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<b>Report To:</b>	<b>Education &amp; Communities Committee</b>	<b>Date:</b>	<b>5 September 2017</b>
<b>Report By:</b>	<b>Corporate Director Education, Communities &amp; Organisational Development</b>	<b>Report No:</b>	<b>EDUCOM/58/17/DH</b>
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<b>Subject:</b>	<b>Mortgage Guarantee Scheme</b>		

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## 1.0 PURPOSE

- 1.1 To seek the Committee's approval for a formal agreement with Scotwest Credit Union on the provision of a mortgage product that assists buyers to purchase a home in Inverclyde through a deposit guarantee scheme.

## 2.0 SUMMARY

- 2.1 A pilot mortgage guarantee scheme has been considered for Inverclyde which reflects the pilot scheme established by Glasgow City Council to assist buyers' access to affordable mortgages. Glasgow Credit Union is the delivery partner for this scheme.
- 2.2 Scotwest Credit Union was identified as a local provider for the Scheme in Inverclyde. Lengthy negotiations and discussions between officers and Scotwest Credit Union have taken place and agreement has now been reached on the terms of the proposed Mortgage Guarantee Scheme.
- 2.3 The Scheme will assist with a 97.5 % mortgage to non-homeowner buyers to purchase an Inverclyde home with a value of £115K or less. The Council will guarantee a maximum of 7.5 % of the mortgage notionally for 5 years. The scheme will be a 5 year pilot with the Council's maximum exposure being £150K. In reality this level of exposure is extremely unlikely.

## 3.0 RECOMMENDATIONS

- 3.1 That the Committee agrees
- to approve and support the scheme outlined in para 5.2 and Appendix 1 and;
  - that the £150k reserve for the scheme is reduced to £50K with the balance returned to the Policy & Resources Committee for reallocation.

## **4.0 BACKGROUND**

- 4.1 Following the launch of the Glasgow City Council/Glasgow Credit Union mortgage guarantee scheme pilot, the Council Leader requested that similar pilot scheme be considered for Inverclyde.
- 4.2 Scotwest Credit Union was the only local Credit Union Provider to express an interest in providing a product that would, with the support of the Council, assist buyers to access affordable mortgages.
- 4.3 Scotwest were clear from the start that 100% mortgages would not be considered as it is their policy that homeowners must commit their own financial stake in their property.

## **5.0 PROPOSAL**

- 5.1 The proposed scheme is to assist eligible non-home owners to purchase their own home in Inverclyde. Applicants will be fully assessed by Scotwest on their eligibility for the scheme as well as their ability to repay the mortgage.

- 5.2 Full details of the proposed scheme are in Appendix 1, however the main points are listed below. :-

Appendix  
1

1. Eligible applicants must not currently own a home, be using any other low cost ownership scheme and have no outstanding debts due to Inverclyde Council.
2. The house must be in Inverclyde, valued at £115k or less and will become the applicant's only residence after purchase.
3. Certain property types will not be eligible for the Scheme and these are detailed in Annex 1 of the Appendix.
4. Scotwest, subject to a case by case assessment, will provide 97.5% mortgages to eligible applicants. Scotwest will allocate up to £2million mortgage funding for the scheme.
5. Inverclyde Council will guarantee up to 7.5% of the purchase price for each property supported by the scheme for 5 years or a maximum of 7 years where the mortgage is more than 3 months in arrears on the 5<sup>th</sup> anniversary of the mortgage award.
6. The applicant must provide the 2.5% deposit of the purchase price of the eligible home.

- 5.3 Scotwest had a repossession rate of 0.5% over the last 5 years. The risk to the Council in supporting this Scheme is therefore very low. With the guarantee level set at 7.5% of the Scotwest £2m maximum investment this would expose the Council to an absolute maximum of risk of £150k. This is assuming the worst case scenario where all mortgages had defaulted, all houses were repossessed and the subsequent sale of the house realised a net deficit of 7.5% of the original purchase price of the house. During the guarantee period the risk to the Council will diminish through the reduction in the size of the mortgage and any house value increase. However it would be prudent to set aside £50k in reserves as this would allow for the extremely unlikely 33% failure of the mortgages through the scheme.

- 5.4 In anticipation of the establishment of the scheme, £150k was earmarked in reserves. Having given further consideration to risk to the Council as discussed in paragraph 5.3 above, it is now proposed that £100k of the earmarked amount is returned to the Policy & Resources Committee for reallocation.

