

23 May 2016**Agenda Item: 5****REPORT OF THE SERVICE DIRECTOR, FINANCE, PROCUREMENT &
IMPROVEMENT****LOCAL AUTHORITY MORTGAGE SCHEME – PROGRESS REPORT****Purpose of the Report**

1. To update the Members of Finance & Property Committee on the progress of the Local Authority Mortgage Scheme (LAMS).
2. To inform Members that the LAMS involving Mansfield Building Society is to close.
3. To inform Members that existing LAMS involving Lloyds will close on 31 July 2016 and involvement with all future LAMS is suspended.

Information and Advice

4. Policy Committee (12 December 2012) approved that the County Council participates and provides finance for the Local Authority Mortgage Scheme (LAMS), which will make it easier for first time buyers to enter the property ladder and assist in alleviating some of the issues around lack of availability of social housing and affordable private rented accommodation.
5. Appendix 1 shows an extract of a report to Finance and Property Committee (28 April 2014) which sets out how LAMS operate and identifies the associated risks.

Nottinghamshire Countywide Scheme 1

6. Following approval by the Policy Committee the initial LAMS scheme was launched with the Lloyds Banking Group on 26 February 2013. The scheme, known as the Local-Lend-a-Hand Mortgage Scheme covered all postcodes in Nottinghamshire excluding those in Gedling – which was slightly more complicated due to the fact that Gedling Borough Council in partnership with Lloyds had already launched LAMS within the District.
7. This £2 million cash-backed scheme with Lloyds catered for a maximum loan value per property being set to allow properties of up to £150,000 to be purchased, based on a 5% deposit from the applicant. Assuming a 5% deposit on a £150,000 property (£7,500) is put down by the mortgagee, the mortgage would be for £142,500. As a result the maximum indemnity per property that the authority will be liable for is £30,000. It was anticipated that at this maximum level, for an investment of £2m, over 66 mortgages could be supported.

8. This first tranche was closed by Lloyds to new applicants in September 2013. On closure of the scheme, 105 loans had been completed to a total value of £10.1 million.
9. The average value of houses purchased was £102,045 which has meant a larger number of mortgages was supported than originally anticipated. The average loan value was £95,988 and the average loan to value percentage was 94%.
10. The £2 million investment will mature in February 2018 and will have generated an annual 2.24% return on investment since the scheme commenced.
11. To demonstrate that there is no reckless lending, Lloyds have confirmed that nationally for every 12 enquiries only 6 will progress to the application stage and 1 in every 6 applications results in a LAMS mortgage. Lloyds have been operating LAMS since March 2011 and to date there have been no mortgage defaults recorded.

Joint Schemes with District Partners

12. As Members will be aware, in autumn 2013 Lloyds announced that they would not open any more schemes. However, in October 2013, Lloyds reversed their decision and announced that they were to re-open their participation in LAMS but only for those authorities that had indicated in September 2013 that they were proposing to launch their schemes.
13. It was indicated in the report to Policy Committee that it was hoped that the Districts and the County could work together for future tranches to increase the amount of funding available. Subsequently, a number of discussions were held with District partners which lead to the launch of a number of jointly funded schemes.
14. At the same time Capita, our partner to the set-up of these schemes, indicated that another local financial institution had entered the LAMS market, the Mansfield Building Society, with 3 offices in North Nottinghamshire.
15. As a result of Lloyds re-entering the market and the introduction of the Mansfield Building Society a number of concurrent joint schemes were launched across the County that were supported by the County Council

Bassetlaw District Council

16. A £1 million cash-backed scheme with Lloyds, including £0.5 million contribution from the County Council, was launched 2 September 2013. The maximum loan value per property was set to allow properties of up to £130,000 to be purchased, based on a 5% deposit from the applicant. Assuming a 5% deposit on a £130,000 property (£6,500) is put down by the mortgagee, the mortgage would be for £123,500. As a result the maximum indemnity per property that the authority will be liable for is £26,000. It was anticipated that at this maximum level, for an investment of £1m, over 38 mortgages could be supported.
17. At the end of March 2016, 14 loans had been completed to a total value of £1.2 million. The average value of houses purchased is £89,975 which has meant a larger number of mortgages will be supported than originally anticipated. The average loan value is £83,215 and the average loan to value percentage is 92%.
18. A £300,000 non-cashed backed scheme with Mansfield Building Society, including a £150,000 contribution from the County Council was launched 9 December 2013. No loans have been completed through this scheme to date.

19. A balance of £0.3million remains uncommitted and will continue to be made available as a contribution towards new loans until the scheme is closed. The £0.5 million investment will mature in August 2018 and will have generated an annual 2.74% return on investment since the scheme commenced.

