Local Authority Mortgage scheme

Report of Executive Director - Economy, Places and Skills

Portfolio Holder: Cllr Hibbert - Lead Member for Housing, Transport and Regeneration

27th February 2012

Officer Contact: John Rooney – Head of Housing Strategy

Ext. 4558

Purpose of Report

To seek approval for a Local Authority Mortgage Scheme in Oldham.

Executive Summary

The recession is having a major impact on housing markets and the economy, with banks less willing to lend to first time buyers. In Oldham, for example, home sales fell by 60% between 2006 and 2010.

The Local Authority Mortgage Scheme is aimed at helping first time buyers get on the property ladder in cases where they can afford mortgage payments, but not the initial deposit. This then stimulates other sales associated with purchase chains.

Under the scheme, if a potential buyer meets the lender’s strict credit requirements and the council’s criteria, an indemnity would be provided to the lender to reduce the deposit requirement to 5%.

It is proposed to launch the scheme in April 2012, which would assist around 50 appropriate first time buyers and the resulting property chains.
The scheme would complement a national indemnity scheme for new-build homes recently announced by the Government.

**Recommendations**

Members are recommended to:

(i) Note the content of this report.
(ii) Agree to the establishment of a Local Authority Mortgage Scheme as per the criteria within the report.
Local Authority Mortgage Scheme

Report of Executive Director of Economy, Place and Skills

Portfolio Responsibility: Portfolio holder for Housing, Transport and Regeneration

1 Background

1.1 In 2009, Sector Treasury Services launched the Local Authority Mortgage Scheme (LAMS), as the slow down in financing was having a severe impact on local economies and housing markets. In Oldham, for example in 2006 there were 4,701 home sales whereas in 2010 the figure fell by 60% to only 1,910.

1.2 The scheme is aimed at helping first time buyers get on the property ladder in cases where they can afford mortgage payments, but not the initial deposit. This has the knock-on effect of stimulating other sales associated with purchase chains. Under the scheme, if a potential buyer meets the lender’s strict credit requirements and the limited criteria that can be set by the council, an indemnity would be provided to the lender for the difference between the typical deposit (i.e. 25%) and a 5% deposit. The potential buyer will thereby obtain a 95% mortgage on similar terms as a 75% mortgage. The indemnity would be for the first 5 years, when there is most risk of repossession.

1.3 The benefit of the mortgage indemnity is that it helps access to housing for a suitable first time buyer, which can then result in around 5 additional moves in a resulting property chain. This can indirectly help in freeing up empty homes.

2 Current Position

2.1 Discussion has been held with Sector Treasury Services to determine legal, financial and communication aspects of the scheme.

2.2 Under the scheme, the Authority is able to set the maximum capital value of homes supported and postcodes where the scheme would apply. However, lenders have indicated that they cannot, under financial regulations, target the scheme to particular property types or empty homes and Lloyds TSB, the largest lender, have stated that they are unable to support any mortgages on new-build properties under this scheme and Right to Buys would not be eligible.

2.3 If the first time buyer meets the Council’s and lender’s strict criteria, the indemnity would be in place for a fixed 5 year period, which may be extended for a further 2 years if a mortgage were in arrears in the last 6 months of the initial 5 year period.
2.4 A number of councils, including Warrington, have initially implemented the ‘cash backed’ scheme which is supported by Lloyds TSB, the major lender. In this case, the Council would be required to place a 5 year deposit into an account with the lender at the start of the scheme to the full value of the indemnity being offered. As an average, a £1 Million total indemnity would support 50 first time buyers and resulting chains based on a property value of £100,000.

2.5 Through the ‘cash backed’ model, the Council is allowed to invest up to £2 Million per 5 year scheme. The advantages include the ability to attract a larger mortgage provider such as Lloyds TSB and possible generation of sufficient funds to finance the risk the Authority will be carrying. After financing costs, any surplus would be placed in a reserve to finance any defaults.

The table below shows potential number of first time buyers the ‘cash backed’ scheme may initially assist based on a £1m advance, assuming a purchase price of £100,000:

<table>
<thead>
<tr>
<th>Total Local Authority Indemnity</th>
<th>£1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed Max average Property Price</td>
<td>£100,000</td>
</tr>
<tr>
<td>5% Deposit</td>
<td>£5,000</td>
</tr>
<tr>
<td>95% Mortgage</td>
<td>£95,000</td>
</tr>
<tr>
<td>Local Authority Indemnity</td>
<td>£20,000</td>
</tr>
<tr>
<td>Approx. potential number of mortgages</td>
<td>50</td>
</tr>
</tbody>
</table>

2.6 On 21\textsuperscript{st} November, within the National Housing Strategy, a Government- backed mortgage indemnity scheme for new-build homes was announced. This is to be led by the Home Builders Federation and the Council of Mortgage Lenders. The scheme will be open to all builders and lenders operating in England and is proposed to start in March 2012. Over 25 home builders have agreed in principle to take part. All potential buyers will be able to access mortgages up to 95% of the loan.

