



## AGENDA ITEM: 14

### SUMMARY

Report for:	Cabinet
Date of meeting:	16 December 2014
Part:	1
If Part II, reason:	

Title of report:	<b>Local Authority Mortgage Scheme Update</b>
Contact:	Cllr Nicholas Tiley, Portfolio Holder for Finance and Resources James Deane, Assistant Director (Finance and Resources)
Purpose of report:	To update Cabinet on the Local Authority Mortgage Scheme and to request an amendment to the maximum loan size available under the scheme.
Recommendations	It is recommended that Cabinet approves an amendment to the Local Authority Mortgage Scheme (LAMS) to increase the maximum loan size from £190,000 to £250,000.
Corporate Objectives:	
Implications:	<u>Financial</u> Contained within the body of the report. <u>Value for Money</u> Contained within the body of the report.
Risk Implications	Contained within the report; paragraphs 18-20
Community Impact Assessment	Not applicable.
Health And Safety Implications	Not applicable.
Monitoring Officer/S.151 Officer Comments	<b>Deputy Monitoring Officer:</b> No further comments to add to the report. <b>S.151 Officer</b> This is a S151 Officer report.

Consultees:	Sector Services Hertfordshire County Council Leeds Building Society
Background papers:	'Local Authority Mortgage Scheme – an Introduction', Finance & Resources Overview & Scrutiny Committee 22 November 2011  'Local Authority Mortgage Scheme', Cabinet, 26 June 2012
Glossary of acronyms and any other abbreviations used in this report:	LAMS – Local Authority Mortgage Scheme  LTV – Loan to Value

## Background

1. The Local Authority Mortgage Scheme (LAMS) is a scheme developed by Sector, with mortgage partners, through whom local authorities can assist local residents, who are credit worthy but lack the necessary cash deposit, to access the local housing market.
2. The Dacorum Scheme was approved by Council in July 2012, and the scheme launched in November 2012. The Council partnered with two mortgage lenders to deliver the Scheme, Lloyds Bank and Leeds Building Society.
3. The Council placed £1m with Leeds Building Society, financed from its own funds, and £1m with Lloyds Bank, funded by Hertfordshire County Council on behalf of DBC as part of a county-wide scheme.
4. The scheme with Lloyds Bank was very successful and the £1m indemnity was utilised within one year of launch. However, the scheme with Leeds Building Society has progressed more slowly, with the most recent figures showing utilisation of only £110k.
5. Sector recently undertook a full review of the county-wide scheme and, in addition to the fact that Leeds Building Society has fewer branches than Lloyds Bank, cited increasing house prices for the fact that the Leeds scheme continues to progress slowly even after the Lloyds scheme has been closed.
6. Sector has recommended increasing the maximum loan size to £250k in order to ensure that the scheme remains able to assist qualifying first-time buyers within the Borough. This report recommends that Cabinet approves the increase in maximum loan size of the scheme from £190k to £250k.

## Scheme details

7. LAMS is aimed to help first time buyers, who can afford mortgage payments but don't have the initial deposit, to get onto the property ladder. Under the scheme, the Council was able to specify three qualifying criteria, which are as follows:
  - The maximum level of indemnity was set at £190k;

- The maximum loan to value was set at 95%;
  - The post code of the property to be purchased must be within Dacorum.
8. The basis of the scheme is that if an applicant meets these criteria and has a 5% deposit, the Council will 'top it up' from 5% to 25%. From the lender's perspective this provides an effective deposit of 25%, thereby meeting their more stringent lending requirements and enabling the buyer to borrow 95% of the value of the property.
  9. The indemnity 'top-up' is placed 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 indemnity is only called upon if a loss is crystallised by the lender.

### **Performance of the Lloyds Bank Scheme**

10. The Dacorum Lloyds Bank Scheme was one of the most successful in the county, with the £1m indemnity utilised by November 2013, within 12 months of launch.
11. Key data collected at the close of the Lloyds Scheme was as follows:
  - The average age of successful applicants was 31. This fits the profile of a first-time buyer having to save for a number of years to successfully secure even a 5% deposit.
  - The average loan to value (LTV) was 94.47%, i.e. almost at the maximum 95% permitted under the Scheme. This suggests that the majority of applicants were purchasing properties right at the limit of the £200k permitted under the Scheme.
12. The success of the Lloyds Scheme relative to the Leeds Scheme is thought to be partly attributable to the fact that Lloyds has branches in the Borough, whereas Leeds doesn't – the nearest branch is in Stevenage.
13. It should be noted that applicants wishing to buy a property in Dacorum can still benefit from LAMS through Lloyds. HCC has placed an indemnity of £2m with Lloyds to support the purchase of properties throughout the county. The original qualifying criteria set by HCC matched those set by Dacorum, but, on the advice of Sector, have recently been updated to increase the maximum loan size to £250k, as recommended in this report.

### **Performance of the Leeds Building Society Scheme**

14. Although launched around the same time as the Lloyds Bank Scheme, November 2012, the Leeds Scheme has indemnified only £110k of the £1m available. Slower progress of the Leeds schemes, relative to Lloyds, is a common theme across the county. This is largely attributable to their having fewer branches, and consequently, lower footfall of potential customers.

### **Rationale for increasing the maximum loan size**

15. Sector, the LAMS administrator, has attempted to find an enhanced means of marketing the Leeds Scheme to offset the challenges arising from their having

fewer branches. Negotiations are currently underway with a national firm of mortgage brokers with a view to their promoting the Leeds Scheme nationally.

16. The view of the brokers is that the current maximum purchase price of the scheme is too low for it to be marketed successfully, and they recommend an increase to £250k. This is a view supported by both Sector and by the corporate team at Leeds. Lloyds too has commented that despite its scheme having been fully utilised, it was unable to assist a number of interested parties due to the £190k limit on the maximum loan size.
17. As a guide, the average price of a 2-bedroom property in Hemel Hempstead, where the majority of homes purchased under LAMS have been located, is £234k. Whilst there are 2-bedroom flats available under the current maximum loan size of £190k, information to date indicates that over 95% of first-time buyers under LAMS are seeking 2-bedroom houses. (Data taken from Zoopla search engine, December 2014.)

### **Risks**

18. There is a risk, if the maximum loan size is not increased, that the scheme will grow increasingly out of touch with the Dacorum housing market, and not achieve its objective of assisting first-time buyers onto the market within the Borough.
19. If approved, the recommendation within this report could expose the Council to greater risk in that it could be required to indemnify a higher value on each property purchased under the scheme. However, this risk is mitigated by the strict lending criteria of mortgage lending partners under LAMS. Currently, under the LAMS scheme, the national repossession rate is nil, and there are only two mortgages with arrears of 3 months or more. There are no arrears on any of the Hertfordshire schemes.
20. If approved, this recommendation would require no increase in financial commitment required from the Council, above the existing £1m.