

WIRRAL COUNCIL

ECONOMY AND REGENERATION SCRUTINY COMMITTEE

8TH MARCH 2012

SUBJECT:	AFFORDABILITY AND MORTGAGES INCLUDING FIRST TIME BUYERS
WARD/S AFFECTED:	ALL
REPORT OF:	<i>ACTING DIRECTOR OF HOUSING, PLANNING AND REGENERATION</i>
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report provides an update on the current situation regarding housing market support, the availability of mortgages and analyses how these issues are affecting Wirral. It also sets out an overview of Government programmes and the Local Authority Mortgage Scheme which are available to support and enable sustainable home ownership.

2.0 BACKGROUND AND KEY ISSUES

2.1 The turmoil in the financial and banking sectors has had a negative effect on the economy and on local housing markets. There have been constraints in the mortgage market for some time especially for First Time buyers. Many mortgage lenders will now not lend to First Time Buyers unless they have a significant deposit to place against the value of the property they wish to buy. Many banks and building societies have reduced the loan to value mortgages available from 95% to between 70-75%.

2.2 In Wirral the median house price for the Borough in Qtr 2 2011 was £135,000, which is lower than the national average of £177,000 but has remained stable when compared to the Borough's average price for the same period in 2010. This means for a First Time Buyer who is looking to purchase on average they would have to have access to a deposit of £33,750. For those properties within the inner area of the Borough the median house price is lower at £68,000 meaning on average a deposit of £17,000. These costs before consideration of stamp duty land tax, legal and other costs associated with purchasing a home is preventing most first time buyers from entering the property though legal costs are more competitive than they were and on these figures Stamp duty land tax is not payable.

2.3 This issue is affecting the Council's ambitions of substantial and sustainable growth in terms of housing and the economy as well as meeting the local needs and aspirations of people living in the Wirral area, stabilising local populations and attracting people to live and work in Wirral.

3.0 PROGRAMMES TO SUPPORT HOME OWNERSHIP

3.1 Despite the context of market stagnation and lack of mortgage liquidity, home ownership is still seen as the aspiration for many households. The housing market is

cyclical and while falling house prices can mean that home ownership becomes a realistic financial option for many, there may still be need for public intervention and support, particularly for first time buyers, to make this happen.

- 3.2 Where it is an affordable and sensible option, the Council and its partners have an important strategic role to play in sustaining and promoting this form of tenure. Below is set out the current products being offered in Wirral and also those that could be available in the future :-

(a) Shared Equity/Loan Products

- 3.3 As a stepping stone to full owner occupation, shared ownership and shared equity schemes have proved to be popular in Wirral for a number of years. Shared ownership has traditionally been provided by RSLs and the Government's new Affordable Rent model to replace social housing should allow flexibility for increased shared ownership to be achieved at the end of fixed term tenancies. From the submissions made to the Homes and Communities Agency there is the potential over the next four years to see the development of possibly up to 679 new homes across Wirral using the Affordable Rent model.
- 3.4 Shared equity is a product usually provided by a private developer. Lovell has been offering shared equity on its developments in Tranmere and Rock Ferry since 2009 using its own resources or with money received from the Homes and Communities Agency under the previous government's Kickstart/Homebuy Direct programmes. Between April 2010 and December 2011 there were 20 Lovell Shared Equity completions at Sevenoaks in Rock Ferry and ten Lovell Shared Equity completions between April 2011 and December 2011 at Fountain Court in Tranmere. Shared equity sales on Lovell's sites in Wirral's former HMRI areas are outnumbering outright purchases and are a popular option in the current housing market. Elsewhere in Wirral, other developers have seen success in selling properties under the Kickstart/Homebuy Direct programmes and/or Shared Equity where there have been since April 2009 a total of 52 completions over four developments.
- 3.5 On 23 March 2011 the Chancellor of the Exchequer announced in the Budget the Government's intentions to make available £400 million to support first time buyers to purchase a new-build property under the First Buy initiative designed to replace previous shared ownership and shared equity schemes. The First Buy programme hopes to assist over 10,500 households with an equity loan of up to 20% jointly funded with house-builders to help reduce the deposit purchasers need to provide from their own resources. Keepmoat, Redrow, Rowland Homes, Taylor Wimpey, BDW Trading Limited and Bovis Homes have all been successful in securing First Buy funds for their developments in Wirral. Through these successful bids, the house builders could be able to provide approximately 246 First Buy units in Wirral and to date there have been 4 First Buy completions to December 2011.
- 3.6 Whilst shared equity and loan products are offering an increasing choice available to local people sustaining these types of initiatives requires subsidy either from the developer, Council or government.

