AGENDA ITEM NO 8
REPORT NO 502/11

ANGUS COUNCIL

Neighbourhood Services Committee – 18 August 2011
Corporate Services Committee – 1 September 2011

Local Authority Mortgage Guarantee Scheme

Joint Report by the Director of Corporate Services and the Head of Finance

ABSTRACT

This report provides information regarding the new Local Authority Mortgage Scheme which has been developed by Sector Treasury Services in conjunction with a number of Scottish and English Local authorities to assist first-time house buyers.

1 RECOMMENDATION

1.1 It is recommended that the Committees:

a) Note the details of the Local Authority Mortgage Guarantee Scheme and its availability to the Council; and

b) Agree not to implement the scheme within Angus Council at this time given the Council’s other Housing commitments and initiatives but to monitor the progress of the scheme within other local authorities and reconsider its potential application in an Angus context at an appropriate future point.

2 INTRODUCTION AND BACKGROUND

2.1 Members are well aware of the pressures and challenges of providing a sufficient supply of affordable housing in the Angus area and of the range of initiatives and investments which the Council and its partners are making to address these challenges. The pressures affecting housing supply have led to a number of new and innovative funding options coming forward including the National Housing Trust, shared equity schemes, etc. A further recent development has been the creation of a Local Authority Mortgage Scheme (LAMS) and the purpose of this report is to provide members with an outline of the Scheme and to consider whether to apply it in an Angus Council context.

2.2 The LAMS has been developed by Sector Treasury Services (Angus Council’s treasury management advisors) in conjunction with a number of Scottish and English local authorities to assist first-time house buyers. This is seen as a way to use the extensive powers available to Local Authorities under Housing Acts to help people onto the homeownership ladder that have fallen victim to the financial crisis trigger of 2008 and consequent constrained mortgage lending. It is believed such a scheme would alleviate some demand pressure on social housing, assist in the recovery of the wider housing market and indirectly assist in the recovery of the construction sector of the economy.

3 DETAILS OF THE SCHEME

3.1 The Local Authority Mortgage 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 the property ladder. Under the scheme a potential buyer must meet the strict credit criteria applied by the lender and meet the following criteria set out by the Council to qualify for a mortgage under the scheme:
Each borrower in relation to the mortgage is a first time buyer (or in the case of joint borrowers at least one of them is a first time buyer);

The loan is for an amount up to a standard financial limit specified and approved by the Council; and

The purchased property is in postcode areas specified by the Council.

3.2 If the above criteria are met the Council would agree to provide a guarantee for up to 20% of the purchase price of the property. This would enable the potential buyer to obtain a 95% mortgage on similar terms as a 75% mortgage (i.e. the interest rate charged will be more favourable than would normally be available to borrowers with small deposits) but without the need to provide the substantial deposit usually required. The first time buyer will own the property in its entirety (unlike shared ownership schemes).

3.3 It is anticipated that each Local Authority will set a maximum annual limit for guarantees offered, either in total or for the forthcoming year and thus limiting the number of mortgages that can be granted under the scheme. Local Authorities can top up the guarantee facility however they cannot withdraw funds for at least 5 years. The facility would be on a first come first served basis.

3.4 The guarantee can be either unfunded or cash backed, depending on the requirements of the lender. If the guarantee is unfunded the Council would receive a premium from the lender based on the value of the guarantee provided to compensate the Council for the risk of providing the guarantee. If the guarantee is cash backed the Council would be required to place a 5 year deposit to the full value of the guarantee being offered. The guarantee would be in place for a fixed 5 year period for each mortgage granted under the scheme, which may be extended for up to a further 2 years if a mortgage were in arrears of three months or more in the last 6 months of the initial 5 year period.

3.5 The Council would earn interest on any deposit at a fixed rate which is agreed with the lender on the day the deposit is made. Any such deposit would however require to be considered in the context of the Council’s approved Treasury Management Strategy which does not currently allow deposits of longer than 2 years.

3.6 For both types of guarantee, and assuming no default by the buyer, the guarantee liability would terminate on the earliest of the end of the agreed guarantee period (i.e. 5 years) or an early repayment of the mortgage. In the case of a cash backed guarantee, the fixed term deposit would be repaid to the Council at the date of maturity, plus any interest due.

3.7 In accordance with legislation, the lender will not have a legal charge over the deposit. In the event of a guarantee being called and an amount being payable by the Local Authority to the lender, a request for payment would be made by the lender.

