Appendix A

BACKGROUND INFORMATION REGARDING THE CONCEPT OF FLEXIBLE HOME IMPROVEMENT LOAN SCHEME

1 Introduction

The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 confers on local housing authorities in England and Wales a new power to improve living conditions in their area, including: the repair, improvement, and adaptation of housing. It also repeals certain legislative provisions with respect to Renovation Grants, Home Repair Assistance, and other such grants.

Furthermore, the Government has given local authorities the power to find alternative ways of financing housing improvement; in particular through low cost loans and equity release loans. This financial assistance may be provided to persons directly, or through a third party such as a home improvement agency, specialist financial intermediary or other special purpose vehicle. Additionally, the Government has stated the need for local authorities to work together to achieve economies of scale.

The Government has also expressed the view that a local authority would be failing in its duty as a housing enabler, and in its responsibility to consider the condition of the local private sector stock, if it did not make some provision for assistance. A blanket 'no assistance policy', whether for grants, loans or both, would therefore be unacceptable.

We have undertaken a study of home improvement loans, including equity release loans, available to residents in the SE region and concluded that none are perfectly aligned to our needs. The ‘failings’ of other schemes include: minimum loans being too high, interest rates too high, inflexibility, non-availability outside of specific areas and poor management.

In May this year we submitted a discussion document to GOSE, on behalf of RBWM and a group of local authorities in Berkshire, Buckinghamshire, Surrey and Oxfordshire, which demonstrated the viability a cross boundary flexible loan scheme. As a result, we were invited to bid for Private Sector Housing Renewal grants for the three years 2008/09 to 2010/11 to create such a scheme.

The consortium subsequently submitted a bid to the South East Regional Housing Board and, on 5th December last year, we were advised by GOSE/RHB that a grant of £16 million over 3 years has been approved, subject to ratification by the Secretary of State.

By 2011, assuming we receive the amount of grant for which we have applied, we will, have a mortgage portfolio worth approximately £18 million. This will be used to lever-in private sector funds in subsequent years. It is also our intention to bid for further Regional Housing Board grant funding for the years 2011-14.

2 The Consortium

The 17 local authorities in the consortium represent slightly over 22% of the private sector housing stock in the SE region. The commonality of these local authorities includes:

- house prices being well above the national average and demand for property very high;
- relatively few areas of housing poverty;
- a large number of elderly property owners who are ‘equity rich’ but ‘income poor’;
- the majority of local authorities in the group experience a higher demand for grant assistance than existing funds can support.

3 Flexible Home Improvement Loans

We see an opportunity to address the problems identified in other loan schemes and create a product which meets the needs of the local authorities in the group and the residents in their boroughs.

The Flexible Home Improvement Loan will be secured by a charge on the householder’s property and may be repaid in a manner to suit the borrower. Payments of capital and interest may be made on a regular, or irregular basis, or not at all. Thus the loan may be viewed as a conventional mortgage, or an overdraft, or as an equity release loan (lifetime mortgage), or as a combination of any of them.

If the borrower decides not to make payments of capital, or interest, the amount borrowed, plus the ‘rolled up’ interest, will be repaid out of the proceeds from the sale of the property after the borrower dies, or if he/she vacates the home to go into long-term care.

As a product offered by local authorities it is of paramount importance that the scheme is created, and subsequently operated, in a fair and ethical manner. Furthermore, we will be providing loans which are equal or superior to other lenders in terms of interest rates, charges, efficiency and flexibility.

Our target interest rate is 5%, fixed for the life of the mortgage, and the minimum loan is likely to be £1,000. Naturally, as with Home Repair Assistance grants, the loan may only be used to fund approved repairs or improvements.

A maximum loan will be established at the time the initial application is processed, and further advances up to this figure may be approved with a minimum of formality. Further advances beyond this maximum may be approved using normal underwriting procedures.

It should be stressed that Flexible Home Improvement Loans are not intended to replace grants but will be offered to people who do not qualify for grants. Whilst each local authority in the consortium will offer identical mortgages and use identical documentation, each will be free to set the criteria which determines who will qualify for grants and who will qualify for loans.

3 Grants-v-Loans

The use of grants has evolved over a number of years and remains an important tool to resolve a range of housing problems, and to assist the most vulnerable in our communities. The success of grant schemes, however, has a 'downside' in that many people are reluctant to spend their own money, or borrowed money, on repairs or improvements.

Until recently, Central Government policy was to promote the use of grant funding to increase the quality of housing stock. The government now recognises that this is unsustainable, and ways need to be found to recycle available funds and lever in additional money from the private sector. Flexible Home Improvement Loans can fit these criteria.

Undoubtedly there is, and will continue to be, some public resistance to loans, but we are confident we can create an attractive and ethical scheme which will allay most people's concerns.

4 Loan and Mortgage Administration

The lending arm of the consortium will be a company limited by guarantee. Each local authority will be a guarantor (up to a maximum of £10 per local authority) and will appoint an officer to represent them on the board of the company. No other organisations, or individuals, will have any controlling interest in the company.

It may be necessary to appoint a part-time, or full-time, officer to deal with day-to-day administration, especially in the first few years. It is also intended that a small steering group will be co-opted from the consortium to make certain non-critical decisions.

The majority of local authorities in the consortium no longer administer mortgages and it is agreed that we should enter into a contract with a third party to handle the administration, including the setting up of each new mortgage and discharging mortgages on eventual sale of each property.

The Loan and Mortgage Administration Centre (LAMAC) already act for several of our members and a total of 153 local authorities nationwide. It is most likely they will be our appointed administrators. In the meantime, the administration charges used in our calculations are based on LAMAC's scale fees.

In the first two years we estimate the cost to the Council will be £2,000 - £3,000 pa for staff training, promotional literature and application forms etc, reducing in subsequent years. These costs will be contained within existing budgets.

There will also be some additional costs in terms of officers' time. Whilst the work required by officers to process a loan is likely to be less than required to process a grant, it follows that more officer time may be required to deal with the extra cases.

5 Legal and Regulatory Implications

The principal regulators for financial services are the Financial Services Authority and the Office of Fair Trading. We, as local authorities, are exempt from the Financial Services Authority's authorisation for mortgage lending, administration, arranging and advising.

We are currently awaiting a decision from the FSA as to whether a 'not for profit' company, wholly owned by local authorities will need to register. Indications are that we will not have to register although we will be obliged to adhere to the underlying key principles of mortgage regulation. LAMAC are, of course, registered with the Financial Services Authority and the Office of Fair Trading.

It is our intention that every council officer involved in the scheme will receive training in all aspects of the equity release product and the regulatory regime which governs it. A system compliance will also be put in place. LAMAC have indicated their capability to provide training sessions for this purpose.