2.7 The Government scheme, which is due to start in March 2012, is focussed only on new-build housing as it’s a partnership with builders and would complement a Local Authority Mortgage Scheme, which is open to other properties. The advantages of the Local Authority scheme is it impacts on a chain of house moves in an authority and first time buyers often cannot afford a new build home. Feedback from lenders is that they are still keen to progress with Local Authority Mortgage Schemes on non new-build homes.
2.8  It is proposed to progress with a Local Authority ‘cash-backed’ Mortgage Scheme in order to-
• Ensure access to the largest lender and therefore maximum spread
• Support access to the housing market and resulting property moves

2.9  The scheme would be run by Lloyds TSB and would be governed ultimately by their strict financial guidelines. Lloyds criteria include -
• Only those who can meet the lending criteria and can sustain payments would be eligible.
• Right to Buy properties would not be eligible
• New build homes would not be eligible
• Apartments would not be eligible

2.10 The three criteria to which Cabinet approval are sought are –
(i) Set a maximum limit for the scheme for total indemnity of £1 Million
(ii) The scheme would be open across the Borough to all qualifying post codes within the boundary area
(iii) A maximum loan size of £133,000. The maximum indemnity value per property would be £28,000.
(iii) A marketing plan is agreed to ensure that widespread awareness of the scheme so that eligible first time buyers are aware of this opportunity via the mortgage lender.

It is proposed that we would work with Sector to consider the new LAMS scheme under development which focuses on shared ownership.

2.11 A risk assessment has been undertaken. The Council would receive monitoring information on a monthly basis. The scheme allows for Lloyds to pass details to the Council if there are any breaches to mortgage covenants. Lloyds standard arrears process includes signposting customers in arrears to places that may be able to help/advise. Lloyds TSB and the Council are clear that the lending criteria would be such as to restrict mortgages only to those who can meet necessary credit requirements

3  Options/Alternatives

3.1 Option 1
Support the Local Authority Mortgage Scheme proposal for Oldham. This would assist around 50 first time buyers on the housing market and impact on resulting property chains. It would be focussed on existing homes and would complement the national scheme which is targeted at new-build.

3.2 Option 2
Do not support the proposal.
4 Preferred Option

4.1 Option 1 is the preferred option as it will help stimulate the local housing market and assist first time buyers.

5 Consultation

5.1 The Portfolio Holder and members in Overview and Scrutiny have been briefed on the proposals. There was strong support for the proposal from the Overview and Scrutiny Affordable Housing Task and Finish Group. Other councils have been consulted on their experiences and plans to establish similar schemes. (John Rooney)

6 Financial Implications

6.1 Finance comments are included within a separate not for publication report by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as it is not in the public interest to disclose the information because it contains financially sensitive information. (Peter Oliver)

7 Legal Services Comments

7.1 The Council has the necessary statutory legal powers to participate in the Scheme by virtue of sections 435 and 442 of the Housing Act 1985 as amended (the Act), whereby under section 435 of the Act a local authority is permitted to advance money to a person for the purpose of acquiring a house and under Section 442 of the Act whereby a local authority is permitted to grant an indemnity to a lender to give a potential buyer a mortgage. In particular, sub-section (1) states that a local authority may enter into an agreement with a person or body making an advance on the security of a house, whereby in the event of default by the mortgagor the authority binds itself to indemnify the mortgagee in respect of the mortgagors outstanding indebtedness. In addition, sub-section (1A) of section 442 of the Act requires that the advance has to be for a purpose specified in sub-section(1) or (1A) of section 435 of the Act which includes acquiring a house.

7.2 The Scheme has been structured to comply with the state aid requirements of EU State Aid regulations and the public procurement risk is considered low. The exemption from publication is justified on the category stated in the report. (Peter Oliver)

8 Cooperative Agenda

8.1 This scheme will help stimulate the local housing market by supporting appropriate first time buyers to access home ownership. It is a prime example of Oldham’s co-operative agenda as a partnership between the Council, Lloyds TSB and the eligible first time buyers. (John Rooney)

9 Human Resources Comments
9.1 No implications (John Rooney)

10 Risk Assessments

10.1 The Council’s insurers state that this is a business risk proposal and not an insurance scheme. (Barbara Cotton)

11 IT Implications

11.1 There are no IT implications resulting from this report (John Rooney)

12 Property Implications

12.1 There are no property implications for the Council. (Bryn Cooke)

13 Procurement Implications

13.1 There are no Procurement implications for the Council. (Darren Judge)

14 Environmental and Health & Safety Implications

14.1 There are no implications. (John Rooney)

15 Equality, community cohesion and crime implications

15.1 There are no implications associated with the scheme. (John Rooney)

16 Equality Impact Assessment completed?

NO

17 Key Decision

17.1 Yes

18 Forward Plan Reference

18.1

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

Name of File: LAMS
Records held in Economy, Places and Skills Directorate, Room 310, Civic Centre, West Street. Oldham.
20. **Appendices**
None