

By: Mark Dance, Cabinet Member for Regeneration and Economic Development

To: Economic Development Cabinet Committee
20th September 2013

Subject: Kent Local Authority Mortgage Scheme (LAMS) and Help to Buy

Classification: Unrestricted

Electoral Division: All

Summary:

The Kent and Medway Housing Strategy identified access to mortgage finance as a key priority for Kent and Medway.

The average age of First Time Buyers is 37 and rising.

The **Kent Local Authority Mortgage Scheme (Kent LAMS)** provides 95% mortgages for Kent first time buyers, priced as if 75% mortgages backed by an LA indemnity.

Kent LAMS helps First Time Buyers to buy second-hand homes and is a compliment to the new Government **Help to Buy** scheme.

Kent LAMS has the capacity to provide up to 800 mortgages and up to 4000 further consequential sales in the Kent housing market.

Subject to Lloyds TSB's usual lending criteria, borrowers are able to select any existing property with a cost limit set by the individual districts not to exceed £350,000.

KCC in partnership with the Districts launched the Kent LAMS in Tunbridge Wells in September 2012 and Gravesham in February 2013, providing affordable up to 95% loan to value mortgages for local first time buyers. To date, there are 28 mortgages against the scheme in Tunbridge Wells and 8 in Gravesham.

In Tunbridge Wells the average property value in the LAMS scheme is £196,065, average loan £184,034, average loan to value 93.86% and average age of first applicant 29. In Gravesham the average property value in the LAMS scheme is £151,800, average loan £143,876, average loan to value 94.78% and average age of first applicant 27.

As this first phase of Kent LAMS is in partnership with Lloyds TSB, it will only apply to "secondhand" properties. It will not be used for the purchase of newbuild properties.

Shepway launched in August 2013 with Kent LAMS and we hope to be able to roll it out to other areas in Kent during 2013. KCC has £9.5M available to do this (£1M to match fund each remaining District and 500k for a second round with Shepway if required.)

Recommendation:

Members are asked to NOTE the progress made in implementing the Kent Local Authority Mortgage Scheme and to note the update on the governments new Help to Buy Scheme.

1. Introduction

- 1.1 The Kent and Medway Housing Strategy identifies access to home ownership, particularly for first time buyers (FTBs), as a key concern for Kent and Medway and recommends the need for innovative solutions to overcome the current restrictions in available mortgage finance.
- 1.2 The average age of FTBs without assistance from the “Bank of Mum and Dad” is now recognised as standing at 37 and rising, some commentators believe this to be as high as 41 in parts of West Kent
- 1.3 Large deposit requirements from mortgage lenders are thought to be one of the key hurdles preventing even high income FTBs from being able to obtain mortgages. Deposit requirements of 20 – 25% are commonplace, which in Kent would equate to between £28K and £55K, depending on the type of property purchased.
- 1.4 In March 2011 Sector Treasury Services, an independent provider of capital financing, treasury advisory and strategic public sector consultancy services, in partnership with Lloyds TSB, announced a new Local Authority Mortgage Scheme (LAMS) initiative (known as “Local Lend a Hand”), aimed at helping FTBs who can afford to repay monthly mortgage payments but are unable to provide the level of deposit currently required by mortgage lenders to access finance.
- 1.5 The scheme has been launched by a number of Unitary and District authorities, including Blackpool, Warrington, Blaby, Nuneaton, Luton and Hastings. Other two-tier County and District partnership schemes have been launched in Gloucestershire and in Hertfordshire, using our “Kent model”.

2. Outline of the scheme

- 2.1 The scheme is aimed at helping new FTBs who can afford mortgage repayments - but not the initial deposit – to get on to the property ladder.
- 2.2 Under the scheme, the FTB is required to provide a deposit of at least 5% of the purchase price of a property. The Local Authority then makes up to 20% available in the form of a cash-backed indemnity to the mortgage provider. This allows the FTB to obtain a mortgage they otherwise may not have been able to access. The FTB is then granted a mortgage for the outstanding 95% of the purchase price, but at interest rates that would normally only be available to those with a 25% deposit. The borrower would still repay the principal as if it were a 95% mortgage, but at more favourable interest rates. The local authority indemnity would only apply for the first five years after the mortgage has been taken out.

2.3 In order to cover the indemnity the local authority has to deposit up to £2m with the mortgage lender for an initial five year period starting from the date the authority agrees to take part in the LAMS. Interest will be paid on this initial investment at a premium rate (in the case of Lloyds TSB this will be 0.7% above their usual commercial rate). The initial five year investment will cover a different time period than the five year indemnity in most cases as the indemnity only starts once the mortgage has been granted and the house purchase is completed.

2.4 The table below sets out indicative prices in Kent for the types of property most likely to be purchased by FTB households, the minimum amount of deposit the FTB would be required to find, the maximum level of indemnity the scheme would provide and the residual mortgage amount the FTB would have to repay.

