

**PROJECT MANDATE**

Project name *Local Authority Mortgage Scheme*

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Author:	S Fern
Owner:	H Rai
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Document History

Document Location This document is only valid on the day it was printed.
The source of the document will be found in the Control section of the Project File.

Revision History Date of next revision:

Version Number	Revision date	Previous revision date	Summary of Changes	Changes marked
2	31/08/12	01/12/11	Variation to set up of scheme, now partnering with County Council and their LAMS Scheme.	YES

Approvals This document requires the following approvals.
Signed approval forms are filed in the project files.

Name	Signature	Title	Date of Issue	Version
SMT				

Distribution This document has been distributed to:

Name	Title	Date of Issue	Version
Programme Board		12/12/11	1
CSA Committee		31/08/12	2

Purpose

The information in a Project Mandate is to trigger the process Starting-up a Project. It should contain sufficient information to identify at least the prospective Executive of the Project Board and indicate the subject matter of the project.

Contents

A Project Mandate could cover, for example, the following topics. There may be other unique criteria for a specific project.

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Responsible authority

Melton Borough Council

Background

There is still considerable concern about some areas of the housing market, particularly the low percentage of first time buyers. The preference for low loan to value mortgages is expected to continue to restrict first time buyers in the current financial environment.

Current constraints are a particular problem for first-time buyers unable to provide a substantial deposit. Most mortgage lenders are typically prepared to lend a maximum of 75% - 80% loan to value (LTV), even if the applicant can afford a 95% mortgage. Our current housing need model estimates that approximately half of new forming under 35 households who could potentially 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 our overall need for affordable housing, accounting for just over 20% of total need.

Our evidence shows that around 130 additional affordable homes are needed each year. This level of supply cannot be met through new housing development alone; we need to explore additional innovative ways of meeting this housing need.

The Local Authority Mortgage Scheme (LAMS)

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.

Once these parameters have been set, the mortgage lender should manage the operational side of the scheme without any direct input from the Local Authority. Sector Treasury Services will undertake an annual audit of the scheme to ensure both parties are fully compliant with the agreement.

LAMS was launched nationally in March 2011, and mortgages are currently available in six Local Authority areas with a 5 further authorities due to launch shortly.

It is a requirement of the scheme that mortgage applicants should have a choice of mortgage providers and the scheme should be available to all lenders on a national basis. The scheme is currently supported by six mortgage lenders; one national lender (Lloyds Banking Group) and five smaller building society lenders. Further lenders have shown interest in joining the scheme. Melton Mowbray Building Society has expressed an interest in LAMS and they are to talk to Sector to explore the scheme in more detail.

Local Authority Indemnity

The local authority 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 local authority indemnity would only be called upon if a loss is crystallised by the lender. The lender would request payment from the Local Authority, who would undertake to make payment within 30 days.

There are two models of indemnity that a local authority can provide, “unfunded” or “cash-backed”, this will depend on the requirements of the lender.

Unfunded Indemnity

If the indemnity is un-funded, the Local Authority will receive a premium a fixed amount of the value of the indemnity actually provided, typically in the region of £500 per mortgage.

Cash-Backed Indemnity

If the indemnity is “cash backed”, i.e. supported by a deposit, the Local Authority will be required to place a 5-year deposit at the start of the financial year 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 of 0.70% from the first lender to join the scheme, other lenders will offer similar terms. The most recent cash backed indemnity deposits have attracted returns in the region of 4.1 - 4.3%.

In accordance with the legislation, the lender will not have a legal charge over the deposit. In the event of an indemnity being called and an amount being payable by the Local Authority to the lender, a request for payment would be made by the lender.

Project objectives

- To assist first time buyers who are unable to provide substantial deposits to access mortgages.
- To meet the needs of households who would be otherwise in need of affordable housing.
- Reduce need for affordable housing and make best use of affordable housing stock
- Assist the local housing market and the wider local economy.

Scope

The project will need to consider a wide range of financial implications.

Sector has a legal white paper and state aid paper that will be made available if a contribution of £3,000 is made towards the external legal costs that they have incurred.

Constraints **Legal Implications and Advice**

Sector has undertaken a full assessment of the legislative framework that would give a Local Authority the power to implement the scheme. This assessment also includes advice from the EU on State Aid. Sector will make the legal assessment available to local authorities at a one off charge of £3000. This charge reflects the cost to produce the original legal papers and will also be used by Sector for the future development of LAMS and additional financial models.

Sector Treasury Services Ltd will obtain updated advice on behalf of participating authorities with any additional fees agreed with all parties in advance.

Leicestershire County Council (LCC) have begun setting up a County wide LAMS scheme, through which they plan to invest £10 million. The proposal is for Melton Borough Council to get involved with the County's scheme, in order to make best use of available resources, offering greater choice to prospective homeowners and spreading any foreseeable risk. The joint approach also offers security with regard to potential implications for Melton's monitoring officer.

LCC anticipate their scheme will be up and running by September with their initial £2 million investment, it is further anticipated that this amount will be fully utilised by December/January, meaning that Melton Borough Council can get onboard in the 2nd trench, with a further £2 million investment from the County Council at this point.

Risk Assessment

Sector has produced a [risk assessment](#).

Interfaces

- Sector Treasury Services Ltd
- Mortgage Lenders

Customer's quality expectations

- Provide assistance to those who need to access decent affordable housing.
- Support local economy during economic downturn

Outline Business Case (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.

Project tolerances

Legal/indemnity assessment and agreements.

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,

Reference to any associated documents or products

[Sector - LAMS Briefing paper](#)
[Sector – LAMS Accounting paper 2 \(Unfunded indemnity\)](#)
[Sector – LAMS Accounting paper 3 \(Cash backed indemnity\)](#)
[Sector – LAMS Risk Assessment](#)

Housing Strategy 2011-14

There are links into Melton SCS and MBC corporate plan around housing (9: *Help provide a stock of housing accommodation that meets the needs of the community*) and the economy (1: *Support people and businesses through the economic downturn*)

An indication of who are to be the Executive and Project Manager

H Rai would have overall responsibility.

S Fern will project manager with assistance from finance.

The customer(s), the user(s) and any other known interested parties

MT
 Senior members
 CSA/PFA
 Sector
 Mortgage Lenders
 Leicestershire County Council
