

**North East Derbyshire District Council**

**Cabinet**

**30 September 2015**

**NEDDC Local Authority Mortgage Scheme (LAMs) Policy**

**Report No EAH/05/15-16/RS of Councillor Mrs E A Hill, Portfolio Holder with Responsibility for Housing Strategy and Social Inclusion (supported by Councillor J Austen)**

This report is public

**Purpose of the Report**

- To approve a Local Authority Mortgage Scheme (LAMS) Policy for North East Derbyshire District Council. (draft attached at Appendix 1).

**1 Report Details**

- 1.1 In July 2014 Cabinet agreed to the development of a Local Authority Mortgage Scheme (LAMs) in the district, to be administered by Capita Asset Services on our behalf.
- 1.2 The adoption of the scheme requires the development of a policy outlining how the scheme will operate in practise, including criteria for participation in the scheme. This is attached at appendix one for approval. The requirement for a policy is outlined in appendix B of the LAMS Legal White paper (attached at Appendix 2). Once the Policy is approved it will be placed on the council's website as a public document.
- 1.3 In April 2015 Council agreed an indemnity level for the scheme and agreed that a further report be brought to cabinet to agree a LAMS policy for the Council.
- 1.4 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.
- 1.5 Key criteria for eligibility as outlined in the Policy:
  - The scheme is only open to first time buyers
  - The total indemnity is £500,000
  - The maximum individual indemnity offered to a first time buyer under the scheme is 20%
  - The maximum loan size is £175,000 per property
  - The applicant must have a 5% deposit and meet the lender's criteria

- The property to be purchased must be within the administrative area of North East Derbyshire District Council
- The scheme covers both new and second hand properties

## **2 Conclusions and Reasons for Recommendation**

- 2.1 To approve a LAMS Policy for the council as required in the LAMS Legal White paper. (Appendix 2)

## **3 Consultation and Equality Impact**

- 3.1 A representative from Capita Asset Services attended Leadership in May 2014 and provided an overview of LAMs. This included an opportunity for members to ask questions relating to the schemes, their benefits to the district, and the level of financial risk that the council would be exposing itself to prior to a final decision being made to adopt the scheme in July 2014.
- 3.2 An EIA has been completed as part of the development of the policy.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 No other options available as this is a requirement as part the LAMS legal White Paper.

## **5 Implications**

### **5.1 Finance and Risk Implications**

- 5.1.1 The risk financially is where there is a default on the mortgage within the first 5 years. To the end of February 2015 Capita have around 3700 LAMs mortgages in place. To date there have been no repossessions, although 2 mortgages are in arrears in excess of three months.
- 5.1.2 Credit checks by the lender will be robust and mortgages will only be issued where people can afford the repayments.
- 5.1.3 It is envisaged that the cash bonus pot be retained in the event of any defaults.

### **5.2 Legal Implications including Data Protection**

- 5.2.1 The scheme will be administered by Capita Asset Services on behalf of the council. The required documentation has been made available to the council and has been checked by our Legal Services and the Finance department.

### **5.3 Human Resources Implications**

None

## **6 Recommendations**

- 6.1 That Cabinet approves the Policy attached at Appendix 1.

**7 Decision Information**

<b>Is the decision a Key Decision?</b> (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)	No
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	Growth Strategy Housing and Economic Development Strategy

**8 Document Information**

<b>Appendix No</b>	<b>Title</b>
Appendix 1 Appendix 2	NEDDC LAMS Policy LAMS white paper Appendix B – Legal White Paper
<b>Background Papers</b> (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)	
<b>Report Author</b>	<b>Contact Number</b>
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# Local Authority Mortgage Scheme (LAMS) Policy

September 2015

## CONTROL SHEET FOR LOCAL AUTHORITY MORTGAGE SCHEME

Policy Details	Comments / Confirmation  (To be updated as the document progresses)
Policy title	Local Authority Mortgage Scheme (LAMS)
Current status - i.e. first draft, version 2 or final version	Final Draft
Policy author	Rebecca Slack
Location of policy - i.e. L-drive, shared drive	Z- drive
Member route for approval	Cabinet
Cabinet Member (if applicable)	Councillor Hill and Councillor Austen
Equality Impact Assessment approval date	
Partnership involvement (if applicable)	N/A

Final policy approval route i.e. Executive/ Council /Planning Committee	Cabinet
Date policy approved	
Date policy due for review (maximum three years)	September 2018
Date policy forwarded to Strategy and Performance (to include on Intranet and Internet if applicable to the public)	

# LOCAL AUTHORITY MORTGAGE SCHEME (LAMS)

## 1. Introduction

### 1.1

The recent recession has had an adverse effect on the economy and the housing market. One of the effects was a reduction in the number of first time buyers, partly as a result of the tightening of mortgage lending criteria. At the time, most mortgage lenders were only prepared to lend a maximum of 75-80% loan to value, which meant that the buyer required a deposit of 20-25%. This was a major barrier for many first time buyers, although they could afford the mortgage repayments. Whilst the situation has improved, many first time buyers remain unable to secure the necessary deposits without support schemes such as LAMS. First time buyers are integral to movement in the housing market and therefore the local economy.

