

COUNCIL	ITEM NO. 7(i) (b)
13 JULY 2011	

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

HOUSING STRATEGY – AMENDMENT TO INCLUDE LOCAL ELIGIBILITY POLICY FOR THE LOCAL AUTHORITY MORTGAGE SCHEME

R E C O M M E N D A T I O N S	
FROM : <i>Executive Director Strategic Resources</i>	Deadline date : 13 th July 2011
Council are recommended to: <ol style="list-style-type: none"> 1. Approve the amendment to the Peterborough Housing Strategy, specifically the inclusion of the local eligibility policy for the Local Authority Mortgage Scheme 	

1. ORIGIN OF REPORT

- 1.1. This report is submitted to Council following consideration by Cabinet 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 Council approval for the local eligibility policy for the Local Authority Mortgage Scheme, to be incorporated into the Peterborough Housing Strategy.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	YES	If Yes, date for relevant Cabinet Meeting	
---	------------	---	--

4. LOCAL AUTHORITY MORTGAGE SCHEME

- 4.1 The turmoil in the financial and banking market has had a severe impact on both the local economy and on local housing. Current constraints in the mortgage market 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.
- 4.2 The issue is adversely affecting the delivery of the Council's priority of delivering substantial and sustainable growth.
- 4.3 At their meeting of 13th June, Cabinet approved participation in the Local Authority Mortgage Scheme. 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. 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 para 4.4 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 ratio (LTV) 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
 - 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.
- 4.4 In order to participate in the scheme, the Council has to develop a local policy for scheme eligibility. Legal advice is that this should form part of the Local Housing Strategy. As this strategy is part of the Major Policy Framework, this is a matter reserved for Full Council. This policy is included in appendix A.

5. IMPLICATIONS

Financial

5.1 Full analysis of the financial implications are included in the original Cabinet report, but in summary:

- The council will receive interest on the deposit placed with the lender that will cover any default
- The deposit with Lloyds will be protected by the Government Guarantee

Legal

5.2 The legal powers enabling the Council to participate in the scheme are covered in the original Cabinet report

Equalities

5.3 A full equalities impact assessment has been undertaken on the Council's participation in the scheme, including the local eligibility policy.

6. BACKGROUND DOCUMENTS

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

None.

Appendix A

LOCAL ELIGIBILITY POLICY FOR THE LOCAL AUTHORITY MORTGAGE SCHEME

Cabinet at its meeting of 13th June 2011 considered how the Council can support first time buyers and the local housing market, to help deliver the Council's priority of delivering substantial and truly sustainable growth.

Cabinet approved the plans as follows:

1. participation in the Local Authority Mortgage Scheme (LAMS), initially in partnership with the Lloyds Banking Group, for £1m;
2. Plans to extend the scheme across other lenders as they enter the scheme, or with Lloyds, up to a total value of £10m;

In order to participate in the scheme on this basis, the Council has to adopt a local policy for scheme eligibility. This policy should then be incorporated into the local housing strategy, supporting the City Council's vision for housing in Peterborough:

'To be at the heart of growth and regeneration in Peterborough, creating sustainable homes for the future, raising housing standards and delivering high quality housing services'

The policy is outlined below:

- The scheme will be available for purchase of properties in all locations within the local authority boundary
- Applicants should currently reside within the local authority boundary
- There will be a ceiling on the value of properties that the scheme will support. This will initially be £130,000 (based on the £117,000 entry level price for a 3 bedroom house identified in the Strategic Housing Market Assessment update in August 2010, plus some headroom to allow for local variation)
- The property should be occupied by the mortgage applicant as their main home. The Scheme will not support buy to let arrangements
- The scheme will support all property types, including new builds, where the lenders policy enables this
- The Council will receive monthly monitoring reports, and will keep the scheme under review, including incorporating any updates following updates to the Housing Strategy
- Applicants will liaise directly with the lenders on all matters relating to the mortgage application, and subsequent mortgage issues
- The Council will not levy additional fees on applicants
- Applicants will need to seek independent financial advice to assess whether the scheme is suitable, and meets their financial needs

All aspects of the policy will be kept under review

This policy was approved by Full Council at its meeting of 13th July 2011.