

‘HOME PURCHASE ASSISTANCE’ LOAN SCHEME

1.0 EXECUTIVE SUMMARY

- 1.1 This report seeks Cabinet approval for the introduction of an equity-based ‘Home Purchase Assistance’ Loan. The loans would be available to support sustainable homeownership and would initially be targeted at ‘Housing Market Renewal’ new build schemes. A property appreciation loan of up to 30% of property value would be offered to potential buyers. This would assist those persons for whom a level of home ownership is a viable option, but are unable to access sufficient finance due to the current restrictions on mortgage lending.
- 1.2 The report also requests delegation to the Director of Regeneration to determine other residential property, owned by the Council, which may be included within the scheme. Examples of such property might include those ‘Housed’ properties which are proving difficult to sell.
- 1.3 If approved, the new loan product would be offered with immediate effect, using part of the Council’s allocation of Growth Point funds totalling £740,000, as agreed by Cabinet, 25 June 2009. It is proposed to use the existing contract with ART Homes Ltd, as the managing agent for this product, through a variation to the existing contract for Equity Relocation Loans and Equity Renewal Loans.
- 1.4 The loan product would only be offered to new applicants beyond 31st March 2011 if alternative funding is available and a review of the mortgage market deemed it necessary.

2.0 BACKGROUND

- 2.1 During the current economic downturn the Government has sought to support access to homeownership. There are a limited number of ‘Homebuy’ (enables social tenants, key workers and first time buyers to buy a share of a home and get a first step on the housing ladder) and ‘Homebuy Direct’ (an ‘equity loan’ for up to 30 per cent of the cost of a home on designated property, subject to eligibility criteria) Schemes on Wirral which have been sponsored by the Homes and Communities Agency. Home Purchase Assistance would increase the options available to potential buyers on Wirral and would be accessible to a wider range of application than the Government backed schemes. It may also complement any ‘Kickstart’ (a funding programme intended to address the difficulties facing stalled sites which are ready to develop with planning permission in place) funding, that the Council is able to secure. Wirral Council is taking a proactive and supportive role in working with private developers to ensure construction continues through difficult economic circumstances.
- 2.2 Appendix 1 gives further information on how the Home Purchase Assistance Loan will be administered and the qualifying criteria, however, an overview of how the scheme will operate and the main risks to the Council.

3.0 THE PRACTICALITIES OF THE SCHEME AND KEY RISKS

- 3.1 The loan to be offered would be a Property Appreciation Loan and would therefore operate on a similar basis to the Council's current Equity Loan for Relocation. This loan is used to help owner occupiers move out of clearance areas and the Council has successfully issued 31 Relocation loans to date. The purchase loan would be calculated as a proportion of the market value of the property. When the property is sold the loan would be re-paid out of the proceeds of the sale. The amount repayable is the same proportion of the value of the house when sold.
- 3.2 Equity based Home Purchase Assistance Loans would be made available to targeted groups. The limit for such loans would be £54,000, which represents a 30% loan against a property valued at £180,000. Loans can be agreed by the Director of Regeneration under delegated authority.
- 3.3 An example of how the loan would operate against an average income level for the Borough of £33,522 are as follows: -

2 Bed Property on Sevenoaks (the former 'Fiveways' site in Rock Ferry)

Purchaser income £33,000

Property price £124,950

Commercial mortgage 70% property value = £87,465

Applicant deposit 5% of £87,465 = £4,373.25

So actual mortgage = £83,091.75

Price £124,950 - £83,091.75 (commercial mortgage) - £4,373.25 (deposit) = **£37,485**
potential max equity stake

