
KENT LOCAL AUTHORITY MORTGAGE SCHEME (LAMS)

To: **Extraordinary Cabinet - 29 May 2013**

Main Portfolio Area: **Housing & Planning Services, Financial Services**

By: **Harvey Patterson, Corporate & Regulatory Services Manager**

Classification: **Unrestricted**

Ward: **All**

Summary: **To seek Cabinet approval to the adoption of the Kent Local Authority Mortgage Scheme (LAMS) to assist first-time buyers in Thanet accessing the local housing market.**

For Decision

1.0 Introduction and Background

- 1.1 The Council's adopted Housing Strategy sets out the Council's commitment to explore the opportunities for assisting first-time buyers and households on low-incomes to access the local housing market.
- 1.2 Inability to access the local housing market is a major concern for an increasing number of households in the district. Many lenders require purchasers to have a deposit of 20%-25% of the property value in place to enable them to take up a mortgage offer. A household looking to purchase a two bedroom family homes at a purchase price of £145,000 (the average price of a two-bed terrace in Thanet is £144,537) would therefore need to have deposit of between £29,000 and £36,250.
- 1.3 An increasing number of local authorities across the country are either looking to establish or have established a Local Authority Mortgage Scheme (LAMS) to assist first-time buyers in their areas. There are already two live LAMS in Kent at Gravesham and Tunbridge Wells with a third at Shepway at an advanced stage. Much of the exploratory work around LAMS has been completed by Sector Treasury Services, an independent provider of capital financing, treasury and strategic advisory consulting services to UK public service organisations, In particular, Sector has obtained legal advice on the legality of local authorities establishing a LAMS.
- 1.4 One of the advantages of establishing a LAMS in Kent is the decision of Kent County Council (KCC) to enter into partnership agreements with participating Kent districts to match fund scheme contributions of between £500,000 and £2,000,000, Consequently, if the Council agrees to invests £500,000 in LAMS, KCC will provide a further £500,000 to assist first time buyers in Thanet.
- 1.5 The specific LAMS available under the KCC partnership arrangement is provided by the Lloyds TSB Group. Although other lenders are participating in LAMS nationally, Lloyds TSB is the biggest lender involved to date. The Lloyds TSB scheme is only available to help first-time buyers purchasing second-hand rather than new build properties. This differs from the Government's recently announced 'Help to Buy Scheme' which is not restricted to first time buyers and, unlike LAMS, is only available for the purchase of new build properties.

2. Funding Options

2.1 Sector has highlighted two potential models for delivering LAMS. The scheme can be used to provide mortgage indemnities either on a cash-backed or unfunded basis.

2.2 The table below summarises the key differences between the two LAMS models:-

Scheme	Cash backed LAMS Model	Unfunded LAMS Model
Investment	Requires a capital sum to be invested with the lender for the duration of the Requires a capital sum to be invested with the lender for the duration of the scheme (£500,000 from TDC)	No requirement to invest the capital sum with the lender.
Return on Investment	The cash-backed scheme will deliver a return on the capital sum invested – estimated to be in the region of 3% per annum.	No investment return is received as no funds are invested with the lender. The lender may pay a premium of £500 per mortgage guaranteed under the scheme (would be shared with KCC). TDC's share of premium would be approx £15k which could contribute towards a provision for possible mortgage default payments.
Funding any Mortgage default	The interest paid on the invested sum will be returned to the Council – the interest can also be used to fund any mortgage default payments to the lender	The Council would need to pay the cost of any mortgage defaults through existing revenue resources. It is not permitted to pay the lender any default indemnity out of capital resources.
Opportunity Costing	Requires a capital sum to be invested for the period of the LAMS scheme (i.e. for a 5 year period). This will prevent the resources from being invested in other Housing initiatives	No requirement for any investment to be made, allowing capital funds to be used for other projects. However, revenue funds will need to be made available to cover any mortgage default payments.
Match Funding	KCC will match fund a cash-backed LAMS initiative and have agreed to match fund the Council's £500,000 contribution.	KCC are unable to support the unfunded approach to LAMS at this time.
Existing LAMS	Sector recommends the Cash-backed LAMS model	Most local authorities establishing LAMS to date have followed the cash-backed model.

- 2.3 It is therefore recommended that the Council implement a cash-backed LAMS scheme, for the following reasons:
- 2.3.1 Unfunded LAMS would not generate sufficient revenue resources to cover the potential risks of mortgage default payments becoming payable by the Council.
 - 2.3.2 Alternative investment options would be unlikely to offer interest returns at the same enhanced rate available through the Scheme.
 - 2.3.3 Cash-backed LAMS would enable the recycling of the capital investment into other projects or further LAMS at the end of the investment period.
 - 2.3.4 KCC will match fund £500,000 for a cash-backed LAMS in Thanet.