## **6.0 IMPLICATIONS**

### **Finance**

- 6.1 Finance Officers have been consulted and have been involved with the development of the scheme since its inception.

## One off Costs

Cost Centre	Budget Heading	Budget Year	Proposed Spend this Report	Virement From	Other Comments
Scheme of Assistance	Mortgage Guarantee Scheme	2017-24	£nil		£50k in reserve to underwrite the scheme if needed.

## Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

## Legal

- 6.2 The Council has the power in terms of Section 71 of the Housing (Scotland) Act 2006 to enter into a mortgage guarantee scheme.

Potential State Aid issues arising from the Council's participation in the scheme have been considered, with particular regard to the European Commission Notice on the application of Articles 87 and 88 of the EC Treaty to state aid in the form of guarantees and the De Minimis Aid Regulation. Steps have been taken to establish whether Scotwest Credit Union is eligible to receive de minimis state aid in the form of the guarantee. It is considered that the guarantee can be provided to Scotwest Credit Union in terms of the De Minimis Aid Regulation, which allows small amounts of aid to be given to undertakings in compliance with the Regulation.

The mortgage guarantee scheme will be subject to a legal agreement between the Council and Scotwest Credit Union which will include provision for and reference to state aid and the de minimis rules.

## Human Resources

- 6.3 None

## Equalities

- 6.4 Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

The scheme will however support tenants struggling to save for a deposit by making home ownership more affordable to them.

## **Repopulation**

6.5 The scheme will support repopulation as it focuses on affordable home ownership in Inverclyde.

## **7.0 CONSULTATIONS**

7.1 Legal and Property Services and Finance have been consulted in the preparation of this report.

## **8.0 BACKGROUND PAPERS**

8.1 None.

## **Scotwest Credit Union/Inverclyde Council**

### **Mortgage Guarantee Scheme**

#### **Inverclyde Council Proposal - August 2017**

##### **Scheme Overview**

- The scheme is designed to assist Inverclyde residents who do not currently own a property to obtain a mortgage.
- Scotwest Credit Union will increase its risk profile by issuing mortgages up to 97.5% of the value of the property and Inverclyde will help mitigate this risk in the initial 5 years by providing a guarantee in the event of repossession.
- The resident will be required to demonstrate their commitment to the scheme by funding the 2.5% deposits.

##### **How it will work**

- a) Inverclyde will promote the scheme to its residents, and Scotwest will promote it to their members.
- b) If customers are interested, Inverclyde Council will assess them against their applicant eligibility criteria for the guarantee and explain that the property they intend to buy through the scheme must meet the property eligibility criteria as well
- c) If Inverclyde approve the applicant eligibility assessment they will provide the resident and Scotwest with written confirmation of that fact.
- d) The resident will then contact Scotwest for the purposes of making a mortgage application.
- e) Scotwest will direct the customer to its independent financial adviser (IFA). The IFA will carry out their normal fact find and needs and demands assessment and will bring the best and most appropriate deals to the customer's attention. The IFA will not charge a fee for this work.
- f) If the recommendation is that the "Inverclyde Mortgage" is suitable and the resident wishes to proceed, Scotwest will confirm all of the eligibility criteria with Inverclyde and will receive from Inverclyde written confirmation that the guarantee is in place before issuing the offer to the resident.
- g) The consumer will become a member of Scotwest Credit Union in order to draw down the loan.
- h) When the applicant has selected a property that Scotwest's mortgage offer is to apply to, Scotwest will collect current property and ownership details from the applicant to ensure the property meets the property eligibility criteria. Scotwest will share these with Inverclyde Council.

### **Inverclyde Council's applicant eligibility criteria**

To obtain a guarantee, applicants must

- currently not own a home
- not be using any other low-cost home ownership scheme in conjunction with this one and
- not currently have any outstanding debts with Inverclyde Council.

### **Inverclyde Council's property eligibility criteria**

Guarantees issued by Inverclyde Council can only be used by eligible applicants to help them purchase properties that

- are valued at £115,000 or less
- have an Inverclyde post-code and
- will become the only residence of the applicant upon purchase.

The guarantee will not apply to property types listed as per Annex I, nor will it apply to properties being purchased from registered social landlords or local authorities.

