



## Corporate Resources Scrutiny Committee

Report of: Chairman of the Mortgage Review Panel  
Date: Thursday 15<sup>th</sup> October 2009  
**Open**

## Recommendations from Mortgage Review Panel

### 1. Summary

- 1.1 This briefing paper informs Members of the scrutiny exercise undertaken by the Mortgage Review Panel into the possibility of the Council providing Shared Ownership Mortgages with the added condition that the mortgages be underwritten by the relevant RSL's (Registered Social Landlords).

### 2. Background

- 2.1 At the Council meeting on 25<sup>th</sup> February 2009 the Community Services Scrutiny Committee was asked to investigate the potential of the Council providing local authority mortgages in respect of Registered Social Landlord Shared Ownership properties.
- 2.2 The proposal was introduced following a Joint Liberal/Liberal Democrat budget proposal to the meeting of the Budget Review Panel on 11<sup>th</sup> February 2009. This also followed the reduction in the Standard National Rate, which was applied after 2<sup>nd</sup> February 2009 to 3.93%.
- 2.3 The review objectives were to consider whether the proposal to provide Local Authority Mortgages could be realistically implemented at Wyre Forest District Council and if so, to agree recommendations on the policy matters associated with such a proposal. In addition, if the proposal was supported it would be necessary to recommend to Cabinet the level of funds which should be provided to support this initiative.
- 2.4 The Panel comprised the following Members:
- Councillor K H Prosser (Chairman)
  - Councillor M B Kelly
  - Councillor P Dyke
  - Councillor Mrs S Hayward
  - Councillor H J Martin
- 2.5 The Panel met three times on the following dates:
- 11<sup>th</sup> May 2009, 29 June 2009 and 24<sup>th</sup> September 2009.

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- 2.6. Members considered a variety of topics relating to shared ownership mortgages including:
- Whether local RSL's were interested in entering into shared ownership mortgages with the Council
  - The types of mortgages available and the amount of deposit required
  - Availability of property
  - The process for checking eligibility and financial viability for purchasing shared ownership properties
  - The amount of repossession for shared ownership mortgages.
  - The current economic climate and its effect on the Council entering into shared ownership mortgages.

### **3. Key Issues**

- 3.1 During the 1960s – 1980's it had been popular for local authorities to provide mortgages. During that period approximately one third of mortgages were supplied by local authorities. This practice came to a stop during the early 1980's when mortgages became readily available from the private sector.
- 3.2. A key statutory provision in the 1985 Housing Act (Part 14) gives local Authorities the power to lend to individuals for the purpose of acquiring, constructing or converting a house. This power also extends to loans for the purpose of repaying a previous loan made for any of these purposes.
- 3.3. One of the most significant conditions of lending under the 1985 Housing Act is the requirement for the local authority to charge the higher of the local average rate of interest (as determined by each authority on a bi-annual basis) and a standard national rate.
- 3.4 Currently the District Council was responsible for 18 mortgages – the last of which was provided in 1994. The outstanding balance on these mortgages was currently £72,000.
- 3.5 A number of local authorities are already offering similar schemes to shared ownership mortgages but each authority's approach varies.
- 3.6 Shared ownership mortgages were those where an applicant for such a mortgage was expected to pay rent on the property as well as a mortgage and other bills. It was made clear that it was incorrect to term these mortgages 'mortgages of last resort.'
- 3.7. Shared ownership mortgages were a route for people to get into ownership for those who did not have the ability to purchase a property outright (e.g. those on a low income). There were restrictions on these mortgages in that people whose income exceeded £60,000 could not apply. The target market for shared ownership mortgages was for those who earned between £21,000 and £25,000.

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- 3.8. Lenders were well protected within a shared ownership scheme and there were mortgage rescue packages available for people who encountered difficulties. The risk to the Council would be nominal.
- 3.9. Sometimes local housing associations brought back properties from the Building Society or Bank and repossession was avoided wherever possible. If properties were bought back they were bought back at mortgage value.
- 3.10. One of the most significant conditions of lending under the 1985 Housing Act is the requirement for the local authority to charge the higher of the local average rate of interest (as determined by each authority on a bi-annual basis and a standard national rate.
- 3.11 The major issue for all the RSL shared ownership providers is the availability of mortgages. There are 8 main providers of mortgages and these are:
- Halifax
  - Leeds
  - Abbey National
  - West Bromwich Building Society
  - Woolwich
  - Barclays
  - Alliance and Leicester
- 3.12. Whilst there appears to be quite a number of providers, many require a minimum deposit of 20% and some lenders undervalue shared ownership properties and most have higher than average interest rates as shared ownership is considered high risk, despite part of the property being owned by a Register Social Landlord. The result is that a number of customers have taken mortgages with sub prime lenders. Whilst the Community Housing Group will not accept customers who have secured sub prime mortgages, other RSL's will, depending upon the affordability for the customer and the terms of the mortgage.
- 3.13. All the RSL's interviewed were enthusiastic about the possibility of Wyre Forest district Council offering mortgages. Partners felt that shared ownership provided more guarantees to lenders than mortgages on open market properties due to their involvement.

## **4. Options**

- 4.1 In conclusion, Members were in agreement to the principle of offering local authority shared ownership mortgages. However, following a long discussion on the current economic climate and the impact this was likely to have on available resources, it was not considered pertinent to proceed with the scheme at this point. However, Members were keen to reconsider the matter again in 6 months time.

**The Corporate Resources Scrutiny Committee is asked to recommend to Cabinet:**

- 1. That the Council does not proceed at this time to offer shared ownership mortgages in respect of RSL properties.**
- 2. A letter be written to the Housing Associations advising them of the Panel's proposal to defer matters for 6 months. If the situation alters they would be advised.**
- 3. This matter be revisited in 6 months time.**

## **5. Consultation**

5.1 At its meeting on 30<sup>th</sup> June 2009 the Mortgage Review Panel invited the following Registered Social Landlords to its meeting in order to ascertain their views on the possibility of the Council providing shared ownership mortgages:

- Community Housing
- Bromford
- West Mercia Housing
- Waterloo Housing

## **6. Relevant Council Policies/Strategies**

6.1 Housing Strategy

## **7. Implications**

7.1 There would be financial implications if the Council decided to go ahead and offer shared ownership mortgages and it would be necessary for this to be built into the budget setting process.

7.2. The Council would also need to budget for the administrative process required to administer the scheme e.g. staff time, computer software etc.

## **8. Wards affected**

8.1 All Wards

## **9. Appendices**

9.1 None

**10. Background Papers**

10.1 Council Minutes 25<sup>th</sup> February 2009.

Mortgage Review Panel Minutes:

- 11<sup>th</sup> May 2009
- 29<sup>th</sup> June 2009
- 24<sup>th</sup> September 2009

10.2 Shared Ownership and Leasehold Enfranchisement and Designation of 'Protected Areas' A Consultation Paper, Communities and Local Government

10.3 Housing Corporation – Have you Heard about New Build HomeBuy? (A guide to buying)

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