any financial commitment, personnel will need to consider whether this option is right for them and suits their personal circumstances, including their ability to maintain mortgage repayments. We offer advice on home ownership through the Joint Service Housing Advice Office.

## **2. ELIGIBILITY**

### **a. Who can apply for 'Forces Help to Buy' T4?**

The FHTB T4 scheme can be used by all Service Personnel who are due to leave the Service as part of the Tranche 4 redundancy scheme. It applies equally to applicants and non-applicants. It is not open to personnel leaving under any other redundancy arrangements.

### **b. How do I apply?**

Application forms for FHTB T4 will be sent out as part of the redundancy notification process. Application forms will also be available on the JPA forms page, but must be printed and posted to SPVA. The detailed rules will be published in [JSP 464](#) before the scheme launches.

### **c. Is it fair that personnel who left in earlier redundancy tranches weren't given this opportunity?**

Personnel who left in earlier tranches were entitled to apply for an advance under the old Long Service Advance Payment scheme. The new Forces Help to Buy scheme, announced last September, is part of our commitment to strengthen our support for the whole Service community. The creation of this new system has allowed us to offer significantly larger advances to those leaving in Tranche 4.

### **d. How close to the date I leave Service can I apply for funds?**

You must begin the application at least four weeks before your planned departure date. However, you should aim to apply at the earliest opportunity to allow sufficient time for the house process to complete between you receiving written notification of your redundancy and leaving the Service.

### **e. Can I apply for the scheme if I already own a home or have owned a home?**

The scheme does not let you buy a second home. If you already own a property when you apply, that property must be sold before (or on the same day as) purchasing a new property. Mobile homes, houseboats and caravans will not be counted as a first property for the purpose of this scheme. The scheme can also be used to extend your current home if you have extenuating family or medical circumstances (for example you need to make home adjustments to meet disability needs or your current home is no longer big enough for your family).

### **f. Can I use the FHTB T4 scheme to pay off my existing mortgage?**

No. FHTB T4 is intended to help Service Personnel who are leaving as part of the Tranche 4 redundancy scheme buy a home and therefore it cannot be used to pay off an existing mortgage.

**g. Can I buy with someone else (outside of the Service) using this scheme?**

Yes. The scheme will be open to those entering into joint home ownership.

**h. My partner owns their own home (in their name only) – does this affect my application for a FHTB T4 loan?**

No. If you are not legally considered the home owner (i.e. your name is not on the deeds of a property) then it will not be considered in your application for a FHTB T4 loan.

**i. I already own a house that I don't live in. Can I use FHTB T4 to purchase a house to occupy?**

No. 'Forces Help to Buy' T4 cannot be used to fund the purchase of a second home even if you do not live in the first. However, if your current home is unsuitable for family or medical reasons, you may be able to use the FHTB T4 loan to make adjustments to it.

**j. Can I have a FHTB T4 loan toward a house extension?**

If you need to make adjustments to your property for extenuating family or medical reasons you can. If the extension is for home improvement purposes only then a FHTB T4 loan will not be available to you.

**k. I am currently on the LSAP scheme and have started to repay it. Am I able to borrow anything more up to amount I could have received if I had waited for FHTB T4?**

Yes, if you meet all the conditions of the new FHTB T4 scheme you can apply for a loan up to the 90% redundancy lump sum/ £68,000 cap. However, this must be used for a new move of home and cannot be used retrospectively. Any outstanding balance on the LSAP loan will be taken into account (eg if you have a £6000 LSAP loan, you will only be able to borrow a maximum of a further £62,000).

**l. My spouse/partner is also serving, can we pool our individual allowances to buy something more suitable for us to live in?**

Yes, this is possible for joint purchase of the same property. Both partners can either have a FHTB T4 loan, or one partner can have a general FHTB loan and the other a FHTB T4 loan. The only restriction being that both partners cannot have two general FHTB loans as this would influence the long term affordability of mortgage. However, under any of these circumstances, you will have to get agreement for this from your mortgage provider.

**m. Can I take this loan and still use the Government Help to Buy schemes?**

The FHTB scheme will be compatible with the DCLG's Help to Buy Equity Loan Scheme, where the taxpayer takes a share in the ownership of the property purchased. However, FHTB T4 is not compatible with the Mortgage Guarantee scheme. Further advice on options for home purchase can be sought from the [Joint Service Housing Advice Office](#) and from the [Homes and Communities Agency website](#) (www).

**n. Why do I need to tell my mortgage provider about the FHTB T4 loan?**

Failing to properly declare your circumstances to your mortgage provider could be fraudulent and may result in your home being foreclosed.

**o. Will I definitely get a mortgage if I have a FHTB T4 loan?**

No. Because you are being made redundant, and a mortgage offer is based on your ability to make repayments, mortgage providers will need to be sure that you have some other way to keep up the mortgage payments. The likelihood of securing a mortgage offer may be increased if Service Personnel can provide evidence of affordability, such as a firm offer of employment after leaving the Service, or alternative income, for example, from a spouse. Personnel should speak in detail to their mortgage lender at the earliest opportunity. In some circumstances, the mortgage company may place restrictions within their mortgage offer that require applicants to take less than the full FHTB T4 loan amount.

**3. LOAN VALUE AND REPAYMENT FOR APPLICANTS**

**a. How much can I borrow?**

You can borrow up 90% of your redundancy lump sum, capped at a maximum loan amount of £68k.

**b. Why is the loan amount capped at 90% of my redundancy payment?**

The loan amount has been set at 90% to ensure personnel do not borrow beyond their ability to repay.