Type of Property	Average Price	FTB Deposit (5%)	Indemnity Required (20%)	FTB Mortgage Amount (95%)
Flat	£139,323	£6,967	£27,865	£132,356
Terrace	£174,408	£8,720	£34,882	£165,688
Semi-detached	£218,306	£10,915	£43,661	£207,391

2.5 As an example, across Kent, assuming all 12 District Councils participate and invest £1m, which is matched by £1m from KCC, (making a total of £24m) the scheme could support the purchase of: 861 flats, 688 terrace houses or 549 semi-detached houses.

2.6 Mortgages are on a repayment basis, the safest way of making sure the loan decreases over time and is repaid by the end of the term.

2.7 Local Authorities are able to specify 2 eligibility criteria. These are:

- (i). Maximum loan value
- (ii). Postcodes covered by the scheme

2.8 These criteria are set on a district by district basis rather than at Kent-level, to take account of local variations and local housing strategies.

2.9 No other eligibility criteria is able to be set, so Local Authorities cannot limit this scheme to specific types of FTB, such as key workers, graduates, those in social housing etc.

2.10 The existing scheme is not open to all types of FTB purchases. It does not support property purchased to be let, second homes, Right to Buy cases, shared ownership or shared equity cases. Lloyds TSB has a specific policy not to lend on new build homes, we understand this is because they do not want additional newbuild in their mortgage portfolio rather than any inherent difficulties with mortgages on newbuild. Other mortgage providers may be more willing to lend on new build.

3 Kent LAMS

- 3.1 Following discussions with Sector, Lloyds and District Councils, KCC has developed a County-wide two-tier scheme known as the Kent Local Authority Mortgage Scheme (KLAMS).
- 3.2 Under the scheme, each participating District Council enters into a direct agreement with Lloyds (or other approved mortgage providers) but under the KLAMS banner. KCC enters into a separate match-funding loan agreement with each participating District Council, whereby we match-fund the amount deposited by the District into the scheme. To comply with State Aid requirements, each District is only available to deposit a maximum of £2m with an individual lender. KCC would therefore be looking to provide match-funding of up to £1m per District authority, a total of £12m if each Kent District participates in KLAMS.
- 3.3 KCC Legal have drawn up a Match Funding Loan Agreement, which states that KCC and the Districts would agree to an equal split of the financial risks and rewards associated with the scheme. KCC would receive 50% the interest earned on the deposit and would pay 50% of any amount required to be paid by the Local Authority in respect of any borrower's default. In the case of interest, Lloyds pay this to the District, who would then be required to remit 50% of this to KCC under the match funding agreement. In the case of default, Lloyds would notify the District of any liability and the District would notify KCC of the 50% the authority would required to pay.
- 3.4 It is essential to understand the relationships under the Kent LAMS:
- | | | |
|-----------------------------|---|-------------|
| FTB to mortgage lender | - | contractual |
| mortgage lender to district | - | contractual |
| district to county | - | partnership |
- 3.5 There is no relationship between the FTB and district or county, or the mortgage lender and the county.

4 Progress in other areas

- 4.1 Thanet, Canterbury and Tonbridge and Malling have all received Member agreement to Kent LAMS, subject to officers doing due diligence and we are progressing this with them and Maidstone have indicated they are actively considering Kent LAMS.

5 Help to Buy

- 5.1 In a recent development the government unveiled details of the second mortgage guarantee part of the government's **Help to Buy** scheme, they have advised that only credit worthy borrowers will be able to buy homes. This follows progress with the first part of the scheme which was launched in April 2013 and which offers loans to give people the chance to buy a new-build home with a deposit of just 5 per cent. It has also began to outline the

framework of the mortgage guarantee scheme, which is due to launch in January, which will see the government take on the risk of default by borrowers by guaranteeing a proportion of a loan on any property costing up to £600,000. An update on **Help to Buy** is attached at **Annex A** with Kent and Medway figures at **Annex B**.

- 5.2 The scheme aims to boost mortgage availability by £130billion by reducing the risk to the lender. The initial equity loan stage enables potential homeowners to buy a new-build home worth up to £600,000 with a government loan of up to 20 per cent, interest-free for five years. After the first five years they must start repaying the government loan and see interest begin to be charged on it, starting at a low rate of 1.75 per cent. The next stage will be extended to existing homes as well as newly-built properties, again up to a value £600,000. It will see the government offer guarantees totaling up to £12billion on £130billion on 95% mortgage lending.
- 5.3 The government have stated that guarantees will only be available to borrowers who can afford the mortgages, while those with impaired credit ratings will be excluded. Guarantees will also not be available for second home purchases, and lenders will be required to collect a declaration stating that the borrower has no interest in a property anywhere else in the world. It will not be able to be used in conjunction with another state scheme. Lenders will pay a fee to use the guarantee, based on loan-to-value banding.

6 Recommendation

- 6.1 Members are asked to NOTE the progress made on the implementation of the Kent Local Authority Mortgage Scheme and update on the government's Help to Buy Scheme.

7. Background Documents

- 7.1. **Kent and Medway Housing Strategy 2012-2015:**
<https://shareweb.kent.gov.uk/Documents/community-and-living/Regeneration/KFHS%20Refresh%20FINAL.pdf>

Author Contact Details:

Name: Brian Horton
Officer Title: Strategic Housing Advisor
Directorate: Enterprise and Environment
Email: brian.horton@kent.gov.uk
Tel: 01622 221947/ 07970 141718

Help to Buy

You may be able to get financial help through a Help to Buy home ownership scheme if you live in England and can't afford to buy a home.