- 3.4 The worked example represents the potential maximum loan available for properties of that price, under the Home Purchase Assistance Scheme. If the Independent Financial Adviser (IFA) deems this loan product to be suitable then the test of resources determines the exact level of equity loan which is appropriate. The loan applicant may be advised to borrow a higher amount from the commercial lender to reduce the equity stake held by the Council.
- 3.5 The equity loan term will be 10 years, and reviewed after that time, when an assessment will be made of the purchasers' ability to buy out the Council's share. Therefore, loans are likely to be a long term investment by the Council. The amount of return on these loans is uncertain as the loan amount is linked to property values on the date of re-payment. In order to safeguard the Council it is proposed that the loan be collared (the level of re-payment cannot fall below the original loan amount). However, if prices do rise, the re-payment amount will rise and the homeowner and the Council will share in any increase. Cabinet should also be aware that the equity loan will rank behind the first charge (commercial mortgage) the purchaser takes out.
- 3.6 If prices were to fall and there is insufficient equity in the property to re-pay the loan, after the first charge has been redeemed, the Council may have to seek recompense directly from the former owner through the sundry debtor process. In this event there is no guarantee that the full sum will be re-paid to the Council. However, the risk of further decline and subsequent loss must be balanced against long term price rises. It is requested that the Director of Regeneration be given delegated authority to determine whether or not to pursue outstanding debts in the event of a shortfall. The buyer will be required to place a deposit of at least 5% against the value of their equity share to create a buffer to mitigate future risk of financial hardship and repossession proceedings by the first lender.

- 3.7 Eligibility for a loan will be determined by an Independent Financial Advisor (IFA) selected from the Local Authorities' list (access to the IFA would be arranged by the Home Ownership Advisory Officers). The relevant eligibility criteria would include: -
- an inability to access an alternative commercially available loan product for the full amount
 - a test of resources based on the advice of the IFA
- 3.8 The loan ceiling and eligibility criteria will be reviewed regularly in line with changes in the commercial mortgage market. The maximum loan available may also be subject to the rules of the lender involved, regarding the amount of security required for the loan. This would depend upon the size of the mortgage and any other loans secured against the property.
- 3.9 It is proposed initially that Home Purchase Assistance Loans will only be approved for the purchase of new build dwellings achieved through the Housing Market Renewal Initiative. However, it may also be available to purchase dwellings under the Council's 'Housed' Scheme and other residential dwellings owned by the Council but no longer required.
- 3.10 The loans will only be available for an eligible applicant to buy a property for owner occupation. Should the property cease to be the applicant's main home, then the loan would be repayable in full. As with the Equity Loan for Relocation Scheme, if the applicant dies whilst resident at the property, the Council will exercise discretion as to when repayment is required.
- 3.11 The applicant would be able to repay all or part of the loan at prescribed intervals, known as staircasing. It is suggested that a minimum repayment of 5% be allowed up to the total loan amount. Each time a repayment is proposed the property would require revaluation to assess its current market value and re-calculate the amount owed. As each re-valuation would incur a cost it is proposed that repayments are only made at 5 yearly intervals. However, approval is sought for the Director of Regeneration to waive this condition should a different frequency of repayment be necessary and if ART are unable to administer such a provision within their existing cost base. This condition would also not apply should the dwelling cease to be the applicants' main home at any time.

4.0 **FINANCIAL IMPLICATIONS**

- 4.1 A proportion of Growth Point funds will be allocated in the sum on £740,000 during financial years 09/10 (£600,000) and 10/11 (£140,000) to fund this loan product.
- 4.2 The Council's equity loan will be the second charge on the charges register. Therefore, the equity loan will only be re-paid once the lending institution has recovered its outstanding debt. If following redemption of the first charge there is insufficient equity to cover the Council's loan, it is unlikely the Council will be able to recover any shortfall. Cabinet should also note that if the purchaser defaults on the first mortgage the lender may sell the property and the Council will only be entitled to any sale proceeds over and above the amount owed to the prior lender. The Council cannot control this amount which may exceed the original amount that the purchaser borrowed to buy the property. A first lender will not agree to cap its ability to recover.
- 4.3 Whilst the loan will operate in the same way as an Equity Loan for Relocation, the Home Purchase Assistance Loan carries a greater risk. This is due to the fact that the loan may be giving access to homeownership for the first time. Applicants for relocation loans will

have an existing property and are likely to have equity they can use against the new loan. First time buyers will have less experience of homeownership and may require the Council to hold a larger share of the equity.