(b) The Local Authority Mortgage Scheme for First Buyers

- 3.7 Launched in March 2011, this scheme has been developed by a number of local authorities with Sector financial consultancy. Five local authorities were selected to

pilot the Scheme with Lloyds TSB Bank. This has now been extended and 22 local authorities have signed up and a further 200 have expressed an interest in joining. The Scheme is currently supported by eight mortgage lenders: two national lenders (Lloyds Banking Group and Leeds Building Society) and five smaller lenders: Furness BS, Saffron BS, Leeds United BS, Principality, Marsden BS and Teachers BS. The scheme is aimed at first time buyers, providing help for potential buyers who can afford mortgage payments - but not the initial deposit - to get on the property ladder. Under the scheme, each Local Authority would be able to specify three qualifying criteria: the maximum level of indemnity, the maximum level loan size (based on 95% of the maximum property valuation (undertaken by the lender) and the qualifying postcodes. The local authority does not however specify or control other lending terms such as the repayment period the potential buyer asks for, the type of loan (repayment only / interest only), any period for which interest rates might be fixed. The assessment of affordability of the loan is carried out by the lender based on information the borrower supplies not on any assessment carried out by the Council.

3.8 For potential buyers who meet the criteria applied by the lender and meet 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 guarantee the value of the difference between the typical 75% and a 95% loan-to-value (LTV) mortgage. The buyer would, thereby, obtain a 95% LTV mortgage without the need to provide the substantial 15%-20% deposit usually required.

3.9 It is anticipated that the Local Authority will set a maximum annual limit for indemnities offered, either in total or for the forthcoming year. The indemnity could either be unfunded or 'cash backed', depending on the requirements of the lender. Based on lessons from other local authorities the option of the cash backed indemnity seems to be the preferred option with the majority of the participating lenders backing.

3.10 The main differences between the two options are:-

CASH BACKED INDEMNITY SCHEME	UNFUNDED INDEMNITY SCHEME
<ul style="list-style-type: none"> • LA required to place a five year deposit with a lender, to the full value of the indemnity being offered e.g. £2 million. • Deposit must remain in place for the term of the indemnity which is five years, with the possibility of a further two year extension, if a mortgage is in arrears at the end of the five year period or there is an early repayment of a mortgage. • The investment will return a favourable five year commercial deposit rate (currently 4% plus a premium of 0.7 basis points above the commercial rate). • The maximum amount a LA 	<ul style="list-style-type: none"> • LA receives a fixed amount premium per mortgage completed. This is usually in the region of £500 per mortgage, so if LA supports 50 mortgages this will equate to £25,000. This amount needs to be set aside to meet future liabilities. • This scheme carries a high risk of the LA incurring costs depending on the number of defaults on mortgages. • The indemnity amount needs to be underwritten using indemnity resources. • The maximum amount a LA can place with either Lloyds or Leeds Building Society is £2

<p>can place with either Lloyds or Leeds Building Society is £2 million. The minimum which can be placed is £1 million.</p> <ul style="list-style-type: none"> • The maximum amount a LA can place with the five smaller building societies is £1million. The minimum is £0.5m. • This form of indemnity can be compared with other forms of transactions by the Treasury Management Team, as the investment carries a risk which there will be a return on. 	<p>million. The minimum which can be placed is £1 million.</p> <ul style="list-style-type: none"> • The maximum amount a LA can place with the five smaller building societies is £1million. The minimum is £0.5m. • The indemnity amount must remain in place for five years, with the possibility of a further two year extension, if a mortgage is in arrears at the end of the five year period or there is an early repayment of a mortgage.
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3.11 The Council would need to identify a resource to support the development of a Local Authority Mortgage Scheme in Wirral. If based on the assumptions that £2m was available to deliver the scheme in Wirral and a ceiling on the value of loan that the scheme would support (based on the Borough average house price of £135,000) then the example gives an indication of the number of people who could be assisted.

