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Council Motion - Council Mortgages

1. **Background**

In light of the increasing pressure being faced by homeowners with mortgages as a result of the 'credit crunch' and the changing housing market, it has been suggested by the New Local Government Network, NGLN, that Councils could be given powers to intervene to support families and prevent homelessness.

The NLGN report indicates support for a number of proposals :

- Councils should be given powers to restrict the amount of Right-to-Buy properties in areas of high housing demand to maintain levels of social housing
- Local authorities to be given greater freedoms to build and invest in new properties
- Councils should be able to take over dormant buildings where they have been empty for five years and turn them into social housing
- Substantial numbers of people in social housing earn enough money to be able to rent property in the private sector
- **Local councils should have the powers to be able to offer financial support to homeowners threatened by the credit crunch.**

2. **Existing Council Mortgages**

Councils have in the past lent money to selected groups under specific pieces of legislation – notably the early years of right to buy to ensure availability of finance for tenants wishing to purchase their homes..

There are, however, statutory constraints and Central Government rules on these mortgages and the interest rate to be charged.

3. **Key Issues For New Council Mortgages Scheme**

The following key issues would need to be resolved before any new mortgages scheme could be established by the Council:-

(i) Legal – General powers to provide home loans are contained in part 14 Housing Act 1985. There are various conditions to be met. In particular Schedule 16 provides that the interest rate has to be either the standard national rate (set by Secretary of State) or our local average rate (calculated according to Secretary of State requirements) whichever is the higher, presumably the intention being to avoid our rate falling below market levels (although market now much changed since introduction) or the cost of providing the loans. Since 2007 this rate has been 6.89%

(ii) Competition Rules and State Aid – The interest rate controls mentioned above also help ensure that there is no breach of competition law. There are both EU and national measures in place to prevent any body doing things to distort competition in a market. Subsidised home loans at less than market rates could breach those rules.

Also if we provide subsidised finance to another lender in the market that could breach the State Aid rules Under current rules, loans to other bodies have to be charged at a rate (for a secured loan) 2% above a national 'reference rate' set by the European Union – currently 6.29%. This would give a rate of 8.29% to be sure of avoiding State Aid rules.

If we were to breach this rate, a bank or building society could complain to the EU about our process. This system is about to change in July 2008 to become more flexible and responsive to market 'swap' rates, which could well see these rules become more complex , but the same issue would remain.

(iii) Affordability - If we were to target householders with an offer of competitive or cheaper mortgage interest rates, we would need to develop a legal, robust, and affordable scheme and apply for permission from Central Government & EU.

We would also be in danger of running the mortgages at a loss – the Council can currently invest short term cash in excess of 6%. If we were to apply an interest rate lower than this to the loans we would lose income – especially when bad debt provisions are taken into account.

(iv) Eligibility - Another key issue would be the eligibility criteria for loans - how would we determine which household is eligible for a Council mortgage?

If we were to offer low interest rate mortgages, we would probably be faced with a high demand so we would need to implement a robust criteria for rationing loans, as challenges around eligibility could be raised.

Another critically important issue would be the Council's policy on defaults and arrears, and the Council's debt recovery process and administration costs. As at 30 June 2008, the Council only has 23 outstanding mortgages which takes very little administration and management time. Any new scheme would require an assessment of resources required to support the scheme, depending on estimated take-up.

(v) Advice - Any individual being granted a mortgage has to be given financial advice and comply with rules set out by the Financial Services Authority - FSA. The Council would need to register with the FSA and train our staff to FSA standards to give advice.

(vi) Existing Support to Homelessness - the Council does give advice and carries out homelessness prevention work in the Housing Options Centre. The Centre has been successful in helping to prevent a number of homelessness cases since focussing more attention in this area of work.

(vii) Central Government Scheme - If Central Government were to support the NLGN recommendations and launch a fully funded mortgages scheme for householders, which met administration and default costs, this would ensure clarification around the legal, financial and eligibility issues highlighted above.