

**BRISTOL CITY COUNCIL**  
**RESOURCES SCRUTINY COMMISSION**  
**25 JANUARY 2013**

**Report of:** Strategic Director Neighbourhoods and City Development

**Title:** Local Authority Mortgage Scheme – Additional Funds

**Ward:** All

**Officer Presenting Report:** Valerie Watkis, Affordable Housing  
Development Officer

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**1. RECOMMENDATION:**

1.1 That members comment on the proposal to increase the Local Authority Mortgage Scheme (LAMS) by a further £3M to £5M.

**2. SUMMARY**

2.1 In December 2011 Cabinet approved an initial deposit of £2M for a cash backed indemnity for those Banks and Lenders involved with the Local Authority Mortgage Scheme.

2.2 At the same time Cabinet indemnified the Council's Monitoring Officer in relation to any liability they may personally incur to a lender under the LAM scheme in relation to the provision of a legal opinion regarding the Council's authority and capacity to participate in the scheme.

2.3 This report sets out the progress of the LAM scheme with approved lenders and seeks additional funding of £3M to enable the scheme to be extended to more first-time buyers who want to take part in the scheme.

**3. Significant points:**

3.1 Bristol's Housing Strategy 2010-2015 recognises the Council needs to make best use of existing housing and deliver the properties and tenures

in shortage using a range of methods.

- 3.2 Despite historically low interest rates, mortgage lending to first time buyers has been falling. In Bristol sales in typical first time buyer price ranges, £125,000-£200,000, are down by 50-60% compared to 2007, reflecting the difficult lending environment and higher deposit required for these purchasers since the 2008 credit crunch.
- 3.3 The Bank of England interest rates have stood at 0.5% since 2009 and its base rates are predicted to remain low until 2015. Standard variable mortgage lending rates have remained steady at around 4% for borrowers with a 25-40% deposit (i.e. loan to value ratios between 60 and 75%). This group would include existing owners with accumulated equity in property moving home. The Council of Mortgage Lenders (November 2012) reports average loan to value ratios of 80% for first time buyers, meaning a 20% deposit is required and mortgage interest rates are also higher.
- 3.4 The difficulties saving sufficient funds for a deposit has led to a dramatic increase in demand for rented accommodation across a greater mix of locations and neighbourhoods. Savilles Research identifies significant tenant demand from a group called the 'inbetweenies'. These are persons who do not qualify for social housing but cannot afford to buy their first property. This group have moved into the private rented sector where competition with students may have contributed to the steeply rising rents for larger properties.
- 3.5 Grainger (a specialist private rent and social housing provider) anticipate there will be an increase in these 'inbetweenies' over the next decade and there will need to be alternatives for those first time buyer households who are priced out of home-ownership.
- 3.6 Sector Treasury Services (STS), (Independent Financial Consultants and advisors to the Council) launched the Local Authority Mortgage scheme with a number of authorities and FSA-registered commercial Lenders. Sector receives a fee directly from the participating Lenders for each mortgage completed at no cost to the Council.
- 3.7 At the date of this report the Council and LloydsTSB scheme has helped 38 first time buyers to purchase a home in Bristol. Nationally LAMS is up and running in 33 Local Authority areas (over 40 schemes), with around 50 planning to launch over the next few months. Sector has 8 lenders in the scheme with another 2 joining in the New Year. Since launch the scheme has generated in excess of 549 completions and mortgage lending of around £62m so far.

- 3.8 Under the current scheme the Council underwrites the difference up to 20% of the overall capital value of the property and the Loan to Value ceiling of 95%. The £1M deposited with LloydsTSB is now fully allocated, with a number of people remaining in the pipeline awaiting interview or mortgage approval. In October £1M of was deposited with Leeds Building Society however it is too early for data on mortgage applications or completion. Appendix 1 details Bristol's early success stories.
- 3.9 The cash backed underwriting is provided by placing a deposit equivalent of the total indemnity. This deposit attracts a premium interest rate to the benefit of the Council, which is set aside in an earmarked reserve to fund any future liabilities. The cash backed indemnity is providing the necessary liquidity to provide such mortgages, and it is classed as capital expenditure.
- 3.10 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. The indemnity would only be called upon if a capital loss is incurred by the Lender (and the property sold at a loss). At which time the Lender would request payment from the Council within 30 days' this will not be off-set against the deposit. Sector Treasury Services have recently advised one lender, LloydsTSB, has agreed to waive this requirement and will instead deduct the mortgage default amount from the deposit at the end of the fixed term.
- 3.11 The extension of the scheme will help the Council continue to take a proactive approach to a more balanced local housing market by assisting first-time buyers. This proposal is welcomed by LloydsTSB who advised there were more applicants to be processed but could not progress due to the funds being fully allocated.
- 3.12 The Mayor's/Cabinet approval will be sought for an additional capital sum of £3M to extend the support the Council has given to first-time buyers who can afford the monthly mortgage repayments, but who do not have a deposit to enable them to access currently available mortgage products.
- 3.13 It is proposed £1M of the additional capital funds be deposited with LloydsTSB i.e. £2M overall. The remaining £2M can be deposited with other lenders approved by STS and that meet the Authority's investment criteria.

#### **4. Lender Assistance on offer**

- 4.1 Approved Lenders offer the first time buyer a 95% loan to value mortgage with a minimum 5% deposit.
- 4.2 In agreement with the Lenders, the maximum loan to be supported by the Council's underwriting is £142,000. The Council's maximum indemnity in relation to a single borrower is a maximum of £30,000. The Council's underwriting is partly protected by the borrower's 5% deposit.
- 4.3 The LAM scheme offers the borrower a lower rate of interest than would normally be available for this level of deposit. Each Lender has its fixed rate period which can be between 3 and 5 years. Thereafter the purchaser can take advantage of the Lenders' other mortgage products subject to eligibility.
- 4.4 First time buyers under the LAM scheme have the option of purchasing new-build or second-hand properties.

