LEADERSHIP

CABINET

Extension of the Local Authority Mortgage Scheme

Report of Executive Director – Neighbourhoods

Portfolio Holder: Cllr Hibbert - Cabinet Member for Housing, Transport and Planning

24th June 2013

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Purpose of Report

To seek approval for an extension to the Local Authority Mortgage Scheme in Oldham.

Executive Summary

Oldham’s current Local Authority Mortgage scheme was approved by Cabinet in February 2012 and launched in April 2012 with Lloyds TSB. This was the first scheme of its kind in Greater Manchester.

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. Under the scheme, if a potential buyer meets the lender’s strict credit requirements and the council’s own criteria, an indemnity would be provided to the lender for the difference between the typical deposit (i.e. 20% to 25%) and a 5% deposit.
The scheme is open to first time buyers, purchasing an existing home (ie the scheme excludes new build properties) with a maximum loan size of £133,000 within Oldham.

It is recommended that a further £1M is deposited with Lloyds TSB, under the same criteria, to extend the scheme to assist a potential further 50 first time buyers.

Recommendations

1. Cabinet agree to the continuation of the Local Authority Mortgage Scheme as per the criteria within the report –

   (1) Set a maximum limit for the continuation of the scheme for a total indemnity of £1 Million
   (2) The scheme would to be open across the Borough to all qualifying post codes within the boundary area
   (3) A maximum loan size of £133,000.
   (4) That the Council shall indemnify the Councils Monitoring Officer in relation to any liability that he may personally incur to Lloyds TSB under the LAM scheme in relation to the provision of a legal opinion regarding the Councils authority and capacity to i) to participate in the continuation of the LAM scheme and ii) to enter into the necessary contractual documentation with Lloyds TSB.
   (5) For the council to enter into an indemnity deed with Lloyds TSB.

2. Cabinet also agree that a marketing plan be prepared to ensure widespread awareness of the continuation of the LAM scheme so that the eligible first time buyers are aware of this opportunity via the mortgage lender.
Extension to the Local Authority Mortgage Scheme

Report of Executive Director of Neighbourhoods

Portfolio Responsibility: Portfolio holder for Housing, Transport and Planning

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 2012 the figure fell by over 60% to only 1,744.

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 council’s own criteria, an indemnity is 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.

1.3 The ‘indemnity’ would be for the first 5 years, when there is most risk of repossession, 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. After this time, the council gets its investment back with interest after any defaults in mortgage repayments have been deducted.

2 Current Scheme with Lloyds TSB

2.1 Oldham’s current scheme was approved by Cabinet in February 2012 and launched in April 2012 with Lloyds TSB. It was the first scheme in Greater Manchester to be launched.

2.2 Under the scheme, the Authority set the maximum capital value of homes supported and postcodes where the scheme would apply. A requirement from the lenders is that the scheme does not support any mortgages on new-build properties and Right to Buys would not be eligible.

2.4 A ‘cash backed’ scheme was implemented where the council placed 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, the £1 Million total indemnity should support 50 first time buyers and resulting chains based on a property value of £100,000.
2.5 The Government operates a ‘Help to Buy: Equity Loan’ which allows potential buyers to access mortgages up to 95% of the loan. This 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.

2.6 The Government recently announced plans to launch a ‘Help to Buy: Mortgage Guarantee’ in 2014. This would provide lenders with the option to purchase a Government guarantee that compensates them for a portion of their losses in the event of repossession. Government will charge a fee in return for the guarantee. As the lenders will have to pay for guarantee, it is not as attractive as the ‘Cash backed’ scheme being extended by the council and so is unlikely to replicate it.