3.0 How the Scheme will Operate

- 3.1 The Scheme available under the KCC partnership arrangement is aimed at helping those who can afford mortgage payments, but cannot raise the initial deposit, to get on to the property ladder. Under the Scheme the Council specifies the value of properties that can be purchased through it.
- 3.2 If a potential first-time buyer meets the strict credit criteria applied by the lender, and of equal importance, meets the criteria set out by the Council to qualify for a mortgage under the Scheme, then the KCC/TDC partnership (the Partnership) will provide a top-up indemnity. The indemnity will be for the value of the difference between the typical loan to value (LTV) mortgage; i.e. 75%, and a 95% LTV mortgage. The potential buyer will thereby obtain a 95% mortgage on similar terms to a 75% mortgage, but without the need to provide the substantial deposit usually required. For example, an eligible first-time buyer seeking to purchase a property in Thanet valued at £145,000 would have to find a deposit of £7,250 as opposed to a deposit of £36,250 - and it is this difference (£29,000) that KCC and TDC will jointly indemnify.
- 3.3 LAMS mortgage rates are priced at similar rates to 75% loan to value mortgages and at present the interest rates offered for these are in the region of 2.68 % to 3.99% Applicants will be able to access the same mortgage offers as other purchasers, including fixed rate mortgages. At the end of the LAMS period, applicants will also have access to the same range of mortgage products as other purchasers.
- 3.4 The 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 is in arrears in the last 6 months of the initial 5 year period.
- 3.5 The indemnity would only be called upon if a loss is crystallized by the lender. By way of example, if a property valued at £145,000 with a mortgage of £137,750 and with the Partnership indemnity of £29,000 was sold following repossession at £100,000 net of attributable costs, the full value of the £29,000 indemnity would be requested by the lender. If, however the property was sold at £130,000 net of costs, i.e. an actual loss of £7,250, then £7,250 would be requested from the Partnership. Any loss in excess of the value of the indemnity would be attributable to the lender. The lender would request payment from the Partnership, who would undertake to make payment within 30 days. Under the proposed Partnership with KCC, any losses would be shared equally by KCC and TDC.
- 3.6 The Partnership will be required to place a 5-year deposit at the start of the Scheme to the full value of the indemnity being offered (i.e. a deposit of £1m for the Thanet Scheme; £500,000 from TDC and £500,000 from KCC). 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). At the end of the period the whole amount of the deposit will be returned in full to the Partnership. The Partnership will receive interest

on the monies deposited and it is anticipated that the interest received will be in the region of 3% per annum, based on current market predictions. Based on an interest rate of 3%, the £1million deposit will generate an overall return of £150k over the 5 years, which will be shared equally between KCC and the Council. The actual interest rate applicable is set when the deposit is placed with the lender and is fixed for the whole of the 5 year term.

3.7 The Council will also enter into a match-funding agreement with KCC prior to the launch of the Scheme.

3.8 If approved by Cabinet and Council, it is envisaged that the Thanet LAMS could be launched by September 2013. The Scheme will be launched with a joint TDC/KCC publicity campaign

4.0 TDC Eligibility Criteria

4.1 To ensure that the largest number of local first-time buyers benefit from the Scheme taking into account local housing market selling prices, it is recommended:-

4.1.1 that the maximum loan available under the Scheme is £137,750, i.e. 95% of the average price of a two bedroom terrace house in Thanet; and

4.1.2 that the Scheme is only available to first time buyers currently resident in the district in respect of the purchase of residential properties in the district to be achieved by the use of postcode restrictions.

4.2 In this way it is estimated that a Thanet Scheme established with initial combined resources of £1m will assist approximately 30 to 60 first-time buyer households in Thanet to access the local housing market (depending on property values). In addition to this, market intelligence from lenders suggests that each LAMS initiated property purchase will help to increase the level of property purchase activity in the wider Thanet housing market, by creating on average a further chain of three to four moves per LAMS purchase. This has the potential to provide a small but welcome boost to the local economy.

5.0 Options

5.1 To approve the adoption of a LAMS Scheme for Thanet with an investment of £500,000 match funded by KCC for the reasons given in paragraphs 2.3.1 to 2.3.4 above.

5.2 Not to approve the adoption of LAMS Scheme for Thanet.

6.0 Corporate Implications

6.1 Financial and VAT

6.1.1 A draw down of £500k from the New Homes Bonus will be required to support this Scheme. KCC have agreed to match fund this, meaning £1m will be available in total.