**c. I want to take less than 90% of my redundancy lump sum, can I specify a particular amount I wish to borrow?**

Yes. You do not have to borrow the full amount for which you are eligible if you do not need it and can specify a smaller amount of loan required on your application. Your mortgage company might also require you to take less than

the maximum loan amount if they consider it would affect your ability to repay the mortgage.

**d. Do I have to pay the loan back before I leave the Service?**

No. The loan amount will automatically be taken from your redundancy lump sum at the point at which you leave the Service.

**e. Why can I not repay over 10 years?**

The terms of the loan must be linked to your ability to repay it. It would be inappropriate to enable personnel to borrow money that they may not be able to repay after they have left Service.

**f. How soon after I apply will I receive the loan?**

This depends on your personal circumstances. Although we would expect your application to be processed within several weeks, there are other aspects of the house purchase process which can delay completion. You should speak to your mortgage provider and your solicitor as soon as possible if you intend to use a FHTB T4 loan. You should not enter into any contractual agreements that depend on the loan until you are sure the money will be available.

**g. Will you pay the loan at any time before I leave Service?**

Yes. You can receive the loan up to the day before you leave Service if you wish. Where the loan is given out close to departure, there may be a delay in payment of your redundancy lump sum to allow for it to be adjusted to recover the loan. We expect this to be a delay of no more than 30 days. If you receive the loan more than 4 weeks before your departure, this should not require any delay in paying your lump sum.

**h. Can I still apply for an earlier departure date if I have already received a FHTB T4 loan?**

Yes, although the payment of your redundancy lump sum may be delayed to allow it to be adjusted to recover the loan.

**i. Will taking a FHTB loan delay my departure from Service?**

No. There are no circumstances in which this will alter your departure date given in the written notification of redundancy.

**j. I have applied for, and expect to be given, redundancy – why can't I apply for a FHTB T4 loan now?**

It wouldn't be an appropriate use of resources to process speculative applications; also, for example, the amount that you can borrow may change. However, to speed the overall process, you should speak now to your solicitor

and mortgage provider to ensure they are ready and willing to accept your use of a FHTB T4 loan.

**f. Why can I borrow less than more senior personnel? This means buying a home is harder for me.**

The level of loan has to be linked to the value of your redundancy lump sum. The scheme must encourage sensible lending and it would be inappropriate to enable personnel to borrow beyond their capacity to repay.

**g. After I leave the Service on redundancy, I am considering joining the Reserve / FTRS. If I take FHTB T4, do I still have to repay the loan when I leave or can I make alternative arrangements?**

The loan will automatically be deducted from your redundancy lump sum on leaving Regular service.

**h. Are there tax implications of taking the loan that I should be aware of?**

Forces Help to Buy is considered to be a beneficial loan under HMRC regulations and will attract taxation on the 'benefit' of not paying interest on loans over £10,000.

If you borrow less than £10,000, the loan will be not be taxable.

If you borrow more than £10,000, you will be liable for tax on the total loan amount

However, regardless of the amount you borrowed, if you subsequently choose to rent out your property, there will be tax implications. The FHTB will also cease to be interest free; the interest rate applied in these circumstances is currently 4% (see 3d).

The HMRC website gives more information. For ease a link to the loan calculator is provided below:

<http://www.hmrc.gov.uk/manuals/eimanual/eim26221.htm>

**4. ACCESS TO SERVICE FAMILY ACCOMMODATION/OTHER ACCOMMODATION**

**a. Can I take the loan and still live in Single Living Accommodation/Service Family Accommodation?**

Purchase of a home using a FHTB T4 loan will not affect your entitlement to SLA/SFA which remains extant until your exit date. It will not affect your future entitlement to Service accommodation, should you be re-engaged in the Reserves.

**b. Can I let the home I buy with ‘Forces Help to Buy’?**

If, after purchasing your home and before leaving the Service, you wish to let the property, you should discuss this with SPVA and also obtain permission from your mortgage lender. If you choose to rent out your property then, as with LSAP, interest (at standard HMRC rates, currently 4%) will be applied to the loan.

**5. DEATH OR MEDICAL DISCHARGE / EDUCATION**

**a. What happens to the outstanding balance of the loan if I am killed or injured before I leave Service?**

There are no circumstances under which recovery of a loan will be waived. In these unfortunate circumstances, the outstanding balance would be reclaimed from the Service Personnel’s benefits.

**b. Where can I get advice about the options for house purchase?**

Advice on options for home purchase can be sought from the [Joint Service Housing Advice Office](#) and from the [Homes and Communities Agency website](#) (www).

**c. What is being done to help educate personnel about general financial awareness?**

The MOD continues to work with the Royal British Legion to further develop the [MoneyForce.org.uk](#) (www) financial awareness and support website. This is specifically for the Service community, to help them better manage their finances and plan for their financial future to overcome specific financial challenges that arise in Service life

**6. LONG SERVICE ADVANCE OF PAY**

**a. Will the LSAP scheme continue to be available during the ‘Forces Help to Buy’ pilot/ FHTB T4?**

No, not for new applicants. Those already on the LSAP scheme will continue to make repayments as normal, but may choose to apply for a loan uplift under the FHTB or FHTB T4 schemes.

**b. I am currently on the LSAP scheme and have started to repay it. Am I able to borrow anything more up to amount I could have received if I had waited for FHTB T4?**

Yes, if you meet all the conditions of the FHTB T4 scheme you can apply for a loan up to 90% of the redundancy lump sum, capped at £68,000. However, this must be used for a new move of home and cannot be used retrospectively. Any outstanding balance on the LSAP loan will be taken into

account (e.g. if you have a £6000 LSAP loan, you will only be able to borrow a maximum of a further £62,000)