

CABINET	AGENDA ITEM No. 7
13 June 2011	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr Cereste - Leader of the Council and Cabinet Member for Growth, Strategic Planning, Economic Development and Business Engagement Cllr Hiller - Cabinet Member for Housing, Neighbourhoods and Planning Cllr David Seaton – Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Executive Director Strategic Resources Steven Pilsworth, Head of Corporate Services	Tel. 452398 Tel. 384564

LOCAL AUTHORITY MORTGAGE SCHEME

R E C O M M E N D A T I O N S	
FROM : Executive Director Strategic Resources	Deadline date : 13 July 2011
<p>Cabinet is recommended to:</p> <ol style="list-style-type: none"> 1. Approve participation in the Local Authority Mortgage Scheme (LAMS), initially in partnership with the Lloyds Banking Group, for £1m; 2. Approve plans to extend the scheme across other lenders as they enter the scheme, or with Lloyds, up to a total value of £10m; 3. Delegate to the three responsible Cabinet Members the authority to develop the local policy for scheme eligibility, and recommend it to Full Council for approval at the meeting of 13th July; 4. Delegate to the Chief Executive the authority to execute the deed indemnifying the Monitoring Officer on behalf of the authority. 	

1. ORIGIN OF REPORT

- 1.1. This report is submitted to Cabinet following consideration as to how the Council can support first time buyers and the local housing market, and help deliver the Council's priority of delivering substantial and truly sustainable growth

2. PURPOSE AND REASON FOR REPORT

- 2.1. The purpose of this report is to seek Cabinet approval for the Council to participate in the Local Authority Mortgage Scheme.
- 2.2. This report is for Cabinet to consider under its Terms of Reference No. 3.2.3, to take a leading role in promoting the economic, environmental and social well being of the area; and 3.2.5, to review and recommend to Council changes to the Council's constitution, protocols and procedure rules.

3. **TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	NO
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4. **BACKGROUND**

- 4.1 The turmoil in the financial and banking market has had a severe impact on both the local economy and on local housing. House prices nationally have continued to fall over the last 12 months, and the outlook remains uncertain. The lack of buyers, together with the ongoing lack of mortgage availability means house prices are likely to continue to slide. Nationwide Building Society predicts house prices in 2011 to stay weak as a result of the uncertainty surrounding the economy and the Government's massive spending cuts.
- 4.2 There is still considerable concern about some areas of the housing market, particularly the low percentage of first time buyers. According to the Council of Mortgage Lenders (CML), mortgage lending fell by 13% in January compared with December – the lowest level for a year. The CML believes the housing market will remain subdued in 2011 due to uncertainty surrounding the economy and the ongoing mortgage rationing by lenders. The level of activity in the mortgage market is therefore expected to remain subdued.
- 4.3 Current constraints are a particular problem for first-time buyers, especially those unable to provide a substantial deposit. Many banks and building societies do not lend to those home buyers who cannot provide up a deposit of 20 to 25 per cent. The typical entry level price for two-bedroom property in Peterborough costs around £94k which would mean a deposit of around £24k is needed. With other costs on top of this, including stamp duty and other costs, this is effectively preventing most first time buyers from entering the property market.
- 4.4 The issue is adversely affecting the delivery of the Council's priority of delivering substantial and sustainable growth.

5. **LOCAL AUTHORITY MORTGAGE SCHEME**

- 5.1 Sector Treasury Management services (currently the Council's treasury advisers) have developed a national scheme, initially in conjunction with the Lloyds banking group, to allow Councils to provide support to first time buyers. The scheme is aimed at first time buyers, providing help for potential buyers who can afford mortgage payments - but not the initial deposit – to get on to the property ladder.
- 5.2 The scheme would operate as follows:
- The Council would specify the qualifying characteristics for those who should qualify for a mortgage under the scheme (see section 6 below). The Council would also specify whether there would be a maximum loan value, and the total level of support offered by the council;
 - Potential Buyers would approach the lender directly (initially Lloyds TSB) and the lender would deal with the Council. The Council will not know the identity of the individuals concerned, and have no role in approving individual mortgages;
 - The Bank will assess the buyer against its own credit criteria, as well as the Council's criteria;
 - If a potential buyer meets the strict credit criteria applied by the lender, and meets the criteria set out by the Local Authority to qualify for a mortgage under the scheme, the Local Authority will provide a top-up indemnity to the value of the difference between the typical Loan to Value (LTV) ratio of around 75% and a 95% LTV mortgage. The potential buyer will thereby obtain a 95% mortgage on similar terms as a 75% mortgage, but without the need to provide the substantial deposit usually required;