3.8 The guarantee would only be called upon if the property requires to be sold following the breach of the mortgage agreement and the lender incurs a shortfall as a result of the sale. For example, a property valued at £100,000, with a mortgage of £95,000 incorporating a Local Authority guarantee of £20,000 is sold at £90,000 then £5,000 would be payable by the Council to the lender. Any loss in excess of the value of the guarantee would be attributable to the lender. Should a default situation arise then this of course may create homelessness implications for the Council.

3.9 New build houses are not currently included in the scheme however this position may change as more lenders participate. It is at the discretion of each Council whether or not to include Right to Buy and Registered Social Landlord homes in the scheme.

3.10 The scheme is still relatively new and is currently only supported by one major mortgage lender with further potential funders joining the partnership at a later stage. Scottish Ministers are supportive of the scheme however borrowing powers for funding the
4 RISKS ASSOCIATED WITH THE SCHEME

4.1 There are a number of risks associated with the scheme and the Council would need to give careful consideration with regards to how to manage these risks and the mitigating controls to be put in place should a decision be made to implement the scheme. A risk assessment matrix has been developed by Sector Treasury Services as part of the process of creating the scheme and is attached at Appendix 1.

4.2 In addition to the risks detailed in Appendix 1, there are also risks for which there are no preventative measures that can be implemented. These risks are as follows:

- Applications can come from anywhere in the United Kingdom meaning first time buyers outwith the Angus area can apply for the scheme (e.g. a resident in Dundee looking to move to the Angus area) and therefore not helping the Council’s housing waiting list; and
- First time buyers who already have a 20% - 25% deposit can realistically apply as it is difficult to determine whether a first time buyer has the funding or the ability to raise a deposit.

5 PROPOSED ACTION

5.1 Deciding whether the Scheme suits local circumstances and needs will be a matter for individual Councils and it is certainly a useful option to have available. In an Angus context the key question is whether this particular scheme would be a better fit with our housing policy objectives than the other initiatives and investments currently being pursued, i.e. does the Council wish to invest the time, money and energy required to implement an Angus version of LAMS or should it continue to pursue existing strategies.

5.2 The Local Authority Mortgage Scheme could help reduce the demand on housing waiting lists and assist in the wider recovery of the housing market. However the number of housing waiting list applicants within Angus is relatively high in comparison to the housing stock available and without providing substantial sums in guarantees the impact of the scheme on reducing waiting lists would be small (for indicative purposes if all mortgages approved were for properties with a value of around £125,000, with a Council guarantee of £1 million this would only be sufficient to support around 40 mortgages).

5.3 Considering all elements set out above and given the significant other commitments the Council has made in monetary terms and staff time towards other housing initiatives such as survive and thrive and new build, it is recommended that the Local Authority Mortgage Scheme is not implemented within the Council at this time. Council officers will however monitor the progress of the scheme within other local authorities and will keep Members informed if there are any further developments. Reconsideration of the Council’s participation in the Scheme would come at an appropriate future point, probably once some of the pilot projects are well underway and the operation of the Scheme in practice has been assessed.

6 FINANCIAL IMPLICATIONS

6.1 The main financial implication resulting from participating in the scheme would be the risk of financial loss to the Council General Fund arising from a borrower defaulting on its repayments and the lender calling on the guarantee. In addition the accounting arrangements may require a cash backed guarantee to be classified as revenue expenditure in the year that the guarantee is made. This is currently the only guarantee available at the moment which would therefore require a provision to be made within
6.2 Local Authorities who wish to join the scheme are required to pay £3,000 as a one off
contribution towards obtaining the relevant legal documentation. There are no costs to
the Council incurred when a mortgage is granted or costs associated with promoting the
scheme as it is mainly down to the lender to promote the scheme.

6.3 In the event that members wished to implement an Angus Scheme it would be necessary
to bring forward a further report with recommendations on what such a Scheme should
look like and what the financial implications of that Scheme would be.

7 CONSULTATION

7.1 The Chief Executive, Director of Neighbourhood Services, Head of Housing and the Head
of Law and Administration have been consulted in the preparation of this report.

8 HUMAN RIGHTS IMPLICATIONS

8.1 There are no Human Rights implications arising from the recommendations made in this
report.

9 EQUALITIES IMPLICATIONS

9.1 The issues dealt with in this report have been the subject of consideration from an
equalities perspective. An equalities impact assessment is not required.

10 CONCLUSION

10.1 It is concluded that Members should note the details of the new Local Authority Mortgage
Guarantee Scheme and that such a scheme is currently available should the Council
wish to implement it. However, it is recommended that the scheme should not be
implemented by the Council at this time. Council officers will monitor the progress of the
scheme within other local authorities and will keep Members informed if there are any
further developments.

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