



## **BUSINESS CASE**

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**Project name** Local Authority Mortgage Scheme

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<b>Author:</b>	S Fern
<b>Project Manager:</b>	H Rai / S Fern

## Purpose

The principle behind the Local Authority Mortgage Scheme is to make home ownership more accessible to first time buyers and to help the local housing market and thereby the local economy. The scheme will also meet the housing needs of households who would otherwise be in need of affordable housing.

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## Reasons

LAMS is able to offer assistance to households (who would otherwise be in need of affordable housing) who want to access market housing. It therefore will help to meet part of our need for affordable housing as well as allow us to make better use of our limited stock and supply of affordable housing.

LAMS will also assist the local housing market; it will allow for increased transactions in the market as a whole, potentially support house building and the wider local economy.

## Options

The contribution sought from Melton Borough Council is £1,000,000 for a period of 5 years, possible extension to 7 years in cases where default is experienced in the last 6 months of the initial 5 year period. The alternative is to not contribute in the scheme, which will limit the number of available mortgages to prospective first time buyers in Melton.

## Benefits expected

Total Local Authority Indemnity	£1,000,000
Maximum Property value	£150,000
5% Purchaser Deposit	£7,500
95% Mortgage	£142,500
Local Authority Indemnity	£30,000
Potential number of mortgages	33

Utilising the figures in the above table, the LAMS scheme will be able to offer 33 mortgages to those households who otherwise would not be able to obtain one and could present as in housing need on the housing register. Considering recent years affordable housing completion, this represents a significant opportunity to deliver homes to households in need, without actual delivery.

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## Risks

- Mortgage Default, impacting on the Authorities indemnity not covered by interest set aside
- The financial institution is unable to repay the loan from the Council at the end of the five year period, due to financial failure.
- The investment is extended beyond the 5 year period following arrears in the final 6 months; the risk will be mitigated by setting aside the annual interest received in a specific reserve until the end of the period of indemnity.
- Uptake of the scheme is limited

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## Funding Source (delete as appropriate):

Capital Receipts: £1,000,000 over a period of 5 years although this could be extended to 7 years if there is a default in the final 6 months of the initial 5 years. Setting aside the annual interest from the investment, until the end of the indemnity will mitigate against this potential risk.

## External Funding

- (i) Source and Quantity: Leicestershire County Council are making their own investment into LAMS, approximately £10 million in total, but released in £2 million segments. This will be available to prospect First Time Buyers in Melton, along with the additional investment from Melton Borough Council, which will only be available to Melton's prospective purchasers.

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## Costs

### Financial appraisal

Financial Appraisal  (Capital Schemes only)	(i) Has the proposal been subjected to any form of financial appraisal?
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**Timescales**      Financial Year 2012/13

**Investment appraisal**

Please see 'Benefits expected' section above

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**Evaluation**

LAMS is designed to make home ownership more accessible to first time buyers and to help the local housing market and thereby the local economy.

The scheme has been designed to minimise the financial impact on the Local Authority, and to work in partnership and utilise the expertise of residential mortgage lenders. The model is supported by the Council of Mortgage Lenders.

The scheme requires the Local Authority to provide a financial indemnity of up to 20% of a mortgage for potential home-buyers who qualify for local authority support, and who meet the strict lending criteria set by the lender. 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. The scheme does not promote reckless lending, successful applicants must meet the standard lending criteria as set out by the lender, and the higher loan to value mortgage must be affordable. It simply reduces the value of deposit required.

LAMS is a national scheme and as such is standardised as much as possible. Under the scheme, each Local Authority can only specify three qualifying criteria;

- the maximum limit for the indemnity;
- the maximum property valuation; and
- the qualifying post codes.

**\* (Please note, the recommendation is to partner with LCC, therefore qualifying post-codes must be within the County boundary.)**

Once the parameters have been set, the mortgage lender will manage the operational side of the scheme without any direct input from the Local Authority.

Our current housing need model estimates that approximately half of new forming households, under 35 years, who could afford to buy market housing are unable to do so because they are unable to get a mortgage in the current economic conditions. This equates to approximately 60 households each year, because such households are unable to access market housing without assistance, they form part of the overall need for affordable housing, accounting for just over 20% of total need.

Evidence shows that around 130 additional affordable homes are needed each year; this level of supply cannot realistically be met through new housing development alone, so the LAMS scheme offers an additional avenue to meeting this need.

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<b>Consultation</b>	<p>Consultation on the scheme has taken place with the Council's Management Team.</p> <p>The budget and strategic Planning working Group will be consulted on amendments to the treasury management arrangements prior to Full Council being requested to approve as the responsible scrutiny body for this function.</p>
<b>Interfaces (internal/external)</b>	<p>Legal/indemnity assessment and agreements.</p> <p>Internal staff resources - Internal legal staff resources will require prioritisation and both legal and the Monitoring Officer must be satisfied with the service level agreement between Melton Borough Council and Leicestershire County Council,</p> <p>Sector Treasury Services Ltd</p> <p>Mortgage Lenders</p>
<b>Impact on other services Dependencies</b>	<p>Externally – dependency upon other partners fulfilling their contribution. The contractual arrangements require all principal parties to participate.</p>
<b>Completion criteria/ exit strategy</b>	<p>Completion criteria: exhaustion of available funds.</p>
<b>Sensitivity to key assumptions</b>	<p>Limited – the project follows the template provided by Sector. LAMS has been launched by 6 Local Authorities since March 2011, with a further 5 to launch shortly.</p> <p>Local Area Experience: Blaby District Council LAMS scheme has operational since July 2011, with their initial £1,000,000 having now been fully utilized and there have been no defaults to date on the mortgages offered through the scheme.</p>
<b>Other approvals required</b>	<p>None</p>
<b>Equalities Impact Assessment</b>	<p>Appendix C to LAMS CSA Committee Report.</p>