Total Local Authority Indemnity	£2,000,000
Assumed Max Loan Size	£135,000
5% deposit required from FTB	£6,750
95% Mortgage	£128,250
Local Authority Indemnity (20%)	£27,000
Potential Number of Mortgages	74

(c) The New Government Indemnity Scheme (New Buy)

3.12 In December 2011 the Government launched ‘Laying the Foundations’: A Housing Strategy for England’ which set out the Coalition Governments ambitious aims to help drive local economies and create jobs and unblock the market and provide opportunity in our society to stop people being locked out of home ownership.

3.13 Within the Strategy the Government spells out the problems with the current housing market including :-

- Buyers can’t buy - with the average age of an unassisted first time buyer continuing to rise and families are struggling to trade up;
- Lenders are not lending enough – with high deposit requirements excluding young people and families from home ownership
- Builders are not building – without consumers ready or able to buy

3.14 To respond to this the Government has set out its support for a new and innovative New Build Indemnity Scheme led by the Home Builders Federation and the Council of Mortgage Lenders to provide up to 95% loan to value mortgages for new build properties in England backed by indemnities from both the Government and interested house builders. This scheme is similar to the Local Authority Mortgage Scheme and it is hoped the interest rates offered at the 95% LTV will be more on par with those of 75% LTV mortgages due to the indemnity guarantee offered which mitigate the lending risk. However the Governments new scheme is limited to the purchase of New Build properties only.

3.15 It is intended the scale of the new scheme will be market led building up in line with those properties that house builders wish to put forward to participate in the scheme. There is little information on how the scheme will work at present with indications that a prospectus will be released in Spring 2012. Discussions have taken place with lead developers who are in principle supportive of the scheme being offered through Wirral developments subject to further guidance being released by the Government. The Housing Strategy Manager has held discussions with the Homes and Communities Agency on the New Build Scheme. The Homes and Communities Agency have registered Wirral's interest with their Strategic Team for Wirral to work alongside the HCA where possible.

4.0 RELEVANT RISKS

4.1 In terms of the Local Authority Mortgage Scheme a full appraisal of the risks will be presented for Cabinets consideration to implement a scheme for the Wirral area. However initial risks identified would fall into three categories, financial, operational and reputational risks:-

4.2 The financial risks relate to the funding and potential defaults; The Council has to provide the initial funds which are invested with the financial institution to be used for indemnities. Whilst the interest rate paid by the lender is favourable there are concerns the investment does not comply with the Treasury Management Policy as in the Treasury Management Team view the purpose of the investment brings a greater risk than that permitted under the Policy. Sector has confirmed to the Authority that the Scheme if offered in Wirral using the cash backed option would be classed as capital expenditure but not classified as part of the council's Investment portfolio.

4.3 Any default in the mortgage that results in a loss to the lender will see the Council receiving a request for payment from the lender to meet the initial loss. The Council as guarantor is the first to be exposed to any fall in property prices with the lender taking little risk as they will only incur any loss in excess of the value of the indemnity covered i.e. based on a scheme with a maximum loan value of £100k – 5% deposit paid by FTB, original mortgage £95k, property is sold for £70k, Local Authority indemnity cover £20k = loss to lender of £5k. The Scheme mitigates, but does not remove the risk to the Council, as it is essential applicants meet the standard lending criteria as set out by the lender, and that the higher LTV mortgage is affordable. Whilst the overall financial outlook remains of growth the pace is subject to differing views. Increasing unemployment and a recognition that interest rates will rise puts pressures on mortgage repayments whilst house prices continue to fluctuate.

