

REPORT TO RESOURCES PDG

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF229

DATE: 28 MARCH 2013

TITLE:	Local Authority Mortgage Scheme - Update	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	N/A	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Mike Taylor Well Run Council Portfolio Holder	
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INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS		

1. RECOMMENDATION

Members are asked to note the comments and latest position with respect to the Local Authority Mortgage Scheme.

2. PURPOSE OF THE REPORT

The purpose of the report is to provide members with an update on the South Kesteven Local Authority Mortgage Scheme which has been in operation since July 2012 and to receive proposals on how the pilot scheme can be taken forward.

3. DETAILS OF REPORT

Background

The Local Authority Mortgage scheme (LAMS) is designed to help increase the supply of affordable housing for those who need it, and to help the local housing market and thereby the local economy.

The scheme requires the Local Authority to provide a financial indemnity of up to 20% of a mortgage for potential home-buyers who qualify for Local Authority support, and who meet the strict lending criteria set by the lender. The indemnity could be un-funded or 'cash backed'. That is an agreed figure can be lodged with Lender (Bank or Building Society) or merely given in the form of a financial undertaking. The criteria will be set by the participating LA in conjunction with the mortgage provider.

Most mortgage lenders are typically prepared to lend a maximum of 75% - 80% loan to value (LTV), even if the applicant can afford a 95% mortgage. This means the applicant requires a substantial deposit, *e.g. a first time buyer purchasing a property valued at £100,000 would have to provide a deposit in the region of £25,000.* Many potential first time home-buyers do not have the funds needed for the deposit.

As a result of the current economic environment, uncertainty in the housing market and the difficulties in obtaining an affordable mortgage, many potential home-buyers may remain in social / affordable housing units, thereby reducing the availability of social / affordable housing for those who may have a greater need. Increasing the supply of affordable / social housing is a key corporate priority for most Local Authorities.

To address the shortage in supply of affordable housing to those who need it, and to help the housing market and the local economy in general, a number of Local Authorities have considered issuing mortgages to potential home-buyers. However, Local Authorities have limited financial resources available for this purpose, and they also have limited staffing resources and expertise in this area to manage their own mortgages. There are also considerable operational risks attached in entering into this area of residential mortgage activity.

Rather than entering into the residential mortgage market themselves, Local Authorities have therefore explored the possibility of entering into a partnership with residential mortgage lenders, with the remit of minimising the financial impact on the Local Authority, and at the same time taking advantage of the expertise already available from existing mortgage providers.

The scheme was approved by Council in May 2012 and the scheme went live in June. An analysis of the take up of the scheme is provided below:

Month	Offers made (in month)	Completed	Cumulative indemnity amount
July	1	-	£19,800
August	2 (3)	-	£61,800
September	3 (6)	2	£111,550
October	5 (11)	2	£183,150
November	2 (13)	5	£213,600
December	2 (15)	8	£251,400
January	2 (17)	13	£288,400

In term of postcode analysis, the 17 applications received to date are received in respect of the following postcode areas:

NG31 – 11
 NG32 – 1
 NG33 – 1
 PE9 – 4

There is clearly a higher take up of the scheme in the north of the district which may be due to the house price differential between the Grantham area and Stamford or due to the localised promotion of the scheme by estate agents and Lloyds TSB Bank Plc. After some preliminary research, it has been identified that average first time buyer properties in the NG31 area are in the region of £80,000 to £90,000 whereas in the PE9 area the average price is in excess of £100,000.

Whilst monthly information is provided by Sector providing the above analysis, the Council does not receive information of aborted applications or applications that fail to progress to offers being made. Equally the Council does not receive information regarding the applicant's personal details unless consent is given by the applicant themselves. It is therefore difficult to determine whether the scheme's availability is widely known, how the applicants learned about the scheme, any barriers to them accessing it etc. Sector is aware of these frustrations that have been voiced by a number of local authorities and are engaging with Lloyds TSB to introduce further qualitative measures to capture this kind of information.

4. OTHER OPTIONS CONSIDERED

None applicable

5. RESOURCE IMPLICATIONS

None applicable

6. RISK AND MITIGATION

None applicable

7. ISSUES ARISING FROM EQUALITY IMPACT ANALYSIS

None applicable

8. CRIME AND DISORDER IMPLICATIONS

None applicable

9. COMMENTS OF FINANCIAL SERVICES

Financial considerations are included in the report.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The Council has currently approved indemnity through the Lloyds scheme up to a maximum of £1,000,000.

11. COMMENTS OF OTHER RELEVANT SERVICES

None applicable

12. APPENDICES

None