- 4.4 The existing agreement with Wirral's property appreciation equity renovation and relocation loan administrator, ART Homes Limited, sets the fee structure for loan referrals. In relation to the projected number of new Home Purchase Assistance Loan referrals in 2009/10 and 2010/11 the fees that would be incurred are built into the existing contract and are considered to be competitive. Negotiations are currently ongoing with ART Homes Ltd to extend the current contract for a further 12 months beyond 2009/10. The current contract allows for its extension for a further 12 months and negotiations are currently underway. As part of these negotiations, ART Homes Ltd have indicated that they would be willing to administer the new loan. Given the time limited funding available for the new product (£740,000) and the expertise ART Homes Ltd have in the area of Property Appreciation Loans of this type, officers believe that increasing the scope of the existing contract to include the Home Purchase Assistance Loans represents value for money. The alterations required to the contract are minimal and ART are believed to be the only viable supplier that is willing and able to deliver the product both in line with the Growth Point funding stream and the progress on site at Sevenoaks, Rock Ferry.

5.0 STAFFING IMPLICATIONS

- 5.1 There are no staffing implications arising out of this report. The loan product will be administered using the existing staffing structure and through a revision to the ART Homes Ltd contract. The Home Purchase Assistance Scheme is being developed alongside Liverpool City Council and Sefton Council through the existing 'Newheartlands' pathfinder body.

6.0 EQUAL OPPORTUNITIES IMPLICATIONS

- 6.1 Wirral's support for sustainable home ownership will have a positive impact on some of the most socially and economically deprived areas of the Borough.

7.0 COMMUNITY SAFETY IMPLICATIONS

- 7.1 There are no community safety implications arising out of this report.

8.0 LOCAL AGENDA 21 IMPLICATIONS

- 8.1 Support for home purchase, particularly for new dwellings, with enhanced energy efficiency standards will assist in this regard. Better use of renewal building materials will positively contribute towards Local Agenda 21 priorities. Increasing people's mobility will also support the Council's Clearance Programme, removing poor dwellings, which in turn supports Local Agenda 21.

9.0 PLANNING IMPLICATIONS

- 9.1 There are no planning implications arising out of this report.

10.0 ANTI-POVERTY IMPLICATIONS

- 10.1 There are no anti-poverty implications arising out of this report.

11.0 SOCIAL INCLUSION IMPLICATIONS

11.1 The loan product would widen access to homeownership and therefore promote social inclusion.

12.0 LOCAL MEMBER SUPPORT IMPLICATIONS

12.1 The product will initially only be offered within the HMRI area which covers the following wards: Bidston and St James, Birkenhead and Tranmere, Rock Ferry, Seacombe Liscard, Claughton, Oxton and Bromborough. However, funding may be made available across the Borough depending upon the applicant numbers, availability of finance and the Council's strategic objectives.

13.0 BACKGROUND PAPERS

13.1 Home Purchase Assistance Loan Scheme Policy Document (Appendix 1)

14.0 RECOMMENDATIONS

14.1 That Cabinet approves the introduction of a Home Purchase Assistance Loan Scheme within the terms set out in this report and the attached policy document (Appendix 1).

14.2 Cabinet agrees to prioritise Sevenoaks (formerly 'Fiveways'), 8 HOUSED properties and 3 Tudor Road decant properties acquired as part of the 'Fiveways' redevelopment scheme.

14.3 Cabinet gives delegated authority to the Director of Regeneration for determination of future availability of Home Purchase Assistance Loans for Council-owned dwellings that are to be sold.

14.4 Cabinet gives delegated authority to the Director of Law, Human Resources and Asset Management, to vary the existing contract with ART Homes LTD to deliver the Home Purchase Assistance Loan Scheme until 31 March 2011.

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