

# REPORT TO RESOURCES PDG

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF234**

**DATE: 30 MAY 2013**

|   |   |                                  |
|---|---|----------------------------------|
| <b>TITLE:</b>                                     | Local Authority Mortgage Scheme – approval of scheme extension  |                                  |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b> | N/A   |                                  |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>    | Councillor Mike Taylor<br>Well Run Council Portfolio Holder   |                                  |
| <b>CONTACT OFFICER:</b>                           | Richard Wyles – Head of Finance<br>01476 406210<br>Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>                                      |                                  |
| <b>INITIAL IMPACT ASSESSMENT:</b>                 | Carried out and Referred to in paragraph (7) below:   | Full impact assessment Required: |
| <b>Equality and Diversity</b>                     | N/A   |                                  |
| <b>FREEDOM OF INFORMATION ACT:</b>                | This report is publicly available via the Your Council and Democracy link on the Council's website:<br><a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a> |                                  |
| <b>BACKGROUND PAPERS</b>                          |   |                                  |

## 1. RECOMMENDATION

It is recommended that:

- Resources PDG give consideration to the continuation and extension of the LAMS scheme and commit a further amount to the scheme and;
- Give consideration to the inclusion of additional lenders having taken into consideration the information provided in the report.
- Approve the recommendation to increase the maximum loan size per application to £147,250.

## 2. PURPOSE OF THE REPORT

At the last meeting of the PDG, members were provided with an update of the local scheme including details of the current take up of the scheme.

### 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.

At its meeting in March 2012, Council gave its approval for the implementation of a local scheme in partnership with Lloyds Bank Plc up to a limit of £1M and approved plans to extend the scheme across other lenders as they enter the scheme up to a total of £5M subject to a full analysis of impact against priorities of the first £1M and subject to budget provision.

The scheme went live in June 2012 and 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                    |
| February  | 4 (21)                 | 14        | £364,375                    |
| March     | 3 (24)                 | 16        | £425,650*                   |

\*Remaining indemnity as at 31 March 2013 £574,350

In term of postcode analysis, the 24 applications received to date are received in respect of the following postcode areas:

NG31 – 17  
NG32 – 1  
NG33 – 1  
PE9 – 5

In accordance with the Council's decision, the opportunity has been taken to give consideration to the inclusion of additional lenders to the scheme. Below is a listing of the lenders currently included in the LAMS scheme (as supplied by Sector Treasury Services Ltd).

| <b>Lender</b>    | <b>Geographical area</b>                           | <b>Cash backed scheme</b> | <b>Non cash backed scheme</b> | <b>New Build</b> | <b>Readiness to launch</b> | <b>Bps above standard</b> | <b>Branches</b> | <b>Minimum indemnity</b> |
|------------------|--|---------------------------|-------------------------------|------------------|----------------------------|---------------------------|-----------------|--------------------------|
| Furness BS       | Local – North west                                 | n/a                       | Yes                           | TBC              |                            | n/a                       | TBC             | £0.5M                    |
| Leeds BS         | National   | Yes                       | n/a                           | Yes              | Active                     | 40                        | Yes             | £0.5M                    |
| Leek United BS   | Staffordshire, Derbyshire, Cheshire and Shropshire | n/a                       | Yes                           | No               | Active                     | n/a                       | Yes             | £0.5M                    |
| Lloyds Bank      | National   | Yes                       | n/a                           | No               | Active                     | 70                        | Yes             | £1M                      |
| Marsden BS       | Pendle (initially)                                 | n/a                       | Yes                           | TBC              | Ready                      | n/a                       | Yes             | £0.5M                    |
| Teachers BS      | National   | n/a                       | Yes                           | TBC              | Active                     | n/a                       | TBC             | £0.5M or less            |
| Kent Reliance BS | Initially Kent but national for future             | n/a                       | Yes                           | TBC              | Ready                      | n/a                       | intermediaries  | £0.5M                    |

Of the above it is considered that Leeds Building Society and Teachers Building Society would be of interest to the Council due to their national presence although Teachers BS has the limitation of being available to only teachers and education professionals. (At the time of writing the report the Council has been notified that Leeds BS has yet to confirm its available capacity for additional authorities although it is anticipated that this should not cause any difficulties). If the suggestion to include the 2 additional lenders to the local scheme is supported then a further £1M would be made available bring the overall amount to £2M.

The average property value for the South Kesteven scheme is £97,529 and the average loan value is £90,111 which gives an average loan to value % of 92.60%.

It is accepted that the take up of the scheme is less in the south of the district and work is underway to understand the reasons for this which is potentially a combination of a reduced number of available properties within the limit of £125,000 price banding, reduced amount of local publicity and awareness of the scheme by Lloyds TSB Plc and fewer applicants meeting the overall criteria of scheme eligibility and therefore unable to proceed with the application.

Lenders require the maximum individual loan size to be stipulated at the inception of the scheme (i.e. 95% of the average property valuation locally) rather than the maximum actual property valuation. For South Kesteven the maximum loan size per application towards which assistance may be given to a first time buyer is up to and including £118,750 (95% of £125,000). It is proposed to raise this property valuation threshold to £155,000 which will ensure all suitable property values are included and will potentially act as a catalyst to increase the number of successful applications in the PE9 area of the district. This would increase the maximum loan size to £147,250. To complement the increase in the loan size it is also proposed to replenish the Lloyds Bank scheme to the £1M.

**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**

Any extension of the existing scheme and any new scheme will require the appropriate specific authorities relating to that scheme. Whilst the Council has approved a potential spend

on further schemes, the detail of the terms of the existing scheme or any new scheme were not known at the time and must be appropriately authorised.

**11. COMMENTS OF OTHER RELEVANT SERVICES**

None applicable

**12. APPENDICES**

None