

Appendix A

Local Authority Mortgage Scheme as Defined in Cabinet Report SD001

- 1 Sector Treasury Management services (currently the Council's treasury advisers) have developed a national scheme, initially in conjunction with the Lloyds banking group, to allow Councils to provide support to first time buyers. 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. There are 6 providers currently listed as “providers” in the scheme, they are Lloyds PLC, Leeds BS, Furness BS, Teachers BS, Saffron BS, and Leek BS (clearly the Council would look to a partner with a presence across our District to ensure maximum participation and impact)
- 2 The scheme would operate as follows:
 - The Council would specify the qualifying characteristics for those who should qualify for a mortgage under the scheme (see section 5 below). The Council would also specify whether there would be a maximum loan value, and the total level of support offered by the council;
 - Potential Buyers would approach the lender directly and the lender would deal with the Council. The Council will not know the identity of the individuals concerned, and have no role in approving individual mortgages;
 - The Bank will assess the buyer against its own credit criteria, as well as the Council's criteria;
 - 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) ratio of around 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;
 - The Council will deposit a sum with the bank equal to the total value of the overall indemnity offered (assuming cash backed lender requirement – see section 3);
 - The bank would lend all the money agreed under the mortgage to enable the purchase to be made;
 - The buyer would make repayments to the bank, and liaise with the bank on all issues relating to the mortgage; and

- The indemnity provided by the Council will last for 5 years. After this time the sum deposited with the bank is returned to the Council with interest.
- 3 The scheme can be supported by the Council in two ways, in that the indemnity is either cash backed or unfunded as follows:-
- If the indemnity is un-funded, the Local Authority will receive a premium a fixed amount of the value of the indemnity actually provided, typically in the region of £500 per mortgage.
 - If the indemnity is “cash backed”, i.e. supported by a deposit, the Local Authority will be required to place a 5-year deposit at the start of the financial year 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 of 0.70% from the first lender to join the scheme, other lenders will offer similar terms.
 - In accordance with the legislation, the lender will not have a legal charge over the deposit. In the event of an indemnity being called and an amount being payable by the Local Authority to the lender, a request for payment would be made by the lender. The Local Authority will undertake to settle the amount payable within 30 days.
- 4 The indemnity would only be called upon, leading to a cost for the Council, if a loss is crystallised by the lender. This would require a default by the buyer, repossession by the bank and then the property to be sold for less than the value of the mortgage.
- By way of example:
- Property valued at £100k, mortgaged at £95k (funded Local Authority indemnity £20k, Bank Mortgage £75k), was subsequently sold for £70k, the bank would request the full £20k indemnity from the Local Authority. In this case the value of the property would need to have fallen by 30% from the original valuation;
 - If the property was sold for £90k the bank would request £5k from the Council. In this case the value of the property would need to have fallen by 10% from the original valuation.
- 5 The Council will only face costs if both these situations arise – that there is default, and the subsequent resale value is less than the value of the mortgage. Such costs would be funded from the interest gained in depositing the indemnity funds. Information from the Council of Mortgage lenders indicates that the number of repossessions by first charge mortgage lenders in 2010 was 0.3% of all mortgages. Over the five year period, the following would need to happen for

the costs to the council to exceed the interest income (assuming a cash backed scheme):

- Defaults to be ten times higher than the 2010 level indicated by CML; AND
- Property prices to drop 10% from the level at the time the mortgage is approved

- 6 The scheme was initially launched through Lloyds Banking Group, however it is anticipated that more mortgage lenders will be invited to join the partnership as it progresses (six are currently on the list). Sector has been in discussions with the FSA approved mortgage lenders in the UK to raise awareness of the scheme. The scheme will operate on a nationwide basis and there will be no restrictions on the type and number of banks who will be entitled to participate (providing they have the necessary authorisation to offer residential mortgages in the UK). So far Blaby DC, Warrington and Blackpool Councils have formally adopted the scheme.