

STOCKTON-ON-TEES BOROUGH COUNCIL

CABINET RECOMMENDATIONS

PROFORMA

Cabinet Meeting4th October 2012

1. Title of Item/Report

Local Authority Mortgage Scheme

2. Record of the Decision

Consideration was given to a report relating to the introduction of a mortgage assistance scheme for First Time Buyers (Local Authority Mortgage Scheme (LAMS)).

It was explained that the LAMS scheme was aimed at first time buyers, providing help for potential buyers who could afford mortgage payments - but not the initial deposit – to get on to the property ladder. Under the scheme, each Local Authority would be able to specify the qualifying characteristics for those who should qualify for a mortgage under the LAM scheme. The criteria was driven by local housing needs surveys and housing strategies although the scheme itself was standardised as much as possible.

If a potential buyer met the strict credit criteria applied by the lender, and met the criteria set out by the Local Authority to qualify for a mortgage under the scheme, the Local Authority would provide a top-up indemnity to the value of the difference between the typical Loan to Value (LTV) (i.e. 75%) and a 95% LTV mortgage. The potential buyer would thereby obtain a 95% mortgage on similar terms as a 75% mortgage, but without the need to provide the substantial deposit usually required.

It was stressed that the scheme did not promote reckless lending, it was essential that the applicants met the standard lending criteria as set out by the lender, and that the higher LTV mortgage was affordable. The Council had no role in selecting mortgage applicants; it would merely advertise the scheme.

The indemnity would be in place for a fixed 5 year period for each mortgage granted under the scheme, which may be extended for a further 2 years if a mortgage were to be in arrears in the last 6 months of the initial 5 year period.

The indemnity would only be called upon if a loss was crystallised by the lender. By way of example, a property valued at £100,000, with a 95% mortgage would have a Local Authority indemnity of £20,000. If the

property was subsequently sold for £70,000, £25,000 less than the mortgage, then the full value of the £20,000 indemnity would be requested by the lender. If the property was sold at £90,000, £5,000 less than the mortgage, then only £5,000 would be requested from the Local Authority. If arrears were outstanding on the mortgage account the lender would also request this sum from the Local Authority but the overall sum payable would be limited to the total indemnity.

It was anticipated that the Council would set a maximum annual limit for indemnities offered, either in total or for the forthcoming year. The indemnity could be either unfunded or in the form of a cash deposit, depending on the requirements of the lender.

Whilst some schemes could be unfunded the majority would require a cash deposit from the Council. With a cash deposit the Local Authority was required to place a 5-year deposit at the start of the scheme to the full value of the indemnity being offered. The deposit would 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. It was noted that the first, and major, lender to participate as a partner in this scheme required a cash deposit based indemnity.

The guarantee would only be called upon if a loss was crystallised by the lender. In accordance with the legislation, the lender would 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.

For both types of indemnity, and assuming no default by the buyer, the indemnity liability would terminate on the earliest of the end of the agreed indemnity period (i.e. 5 years) or an early repayment of the mortgage. In the case of a cash-backed indemnity, the fixed-term deposit would be repaid to the Local Authority at the date of maturity, plus interest due. In the Lloyds draft agreement, there was a provision for an extended indemnity period of 7 years where the borrower had been in arrears by more than 3 monthly payments at any time during the last 6 months of the 5 year initial indemnity period.

The scheme would be run in partnership with either one or more national lenders. At present there were two major national lenders, Lloyds TSB Bank plc and Leeds Building Society, and a small number of regional lenders. The general nature of the assistance provided had already been agreed:

- a. 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) in accordance with the bank's standard criteria for determining eligibility for first time buyers.
- b. The loan was for an amount up to a standard financial limit specified by

the Council.

c. It would be available to purchase a property in the post code area that the Council determines, which means applications can come from anywhere in the UK.

Lloyds TSB Bank would not provide mortgages under this scheme for new build or shared ownership/shared equity properties. Other lenders may be able to provide this option, so this could potentially be an option in the future once more lenders join the scheme. Members noted that there were other schemes available which provide support for first buyers wanting to access new build properties, these include the Government backed "NewBuy" and "FirstBuy" schemes. However, there were no similar schemes for first time buyers who wanted to access a 'resale' property.

It was not available for buy to let mortgages.

All applicants would be subject to the bank's normal affordability limits and credit checks.

The Council would determine the value of the overall indemnity facility that the bank could access for Stockton, the bigger the value, the more mortgages they would be able to provide. The Council could top up that facility but could not withdraw funds for at least 5 years. The facility would be used up on a first come first served basis. When the facility is used up, the bank would stop allocating mortgages under the scheme in Stockton.

2. It was recommended that the initial deposit and indemnity limit should be £1million, which should be sufficient to support between 50 and 75 mortgages, with a cap on the maximum loan value of £100,000.

3. It was possible to restrict the scheme to a single postcode, however there did not appear to be justification for this Stockton and as such it was recommended that all post codes in the borough should be included, therefore supporting an active housing market across the Borough.

It was noted that Sector Treasury Services would undertake an annual audit of the scheme to ensure both parties were fully compliant with the agreement.

It was explained that an agreement would need to be made with one or more lenders and finance arranged. To minimise delays delegated authority was sought to negotiate and finalise the agreements to the Corporate Director of Resources and the Head of Legal Services.

RESOLVED that

1. The Local Authority Mortgage Scheme be adopted in accordance with the outline provided within this report.

2. the following local criteria be approved and officers should seek to have incorporated in the final agreement:

a) All post codes in Stockton-on-Tees Borough Council's area of coverage should be included.

b) The initial deposit and indemnity limit should be £1million.

c) that the maximum loan guarantee be set initially at £20,000, being 20% of a maximum purchase price of £100,000.

3. the finalisation of the documentation and any ancillary matters be delegated to the Corporate Director of Resources and Head of Legal Services, in consultation with the Cabinet Members for Corporate Management and Finance and Housing and Community Safety.

3. Reasons for the Decision

Due to the present economic climate building societies and banks have become very risk averse and as a consequence have reduced the amount of lending they do to each other and to home buyers. As a result of this many mortgage applicants who previously would have been seen as being a 'good' credit risk can no longer enter the housing market.

Under the proposed scheme if a potential buyer meets the strict credit criteria applied by the lender and meets the criteria set out by the Council to qualify for a mortgage, the Council will provide a top-up guarantee to the value of the difference between the typical loan to value (i.e. 75%) and a 95% loan to value mortgage. The potential buyer will thereby obtain a 95% mortgage on the same terms as a 75% mortgage, but without the need to provide the substantial deposit usually required.

The lack of mortgage availability was a national issue and one which was adversely affecting the delivery of the Council's priority of delivering substantial and sustainable growth at a local level.

4. Alternative Options Considered and Rejected

None

5. Declared (Cabinet Member) Conflicts of Interest

None

6. Details of any Dispensations

Not applicable

7. Date and Time by which Call In must be executed

Midnight on Friday 12 October 2012

Proper Officer
08 September 2012