

Bolsover / North East Derbyshire District Council

Cabinet

30 July 2014

NEDDC Local Authority Mortgage Scheme (LAMS)

Report No: EAH/MG/PRK/14/14/RS of Councillor E A Hill, Portfolio Holder with Housing Strategy and Social Inclusion supported by Councillor M Gordon and Councillor P R Kerry, Portfolio Holder with Economy, Finance and Regeneration.

This report is public

Purpose of the Report

- To outline details of the proposed development of a Local Authority Mortgage Scheme (LAMS) for North East Derbyshire.
- To seek approval from members to developing a non-cash based LAMS for North East Derbyshire.

1 Report Details

- 1.1 The Local Authority Mortgage Scheme (LAMS) was launched in March 2011 by Capita Asset Services (formerly Sector Financial Services) to assist first time buyers, who can afford mortgage payments but not the 20% to 25% deposits needed by mortgage lenders to purchase their first home. (see appendix 1 for latest annual report and scheme outline)
- 1.2 When LAMS was initially launched in 2011 the Sheffield City Region Housing & Regeneration Board sought to promote a SCR wide scheme. At that time NEDDC decided not to participate due to budgetary restraints.
- 1.3 LAMS are administered nationally by Capita Asset Service, who provide the procurement framework for financial institutions to be selected from and will support the Local Authority throughout the lifecycle of its LAMS.
- 1.4 The benefit of adopting the scheme is that it will increase the number of first time buyers locally for those who can afford the repayments but not the deposit. It is also more affordable than the national Help to Buy Scheme as a lower rate of interest will be realised for the buyer as the interest rate will be on a 75% mortgage as opposed to a 95%.
- 1.5 The Council is required to determine the following criteria locally:
 - Total indemnity
 - Maximum loan size
 - Postcodes included

1.6 It is proposed that the total indemnity be set at the lowest level agreeable with any lender agreeing to back our scheme. It is likely that this will be in the region of £500,000.

1.7 Using evidence from Home Track (July 2014) and advice from Capita it is proposed that the maximum loan size be set at £175,000. Average house prices for the district for the following house types are as follows:

1 bed flat - £80,700
2 bed flat - £104,100
2 bed house - £125,300
3 bed house - £165,800
4 bed house - £269,200

Source HomeTrack July 2014

1.8 A maximum loan size of £175,000 reflects higher house prices in the North of the district and rural areas but the maximum mortgage will still be determined by the lender and the ability of the first time buyer to afford the repayments.

1.9 As there is a need for affordable housing across the district it is proposed that the scheme covers all postcodes. It is envisaged that we will work with any lender to promote the scheme locally, including any new build schemes on sites such as the Avenue and the former Bi Waters Industrial site.

1.10 Capita Asset Services are currently liaising with local Building Societies, including Mansfield Build Society, to identify an appropriate residential mortgage lender for us to work in partnership with.

2 Conclusions and Reasons for Recommendation

2.1 That the adoption of a non cash LAMS locally will increase the number of people locally who are able to purchase their first home at a lower rate of interest than under the national Help to Buy Scheme.

2.2 The scheme will contribute to the Council's Growth Strategy in increasing the number of first time buyers in the district.

2.2 Benefits:

- Assists first time buyers
- Boost to economy
- Increase in affordable housing
- Decreases pressure on council's waiting list
- Potential cash return

3 Consultation and Equality Impact

3.1 A representative from Capita Asset Services attended a meeting of Leadership in June 2014 to provide an overview of LAMS and answer questions relating to

benefits to the district for first time buyers and the level of financial risk the Council would be exposing itself to.

- 3.2 Members at Leadership were supportive of a non cash back scheme and requested that a further report be taken to cabinet with further details regarding the criteria we would set locally in relation to the maximum level of mortgage and also the maximum level of indemnity we would set for the Council.

4 Alternative Options and Reasons for Rejection

- 4.1 Capita Asset Services operate two schemes which have been considered by Leadership

- 4.2 **Non Cash Back Scheme** – this scheme involves the Council agreeing with a bank or building society the amount it is prepared to indemnify. Most building societies will require a minimum of £0.5m. Each Council will provide a top – up indemnity to the value of the difference between the typical Loan to value (i.e. 75%) and a 95% LTV mortgage. The funding will remain with the Council and is only called upon in the event of a default leading to a mortgage repossession of the property (note to date there have been no defaults to any of the LAMS nationally). This indemnity funding will be available for each mortgage provided for a period of 5 years. After this time the lender will assume full responsibility for the mortgage and any future defaults.

Leadership felt that we should pursue this option and treat as a pilot scheme to gauge take up locally before considering a cash backed scheme should it become operational again.

- 4.3 **Cash Backed Scheme** – this scheme requires the Council to place a 5 year cash deposit at the start of the scheme to the full value of the indemnity being offered.

Under this scheme the Council would receive a 5 year commercial deposit rate plus a premium. The Council would be required to have a deposit in place with the lender to cover the level of the residual indemnity at the end of the 5 year initial period.

The benefits of this scheme would be potential for a far higher return to the Council but would require cash being provided to the lender at the beginning of the scheme.

This scheme is currently closed due to the national Help to Buy scheme. Depending on the future of Help to Buy and the willingness of lenders this scheme might be reintroduced at a later date.

5 Implications

5.1 Finance and Risk Implications

For each completed mortgage application the Council will receive a single cash bonus payment of £500 per mortgage. If the Council were to indemnify £500,000 it could potentially issue approximately 17 mortgages locally, assuming an average

mortgage level of £150,000. The number of mortgages could be higher if the property price and hence the mortgage was lower

Example:

Total Local Authority Indemnity - £500,000

Assumed average property Value - £150,000

5% deposit - £7,500

95% mortgage - £142,000

Local authority Indemnity - £30,000

Potential number of mortgages – approximately 16 (but more or if lower value mortgages)

Cash bonus to the council - £8,000 (if there are no defaults on those mortgages in the first 5 years).

- 5.1.1** The risk financially is where there is a default on the mortgage within the first 5 years. To date Capita have only recently experienced their first default on the mortgage after 3 years in operation and a total of 3300 mortgages in operation.

Credit checks by the lender will be robust and mortgages will only be issued where people can afford the repayments.

It is envisaged that the cash bonus pot be retained in the event of any defaults.

- 5.1.2** Capita Asset Services charge a £3000 one off administration fee. Sheffield City Region's Housing and Regeneration Board have agreed to fund £1,500 toward the administration cost from its Transitional Funding pot. A provisional expression of interest has been made for this funding and has been agreed in principle by the Housing and Regeneration Board.

5.2 Legal Implications including Data Protection

The scheme will be administrated by Capita Asset Services on our behalf.

5.3 Human Resources Implications

None.

6 Recommendations

- 6.1 That members agree to the development of a non cash LAMS scheme.
- 6.2 The proposed LAMS will be set at an indemnity level of approximately £500,000 (or lower if the identified mortgage lender agrees).
- 6.3 The proposed maximum loan size should be set at £175,000.

- 6.4 The scheme should cover the whole of the district to reflect the need for affordable housing across the district.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	Links to Growth Strategy

8 Document Information

Appendix No	Title
Appendix 1	LAMS 2013/14 Annual report – Capita Asset Services
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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AGIN 6(b) - (CAB0730) NEDDC LAMS/CLS