

Bolsover District Council

Executive

27 April 2015

Local Authority Mortgage Scheme (LAMs) and Customer Self Build Scheme

Report of Cllr A Tomlinson, Deputy Leader

This report is public

Purpose of the Report

- To outline details of the proposed development of a Local Authority Mortgage Scheme (LAMS) for Bolsover District
- To seek approval from Members to establish a non-cash based LAMs for Bolsover District
- To outline details of the Custom and Self Build mortgage support scheme and to seek approval for the Joint Executive Director of Operations, in consultation with the Deputy Leader, to be given delegated authority to establish a CSB scheme following identification of suitable land assets and recommendation of the Asset Management Group.

1 Report Details

Local Authority Mortgage scheme

- 1.1 The Local Authority Mortgage scheme (LAMs) 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.
- 1.2 Under the scheme participating local authorities set aside a sum of money to support a financial indemnity for the partner mortgage lender. 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) (i.e. 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. This makes the mortgage more affordable as repayments are at lower interest rates. This can be seen in the example below:

Example Calculation	
Assumed Property value	£150,000
5% Deposit	£7,500
95% Mortgage	£142,500
Local Authority Indemnity	£30,000

- 1.3 It should be stressed that the scheme does not promote reckless lending, it is essential that the applicant meets the standard lending criteria as set out by the lender, and that the higher loan to value mortgage is affordable.
- 1.4 The indemnity will 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 in arrears in the last 6 months of the initial 5 year period.
- 1.5 The indemnity would only be called upon if a loss is crystallised by the lender. By way of example, a property valued at £150,000, with a mortgage of £142,500 and with Local Authority indemnity of £30,000 is sold at £100,000, net of attributable costs. The full value of the £30,000 indemnity would be requested by the lender. If the property is sold at £130,000 net of costs, i.e. an actual loss of £12,500 is incurred by the lender, £12,500 would be requested from the Local Authority. Any loss in excess of the value of the indemnity would be attributable to the lender. The lender would request payment from the Local Authority, who would undertake to make payment within 30 days. However, in a rising housing market – where house prices are increasing over time – and as the applicant makes payments towards their mortgage, the risk of a loss decreases.
- 1.6 When LAMS was initially launched in 2011 the Sheffield City Region Housing & Regeneration Board sought to promote a SCR wide scheme, and set aside £1500 per local authority to help pay for the scheme costs (£3000 per LA). LAMS are administered nationally by Capita Asset Service, who provide the procurement framework for financial institutions to be selected from and will support the Local Authority throughout the lifecycle of its LAMS.
- 1.7 In July 2014 Capita attended a joint SAMT and Cabinet meeting and gave a presentation to the senior management team and Executive members on the scheme, and also on a new scheme which would support households wishing to undertake custom and self build to secure a mortgage (Custom and Self Build Scheme (CSB)). At this time Members and SAMT were keen to roll out LAMs and CSB locally, however due to the launch of the government's Help to Buy scheme, a lender could not be identified. Capita Asset Services have now secured Leek Building Society to partner with Bolsover District Council and to offer LAMs and the Custom and Self Build scheme locally.