#### **5. Criteria for assistance**

- 5.1 Applicants must be first time buyers who have a minimum 5% deposit (but more can be deposited if available).
- 5.2 Sole or joint first time buyer applicants can apply for the scheme. Of joint applicants, at least one of these purchasers must be a first time buyer.
- 5.3 Applicants should be Bristol residents or can demonstrate a local connection with the Bristol area e.g. employment, family & friends, returning to the area after further education.

#### **6. Application process**

- 6.1 This is managed by the Lenders who apply their lending criteria. Council officers are not permitted to give financial advice, and must refer prospective clients to the Lenders local offices.
- 6.2 Lenders will assess potential applicants against its lending criteria. The application route of all Lenders working with the Council is included on the Council's website. Flyers are sent to local area offices.

#### **7.0 Monitoring Information from Lender and the number of purchasers helped.**

- 7.1 Lenders will supply information relating to

- applications for loans made to the Lender but where an offer of Loan has not yet been made to the relevant applicant
- offers of loan made by the Lender which have not completed;
- number of completed loans;
- property address of any accounts where repossession proceedings have been commenced
- monthly management reports
- aggregate average purchase prices for the area.

Six monthly reviews are produced by STS. As the scheme develops it is expected additional information will become available.

## **8. Promotion of scheme**

8.1 Each scheme is marketed by individual Lenders. The Council and Lenders who join the scheme in Bristol will jointly launch the product. Joint press releases, flyers and information on the Council's website will signpost potential applicants to their local Lender branch for further information.

## **9. Complaints**

9.1 Complaints must be referred to the Lenders who launch LAMS in Bristol as issuers of the mortgage products.

## **10. Equalities Impact Assessment**

10.1 Any person over 18 and legally allowed to live in the UK can apply for a mortgage, however, the applicant must meet the Lender's strict income and credit checks to ensure the mortgage is affordable. Fraud checks are also undertaken.

10.2 The Council has undertaken an Equalities Impact Assessment and conclude the scheme is a low risk as all purchasers will have an equal opportunity to be assessed by the Lenders on their financial ability to undertake a mortgage.

## **11. Risk Assessment**

**The risks associated with the implementation of the Local Authority Mortgage Scheme *decision* :**

No	RISK  Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES  Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Mortgagor breaches terms of mortgage and property is sold at a loss by the Lender	<b>Med</b>	<b>Low</b>	Lenders will conduct their own assessment of purchasers before mortgages are issued	<b>Low</b>	<b>Low</b>	Peter Robinson

**The risks associated with not implementing the Local Authority Mortgage Scheme *decision*:**

No	RISK  Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES  Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	The ability for first time buyers to secure low interest rate mortgages continues to be difficult	<b>High</b>	<b>High</b>	Devising an alternative scheme for first time buyers at significant cost to the Council	<b>Med</b>	<b>Med</b>	Rick Palmer

## 12. Financial

### 12.1 Revenue implications

The Council will deposit the indemnity with the lender receiving a competitive interest rate, inclusive of a premium rate to meet potential defaults with the rate of interest fixed on the date of deposit. There is minimal risk to the Authority that there is a call on the indemnity, where the mortgagee breaches the terms of the mortgage and the property is sold at a loss. The call on the indemnity will be offset against the income received from the premium interest as detailed above.

## 12.2 Capital implications

Although the funds are placed on deposit for a five year period and then returned, it will be treated in the accounts as capital expenditure until the amount is repaid.

Current sums on deposit with Lenders:-

LloydsTSB	£1M
Leeds Building Society (launched October 2012)	£1M

## 13. Resources

Staff resources are required prior to launch of LAMS for each Lender. Limited staff time will be required as new Lenders join the scheme.

## 14. Legal

14.1 The Council has the legal power, under sections 435 and 442 of the Housing Act 1985, to participate in the Local Authority Mortgage Scheme.

14.2 The LAMS has been structured by STS to comply with state aid requirements, principally by requiring participating lenders to pay a market-based premium for the benefit of the guarantee. In addition, the LAMS will operate on a nationwide basis and there will be no restriction on the type or number of banks that will be entitled to participate. STS have sought counsel's opinion in structuring the scheme, and it has already been launched elsewhere. Overall the procurement risk is low.

## BCC and LloydsTSB Local Authority Mortgage Scheme

### Case Study: 1

Lydia, who is one of the first to have been helped by the scheme, is full of praise for the way it has helped her.

She had her mortgage application approved three-and-a-half-weeks after meeting with a mortgage advisor and is now installed in her home in St George which she is currently renovating.

“It’s been brilliant and I am telling all my friends about it. People think it sounds too good to be true. I was renting before and found it really hard to save money for a deposit. I think the scheme can make a massive difference.”

### Case Study: 2

In September Joe, 25, and his wife moved into their new 3 bed home in Brislington. He praises the scheme and thinks it is a really good way to help young people.

He said: “What has really helped us is the lower level of interest on the mortgage that we’ll be paying for two years, 3.7 per cent instead of 6.1.

“Moving into our own home will be a massive change for us; we were renting but then moved into my wife’s parents’ house in order to save for a deposit.”

The LAM scheme is one of the innovative ways in which the council is helping people in Bristol find homes.