

**28 April 2014****Agenda Item: 5****REPORT OF THE SERVICE DIRECTOR, FINANCE AND PROCUREMENT****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. Update Members on the Council's continued investment in LAMS and note the progress being made in launching further joint schemes with district council partners.

**Information and Advice**

3. 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.
4. Whilst the County Council is not a housing authority it clearly has a very significant role in terms of 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 make a significant difference on the property market within the County. There is a potential to aid about 500 first time buyers with approved proposed total investment of £15m in the Nottinghamshire scheme. In addition, there are expected to be knock-on economic benefits to the County of the scheme, although these are more difficult to quantify.
5. The scheme operates by way of the County Council lending an amount of money (the first tranche was set at £2m) to a financial institution that has agreed to be part of the scheme. This loan will be for a 5 year period and the interest payable will be a market rate for a 5 year loan plus an additional margin to protect against some of the risks associated with the default by mortgage holders. This is known as a cash-backed scheme.
6. The loan made to the financial institution is not used to provide the finance for individual mortgages and is merely used as an indemnity against any defaults on the mortgages that occur in the five year period. After this five year period the lender assumes full responsibility for the mortgage and any subsequent defaults, and the loan is returned to the County Council. If there are mortgages that are in arrears by more than a specified period at the end

of the five year period, there will be an agreed 'hold back' to cover the possibility of these mortgages ultimately ending in default.

7. Two financial risks to the County Council were identified: firstly that the financial institution defaults on the loan and secondly that their lending criteria are insufficiently stringent and that a significant number of defaults occur. The former of these risks can be minimised, but not alleviated completely, by careful choice of the counterparty. The latter risk is more difficult for the County Council to control and it is important to be comfortable that the financial institution has a risk-aware methodology in respect of the granting of mortgages. It is reasonable to expect them not to take risks with the County Council's money that they would not take with their own, and this has been confirmed.
8. For any mortgages granted the mortgagee will put down a deposit of at least 5% and the County Council's loan to the financial institution will indemnify the rest of the loan, down to a 75% level. In the event of a default an invoice would be issued to the County Council to cover the amount of the indemnity provided against the mortgage, less any monies recovered as part of the repossession and sale of the property.
9. As this scheme is specifically for first time buyers Policy Committee approved that the limit for the maximum loan value per property be set to allow properties of up to about £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 70 mortgages could be supported.
10. Following approval by the Policy Committee the 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 it had already launched LAMS within the District with Lloyds.

#### Nottinghamshire LAMS performance

11. A report to Finance And Property Committee in September 2013 indicated that overall the first tranche has 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.
12. The first tranche was closed by Lloyds to new applicants in September 2013. However, the scheme was still open as far as completing loans that were already in the pre-approved stage but not yet completed. As a consequence, at the end of February 2014, over 102 loans have now been completed to a total value of £10.2 million.
13. The average value of houses purchased is £102,165 which has meant a larger number of mortgages will be supported than originally anticipated. The average loan value is £95,433 and the average loan to value percentage is 94%. The analysis from Lloyds indicates that nearly 90% of all completions are from individuals who either already live or work in the

Nottinghamshire LAMS area and in 97% of cases the property purchased is a house or bungalow. In addition, the average age of the Nottinghamshire LAMS applicant is 29.

14. As at the end of February 2014 total indemnity provided has exceeded the original amount of £2 million by £27,600, which will count against the value of subsequent tranches.
15. 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.

#### Implications of the Governments 'Help to Buy' Scheme

16. The report in September indicated the approach that would be taken for future tranches bearing in mind the extension of the Government's 'Help to Buy' scheme in January 2014 and our desire to work more closely with district partners on the launch of joint schemes.
17. As Members are aware, as the centrepiece of the Chancellor's 2013 Budget, the Government was set to extend the 'Help to Buy' scheme in January 2014. The details of these proposals indicate the scheme will be extended to first time buyers and so will be similar to the Nottinghamshire LAMS, offering buyers the ability to borrow with only a 5 per cent deposit, with the Government providing a guarantee up to 15 per cent of the home loan value. The property value, however, will be set at a much higher level of £600,000, as it is a national scheme and is extended to buyers of all properties, including re-mortgages of property.
18. Towards the end of September 2013 the Lloyds Banking Group announced their withdrawal from LAMS as the Government were to announce the intention to accelerate the introduction 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 to be the early adopters to the scheme and it was anticipated more banks would join the government's scheme over the coming months. Consequently, the County's launch of a second tranche was postponed.

#### Joint Schemes with District Partners

19. 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.
20. The Mansfield Building Society (MBS) scheme would be a non-cashed back scheme, whereby the Council offers guarantees to the financial institution on offering the up to 20% mortgage guarantee for the payment of a premium, typically in the region of £500 per mortgage, which would in effect reflect the risk in offering the guarantee to each mortgage. In non-cash backed schemes it is only upon default of a mortgage whereupon the Council would have to pay over to the financial institution for the level of the indemnity provided on the mortgage (net of any recovery). Similar to the cash backed scheme the length of the indemnity is for a 5 year period. The same conditions would apply as to the maximum loan of £142,500 and the same strict lending criteria would be undertaken for a mortgage as for all mortgage applicants from the financial institution. Consequently, it is anticipated that with

similar low default rates the premiums received would be in excess of any default risk. In addition, as no money is initially lent in a non-cashed backed scheme the initial counterparty default risk would not exist.