4.4 In terms of operational risk the impact on staffing is considered to minimal as the Scheme is administered by the financial institution. The Council is required to be involved in the setting up of the scheme, establishing and reviewing the criteria for issuing mortgages along with corresponding if there are any mortgage defaults. There is the requirement to nominate a Project Manager who can take the lead in communicating with Sector and with lenders for monitoring purposes. The Council would also be required to nominate a Monitoring Officer who will be given delegated authority by the Council to sign the legal paperwork and issue an opinion letter on behalf of the Council for the indemnity. This role is intended to have a minimal input

and is more for co-ordinating and monitoring the numbers of applicants, defaults and location of applicants.

- 4.5 A strategic and reputational risk is around a) the use of public money but the Scheme is in line with the Council priorities on supporting investment and improving the economy and b) buyer default. Any defaults occurring on mortgages could lead to re-possession and possible adverse publicity. However it is anticipated this would be mitigated based on the strict lending criteria and qualifying criteria established.

5.0 OTHER OPTIONS CONSIDERED

- 5.1 Reports to Cabinet on 26 November 2009 and 4 November 2010 have previously considered the options available to the Council to assist Wirral residents in the mortgage market including:-

- Internally run provision.
- Arrangements for third party provision of administration including mortgage application administration, vetting and collection.
- Partnership with lending institutions such as banks or building societies, perhaps either offering joint funding or guarantees.

- 5.2 Limited financial resources, limitations imposed by the housing act 1985 on lending on property acquisition, no council staff trained as investment mortgage or insurance advisors, requirement to be registered with the Financial Standards Authority, combined with the remit of minimising the financial impact and operational risk on the Local Authority in entering the residential mortgage market, led to the view that a Partnership Arrangement, as was being developed with Sector and the Treasury was worthy of further consideration.

6.0 CONSULTATION

- 6.1 There has been consultation with the Council's lead developers and other local authorities in preparing this report. With regards to the Local Authority Mortgage Scheme there have been discussions across Departments on the operations and implications of such a scheme and consultation with Sector. This consultation and discussion between Departments and external organisations such as Sector, Lenders and private developers will be continuous in the investigation into the implications of operating a Local Authority Mortgage Scheme in Wirral.

- 6.2 The Housing Strategy Manager has consulted with the Homes and Communities Agency on the proposal for the Government's Mortgage Indemnity Scheme 'New Buy'. A response has been received that Wirral's interest to work with them and the Government on the New Buy scheme has been registered and that a prospectus setting out further detail on the scheme is due to be launched in Spring 2012. Further consultation with private developers will continue as details on the Scheme are released by Government, particularly with the preferred developer partners the Council has engaged to work with in the Wirral's priority regeneration areas.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 There are none arising out of this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 8.1 The financing of a mortgage indemnity would be likely classed as capital expenditure. If so a capital programme bid would be required. Interest would be receivable on mortgage indemnities placed with a lender. The interest would need to cover any borrowing costs plus costs of default to avoid increased expenditure falling upon the authority.
- 8.2 In terms of the Local Authority Mortgage Scheme a full appraisal of the risks would need to be carried out if Members wished to consider Wirral operating a LAMS however officers have initially identified risks would fall into three categories, financial, operational and reputational risks:-
- 8.3 The financial risks relate to the funding and potential defaults; The Council has to provide the initial funds which are invested with the financial institution to be used for indemnities. Whilst the interest rate paid by the lender is favourable there are concerns the investment does not comply with the Treasury Management Policy as the Treasury Management Team view the purpose of the investment brings a greater risk than that permitted under the Policy.
- 8.4 Any default in the mortgage that results in a loss to the lender will see the Council receiving a request for payment from the lender to meet the initial loss. The Council as guarantor is the first to be exposed to any fall in property prices with the lender taking little risk as they will only incur any loss in excess of the value of the indemnity covered i.e. original mortgage £95k, property is sold for £70k, Local Authority indemnity cover £20k = loss to lender of £5k. The Scheme mitigates, but does not remove the risk to the Council as it is essential applicants meet the standard lending criteria as set out by the lender, and that the higher LTV mortgage is affordable. Whilst the overall financial outlook remains of growth the pace is subject to differing views. Increasing unemployment and a recognition that interest rates will rise puts pressures on mortgage repayments whilst house prices continue to fluctuate.
- 8.5 In terms of operational risk the impact on staffing is minimal as the Scheme is administered by the financial institution. The Council is required to be involved in the setting up of the scheme and the criteria for issuing mortgages along with resolving issues if there are any mortgage defaults.
- 8.6 A strategic and reputational risk is around the use of public money but the Scheme is in line with the Council priorities on supporting investment and improving the economy. Any defaults occurring on mortgages could lead to re-possession and possible adverse publicity, however it is anticipated this would be mitigated based on the strict lending criteria and qualifying criteria established.

