

AGENDA ITEM 13

COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

19 JUNE 2013

REPORT OF HEAD OF COMMUNITIES & NEIGHBOURHOODS

LOCAL AUTHORITY MORTGAGE SCHEME (LAMS)

1.0 PURPOSE OF REPORT

- 1.1 To consult members on proposals relating to the £1,000,000 capital contribution to LAMS.

2.0 RECOMMENDATIONS

- 2.1 **Members consider the proposals within the report, relating to the capital contribution to LAMS.**
- 2.2 **Members approve to invest the capital contribution of £1,000,000 into the Leicestershire County Council (LCC) LAM scheme, subject to LCC being willing to accept our contribution and instruct officers to agree the Service Level Agreement between Leicestershire County Council and Melton Borough Council.**

3.0 Background

- 3.1 On 19 September 2012, members approved to participate in the LCC LAM scheme, however, with a clear view that this money was to be used primarily for Melton applicants. Following members approval officers have been in discussion with County Council officers to make the necessary arrangements. However, as officers received further details of the scheme, it became clear that participation in the County scheme could not restrict [Melton] funds being for the sole purpose of Melton applicants, as the county scheme needs to be county wide. A Melton scheme could include those restrictions, however, the high risk to individuals that would need to sign up to the liability would make this scheme unfeasible. Members are asked to note that section 3.7 highlights the excellent success Melton applicants have had so far and should members approve the recommendation, a campaign of marketing and promotion in Melton would take place to further maximise the opportunities for Melton applicants.
- 3.1 LAMS is a national scheme, launched in March 2011, across Leicestershire as of 17th May 2013, 199 mortgages have been approved. 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. A National Annual report on LAMS has produced and is attached as appendix A.

- 3.2 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.
- 3.3 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 hereby obtain a 95% mortgage on similar terms as a 75% mortgage, but without the need to provide the substantial deposit usually required.
- 3.4 LAMS 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 amount of deposit required to enter homeownership.
- 3.5 Leicestershire County Council (LCC) made a £10 million commitment to LAMS and launched their first LAM scheme on 11th September 2012. Of this £10m, £5.4 million has currently been invested with Lloyds. At present Melton could not step up its own LAM scheme with Lloyds. Melton would have to wait until the entire LCC LAMS fund was committed, approximately Feb 2014.
- 3.6 Of the £10m LCC have committed £5.4m to Lloyds, of this £4.4m has been utilised on 199 mortgages across the County. LCC anticipate a further £2m investment to Lloyd's within the next few months. LCC expect a total of 405 mortgages will be achieved through their £10m commitment to LAMS.
- 3.7 As of 31st March 2013 - 21 of the then 152 approved mortgages were in the Melton area, or 17% of the total number of approved mortgages. These mortgages have a total value of some £2.5m. This level of uptake demonstrates the clear market for LAMS in Melton.

4.0 Options

LCC scheme

- 4.1 Melton's capital contribution to LAMS is invested into the existing LCC LAMS, this would increase the overall investment from £10m to £11m, which would increase the length of the scheme and the number of mortgages available.
- 4.2 For this option a service level agreement would be required between Melton Borough Council and Leicestershire County Council. This would cover matters such as interest acquired and risk. Melton would be expected to share the default risk with LCC in whichever tranche of investment the £1m was used. Investment in this option will not be restricted to Melton postcodes only and the existing, county wide postcode boundaries would apply. This option could result in Melton being held accountable for defaults on LAMS mortgages in other districts.
- 4.3 This option would then be supported by an active promotional and marketing campaign (leaflets, website etc) in Melton, to maximise the number of Melton applicants.

4.4 Melton Scheme

This scheme would allow for postcode restriction, however, the considerable personal on-going (liability) risks that it places on individuals have led officers to consider this option in its current form to be unfeasible. There will also be further implications in regards to administration and managing the process.

- 4.5 The implications in respect of administration of a Melton only scheme would be significant, both in terms of time and resources. Melton could not begin setting up its own LAM scheme until the current LCC LAMS tranche was fully utilised. This is because two schemes with the same financial institution cannot operate in the same postcode boundary at the same time. Furthermore, Melton postcodes would be excluded from all future rounds of the LCC LAM scheme, therefore possibly restricting the number of available mortgages to prospective purchasers. Officers are currently discussing the options available in regards to a Melton only scheme with LCC, as there may be a possibility of LCC being the lead partner and members will be updated at the meeting on how these discussions have developed.

5.0 **POLICY AND CORPORATE IMPLICATIONS**

- 5.1 The scheme has the following links to the council's corporate priorities:

- Improving the well-being of vulnerable people
- Improve quality of life for people living in the most disadvantaged neighbourhoods
- Help provide a stock of housing accommodation that meets the needs of the community
- To provide high performing services that are efficient and meet customers' needs

- 5.2 LAMS has the following 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

- 5.3 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.

- 5.4 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.

6.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

6.1 The table below shows potential number of first time buyers the scheme may assist based on Melton's £1m commitment. This assumes a purchase price of £150,000.

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

6.2 Recent figures from the LCC LAM scheme indicate an average property price of around £100,000, with an average indemnity of £22,000 meaning that potentially more than 33 mortgages could be made available through the £1m investment from Melton.

7.0 LEGAL IMPLICATIONS/POWERS

7.1 The Solicitor to the Council will need to ensure appropriate legal implications are considered and addressed in relation to the Service Level Agreement between Leicestershire County Council and Melton Borough Council.

8.0 COMMUNITY SAFETY

8.1 There are no community safety issues with regard to this project or the recommendations in this report.

9.0 EQUALITIES

9.1 An Equalities Impact Assessment has been completed for this project previously, and no significant negative impacts have been identified.

10.0 RISKS

10.1 The risks associated with this project are outlined below.

Probability				
	↓			
Very High A				
High B				
Significant C				
Low D	3		1, 2	
Very Low E				
Almost Impossible F				
	IV Negligible	III Marginal	II Critical	I Catastrophic
	→			
	Impact			

Risk No.	Description
1	Mortgage Default, impacting on the Authorities indemnity not covered by interest set aside
2	The investment is extended beyond the 5 year period following arrears in the final 6 months
3	Uptake of the scheme is limited

11.0 CLIMATE CHANGE

11.1 There are no climate change issues with regard to the project and the recommendations in this report.

12.0 CONSULTATION

12.1 Consultation on the scheme has taken place with the Council's Management Team.

12.2 The Budget and Strategic Planning Working Group have been consulted on amendments to the treasury management arrangements prior to Full Council being requested to approve as the responsible scrutiny body for this function.

13.0 WARDS AFFECTED

13.1 All wards may be affected

Contact Officers

Samantha Fern, Housing Policy Officer

H Rai, Head of Communities & Neighbourhoods

Date: 30th May 2013

Appendices: LAMS 2012-13 Annual Report

Background Papers: Sector Local Authority Mortgage Scheme Notes
County Council Cabinet Report: LAMS 23rd July 2012
CSA Committee Report – LAMS – 19th September 2012
CSA Committee Report Appendix A - Project Mandate
CSA Committee Report Appendix B - Business Case
CSA Committee Report Appendix C - Equalities Impact Assessment

Reference: