

Individual Executive Member Decision

Review of 'First Step - Next Step' Equity Loan Scheme

Committee considering report: Individual Executive Member Decision

Date of Committee: 14 January 2016

Portfolio Member: Councillor Hilary Cole

Forward Plan Ref: ID3069

1. Purpose of the Report

1.1 To review the 'First Step – Next Step' Equity Loan Scheme and seek approval for amendments to the scheme which will increase the desirability of the product to residents of West Berkshire aspiring to Home Ownership.

2. Recommendation(s)

2.1 The Portfolio Holder for Housing approve the proposed amendments to the scheme, as set out in paragraph 9 of this report.

3. Implications

3.1 **Financial:** £500,000 S106 funding was allocated to the scheme in 2009, of which £400,000 is available specifically for 'First Step,Next Step' loans. When Loans are repaid the funding is recycled to further applicants. All applicants are required to have a minimum of a 5% deposit and the Equity Loans are secured by way of Legal Charge against the property minimising financial risk to the Council. There is a manifesto commitment to ensure an additional £500,000 is available for this scheme however this funding has not yet been identified.

3.2 **Policy:** n/a

3.3 **Personnel:** n/a

3.4 **Legal:** All Loans are subject to a Loan Agreement, each application is sent to an independent solicitor for checking of accuracy before funding is released.

3.5 **Risk Management:** n/a

3.6 **Property:** n/a

3.7 **Other:** n/a

4. Consultation Responses

Members:

Leader of Council: Agreeable with amendments

Overview & Scrutiny Management Commission Chairman: No response to date.

Ward Members: n/a

Opposition Spokesperson: Not Consulted.

Local Stakeholders: Newbury Building Society – Agreeable with all amendments and indicated this will make the product more desirable with Service Users wishing to become owner occupiers.

Officers Consulted: June Graves: Head of Care Commissioning Housing and Safeguarding

Mel Brain: Housing Operations and Strategy Service Manager

Trade Union: N/A

5. Other options considered

5.1 The Scheme could continue to be operated on the current basis without any amendments.

5.2 The Scheme could be brought to an end.

Executive Summary

6. Background Information

6.1 The 'First Step' Equity Loan Scheme was initially approved by Executive on 8th October 2009, as part of the Council's response to the recession. £500,000 of S106 funding was allocated as commitment to the scheme with £100,000 later ring fenced specifically for HOLD applications (Home Ownership for Long-term Disabilities)

6.2 The Scheme was refreshed in 2010; 6 months post implementation to take into account feedback regarding the limited take up of the Equity Loan. The Scheme was renamed 'First Step – Next Step' and the following key amendments were approved:

- Size of the maximum equity loan increased from £10,000 to £20,000
- Scheme extended to applicants wishing to purchase a Shared Ownership property.
- Scheme extended to current and former homeowners with a defined housing need

7. Current Principles of the Scheme

- 7.1 'First Step – Next Step' is an Equity Loan Scheme. An Equity Loan means that funding is secured against a % of the value of the home. For example, if the loan was for £10,000 and the property cost £100,000 this would be a 10% equity loan. The Equity Loan is secured as a 2nd Charge against the property.
- 7.2 No interest is charged on the loan; however the applicant is liable to repay the % equity stake when the home is sold or after a 10 year period which ever is sooner. The amount to be repaid is calculated on the price of the home at point of sale or valuation if the home is not being sold but the 10 year repayment period has expired.
- 7.3 To be eligible for the scheme an applicant must meet the following criteria:
- Be a first time buyer and not own or have an interest in any other property
 - Be a current home owner looking to move to resolve a housing need.
 - Live or work (minimum of 16 hours per week) in West Berkshire
 - Have a minimum household income of £20,000 and a maximum of £60,000
 - Have a minimum 5% deposit
 - Be eligible for a Newbury Building Society mortgage.
- 7.4 The property they are wishing to purchase must not exceed the maximum purchase price which is set at:
- £180,000 for a 1 bed property
 - £230,000 for a 2 bed property
 - £250,000 for a 3 bed property
 - £280,000 for a 4 bed property
- 7.5 The scheme is currently administered to support applicants in securing sufficient deposit. For example, if the Newbury Building Society was offering 90% property value mortgages, an applicant is seeking to purchase a property for £200,000 they would obtain £180,000 mortgage, provide a minimum of £10,000 deposit and seek a Equity Deposit Loan for the remaining deposit of up to £10,000.
- 7.6 The Scheme currently permits that an applicant can not borrow more than 3.75% their annual salary.

8. Scheme to Date

- 8.1 Since the scheme was launched in 2010, it has received 137 applications of which 28 have proceeded to Loan Approval.
- 8.2 £343,042.50 have been approved for lending and secured by way of 2nd charge. This equates to an average Loan of £12,251.
- 8.3 To date 16 applicants have re-paid their 'First Step – Next Step' Equity Loan. The value of these 16 loans totalled £192,770 and they have resulted in repayment of £232,470 creating a further £39,700 available for future Equity Loans.

9. Proposed Amendments

- 9.1 It is proposed that the maximum Equity Loan value is increased to £30,000 from £20,000. Currently the average Loan is for £12,251 however Loans have only be approved to support an applicant in achieving the minimum deposit. (Refer to 9.3)
- 9.2 It is proposed the maximum property purchase price is reviewed as house prices within West Berkshire have significantly increased since the scheme was launched in 2010. The average house price in West Berkshire in 2010 was £227,219 and is now £271,179 this represents 19.34% increase. [Land Registry Data]

Recommend maximum property prices:

- £215,000 for a 1 bed property
- £275,000 for a 2 bed property
- £300,000 for a 3 bed + property

- 9.3 Feedback from the Newbury Building Society is that a number of applicants have been refused an Equity Loan by the Council and in consequence have been unable to access home ownership. These applicants have met the eligibility criteria however they have a shortfall between the maximum mortgage available to them (4 times their annual salary) and the property value. To ensure these applicants are able to access Home Ownership it is proposed that 'First Step – Next Step' is extended to include bridging the gap between an applicant's maximum mortgage and the property value up to the maximum loan amount.

In cases where an applicant uses the Equity Loan to bridge the gap there would be an expectation that the household was accessing accommodation suitable for their households needs as opposed to accessing accommodation with an additional bedroom.

- 9.4 It is proposed to increase the maximum borrowing amount for 3.75 times to 4 times of an applicants annual salary, this will be in line with products offered via the Newbury Building Society.

10. Conclusions

- 10.1 'First Step-Next Step' was initially a well-received product, however more recently the inability to 'Bridge the Gap' has limited the use of the product. It is recommended that the proposed amendments are approved, subject to a further review being undertaken in twelve months time to monitor progress.
- 10.2 Subject to the above amendments being approved, a new leaflet, poster and marketing campaign will be undertaken to promote the scheme.

11. Appendices

- 11.1 Appendix A – Supporting Information
- 11.2 Appendix B – Equalities Impact Assessment