6.1.2 As each mortgage granted under the Scheme reaches the end of the 5 year initial period, the Council will have the relevant proportion of its cash-backed indemnity returned from the lender. The exact timing of the repayment of the total indemnity sum will be dependent upon the date that actual mortgages are agreed by the lender. In the intervening period the Council will receive annual interest on the total deposit made of £500,000. Assuming an interest rate of 3%, this will be £15,000 per annum or £75,000 over the 5 year life of the scheme.

6.1.3 Market intelligence supplied by Sector indicates the average risk of default on a first-time buyer's mortgage is less than 0.5% (£2,500 for the £500,000 invested). However Sector

suggests a more prudent provision for possible default is established for the LAMS scheme. A 4% provision for default equates to £20,000 for the £500,000 invested. It is anticipated the accrued interest on the deposit will be sufficient to cover any potential losses through mortgage default repossession. As any default would be a charge upon the General Fund it is proposed that all of the interest to be received from the Scheme is initially set aside in a ring-fenced revenue reserve to help mitigate this risk. This is reflected in the risk management matrix set out in **Annex 1**.

- 6.1.4 Although Lloyds TSB is a major UK financial institution it has required direct intervention from the government to prevent it suffering a potential collapse during the banking and financial crisis of 2008 and 2009. However, the Council currently view Lloyds TSB as a high quality counterparty for investment purposes because of the government support they currently receive. It is clearly in the government's interest to continue its support of Lloyds TSB to ensure it receives its (or the taxpayers) investment back. However, it has to be acknowledged that over the medium term there is a small risk the bank could fail jeopardising the return of the Council's £500,000 deposit. This is reflected in the risk management matrix set out in **Annex 1**.

6.2 **Legal**

- 6.2.1 The Monitoring Officer has seen the legal provided to Sector by Field Fisher Waterhouse and to Shepway by Eversheds and is satisfied that the Council has the power pursuant to Sections 435 and 442 of the Housing Act 1985 to enter into a cash-backed Local Authority Mortgage Scheme with Lloyds TSB. Moreover, for the reason given in this report it is considered that to do so would constitute a reasonable exercise of these powers.

- 6.2.2 Lloyds TSB requires the Council to enter into an Indemnity Agreement and Deposit Deed supported by an Opinion given by the Monitoring Officer that the Council has the necessary powers to enter into the Agreement and that all of the Council's internal procedural requirements have been complied with. As this will place the Monitoring Office under a personal liability to Lloyds TSB, the Council is also required to provide the Monitoring Officer with an express indemnity pursuant to the Local Government Act 2000 and the Local Authorities (Members and Officers) Indemnity Order 2004.

- 6.2.3 The Council will also enter into a match funding Agreement with KCC.

6.3 **Corporate**

- 6.3.1 As set out in the report.

6.4 **Equity and Equalities**

- 6.4.1 The Table below considers the Public Sector Equalities Duty. It is considered that there will be no adverse impacts to persons with protected characteristics as a result of the Council adopting a LAMS Scheme:

Public Sector Equalities Duty Impacts		
Question	Answer	Explanation
a. Does the decision being made or recommended through this report have the potential to disadvantage or discriminate against persons with protected characteristics	No	The use of objective financial eligibility criteria by the lender or the recommendation the Council restrict the availability Scheme to first time buyers in Thanet does not directly or indirectly discriminate against, or disadvantage, persons with protected characteristics
b. Does the decision being made or recommended through this report have the potential to promote equality of opportunity?	Yes	The provision of the guarantee should increase the accessibility of mortgages to those who would not otherwise be able to afford them and thus assist residents of the district to address their housing needs.
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?	N/A	

7.0 Recommended to Council

- 7.1 That the proposed Local Authority Mortgage Scheme for Thanet with eligibility being limited by post code to first time buyers living in the district for the purchase of properties in the district, be agreed.
- 7.2 That the Council's contribution to the proposed Local Authority Mortgage Scheme for Thanet of £500,000; be taken from the New Homes Bonus.
- 7.3 That based on the local housing market for first time buyers the maximum property loan be set at £137,750.
- 7.4 That the Corporate & Regulatory Services Manager in consultation with the Financial Services Manager be authorised to enter into Indemnity and Deposit Agreement with Lloyds TSB and a Match Funding Agreement with Kent County Council.
- 7.5 That the Monitoring Officer be personally indemnified against any potential losses incurred by Lloyds TSB as a result of mortgages provided through the propose LAM for Thanet to enable him to provide the Opinion Letter required by Lloyds TSB.

8.0 Decision Making Process

- 8.1 The recommendations in this report will be referred to full Council for approval.

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Annexes

Annex 1	Risk Matrix
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Background Papers

Title	Details of where to access copy
None	N/A

Corporate Consultation Undertaken

Finance	Sarah Martin, Financial Service Manager
Legal	N/A
Community Services	Tanya Wenham, Housing Regeneration Manager
Communications	Justine Wingate, Corporate Information Manager