### 1.2

North East Derbyshire District Council has agreed to join a national scheme known as the Local Authority Mortgage Scheme (LAMS) to assist first time buyers to access the housing market.

### 1.3

The requirement for a policy relating to LAMS and how the council will operate the scheme outlined in appendix B of the LAMS legal white paper.

## 2. Scope

The scheme covers properties which are within the administrative area of North East Derbyshire District Council. These cover all property types, including bungalows, houses and flats and may be either new or second hand properties.

## 3. Principles

### 3.1

The Council's Corporate Plan 2011-15 includes a priority to increase housing choice and the Housing and Economic Development Strategy 2015 lists an action to support the development of schemes to enable first time buyers to purchase their own homes.

### 3.2

The aim of the scheme is to assist first time buyers to purchase a property by providing an indemnity to the lender, which will result in a smaller deposit being required. If willing first time buyers are able to access the market, rented and affordable housing

could be freed up for other people, the local housing market will be stimulated and the local economy will benefit.

#### **4. Statement**

##### **4.1**

The Local Authority Mortgage Scheme is a national scheme to help first-time buyers who, whilst they can afford mortgage payments, do not have access to a 20-25% deposit as is required by most mortgage lenders.

##### **4.2**

The council will provide a financial indemnity in the form of a guarantee for the partner mortgage lender, Leek United Building Society. This means that if a potential buyer meets the strict credit criteria applied by the lender, and also meets the criteria set out by the Local Authority to qualify for the scheme, they only have to find a 5% deposit and the council will indemnify up to 20%. The indemnity provided by the council allows the buyer to obtain a 95% mortgage on similar terms to a 75% mortgage as the risk to the lender is reduced.

##### **4.3**

The indemnity will run for 5 years on each property (this can be extended by a further 2 years if a mortgage were in arrears in the last 6 months of the initial 5 year period) , after which time the lender will continue with the mortgage on the same terms.

##### **4.4**

LAMS is supported by a non-cash backed guarantee which is only called upon if repossession is to take place under the scheme. Any loss in excess of the indemnity is attributable to the lender. In the case that the indemnity has to be paid, the council undertakes to make payment within 30 days.

##### **4.5**

LAMS will be audited by Capita Asset Services.

##### **4.6**

No additional resource or training is required at council level as once the scheme is operational, the lender will simply apply standard mortgage application and approval processes.

##### **4.7**

#### **Criteria**

- The scheme is only open to first time buyers
- The total indemnity is £500,000
- The maximum individual indemnity offered to a first time buyer under the scheme is 20%
- The maximum loan size is £175,000 per property



- The applicant must have a 5% deposit and meet the lender's criteria
- The property to be purchased must be within the administrative area of North East Derbyshire District Council
- The scheme covers both new and second hand properties

#### 4.8

Individuals will apply for assistance by applying for a mortgage with the partner mortgage lender. There is no selection process or nomination process at council level. The scheme will be advertised to raise awareness, but the council will not be involved in any promotion of the scheme as this is a FCA regulated activity and will be managed by the lender. All financial advice will be provided by the lender.

#### 4.9

Should an individual have a complaint in respect of the scheme it will be handled in accordance with the Complaints Procedure, or if it relates to the lending process will be forwarded to the lender for response under their Code of Conduct for Mortgage Lending and usual complaints procedure.

### 5. **Responsibility for Implementation**

The Local Authority Mortgage Scheme will be implemented by the Joint Housing and Growth Manager in partnership with Leek United Building Society.

### 6. **Glossary of terms**

#### **First time Buyer**

Someone who has never had a mortgage or owned a property

#### **Indemnity**

Protection against possible damage or loss, especially a promise of payment, or the money paid if there is such damage or loss.

#### **Loan to Value**

Relates to how much mortgage you have in relation to how much your property is worth; for example if the property is valued at £200,000 and you have 75% loan to value you will have a loan of £150,000.