

EAST HERTS COUNCIL

THE EXECUTIVE – 7 FEBRUARY 2012

REPORT BY THE EXECUTIVE MEMBERS FOR HEALTH,  
HOUSING AND COMMUNITY SUPPORT AND FOR FINANCE

LOCAL AUTHORITY MORTGAGE SCHEME

WARDS AFFECTED: All

Purpose/Summary of Report

To seek approval to the council providing support of £1m for house purchase mortgages within East Herts using the Local Authority Mortgage Scheme developed by the Council's advisers Sector Ltd.

**RECOMMENDATION TO COUNCIL:**

<b><u>RECOMMENDATION TO COUNCIL:</u></b>	
<b>A</b>	<b>That the Council be recommended to provide £1m to support the LAMS scheme in East Herts and that the following parameters be set :</b> a) The Scheme to apply to all post code areas within East Herts b) The maximum loan per property be set at £160,000
<b>B</b>	<b>That Council be recommended to authorize the Executive Member for Finance to determine the allocation of the £1m to either a cash backed or guarantee scheme in the light of confirmed interest from local and national mortgage providers</b>
<b>C</b>	<b>That subject, to the determination by the Executive Member of Finance as in B above, the Council be recommended to agree in respect of Lloyds TSB Bank plc and Lloyds TSB Scotland plc</b> <ul style="list-style-type: none"><li>• a Scheme Indemnity Deed as set out at Essential Reference Paper E</li><li>• an Officer's Indemnity Deed as set out at Essential reference Paper F</li></ul>

## 1 Background

- 1.1 The context for the LAMS is set out at Essential Reference Paper B in the sections headed “background” and “current situation”. In essence LAMS allows local authorities to help address a shortage of mortgage lending accessible to those with deposits of less than 25%. The scheme gives access to funding to those with a deposit of 5% (or more) with the Council acting as guarantor for the balance of the normal deposit of up to 20%. The scheme has been developed by Sector in conjunction with 11 pilot authorities.

## 2 Report

- 2.1 The decision for the Council is to be taken in the context of its strategic housing policy and is not a treasury or investment decision notwithstanding that financial risk is a consideration properly to be taken into account.
- 2.2 The Council does not have the skills, systems or regulatory approvals to undertake lending for residential mortgages and the costs of acquiring such would be disproportionate to the sums that the council could prudently afford to put into a lending programme. The LAMS offers a cost effective option to support local house purchase through existing lenders.
- 2.3 Essential reference paper B sets out the key features of the scheme in more detail. The recommendations above set out the two parameters for the Council to determine. The scheme does not allow the Council to set additional criteria.
- 2.4 The LAMS scheme is complementary to and not in competition with the government proposals to assist first time buyers. Government assistance is limited to first time buyers purchasing newly built properties LAMS has no restriction on the type of property which may be supported.
- 2.5 The Council has four decisions to make
- Whether or not to support the scheme at all?
  - If so, how much to put into the scheme?
  - The maximum amount of any loan it will support?

- Whether to support the scheme across the district or to limit its geographical application only to certain post code areas.

- 2.6 The scheme is consistent with the aspirations of the Council's housing strategy which is under review and the revised strategy will set out the specific contribution expected of LAMS. The scale of the scheme is not seen as likely to distort the local housing market - the £1m will support about 32 applicants. However, to the extent it helps unlock chains the help provided is to more than just those families who receive the assistance directly.
- 2.7 The MTFP planning assumption was to limit the spend on capital to an affordable amount and notwithstanding that a capital receipt will be received on completion of the scheme a figure of £1m is in keeping with the commitment and allows the success to be judged before considering any further commitment. Herts County Council is considering match funding District contributions which if agreed would double the provision. With the cash backed scheme the deposit is treated as a capital payment and on return as a capital receipt.
- 2.8 Setting the maximum loan size will both determine the number of families which can be assisted and the type of property they can access. With a minimum 5% deposit and cap on the loan of £160k the scheme would give access to properties to a value of £168k. This would support the purchase of averagely priced one bedroom properties in most if not all parts of the area. Average prices for a 2 bed room property are roughly £200k in Bishop's Stortford; £168k in Buntingford; £200k in Hertford; £178k in Sawbridgeworth and £185k in Ware. As these are average prices there should be some access to two bedroom properties. (source of pricing [Home.co.uk](http://Home.co.uk) December 2011)
- 2.9 There appears to be no good reason to limit the area to which the scheme applies to anything other than the entirety of the district.
- 2.10 The financial implications are not entirely without risk but those risks such as they are can be mitigated. The maximum sum at risk is all of the £1m if every borrower helped by the scheme defaulted and each of the consequential sales realised no more

the 75% of the original purchase price.

- 2.11 Real experience is of very low rates of default. The Council of Mortgage Lenders' statistics show consistently low but fluctuating levels of repossession. Repossessions peaked at 0.77% of outstanding mortgages in 1991 having been at or below 0.25% in the previous two decades; since 1991 the rate fell to 0.07% by 2003 increasing to 0.41% by 2009. In 2011 repossessions are running at an annualized rate of 0.32% at the end of September. At the same point 1.44% of mortgages were in arrears by more than 2.5% of the outstanding balance. There is no analysis to show rates of repossession only for first time buyers or by region. The LAMS lenders subject applicants to the same creditworthiness checks as for any other borrower so there should be no above average level of default and there is no pooling of risk between participating councils. All income from lenders by way of a return on deposits or guarantee fees will be put into a reserve to meet any calls during the duration of the scheme.
- 2.12 With a cash backed scheme the creditworthiness of the mortgage lender needs to be considered particularly as treasury management policy would generally not envisage deposits for 5 or more years. However, as a housing investment the treasury criteria will be relaxed only for this scheme. The option to provide a non cash backed guarantee will depend on potential lenders in the local market.
- 2.13 In developing the scheme Sector and the pilot authorities considered issues about the statutory powers available to authorities and state aid. Commentary on these issues is set out in Essential Reference Papers C and D. The Monitoring Officer and Section 151 Officer are happy that the steps taken by Sector are adequate to ensure the scheme is lawful.
- 2.14 Lloyds is a potential lender and to facilitate early implementation should Lloyds be selected the report includes the indemnities sought by them to which Council approval is sought. These provide assurance to Lloyds that the Council will meet its commitments in the event of a default. There are two indemnities sought – the first is to Lloyds (Essential Reference Paper E) in respect of the scheme and the second (Essential reference Paper F) to the Monitoring Officer with regard to the

opinion letter (Essential Reference Paper G) he is required to provide to Lloyds confirming the Council's able to enter into the relevant agreements and is bound by them.

Background papers

None

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## ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives	The LAMS scheme supports <b>People</b> in meeting their housing aspirations and <b>Prosperity</b> by ensuring a greater share of mortgage funding is applied locally than might otherwise be the case.
Consultation:	None
Legal:	Essential Reference Paper B to G sets out the statutory authority to engage in the scheme and the form in which the indemnities must be given.
Financial:	Capital expenditure of £1m on set up with equal and offsetting receipt at the end of the period. Any call on the indemnity will trigger a payment of the relevant sum of up to 20% of the initial property valuation.
Human Resource:	None
Risk Management:	The financial risks are as set out in the report and above.