9.0 LEGAL IMPLICATIONS

- 9.1 The Housing Act 1985 (as amended) provides the statutory framework for Councils to operate a Local Authority Mortgage Scheme. The Act allows Local Authorities to 'advance money to a person for the purposes of acquiring a house/ (section 435 of the act). Section 442 of the Act allows a local authority to grant an indemnity to a lender to enable the lender to give the potential buyer a mortgage.

- 9.2 If the Council is to pursue the option of operating a Local Authority Mortgage Scheme, the Council will need to develop a local policy for scheme eligibility. Possible elements for this policy to include are listed in Appendix A to this report which would need to be the subject of consideration and approval of Cabinet.
- 9.3 The full legal implications of operating a Local Authority Mortgage Scheme including any legal agreements will be contained within the report to Cabinet for consideration and approval.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(a) Yes and impact review can be found on:

<http://www.wirral.gov.uk/my-services/community-and-living/equality-diversity-cohesion/equality-impact-assessments/eias-2010/regeneration>

The link above is where the existing Housing Strategy Equality Impact Assessment appears on the Council's website, but a refreshed Housing Strategy Equality Impact Assessment is currently under development.

11.0 CARBON REDUCTION IMPLICATIONS

11.1 Introducing financial assistance to support home ownership in relation to new build properties will provide a boost to the local housing market and support the building and sale of homes meeting current Building Regulations. In the case of new build on former Housing Market Renewal sites, properties will meet level 3 of the Code for Sustainable Homes.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising out of this report

13.0 RECOMMENDATION/S

13.1 That Members note the contribution of the range of programmes/packages to assist home buyers including first time buyers, the Affordable Homes Programme Framework to support home ownership in Wirral.

13.2 Members note the issues relating to the housing and mortgage markets and consider the potential value and risks identifies with operating a Local Authority Mortgage Scheme.

13.3 Members ask Cabinet to consider the establishment of a Local Authority Mortgage Scheme to assist first time buyers in Wirral.

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APPENDICES

None attached.

REFERENCE MATERIAL

LAMS - Local Authority Mortgage Scheme: Sector. This reference material can be obtained through contacting the report author.

SUBJECT HISTORY

Council Meeting	Date
Cabinet – Extension of Mortgage Guarantee Scheme	4 November 2010
Cabinet – Extension of Mortgage Guarantee Scheme	26 November 2009

Appendix A

LOCAL ELIGIBILITY POLICY FOR THE LOCAL AUTHORITY MORTGAGE SCHEME

In order to participate in the scheme, the Council has to adopt a local policy for scheme eligibility. This policy should then be incorporated into the Council's policy framework, supporting the Council's vision for housing and economic growth in Wirral.

Proposed eligibility policy criteria include:

- The scheme will be available for purchase of properties in all locations within the local authority boundary

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There will be a ceiling on the value of loan that the scheme will support. This may be the Borough average of £135,000 or could be based on the entry level for a two/three bedroomed home plus some headroom to allow for local variation).

- The property should be occupied by the mortgage applicant as their main home. The Scheme will not support buy to let arrangements.
- The scheme will support all property types, including new builds, where the lenders policy enables this;
- The Council will receive monthly monitoring reports, and will keep the scheme under review, including incorporating any updates following updates to the Housing Strategy
- Applicants will liaise directly with the lenders on all matters relating to the mortgage application, and subsequent mortgage issues
- The Council will not levy additional fees on applicants
- Applicants will need to seek independent financial advice to assess whether the scheme is suitable, and meets their financial needs

All aspects of the policy will be kept under review