21. In addition, later in October 2013, Lloyds 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.
22. It was indicated in the report to Policy Committee that it was hoped that the Districts and the County can work together for future tranches to increase the amount of funding available. Subsequently, a number of discussions have been held with District partners to launch jointly funded schemes in the districts. Lloyds placed a maximum limit to any one scheme at £2m which in effect limited the first countywide scheme to £2m. As this is the maximum limit per scheme it would be possible increase the maximum amount available across the county as each district scheme would face the maximum £2m limit.
23. As result of Lloyds re-entering the market and the introduction of the Mansfield Building Society it is possible therefore, to have a number of concurrent schemes running in the County that are supported by the County Council, some will overlap district boundaries as they are with different financial institutions; namely;
  - a. In any district, jointly with a district council through the Mansfield Building Society (MBS),
  - b. In any district, jointly with a district council through the Lloyds Banking Group,
  - c. A countywide scheme through Lloyds Banking Group, excluding the areas of Gedling (as they launched their second scheme prior to the conclusion of our first scheme) and any district area where we already have a joint scheme running with the district council through Lloyds. This latter option ensures all county areas are covered with a scheme and opens the potential to have schemes with Lloyds and the Mansfield Building Society operating in the same district boundary.
24. Following successful partnering discussions, over the last few months a number of joint schemes have been launched. At present the following arrangements have been put in place:
  - a. Bassetlaw District Council – A £1 million cash-backed scheme with Lloyds, including £0.5 million contribution from the County Council was launched 2 September 2013. A £300,000 non-cashed backed scheme MBS, including £150,000 contribution from the County Council was launched 9 December 2013.
  - b. Broxtowe Borough Council – A £1 million cash-backed scheme with Lloyds, including £0.5 million contribution from the County Council was launched 4 February 2014.
  - c. Ashfield District Council – A £1 million cash-backed scheme with Lloyds, including £0.5 million contribution from the County Council was launched 30 January 2014. A £300,000 non-cashed backed scheme MBS, including £150,000 contribution from the County Council was launched 25 October 2013
25. In addition, 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, which were not contained in any of the joint schemes.

26. The countywide scheme has retained that the limit for the maximum loan value per property of up to about £142,500. However, the joint schemes have set this value differently depending upon circumstances in their particular district. Hence, the maximum loan value ranges from £125,000 (Ashfield) to £142,500 (Broxtowe).
27. The above arrangements result in a total additional investment of £2.8 million by the County Council through the Lloyds Banking Group (£2.5 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 £4.6 million when including the investments made by our district partners.
28. As at the end of February 2013, 13 loans had been completed through the Lloyds schemes, with some of these being the result of transfers from the oversubscribed first countywide scheme. No loans have yet been completed through the Mansfield Building society schemes.

### The Future of LAMS

29. Currently Lloyds have suspended the local authority mortgage scheme and have made no announcement as to when they may re-open the scheme. There are also limited options with other financial institutions that have a local presence. Consequently, for all intents and purposes, although we have schemes open at present, the future for further LAMS in Nottinghamshire would appear suspended. As per our previous experience, if Lloyds do re-enter the market and we have closed all our existing schemes, then it may be only for a short period and the Council will make every effort to arrange new schemes with district colleagues and/or a countywide scheme.
30. Along with other Councils, we will continue to lobby Lloyds to re-open LAMS and will work with Capita to encourage other financial institutions that may be willing to operate such schemes in Nottinghamshire.

### Summary

31. 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.
32. Overall the first tranche of £2 million has 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 February 2014 over 100 applications have been completed.
33. 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.

34. Unfortunately, it was anticipated that the extension of the Government's 'Help to Buy' scheme to first time buyers, being similar to the local authority mortgage schemes would overtake 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 would not be able to make any further investment in LAMS. As a consequence our involvement with future LAMS is suspended at present.

### **Reason/s for Recommendations**

35. LAMS provides the County Council 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.

36. 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 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**

37. 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**

38. 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) Support the continued investment in LAMS, in particular the joint working with district councils in LAMS. All approvals obtained through Policy Committee on 12 December 2012 with regard to the eligibility criteria will continue to apply.

- (c) Note the implication from the extension of the Government's 'Help to Buy' scheme on the future of the LAMS and the current suspension to future investment in LAMS.
- (d) A further report will be brought to Finance and Property Committee on the progress of the Nottinghamshire scheme(s), including any update on the situation with the Lloyds Banking Group's suspension of their involvement with LAMS.

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### **Constitutional Comments**

- 39. Finance and Property Committee has authority to approve the recommendations set out in this report by virtue of its terms of reference (NAB 15.08.13)

### **Financial Comments (NS 3/4/2014)**

- 40. 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.
- 41. 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**

- 42. None

### **Electoral Division(s) and Member(s) Affected**

All