2.7 The current scheme, run by Lloyds TSB is governed by their strict financial guidelines. Lloyds criteria includes -
- 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

2.8 The criteria to which Cabinet approved the original scheme was –

(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.
(iv) That the Council shall indemnify the Councils Monitoring Officer in relation to any liability that he may personally incur to Lloyds TSB under the LAM scheme in relation to the provision of a legal opinion regarding the Councils authority and capacity to i) to participate in the extension of the LAM scheme and ii) to enter into the necessary contractual documentation with Lloyds TSB.
(v) For the council to enter into an indemnity deed with Lloyds TSB.

2.9 The Council receives 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 TSB standard arrears process includes signposting customers in arrears to places that may be able to help/advise. The lending criteria mean that mortgages are only offered to those who can meet necessary credit requirements. To date, there have been no arrears.

2.10 Progress to date

As of 22 May 2013, of the Council's £1 Million scheme, £963,000 was committed to support 55 first time buyer households on to the housing market.
To date, there have been no cases of arrears or non payment so the council currently expects it’s £1M deposit to be returned, with interest, after five years.

Analysis of mortgages offered shows that the average property value is £98 988, with a loan value of £91 161 giving a loan-to-value ratio of 92.2%. The average age of the first applicant is 28.

2.11 It is proposed that a further £1M is deposited with Lloyds TSB to continue the scheme under the same criteria, outlined above in 2.7 and 2.8, as the current scheme. The financial contribution for this is in place; however, Cabinet approval is required in order to meet the necessary legal requirements.

3 Options/Alternatives

3.1 Option 1

Support the continuation of the Local Authority Mortgage Scheme for Oldham. This would assist around another 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. The continued scheme would be based upon current agreed criteria.

3.2 Option 2

Do not support the proposal.

4 Preferred Option

4.1 Option 1 is the preferred option as it will continue to 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. Capital Investment Programmes Board also supports an extension to the scheme. (Ben Hill)

6 Financial Implications

6.1 Provision in the sum of £1 million has been made in the 2013/14 Capital Programme to extend the Local Authority Mortgage Scheme, to be funded from Prudential Borrowing. As with the initial deposit the sum will be deposited in a Lloyds TSB interest bearing account, the rate of interest will be determined on the date of deposit. The deposit acts as a fund against which approved mortgage indemnities are ear marked and will be in place for a fixed 5 year period for each mortgage granted, this could be extended for a further 2 years if a mortgage were in arrears in the final months of the initial 5 year period and would only be called upon if a loss is crystallised by the lender. Any loss in excess of the value of the indemnity would be attributable to the lender. The
lender would request payment from the Local Authority, who would undertake to make payment within 30 days. Interest payable on the prudential borrowing for the capital investment will be offset from the deposit interest receivable. Interest received over and above that which is required to finance the borrowing will be placed in an earmarked reserve to support any borrower defaults. (Andy Cooper)

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.

7.3 Monitoring Officer Indemnity

Lloyds TSB have requested that the Council’s Monitoring officer provides an Opinion Letter to Lloyds TSB in relation to the council’s authority and capacity to (i) participate in the extension to the LAM Scheme and (ii) to enter into the necessary contractual documentation with Lloyds TSB.

Lloyds TSB have further requested that Cabinet takes a formal decision that the Council shall indemnify the Monitoring Officer in relation to any liability he may personally incur to Lloyds TSB in the provision of the Opinion Letter and it is recommended that Cabinet takes the decision to grant such an indemnity to cover the arrangements with Lloyds TSB under the LAM Scheme. (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. (Ben Hill)

9  **Human Resources Comments**
9.1 No implications (Ben Hill)

10 Risk Assessments

10.1 The Council's insurers state that this is a business risk proposal and not an insurance scheme. (Mark Stenson).

11 IT Implications

11.1 There are no IT implications resulting from this report (Ben Hill)

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. (Ben Hill)

15 Equality, community cohesion and crime implications

15.1 There are no implications associated with the scheme. (Ben Hill)

16 Equality Impact Assessment completed?

16.1 No

17 Key Decision

17.1 Yes

18 Forward Plan Reference

18.1 NEIG-10-13

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:

None

20 Appendices

None