The 4 types of Help to Buy scheme are:

- [Help to Buy equity loans](#)
- [Shared Ownership](#)
- [NewBuy](#)
- [Help to Buy mortgage guarantees](#) - available from January 2014

Help to Buy equity loans

Help to Buy equity loans are open to both first-time buyers and home movers on new-build homes worth up to £600,000.

You won't be able to sub-let your home if you use this scheme.

How it works

With a Help to Buy equity loan:

- you'll need to contribute at least 5% of the property price as a deposit
- the government will give you a loan for up to 20% of the price
- you'll need a mortgage of up to 75% to cover the rest

Example

For a property worth £200,000

	Amount	Percentage
Cash deposit	£10,000	5%
Equity loan	£40,000	20%
Your mortgage	£150,00	75%

If the home in the table above sold for £210,000, you'd get £168,000 (80%, from your mortgage and the cash deposit) and pay back £42,000 on the loan (20%). You'd need to pay off your mortgage with your share of the money.

Equity loan fees

You won't be charged loan fees for the first 5 years of owning your home.

In the 6th year, you'll be charged a fee of 1.75% of the loan's value. After this, the fee will increase every year. The increase is worked out by using the [Retail Prices Index](#) plus 1%.

Your Help to Buy agent will contact you before the fees start, to set up monthly payments with your bank. You'll also be sent a statement about your loan each year. Fees don't count towards paying back the equity loan.

Shared ownership schemes

Shared ownership schemes are provided through housing associations. You buy a share of your home (between 25% and 75% of the home's value) and pay rent on the remaining share.

You'll need to take out a mortgage to pay for your share of the home's purchase price.

Shared ownership properties are always [leasehold](#).

Eligibility

You can buy a home through shared ownership if:

- your household earns £60,000 a year or less
- you're a first-time buyer (or you used to own a home, but can't afford to buy one now)
- you rent a council or housing association property

Older people

You can get help from another Help to Buy scheme called 'Older People's Shared Ownership' if you're aged 55 or over.

It works in the same way as the general shared ownership scheme, but you can only buy up to 75% of your home. Once you own 75% you won't have to pay rent on the remaining share.

Your local [Help to Buy agent](#) can help you.

People with disabilities

Home Ownership for People with Long-Term Disabilities (HOLD) can help you buy any home that's for sale on a shared ownership basis if you have a long-term disability.

You can only apply for HOLD if the properties available in the other Help to Buy schemes don't meet your needs, e.g. you need a ground-floor property. Your local [Help to Buy agent](#) can help you.

Buying more shares

You can buy more shares in your home any time after you become the owner. This is known as staircasing.

The cost of your new share will depend on how much your home is worth when you want to buy the share. If property prices in your area have gone up, you'll pay more than for your first share. If your home has dropped in value, your new share will be cheaper.

The housing association will get the property valued and let you know the cost of your new share. You'll have to pay the valuer's fee.

Selling your home

If you own 100% of your home, you can sell it yourself. When you put it up for sale, the housing association has the right to buy the property back first. This is known as 'first refusal' and the housing association has this right for 21 years after you fully own the home. If you own a share of your home, the housing association has the right to find a buyer for it.

NewBuy

NewBuy lets you buy a newly built home with a deposit of only 5% of the purchase price.

Who qualifies?

To qualify for NewBuy, your new home must be:

- a new build – being sold for the first time or for the first time in its current form (e.g. a new flat that used to be part of a house)
- priced £500,000 or less
- your main home (you can't use NewBuy to buy a second home or a buy-to-let property)
- owned fully by you (you can't use NewBuy for shared ownership or shared equity purchases)
- built by a builder taking part in the scheme

To qualify you must be either:

- a UK citizen
- someone with the right to remain indefinitely in the UK

You don't have to be a first-time buyer and there's no limit on your level of income. But you can't use NewBuy with any other publicly funded mortgage scheme.

Help to Buy Mortgage Guarantees

From 1 January 2014, the Help to Buy mortgage guarantee will help you buy a home with a deposit of only 5% of the purchase price.

Help to Buy mortgage guarantees will be open to both first-time buyers and home movers. However, you won't be able to get a Help to Buy mortgage guarantee if you're planning on renting out the property.

The guarantee is provided to your lender - not to you.

Eligibility

To qualify for a Help to Buy mortgage guarantee, the home you want to buy must:

- be offered for sale at £600,000 or less
- not be a [shared ownership](#) or [shared equity](#) purchase

The property can be newly built or already existing.

You don't have to be a first-time buyer and there's no limit on your level of income. But you can't use Help to Buy with any other publicly funded mortgage scheme.

Annex B

Kent & Medway Help to Buy figures Equity Loans from 1 April 2013 - 16 August 2013

Help to Buy	Reserved	Exchanged	Completed	Totals
Kent (excl. Medway)	154	46	82	282
Medway	16	8	10	34
Totals	170	54	92	316

Figures provided by:

