

**Cabinet**

**14 November 2012**



**Mortgage Rescue – Proposal to  
Extend Scheme to Local  
Authorities and ALMOs**

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**Report of Corporate Management Team**

**Ian Thompson, Corporate Director Regeneration and  
Economic Development**

**Councillor Clive Robson, Cabinet Portfolio Holder for Housing**

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**Purpose of the Report**

- 1 This report considers the invitation from the Homes and Communities Agency (HCA) for local authorities and their ALMOs to participate in the purchase of Mortgage Rescue properties alongside other registered providers and makes appropriate recommendations.

**Background**

- 2 Mortgage rescue is aimed at vulnerable homeowners who are at risk of having their home repossessed. Early intervention to prevent homelessness can therefore bring benefits for those concerned and bring cost savings as part of a wider spend to save policy. It can also assist partners in meeting their priorities across health and social care provision.
- 3 In response to this, Durham County Council Housing Solutions Service has developed a range of prevention tools, some of which are aimed at helping those owner occupiers who have defaulted on mortgage repayments. This includes assisting priority households to remain in their own home by accessing the Mortgage Rescue scheme (MRS) and therefore avoiding homelessness. In 2011/12 there were 179 presentations to Housing Solutions from people who were experiencing difficulty with their mortgage.
- 4 There are two forms of Mortgage Rescue:
  - Equity Loan – where an interest free loan is provided to assist with mortgage repayments
  - Mortgage to Rent – where the owners house is purchased by a Registered Provider and the former owners subsequently rent the house instead.
- 5 The proposals from the HCA relate to the latter form of Mortgage Rescue ie Mortgage to Rent.

- 6 The HCA want to widen the number of providers who could consider appraising and purchasing prospective Mortgage Rescue properties.
- 7 The scheme is overseen and administered by the HCA's Zone Agent, Time2Buy.

### Current Arrangements

- 8 Over the last year, 3 houses have been bought through Mortgage Rescue within the county. It is envisaged that the programme may expand but it will remain a relatively small element of the overall HCA programme.
- 9 In the last 2 years the following providers have purchased properties:
  - Livin
  - Vela
  - Tees Valley HA (Fabrick)
  - Cestria Housing
- 10 In addition Derwentside Homes and Riverside are also able to participate, but so far have not purchased any properties.
- 11 Although numbers have so far been low there is an expectation that numbers will rise and that additional funding will be made available. A recent announcement from the HCA suggests that Time2Buy will receive around £6.5m upto March 2014 for mortgage rescue in Durham and Tees Valley.
- 12 Most Registered Providers (RP's) concentrate on their traditional areas of operation although there are some who are prepared to operate either countywide or over extended areas of the County (see table below).

RP	Durham
Erimus/TV	No specific areas given
H/Hartlepool	East
Derwentside	Consett, Stanley, Chester le Street, Durham City
Cestria	Chester le Street
Livin	Durham City B/Castle, Teesdale
Riverside	Not likely to pick up

- 13 It is possible that in the areas where the County owns the majority of social housing stock that the interest from established housing associations will be limited (ie in East Durham, former Wear Valley and Durham City) – this is particularly the case in existing Council estates where former Right to Buy's (RTB's) are being considered.

## Impact on Homelessness Service

- 14 Homelessness can have significant negative consequences for the people who experience it. At a personal level, homelessness can have a profound impact on health, education and employment prospects. At a social level, homelessness can impact on social cohesion and economic participation.
- 15 Mortgage repossessions have almost doubled over the last 10 years in Durham and now average around 1,000 per annum.
- 16 It is important to consider the cost of homelessness on the Local Authority. The following information clearly demonstrates that prevention of homelessness is a much cheaper option.
- 17 In 2007 Heriot Watt University estimated (in a DCLG report entitled 'Demonstrating the Cost Effectiveness of Preventing Homelessness') that the cost of processing a homeless application to a local authority was about £5,300; (this included staff time, cost of temporary accommodation and void costs to the housing provider).
- 18 In contrast, using a sample of 278 prevention cases in Durham, the cost to Durham County Council (to prevent homelessness) has been assessed. The total cost for the 278 cases was £64,967.28 in total or £233.70 per case.
- 19 Had the cases not been prevented the estimated costs based on £5,300 for a homelessness case would have been £1,473,400. By preventing 278 families from becoming homeless it is estimated that the service saved the authority £1,408,433 in non cashable savings.

## Implications

- 20 **Right to Buy** – It should be noted that any local authority Mortgage Rescue tenants will be granted secure tenancies and will therefore have the Right to Buy. This will result in a tenant being in a position to buy back their home at 65% of the full market value after just 5 years in the property.
- 21 **Borrowing** - The County Council has no borrowing headroom and therefore any funds used to fund mortgage rescue will be taken from the HRA 'decent homes' capital programme. (Even if the funds were taken from HRA reserves then this would still have a 'knock on effect' on the capital programme). The HCA have confirmed that there will not be any special provisions for additional borrowing headroom to accommodate any new house purchases under this scheme.
- 22 **Stock Options** – should a full stock transfer progress, the Council would cease being a Registered Provider and responsibilities for Mortgage Rescue would pass to any newly created housing association(s).

- 23 **Viability** – the purchase of a typical mortgage rescue home has been run through the Proval viability model. On the assumption that an affordable rent is charged, then the purchase would break even in year 19. Details of the viability appraisal are contained in Appendix 2.

## **Analysis**

- 24 The arguments in favour of proceeding with this proposal and becoming involved in the scheme are:
- (a) it offers to increase the range of Mortgage Rescue providers especially in areas of the County where interest from other RP's might be low
  - (b) it provides an opportunity for the authority to participate in an additional HCA funded scheme and provide additional assistance to the County's homelessness service
  - (c) it offers new opportunities for the county's ALMOs and INMO to add to their stock and meet specific housing needs in their operating areas
  - (d) there are significant long term savings to the local authority through supporting homelessness prevention schemes such as MRS.
- 25 The arguments against getting involved are:
- (a) it will require the Authority to develop new procedures and maybe access new skills in terms of purchasing properties and negotiating with existing mortgage providers and owners
  - (b) there will be a need for the local authority to borrow funds to purchase the property and also complete any essential repair work (see financial arrangements in paragraphs 27 and 28 below). Given the absence of any borrowing headroom it is important to recognise that any funds used for this purpose will be set against a reduction in funding for decent homes work
  - (c) management arrangements for 'one off' properties are often disproportionate to rental income and management allowances.
- 26 On balance, it is considered that the benefits of delivering additional units for those in need through Mortgage Rescue outweigh the additional responsibilities and costs of acquisition and management. There is therefore a good argument to agree to commit to Durham being one of the RP's involved in the Mortgage Rescue initiative in the County.

- 27 Furthermore, should we proceed we will be able to secure a grant rate of 47% of any relevant costs from the HCA. Decent homes work at the same grant rate (up to a maximum of £20,000) will also be available on the same terms.
- 28 The terms of any house purchase are agreed at 90% of the full market value of the house. The outstanding debt to the existing mortgage provider has to be redeemed within this sum.

### **Size of Programme**

- 29 In order to prevent 'over-exposure' to this initiative, a ceiling on the number of mortgage rescue schemes we approve should be considered. Given that there are already 6 providers active in the Durham area it would be reasonable to set a maximum of no more than 25% of all MRS properties (in any one year) to be progressed through the County Council.
- 30 Even with an increased level of funding, it is unlikely that the County as a whole will secure more than 12 mortgage rescue properties a year which means that the County Council would have an indicative ceiling of 3 MRS homes per annum. This would require a financial commitment of around £200,000 for each financial year.

### **Recommendations and Reasons**

- I It is recommended that:
- 31 The authority agrees to take up the proposal from the HCA and proceed with a limited programme of Mortgage Rescue acquisitions; subject to the appropriate referrals being made.
- 32 The authority commits to the scheme subject to an annual cap of £200,000 (equivalent to an indicative level of around 25% of the mortgage rescue programme for the county).
- 33 Any decisions to purchase property under this scheme are delegated to the Corporate Director of Regeneration and Economic Development in consultation with the portfolio holder for Housing

### **Background Papers**

None

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## **Appendix 1: Implications**

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### **Finance –**

The Mortgage Rescue Scheme will commit around £65,000 - £70,000 per property from HRA capital funds. It is estimated that this will amount to around £200,000 per annum should a maximum of 3 houses be included in the scheme each year. The Council is a Registered Provider with the Homes and Communities agency and will be entitled to draw down grant to assist in the acquisition and purchase of the properties.

### **Staffing –**

There will be no staffing implications.

### **Risk –**

A risk assessment will be made on a property by property basis.

### **Equality and Diversity / Public Sector Equality Duty –**

Mortgage repossessions affect all types of household – whilst disproportionately impacting on those with low incomes. This scheme will seek to ameliorate the worst impacts of mortgage debt for impoverished households.

### **Accommodation –**

There are no accommodation impacts.

### **Crime and Disorder –**

None

### **Human Rights –**

None

### **Consultation –**

No consultation requirements.

### **Procurement –**

None

### **Disability issues –**

None

### **Legal Implications –**

The authority will acquire properties through this new scheme and grant secure tenancies

## APPENDIX 2

### Breakdown of Costs for a typical Mortgage Rescue Property

Type for House	Three bed terraced house (120 sq m)
Purchase price (90% of full market value)	£108,000
Repair costs to bring to decent homes standard	£10,200
Fees	£5,910
Total costs	£124,110
Grant from HCA	£55,554
Development Loan	£68,556
Weekly rent	£92.30pw
Break Even year	Yr 19
Loan Repaid	Yr 35