- 1.8 Leek Building Society offer a 'non cash backed' LAMs scheme, meaning that the indemnity is un-funded. Under a non-cash backed scheme the funding will remain with the Council and is only called upon in the event of a default leading to a mortgage repossession of the property (note to date there have been no repossessions associated with LAMS nationally). This indemnity funding will be available for each mortgage provided for a period of 5 years. After this time the lender will assume full responsibility for the mortgage and any future defaults. The Local Authority will receive a premium of a fixed amount per mortgage completion, typically in the region of £500 per mortgage.
- 1.9 The benefit of adopting the scheme is that it will increase the number of first time buyers locally for those who can afford the repayments but not the deposit. The 2013 Strategic Housing Market Assessment found that savings are a key constraint to obtaining mortgage finance within Bolsover District; for those households that are not current homeowners, just 12.4% have savings of more than £5000. The Local Authority Mortgage scheme is also more affordable than the national Help to Buy Scheme, as a lower rate of interest will be realised for the buyer as the interest rate will be on a 75% mortgage as opposed to a 95%. For lower income households this is a particular consideration regarding affordability.
- 1.10 To launch a LAMs scheme the Council is required to determine the following criteria locally:
- Total indemnity
 - Maximum loan size
 - Postcodes included
- 1.11 It is proposed that the total indemnity be set at the lowest level agreeable with any lender agreeing to back our scheme. This is £500,000.
- 1.12 Using evidence from Hometrack (March 2015) and following advice from Capita it is proposed that the maximum loan size be set at £150,000. Average house prices for the district for the following house types are as follows, however local average house prices vary across the District:
- 2 bed flat - £54,333
2 bed house - £89,625
3 bed house - £116,278
4 bed house - £181,191
Source Hometrack March 2014
- Although it is recommended that the maximum loan size will be set at £150,000 the maximum mortgage will still be determined by the lender and the ability of the first time buyer to afford the repayments. However, if the maximum loan size is set too low households can be prevented from accessing the scheme in some areas and property types/sizes.
- 1.13 Evidence from the Strategic Housing Market Assessment shows that households across the district struggle to access home ownership. Low levels of household savings are an important factor in this. It is therefore proposed that the scheme covers all postcodes within the District and is not restricted to certain areas. It is

envisaged that we will work with Leek Building Society to promote the scheme locally, including any new build schemes on strategic housing sites, such as Brookvale, and in areas where we actively wish to encourage and promote home ownership to help rebalance the local housing market.

Custom and Self Build Scheme

- 1.14 Since the successful launch and implementation of the Local Authority Mortgage scheme, Capita have been working with partners to develop a further scheme aimed at supporting households who wish to undertake custom or self build to secure a mortgage. The Custom and Self Build scheme (CSB) provides a 95% loan to value Local Authority Mortgage Scheme (LAMs) mortgage to the self builder, and as such fully incorporates the LAMs, as set out above. CSB de-risks the lending process and makes custom build and self build lending as straightforward as it is for traditional new builds.
- 1.15 Under CSB, the applicant will apply for a mortgage at the outset, and once granted the 5% non-refundable deposit will be paid directly to the local authority. The local authority will then fund the cost of the build to completion, at which point the mortgage will be provided by the lender and the initial outlay, including interest, will be repaid to the local authority. The applicant will then simply have a LAMs mortgage on a custom or self build property. CSB also addresses the risks associated with the cost of delays and non completion as the local authority retains overall control and ownership to completion.
- 1.16 CSB supports local authorities that have land for development; are in the process of leading development; or working in partnership with a commercial developer. CSB works by removing the risks faced by lenders through the removal of multiple stage payments. The scheme responds to the emerging national focus on increasing the number of custom and self build properties supported by local authorities. In March 2015 the Self-Build and Custom Housebuilding Bill gained Royal Assent and become law as the Self-Build and Custom Housebuilding Act 2015. The Act requires each local council to set up a register of individuals and community groups that are interested in obtaining serviced plots of land to build houses and flats for purchase or affordable rental. Councils are also now required to take the register into account when considering issues of planning, housing, regeneration and the disposal of council-owned land.
- 1.17 Launching a local CSB scheme for Bolsover District can therefore support the Council to fulfil its new statutory responsibilities under the Self Build and Custom Housebuilding Act. Furthermore, it provides an opportunity to deliver new build housing growth through the Council's land assets. The council is currently reviewing its land assets via its Development Fund and assessing which sites have the potential to deliver housing development; a local CSB scheme would provide an alternative route to delivery, while ensuring that development progressed through the council's overall control. A CSB scheme would also allow the council to support in the delivery of strategic housing sites, by offering an alternative option for developers to deliver new build housing.

2 Conclusions and Reasons for Recommendation

- 2.1 The adoption of a non cash backed LAMS will increase the number of people locally who are able to purchase their first home at a lower rate of interest than under the national Help to Buy Scheme.
- 2.2 The scheme will contribute to the Council's Growth Strategy by increasing the number of first time buyers in the district.
- 2.3 Benefits:
- Assists first time buyers
 - Boosts the economy
 - Increase in affordable housing
 - Decreases pressure on council's waiting list
 - Potential cash return for the Council
- 2.4 The Custom and Self Build scheme will help the Council to meet its statutory functions under the Self Build and Custom Housebuilding Act 2015, while also supporting an alternative route to new build housing delivery.

