

**North East Derbyshire District Council**

**Annual Council**

**26 May 2015**

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

**Report of the Portfolio Holder for Housing**

This report is public

**Purpose of the Report**

- To agree an indemnity level for the Local Authority Mortgage Scheme (LAMS) in North East Derbyshire.

**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 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.
- 1.3 Under the scheme participating local authorities set aside a sum of money to support a financial indemnity for the partner mortgage lender. 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) (i.e. 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. This makes the mortgage more affordable as repayments are at lower interest rates. This can be seen in the example below:

Example Calculation	
Assumed Property value	£150,000
5% Deposit	£7,500
95% Mortgage	£142,500
Local Authority Indemnity	£30,000

- 1.4 The indemnity will be in place for a fixed 5 year period for each mortgage granted under the scheme, which may be extended for a further 2 years if a mortgage were in arrears in the last 6 months of the initial 5 year period.
- 1.5 The indemnity would only be called upon if a loss is experienced by the lender. For example, assuming a property valued at £150,000, with a mortgage of £142,500 and with Local Authority indemnity of £30,000 is sold at £100,000. The full value of the £30,000 indemnity would be requested by the lender. If the property is sold at £130,000 net of costs, i.e. an actual loss of £12,500 is incurred by the lender. £12,500 would be requested from the Local Authority. Any loss in excess of the value of the indemnity would be attributable to the lender. The lender would request payment from the Local Authority, who would undertake to make payment within 30 days. However, in a rising housing market where house prices are increasing over time and where the applicant makes payments towards their mortgage, the risk of a loss decreases.
- 1.6 The delay in implementing the scheme has been due to the availability of local lenders participating in the scheme. Capita Asset Services have now negotiated an agreement to work with Leek Building Society to deliver a “non cash backed” scheme in the district. This means that the indemnity is un-funded.
- 1.7 To launch a LAMs scheme the Council is required to determine the following criteria locally:
- Total indemnity
  - Maximum loan size
  - Postcodes included
- 1.8 It is proposed that the total indemnity be set at the lowest level agreeable with any lender agreeing to back our scheme. This is £500,000.
- 1.9 It was agreed at Cabinet in July 2014 that the maximum loan size would be £175,000. This was based on advice from capita and HomeTrack data on local house prices across the district including lower values in the South and higher values in the rural parishes in the west.
- 1.10 Although it is recommended that the maximum loan size will be set at £175,000 the maximum mortgage will still be determined by the lender and the ability of the first time buyer to afford the repayments. However, if the maximum loan size is set too low households can be prevented from accessing the scheme in some areas and property types/sizes.

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

- 2.1 An indemnity level of £500,000 would enable the delivery of approximately 17 mortgages for first time buyers (assuming an average mortgage of £150,000).

## **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.

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

- 4.1 A higher level of indemnity was considered by members to enable more first time mortgages but it was agreed at this stage to use this as a pilot and assess the level of risk. If successful the members would review an extension at a higher indemnity level in the future.
- 4.2 LAMs can also be offered whereby the indemnity is 'cash backed', i.e. supported by a deposit. Under a cash-backed scheme the Local Authority is required to place a 5-year deposit at the start of the scheme to the full value of the indemnity being offered. The deposit will be in place for the term of the indemnity – i.e. 5 years (with the possibility of a further 2 year extension if the mortgage is in arrears at the end of the initial 5 years) - and may have conditions / structures attached. The Local Authority will receive a 5-year commercial deposit rate + a premium. The Local Authority will 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. For a small local authority the non-cash backed model is considered a useful pilot to establish demand, before a cash backed model is considered. Cash backed LAMs ties the finances up for the full length of the scheme, and also requires a higher £1m indemnity.

#### **5 Implications**

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

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

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 on sign up to LAMs. Sheffield City Region's Housing and Regeneration Board have agreed to fund £1,500 toward the administration cost from its Transitional Funding pot. The remaining £1,500 was paid from The Housing Strategy and Enabling Team's budget in 2013/14.

5.1.3 Appendix C of the LAMS State Aid ( attached at appendix 1) states that borrowers must be free to choose the banks with whom they would take out a mortgage, therefore, the council will need to be flexible in terms of which banks we will provide guarantees to. It should be noted that currently Leek Building Society are the only lenders participating in the delivery of non backed LAMS. If other lenders were to come forward the council would then be required to enter into an agreement with them.

## **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 forwarded to Legal Services and the Finance department.

5.2.2 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 will be developed following approval on the indemnity level. This is outlined in appendix B of the LAMS Legal White paper ( attached at appendix 2). A report will be submitted to the next available Cabinet meeting to approve the proposed scheme. This will placed on the council's website as a public document.

## **5.3 Human Resources Implications**

5.3.1 None

## **6 Recommendations**

6.1 That Council agrees to a maximum level of indemnity of £500,000.

## **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)	Yes
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	Delivery of NHB Growth Strategy Economic Development & Housing Strategy

## 8 Document Information

Appendix No	Title
Appendix 1	LAMS white paper appendix C state aid
Appendix 2	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)	
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