

AGENDA ITEM: 7 Pages 30 – 33

Meeting	Cabinet Resources Committee
Date	13 January 2011
Subject	Voluntary Mortgage Scheme
Report of	Cabinet Member for Housing, Planning and Regeneration
Summary	This report seeks to cease the policy of the Council acting as a “lender of last resort” to Right to Buy applicants when they want to purchase their existing home but have been refused mortgage finance by high-street lenders.

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Status (public or exempt)	Public
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Wards affected	All
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Enclosures	None
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For decision by	Cabinet Resources Committee
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Function of	Executive
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Reason for urgency / exemption from call-in (if appropriate)	Not applicable
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1. RECOMMENDATIONS

- 1.1 That the Voluntary Council Mortgage Scheme be terminated with immediate effect.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Housing and Environmental Services Committee, 17 January 1994 (Decision item 6) – approved Voluntary Council Mortgage scheme.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council's Housing Strategy 2010-2010 includes an objective of "Maximising the options available for those wishing to own their home". Although we want to assist more people to access home ownership, we do not want to help people purchase properties which are not a viable asset.
- 3.2 The Council has a corporate objective of "Better Services, Less Money", and this proposal reduces the financial risks that the Council would be exposed to by providing mortgages for properties that could not be sold on the open market. In addition, many of the properties that are affected are on the Regeneration Estates¹ and it does not make economic sense to finance the purchase of properties at a discount that the Council would then have to buy back at full market value when they became due for demolition.
- 3.3 Under the Corporate Plan objective, "Sharing Opportunities, Sharing Responsibilities", it does not make sense to provide a service that is already provided by the private sector, and for which there is virtually no demand, with only 3 applications received in the last three years, of which only one has gone on to accept the Council's offer of assistance.

4. RISK MANAGEMENT ISSUES

- 4.1 Assisting tenants to purchase properties that private institutions are not prepared to finance because of their construction type exposes the Council to financial risks associated with investing the purchase of a poor asset.
- 4.2 There is a risk that the council would have to take repossession action against mortgage holders who fall into difficulty in paying their mortgage, which would incur legal and staff costs.
- 4.3 Most of the properties that might not secure a mortgage privately are on the Council's Regeneration Estates. By supporting the purchase of properties on these estates at a discounted price, the Council is exposing itself to the risk of having to buy them back at a higher full market price under compulsory purchase arrangements, which could affect the financial viability of the regeneration schemes.
- 4.4 There is the risk that not granting council mortgages some tenants in the future may be unable to exercise the Right to Buy their home. However, demand for the scheme has been very low, with only three applications during the last three years, of which only one offer of a mortgage has been accepted. Further mitigation is provided in the form of other routes to homeownership that can be made available, such as shared ownership.

¹ Grahame Park. West Hendon, Stonegrove Spur/Road, Dollis Valley

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Council tenants are more diverse and more likely to be vulnerable than the wider community. Analysis also shows that there are higher levels of deprivation and housing needs amongst some BME communities in the Borough, including those living in social housing. Social tenants are also more likely to be suffering from a long-term disability.
- 5.2 The demand for Council mortgages is very low and therefore the impact of ceasing the policy is likely to be minimal. However, Barnet Homes will continue to offer advice and assistance to tenants should they wish to access other forms of homeownership such as Shared Ownership and Cash Incentive Scheme.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 If the provision of Council mortgages is continued it the Council might have to take repossession proceedings because a leaseholder has been unable to keep up repayments on their mortgage as defined in the mortgage agreement. If this was to occur, there are resources implications such as staff time and legal costs in terms of claiming through the court system.
- 6.2 There are no resource implications surrounding the ceasing of the Voluntary Council Mortgage Scheme. Ceasing this policy would allow the Council to be more sustainable as it would no longer be mortgaging properties that the private sector is unwilling to mortgage.

7. LEGAL ISSUES

- 7.1 None other than those referred to in the body of the report.

8. CONSTITUTIONAL POWERS

- 8.1 The Council's constitution in Part 3, Responsibility for Functions, paragraph 3.6 states the functions of the Cabinet Resources Committee including capital and revenue finance.

9 BACKGROUND INFORMATION

- 9.1 The Leasehold Reform, Housing and Urban Development Act 1993, Section 107, abolished a secure tenant's Right to a Mortgage in respect of their Right to Buy their Council flat or house. All Right to Buy applicants after that date would be expected to obtain a mortgage in the private sector or to buy on rent to mortgage terms.
- 9.2 In January 1994, the Council agreed a new voluntary scheme whereby a Right to Buy applicant can request a mortgage from the Council if they have had two written refusals of a mortgage from recognised lenders because the structure or surroundings of the property is deemed unsuitable.
- 9.3 Many of the properties that are likely to be difficult to secure a mortgage on are based on the council's regeneration estates, including Stonegrove/Spur Road and West Hendon. By granting mortgages to purchase properties at a discounted Right to Buy on these estates, the Council could put itself in a position where it has to repurchase them within a few years at full market price when they are due to be demolished.

- 9.4 The scheme has not proved popular recently with only three applications received during the last three years, of which only one has resulted in the tenant accepting the Council's offer of a mortgage; this was also the first that had been accepted since 2005. This is partly because Right to Buy sales have fallen dramatically since 2004 but also because the Council has to charge an interest rate² that is not competitive when compared to rates available elsewhere.
- 9.5 As the policy exposes the Council to unnecessary risk and is in very little demand, it is recommended that the Council cease the policy of acting as a lender of last resort for Right to Buy applicants.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal – TE

CFO – JH/MC

² The higher of our own average borrowing rate plus 0.25% or the rate declared by the Secretary of State which reflects the average high street lender's base mortgage rate.