Broxtowe Borough Council

20. A £1 million cash-backed scheme with Lloyds, including £0.5 million contribution from the County Council, was launched 4 February 2014. The maximum loan value per property is set to allow properties of up to £150,000 to be purchased, based on a 5% deposit from the applicant. Assuming a 5% deposit on a £150,000 property (£7,500) is put down by the mortgagee, the mortgage would be for £142,500. As a result the maximum indemnity per property that the authority will be liable for is £30,000. It was anticipated that at this maximum level, for an investment of £1m, over 33 mortgages could be supported.
21. At the end of March 2016, 10 loans had been completed to a total value of £1.0 million. The average value of houses purchased is £106,400 which has meant a larger number of mortgages will be supported than originally anticipated. The average loan value is £97,805 and the average loan to value percentage is 92%.

22. A balance of £0.8million remains uncommitted and will continue to be made available as a contribution towards new loans until the scheme is closed. The £0.5 million investment will mature in January 2019 and will have generated an annual 2.88% return on investment since the scheme commenced.

Ashfield District Council

23. A £1 million cash-backed scheme with Lloyds, including £0.5 million contribution from the County Council, was launched 30 January 2014. The maximum loan value per property is set to allow properties of up to £125,000 to be purchased, based on a 5% deposit from the applicant. Assuming a 5% deposit on a £125,000 property (£6,250) is put down by the mortgagee, the mortgage would be for £118,750. As a result the maximum indemnity per property that the authority will be liable for is £25,000. It was anticipated that at this maximum level, for an investment of £1m, over 44 mortgages could be supported.
24. At the end of March 2016, 40 loans had been completed to a total value of £3.6 million. The average value of houses purchased is £95,136 which has meant a larger number of mortgages will be supported than originally anticipated. The average loan value is £88,975 and the average loan to value percentage is 94%.
25. A £300,000 non-cashed backed scheme with Mansfield Building Society, including a £150,000 contribution from the County Council was launched 25 October 2013. No loans have yet been completed through this scheme to date.
26. A balance of £0.8million remains uncommitted and will continue to be made available as a contribution towards new loans until the scheme is closed. The £0.5 million investment will mature in January 2019 and will have generated an annual 2.97% return on investment since the scheme commenced.

Nottinghamshire Countywide Scheme 2

27. In addition to the joint schemes with Districts, the County Council launched a separate £1 million scheme through Lloyds at the beginning of March 2014 to include those postcodes not covered by the joint schemes, i.e. Rushcliffe, Mansfield and Newark & Sherwood areas, and to take in postcodes that fell between joint schemes.
28. The countywide scheme has retained a maximum loan value per property of up to about £142,500. On closure of the scheme in November 2014, 48 loans had been completed to a total value of £4.7 million. The average value of houses purchased was £105,588 which has meant a larger number of mortgages were supported than originally anticipated. The average loan value was £98,923 and the average loan to value percentage was 94%.
29. The £1 million investment will mature in February 2019 and will have generated an annual 2.86% return on investment since the scheme commenced.

Overview of LAMS Investment

30. The above arrangements result in a total investment of £4.8 million by the County Council through the Lloyds Banking Group (£4.5 million in cash) and the Mansfield Building Society (£300,000 non-cash through guarantees) either directly or through Broxtowe BC, Bassetlaw DC and Ashfield DC. With a total investment into the County of £6.6 million when including the investments made by our district partners.
31. It is clear that the LAMS schemes partnered by Lloyds have been successful both in allowing a large number of first time buyers to obtain finance towards their homes which they wouldn't otherwise have been able to do and stimulating the local housing market. There are obvious additional benefits into the local economy through providing this type of support.
32. It is noticeable that no loans have been completed through the partnership with Mansfield Building Society, despite the wide promotion by Ashfield District Council, Bassetlaw District Council and the County Council's Communications teams.
33. Promotion in both Bassetlaw and Ashfield included a launch event with press coverage, posters and publicity material in council buildings, messages via the Council's intranet, website and social media and an article in All About Ashfield which is distributed to all homes in Ashfield.
34. In addition, the County Council promoted the LAMS scheme countywide on a number of occasions through news releases, case studies, council publications and social media messages, signposting people to the County Council's dedicated web pages at www.nottinghamshire.gov.uk/mortgages - where they can access information on the scheme in their area, covering both Mansfield Building Society and Lloyds.