3 Consultation and Equality Impact

- 3.1 A representative from Capita Asset Services attended a joint Cabinet and SAMT meeting in July 2014, and provided an overview of LAMs and CSB to senior managers and Members. This included an opportunity for officers and Members to ask questions relating to the schemes, their benefits to the district, and the level of financial risk that the council would be exposing itself to. Following the presentation at joint SAMT and Cabinet, Members and senior managers were supportive of a non cash backed scheme, and requested that a report be taken to Executive for consideration once a suitable lender had been secured.

4 Alternative Options and Reasons for Rejection

- 4.1 LAMs can also be offered whereby the indemnity is 'cash backed', i.e. supported by a deposit. Under a cash-backed scheme the Local Authority is required to place a 5-year deposit at the start of the scheme 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. The Local Authority will be required to have a deposit in place with the lender to cover the level of the residual indemnity at the end of the 5 year initial period. For a small local authority the non-cash backed model is considered a useful pilot to establish demand, before a cash backed model is considered. Cash backed LAMs ties the finances up for the full length of the scheme, and also requires a higher £1m indemnity.

5 Implications

5.1 Finance and Risk Implications

For each completed mortgage application the Council will receive a single cash bonus payment of £500. If the Council were to indemnify £500,000 it could potentially issue approximately 17 mortgages locally, assuming a mortgage level of £150,000. The number of mortgages could be higher if the property price, and hence the mortgage, was lower.

Example:

Total Local Authority Indemnity - £500,000

Assumed average property Value - £150,000

5% deposit - £7,500

95% mortgage - £142,000

Local authority Indemnity - £30,000

Potential number of mortgages – approximately 16 (but more or if lower value mortgages)

Cash bonus to the council - £8,000 (if there are no defaults on those mortgages in the first 5 years).

- 5.1.1** The risk financially is where there is a default on the mortgage within the first 5 years. To the end of February 2015 Capita have around 3700 LAMs mortgages in place. To date there have been no repossessions, although 2 mortgages are in arrears in excess of three months.

Credit checks by the lender will be robust and mortgages will only be issued where people can afford the repayments.

It is envisaged that the cash bonus pot be retained in the event of any defaults.

- 5.1.2** Capita Asset Services charge a £3000 one off administration fee on sign up to LAMs. Sheffield City Region's Housing and Regeneration Board have agreed to fund £1,500 toward the administration cost from its Transitional Funding pot. Sign up to the Custom and Self Build scheme is £5000, however Capita are offering a discount to Local Authorities that have already signed up to LAMs, making the one off administration fee for CSB £2000 (providing that BDC launches LAMs).

5.2 Legal Implications including Data Protection

The scheme will be administered by Capita Asset Services on behalf of the council. On sign up to the scheme all required documentation is made available to the council.

5.3 **Human Resources Implications**

None

6 **Recommendations**

- 6.1 That Executive agrees to the development and launch of a non cash backed LAMs for Bolsover district, and notes the £1500 administration fee, which will be paid from existing budgets.
- 6.3 That Executive agrees to a maximum level of indemnity of £500,000, and a maximum loan size of £150,000.
- 6.4 That Executive delegates authority to the Executive Director of Operations, in consultation with the Deputy Leader, to launch a Custom and Self Build mortgage support scheme following identification of suitable land assets or schemes, to be agreed by Asset Management Group.
- 6.5 That Executive notes the £2000 administration costs of establishing a CSB scheme, which will be paid from existing budgets.

7 **Decision Information**

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	Delivery of £100,000 NHB per year Growth Strategy Economic Development & Housing Strategy

8 **Document Information**

Appendix No	Title
A	Annual Report
B	Capita Document
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	

Report Author	Contact Number
Sarah Chapman – Housing Strategy and Enabling Manager	01246 242582

Report Reference –