

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
WEDNESDAY, 20 JULY 2016

MORTGAGE SUPPORT SCHEMES

REPORT OF PAUL STUART, GO SHARED SERVICES, HEAD OF FINANCE

(Contact: Paul Stuart - Tel (01993) 861171)

(The report is for information)

1. PURPOSE

To advise members of options for mortgage support schemes that could include key workers as an application criteria.

2. RECOMMENDATION

That the report be noted and it be determined whether further investigation into a scheme be pursued.

3. BACKGROUND

- 3.1. Following an update from the Affordable Housing Working Party in March 2016 it was raised at this committee's meeting of June 2016 whether the Council could develop a key worker mortgage scheme. The Strategic Director undertook to report back on the scheme in operation at Cotswold District Council. Below is an explanation of the scheme offered at Cotswold DC (LAMS) and two alternative schemes currently available as advised by Capita who set up the Cotswold scheme.

Local Authority Mortgage Scheme (LAMS) as at Cotswold DC

- 3.2. The Local Authority Mortgage Scheme has been in operation since 2011 and provides 95% loan to value (*LTV) mortgage lending for first time buyers with the support of a 20% indemnity / guarantee from the local authority.

** LTV is a financial term used by lenders to express the maximum ratio of a loan to the value of the property.*

The 20% guarantee means that first time buyers need only a 5% deposit but the mortgage is on similar terms to a 75% LTV mortgage, therefore making it more affordable / accessible. Under the LAMS scheme the local authority is able to specify three qualifying criteria, maximum level of indemnity, maximum loan size (based on 95% of property valuation) and qualifying post codes. Cotswold set their loan cap at £237,500, consequently a purchaser requiring a 95% loan could consider properties up to a value of £250,000.

The indemnity from the Council is cash backed, i.e. supported by a deposit which remains in place for 5 years with the possibility of a two year extension if the mortgage is in arrears at the end of the initial five year period. The Council receive a five year commercial deposit rate of return plus a premium of 0.7% from the lender to join the scheme.

Cotswold District Council allocated £1m to the scheme which is run by Lloyds Bank but it will cease at the end of July. The take up to the scheme has been limited but this is mainly due to the Government's Help to Buy Guarantee Scheme which is similar in structure to LAMS and as such reduced demand.

Local Authority Partnership Purchase (LAPP) – 95% LTV Lending

- 3.3. The LAPP is a shared ownership scheme whereby the individual purchases a share of the property through a LAMS mortgage (as above – i.e. an indemnity / guarantee from the local authority) and the local authority purchases the remaining share. The difference with this scheme and standard shared ownership arrangements is that this is open to the whole market i.e. any property in the Council's area (new and already built) can be purchased under this scheme. The standard scheme is a 70/30 model with the homeowner purchasing 70%. However, any model from 30/70 to 70/30 can be applied. The nature of this scheme means it is classified as affordable housing.

Custom and Self Build (CSB) for new properties

- 3.4. This scheme provides a 95% LTV mortgage on custom and self-build. The local authority provides financial assistance to buyers by indemnifying the lender for up to 20% of the mortgage to pre-approved borrowers. Consequently, this facilitates the lender making available 95% loan to value mortgage funding. There is also a model of the CSB Scheme for long term empty property and regeneration areas.
- 3.5. Attached as appendices to the report are a Factsheet for the LAMS scheme and brief Overview Reports for the LAPP and CSB models from Capita.

4. FINANCIAL IMPLICATIONS

- 4.1. Should the Council wish to pursue these options there are sign up fees associated with these products.
- 4.2. For the schemes the Council will act to indemnify the mortgage lender against losses of up to 20% of the house value with the borrower requiring only a smaller 5% deposit. This will require the Council to lodge an amount with the scheme provider Lloyds Bank.

Paul Stuart
GO Shared Services Head of Finance

Date: 8^h July 2016