Implications of the Government's 'Help to Buy' Scheme and the future of LAMS

35. The Government's national flagship Help To Buy Scheme was introduced in April 2013 and applied to first time buyers only who were purchasing new build properties worth up to £600,000. The scheme was extended in October 2013 to cover new homes and re-sale properties up until 2020. The details of these proposals are similar to the Nottinghamshire

36. LAMS, offering buyers the ability to borrow with only a 5 per cent deposit, with the Government providing a guarantee up to 20 per cent of the home loan value.
37. In September 2013 the Lloyds Banking Group announced their withdrawal from LAMS as the Government announced the intention to accelerate phase 2 of the 'Help to Buy' scheme to the 7 October 2013. The Lloyds Banking Group, through the Halifax, and the Royal Bank of Scotland (including its NatWest brand) were the early adopters to the scheme and more banks joined the government's scheme over the proceeding months.
38. Lloyds's have now confirmed that they will be closing all live LAMS schemes on 31 July 2016 due to slow take up. This is because, since launching the most recent schemes, there is now so much competition on the high street from other lenders due to access to schemes such as Help to Buy etc. We have been in discussion with Lloyds for some time now and have successfully managed to keep the schemes open for as long as possible.

Summary

39. LAMS offers an effective and risk-aware method of using the authority's reserves to assist in re-invigorating the local housing market by assisting first time buyers to obtain cost-effective mortgages. These reserves should be returned in full in five years' time and in the interim period an attractive rate of interest will be earned, including a premium to mitigate the possibility of mortgage defaults.
40. Overall the LAMS schemes have been successful both in allowing a large number of first time buyers to obtain finance towards their homes which they wouldn't otherwise have been able to do and stimulating the local housing market. There are obvious additional benefits into the local economy through providing this type of support. In total, at the end of August 2015 over 201 applications have been completed.
41. The Council has built on the experience of the first tranche with the launch of a number of joint schemes with district partners and a second countywide scheme through the Lloyds Banking Group and the Mansfield Building Society. These schemes are already proving a success across the county.
42. Despite a number of publicity initiatives, the schemes involving Mansfield Building Society have not received any take up. As such it is considered appropriate to seek closure of those schemes. There will be no financial implications to the Local Authority as a result of these closures.
43. Unfortunately, the extension of the Government's 'Help to Buy' scheme to first time buyers, being similar to the local authority mortgage schemes has overtaken local authority mortgage schemes. This has resulted in the Lloyds Banking Group suspending their involvement with LAMS and until they reverse their decision or another financial institution with a local presence enters the market for LAMS the County Council is not able to make any further investment in LAMS. As a consequence our involvement with future LAMS is currently suspended.

Reason/s for Recommendations

44. LAMS provides the County Council with a very significant role in promoting economic prosperity within the County. Participation in LAMS, by way of lending to banks in a manner which allows them to make more affordable mortgages available to people who do not

currently have the resources to put a significant deposit into a house, will assist in 'oiling the wheels' of the property market within the County. This can only be positive for economic growth.

45. There is evidence that there are a large number of individuals, couples and families who are currently in either social housing or private rented accommodation but who have the ability to pay a mortgage and want to buy their first house. The obstacle to them becoming property owners is the need for them to save a significant deposit (sometimes as much as 25% of the property value) before they have access to a mortgage at a reasonable interest rate, or even access to a mortgage at all. LAMS allows these people to buy their first house with a significantly lower deposit than would otherwise be required, and on similar terms to them providing a 25% deposit. The potential for LAMS to assist in 'freeing up' social housing is beneficial to housing authorities and it was with this in mind that the County Council has been able to join with some of the district councils within Nottinghamshire to launch a number of schemes.

Statutory and Policy Implications

46. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

47. It is recommended that Members:

- (a) Note the success of the Local Authority Mortgage Scheme (LAMS) in Nottinghamshire, in particular the successful partnership arrangements with district councils.
- (b) Note that the LAMS involving the Mansfield Building Society is to close.
- (c) Note that existing LAMS involving Lloyds will close on 31 July 2016 and involvement with all future LAMS is suspended.

Nigel Stevenson

Service Director - Finance, Procurement and Improvement

For any enquiries about this report please contact:

Glen Bicknell

Senior Accountant – Financial Strategy & Accounting

Constitutional Comments

48. As this report is for noting only no Constitutional Comments are required.

Financial Comments (NS 12/05/2016)

49. The risks associated with establishing a Nottinghamshire LAMS were set out in the report to Policy Committee 12 December 2012; consequently the likelihood of the Authority incurring any material loss is very low.
50. The scheme is financed through the use of reserves. For the cash-backed scheme(s) the financial contribution is time-limited and will be received back after the scheme has been completed. For the non-cashed backed scheme no initial investment is required and it is proposed that the premiums received would be set aside to meet any future defaults.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All