- The Council will deposit a sum with the bank equal to the total value of the overall indemnity offered;
 - The bank would lend all the money agreed under the mortgage to enable the purchase to be made;
 - The buyer would make repayments to the bank, and liaise with the bank on all issues relating to the mortgage; and
 - The indemnity provided by the Council will last for 5 years. After this time the sum deposited with the bank is returned to the Council with interest.
- 5.3 The indemnity would only be called upon, leading to a cost for the Council, if a loss is crystallised by the lender. This would require a default by the buyer, a repossession by the bank and then the property to be sold for less than the value of the mortgage. By way of example:
- Property valued at £100k, mortgaged at £95k (funded Local Authority indemnity £20k, Bank Mortgage £75k), was subsequently sold for £70k, the bank would request the full £20k indemnity from the Local Authority. In this case the value of the property would need to have fallen by 30% from the original valuation;
 - If the property was sold for £90k the bank would request £5k from the Council. In this case the value of the property would need to have fallen by 10% from the original valuation.
- 5.4 The Council will only face costs if both these situations arise – that there is default, and the subsequent resale value is less than the value of the mortgage. Such costs would be funded from the interest gained in depositing the indemnity funds with Lloyds. Information from the Council of Mortgage lenders indicates that the number of repossessions by first charge mortgage lenders in 2010 was 0.3% of all mortgages. Over the five year period, the following would need to happen for the costs to the council to exceed the interest income:
- Defaults to be ten times higher than the 2010 level indicated by CML; AND
 - Property prices to drop 10% from the level at the time the mortgage is approved
- 5.5 The scheme is currently being launched through Lloyds Banking Group, however it is anticipated that more mortgage lenders will be invited to join the partnership as it progresses. Sector has been in discussions with the FSA approved mortgage lenders in the UK to raise awareness of the scheme. The scheme will operate on a nationwide basis and there will be no restrictions on the type and number of banks who will be entitled to participate (providing they have the necessary authorisation to offer residential mortgages in the UK).
- 5.6 It is recommended that the Council initially provides £1m of indemnity to support the scheme with Lloyds. The scheme with Lloyds does not currently cover new build properties. It is further recommended that this is extended up to a maximum of £10m, following a review of the success of the initial £1m indemnity as follows:
- Extending the scheme to cover other lenders as they enter the scheme, providing additional choice locally. Sector are currently in discussion with a number of lenders about entering the scheme, including lending on new build properties;
 - Increasing the indemnity with Lloyds group if the first tranche of funding is exhausted.
- 5.7 Extending the indemnity to £10m does not alter the financial risk profile. Whilst the possible sums payable following default could increase, so does the interest income to cover this.
- 5.8 Sector Treasury Services will undertake an annual audit of the scheme to ensure both parties are fully compliant with the agreement. The Council will agree with Lloyds a monthly performance report, so that it is able to demonstrate clear links to strategic objectives and also review the performance of the scheme in relation to its investment.

6. LEGISLATIVE POWERS TO EFFECT THE SCHEME AND LOCAL ELIGIBILITY POLICY

- 6.1 Sector Treasury Services have sought Counsel's opinion on the legal basis for Councils to be able to support this scheme, along with the position regarding state aid. The Council has also sought advice from its own legal advisers that this is sound.
- 6.2 The Housing Act 1985 (as amended) provides the statutory framework for the scheme. The Act allows Local Authorities to "advance money to a person for the purpose of acquiring a house" (section 435 of the act). Section 442 of the act allows a local authority to grant an indemnity to a lender to enable the lender to give the potential buyer a mortgage.
- 6.3 In order to participate in the scheme on this basis, the Council will need to develop a local policy for scheme eligibility. It is recommended that authority is delegated to the three lead Members to develop this policy once the overall principle of participating has been approved. Possible elements for this policy to include are listed in appendix A. The Council will then need to incorporate the policy into the local housing strategy, which will need to be approved by Full Council as part of the Major Policy Framework. It is recommended that this is undertaken in time for consideration by Council at the meeting of July 13th. Once the policy is approved, and associated legal agreements with Lloyds completed, the scheme can be launched.
- 6.4 As well as Cabinet approval, the Council will need to provide the following as part of the agreements with the lenders:
- Letter from the monitoring officer (Solicitor to the Council) confirming that the Council can enter into the scheme. This will be provided given the independent confirmation received as outlined in para 6.1 above, in line with the delegated powers of the Solicitor to the Council set out in the Constitution as follows:

3.17.1 The Solicitor to the Council is authorised:

(l) to sign on behalf of the Council any deed or other document, which, in his/her professional judgement, is necessary or desirable to sign;

- Confirmation that the Council indemnifies the monitoring officer against this advice. Cabinet will need to delegate to the Chief Executive the authority to provide this indemnification, as set out in recommendation 4 above.

7. CONSULTATION

- 7.1 Proposals have been discussed across departments with an interest in housing and growth, at Corporate Management Team, and with the relevant Cabinet portfolio holders.

8. ANTICIPATED OUTCOMES

- 8.1 That Cabinet:
- Approves participation in the Local Authority Mortgage Scheme, initially in partnership with the Lloyds Banking Group, for £1m;
 - Approve plans to extend the scheme across other lenders as they enter the scheme, or with Lloyds, up to a total value of £10m;

- Delegate to the three responsible Cabinet Members the authority to develop the local policy for scheme eligibility, and recommend it to Full Council for approval at the meeting of July 13th;
- Delegates to the Chief Executive the authority to execute the deed indemnifying the Monitoring Officer on behalf of the authority.

9. REASONS FOR RECOMMENDATIONS

To allow the Council to participate in the Local Authority Mortgage Scheme, supporting first time buyers in Peterborough.

10. ALTERNATIVE OPTIONS CONSIDERED

- 10.1 The council could consider providing mortgage directly. The Council does not have the required level of expertise to do this, and would require FSA approval to do so.

11. IMPLICATIONS

Financial

- 11.1 Key financial issues are outlined in section 5 above. The initial advance of £1m will be classified as capital expenditure and will be provided from the surplus funds currently invested in the money markets. The £1m will need to be deposited with Lloyds for five years and will earn above market interest rates. Lloyds is currently a nationalised bank and depositing money for the proposed five year period is within the Council's approved Treasury Management Strategy. At the end of five years the money will be returned to the Council and be classified as a capital receipt.

Legal

- 11.2 The legal powers enabling the Council to participate in the scheme are covered in section 6 above.

12. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985).

None.

Possible content of local policy

The policy could include statements about:

- how the policy will contribute towards the fulfilment of the Local Authority's strategic aims, objectives and priorities;
- how the policy will contribute towards the fulfilment of the Local Authority's housing strategy and any other relevant corporate strategies;
- the key priorities which the policy will address and the reasons for selecting them;
- the amount of capital resources that will be committed to implementing the policy and how this is budgeted for;
- a description of the types of assistance available, what the assistance will be used for, and what key outcomes will be achieved by each form of assistance;
- the circumstances in which people will be eligible for assistance;
- the amounts of assistance that will be available to eligible people, and how these amounts will be determined;
- the types and amounts of preliminary or ancillary fees and charges associated with the provision of assistance that will be payable and in what circumstances;
- the process to be used to apply for assistance;
- how people can obtain access to the process of applying for assistance;
- details of conditions that will apply to the provision of assistance;
- how conditions will be enforced and in what circumstances they may be waived;
- advice that is available, including financial advice, to assist people wishing to enquire about, and apply for, assistance;
- the arrangements for complaints about the policy and its implementation;
- the arrangements for applications for assistance to be considered where these fall outside policy;
- key service standards that will apply to the provision of assistance;
- a policy implementation plan;
- national and local performance indicators that are relevant to the policy and the targets that the Local Authority has set itself to improve performance;
- how (or if) the Scheme will be promoted or publicised;
- what information will be provided in the promotion of the Scheme;
- what training is needed for Local Authority employees and other agencies involved in implementing the Scheme.