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| <b>COUNCIL</b>         | AGENDA ITEM 7(iii)(a) |
| <b>12 OCTOBER 2011</b> | PUBLIC REPORT         |

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

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| <b>R E C O M M E N D A T I O N S</b>   |
| <b>FROM :</b> Executive Director Strategic Resources   |
| That Council: <ul style="list-style-type: none"> <li>1. Approves the amendment to the local eligibility policy for the Local Authority Mortgage Scheme</li> <li>2. Delegates authority to the Executive Director Strategic Resources, in consultation with the Cabinet Member for Resources, to amend the local eligibility policy if future lenders have additional requirements that the Council will need to be compliant with</li> </ul> |

**1. PURPOSE AND REASON FOR REPORT**

- 1.1 The purpose of this report is to seek Council approval for an update to the local eligibility policy for the Local Authority Mortgage Scheme, to be incorporated into the Peterborough Housing Strategy.

**2. LOCAL AUTHORITY MORTGAGE SCHEME**

- 2.1 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.
- 2.2 The issue is adversely affecting the delivery of the Council’s priority of delivering substantial and sustainable growth.
- 2.3 At their meeting of 13<sup>th</sup> 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.
- 2.4 Following discussions with Members, Full Council on July 13<sup>th</sup> approved a local policy outlining who should qualify for a mortgage under the scheme. This is included a maximum loan value, and the total level of support offered by the council.

- 2.5 The scheme would only apply to properties purchased within the Peterborough area. Members also expressed a desire that the scheme should only apply to individuals currently residing within the Peterborough area. As similar arrangements had been included in policies approved by other councils, it was considered that this was possible.
- 2.6 When the legal documentation was being concluded with Lloyds, their lawyers questioned whether this could in fact be included. In particular requirements from the Financial Services Authority (FSA), specifically the regulatory requirement of Treating Customers Fairly (TCF), mean that banks cannot restrict in this manner. Councils who had included this are now having to revisit their policy. The Council has checked whether other lenders in the scheme could meet this requirement, but all lenders are constrained by the FSA legislation.
- 2.7 Where councils have launched the scheme, take-up is positive. Mortgages have now been available for nearly two months in Blackpool and Warrington, and up to mid-September take-up was as follows:
- 18 approved mortgage applications
  - 12 mortgage offers
  - 3 mortgage completions
- Another eight councils are ready to launch in October.
- 2.8 Given the potential benefits for Peterborough, it is considered that the Council should continue to proceed with the scheme. As such the policy needs to be re-approved by Council with the local residency requirement removed. This amended policy is included in appendix A. The Council cannot proceed with the scheme without this amendment.
- 2.9 The Council will however look to ensure that the scheme is targeted towards Peterborough residents as follows:
- All advertising and promotion supported by the Council will be locally focussed
  - We will reinforce the Peterborough branches that offer the scheme, and work with the local managers only
- 2.10 The original Cabinet approval allows the Council to extend the scheme to other lenders. It is possible that new lenders may have specific issues that the Council can or cannot consider in their eligibility policy. In order to allow the Council to extend the scheme as intended, it is recommended that delegated authority is approved for Executive Director Strategic Resources, in consultation with the Cabinet Member for Resources, to amend the local eligibility policy if future lenders have additional requirements that the Council will need to be compliant with.

### **3. IMPLICATIONS**

#### **Financial**

3.1 Full analysis of the financial implications are included in the original Cabinet and Council reports, but in summary:

- The council will receive interest on the deposit placed with the lender that will provide some financial coverage for any default
- Lloyds are included within the Councils Treasury Management Strategy as a bank that the Council can deposit money with

#### **Legal**

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

#### **Equalities**

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

### **4. BACKGROUND DOCUMENTS**

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

None.

## LOCAL ELIGIBILITY POLICY FOR THE LOCAL AUTHORITY MORTGAGE SCHEME

Cabinet at its meeting of 13<sup>th</sup> 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
- 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). With a loan value of 95%, this would mean a maximum loan amount of £123,500
- 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 12<sup>th</sup> October 2011.