### **Funding and Products- Scotwest**

- Scotwest will allocate up to £2m mortgage funding for the scheme.
- Subject to an appropriate case by case assessment, Scotwest will provide mortgages at 97.5% of the value of properties being purchased.
- Scotwest will provide a 24 month fixed interest rate product under the scheme.
- If the customers chooses, Scotwest can add the legal and survey fees into the mortgage [subject to the overall value of the loan not exceeding the Loan to Value (LTV) threshold].

### **Funding – Inverclyde Council**

- The Council guarantee a portion of each mortgage in the scheme, at a level of 7.5% of the purchase price of each property for a period of 5 years post purchase.
- The Council will use its Scheme of Assistance funds to pay for Scotwest's valid claims on the guarantee
- The number and value of guarantees issued will not take Inverclyde Council's financial contribution above its limit of £150,000.

### **Funding – The Customer**

- Customers in receipt of the guarantee will provide a deposit of 2.5% of the purchase price of their property, as a condition of accessing the mortgage and guarantee

### **Promotion of the scheme**

- Inverclyde Council and Scotwest will have promotional campaigns for the scheme

### **The lifetime of the guarantee**

- At the point that each mortgage is issued, the 7.5% guarantee begins and will remain in place for a maximum of 60 months (see arrears below).
- Each guarantee ends on the fifth anniversary of the mortgage being issued (provided that the mortgage is not in arrears at that point) or when a valid claim is made on the guarantee.
- If the mortgage is in 3 months or more in arrears at the fifth anniversary, the guarantee remains in place for a further year. If at that point the mortgage is still in arrears the guarantee rolls over for another year. At the end of this second year the guarantee terminates regardless of the arrears position.

### **Triggering the guarantee**

- If the Pre-guarantee loss calculator produces a positive sum, the guarantee is triggered.

### **Pre-guarantee loss calculator**

**Outstanding mortgage balance (including accrued interest) at the point of repossession**

**PLUS**

**The costs of repossession and sale**

**LESS**

**The net sale proceeds on the sale of the property after repossession**

- A positive sum from this calculation is the Scotwest's "pre-guarantee loss."
- Within 6 months of the sale, Scotwest will make a formal claim to Inverclyde Council providing documentary evidence of the components of the above calculation, with any such claim being capped at a maximum the Scotwest's "pre guarantee loss" or 7.5% of the property purchase price at the time the guarantee was issued, whichever is lower.
- Inverclyde Council will remit (in full) to Scotwest the amount claimed within 90 days of receipt of the claim.

### **Duration of the scheme**

- The scheme will take new customers until the end of two years after the launch of the scheme, or until the funding cap for the scheme (£2m of Scotwest's mortgages and/or £150,000 of Inverclyde's guarantees) is reached – whichever comes first.
- During this period, either party can withdraw at any time, subject to 30 days notice, following which, existing guarantees would be honoured, but no new loans would be offered after the scheme ends this way. During the notice period new mortgages/ guarantees can only be issued by written mutual consent.
- The scheme will come to an end if Scotwest stops trading, or under some conditions in which Inverclyde Council ceases to exist. There may be circumstances where existing guarantees continue, but the overarching scheme itself ends and no new customers are taken on.

### **Monitoring the scheme**

- Inverclyde Council's and Scotwest's actual exposure under the scheme can only be articulated at the point of a repossessed sale.
- Inverclyde Council's maximum exposure equals 7.5% of the purchase price of each property which is currently subject to a guarantee.
- Scotwest will provide Inverclyde Council with a quarterly report showing each property which is subject to a guarantee, the maximum value of that guarantee, the projected end date of the guarantee (subject to arrears (above)) and whether or not the mortgage is in arrears. Failure to submit this report timeously will not in any way impact on the validity of the guarantee(s).
- Scotwest will advise Inverclyde Council each time a guarantee customer becomes two months in arrears. Failure to submit this report timeously will not in any way impact on the validity of the guarantee(s).
- Inverclyde Council to produce a monthly report to Scotwest on the number of people which they have assessed as being eligible for the guarantee.



**Annex I**

**a) Schedule of Property Types on which Scotwest are not willing to Lend**

- **High Rise Flats.**
- **Flats situated in blocks of 7 levels or higher**
- **Some Properties of Non Standard Construction.** e.g. Precast reinforced concrete homes on the Defective list. The following twelve types of construction are designated as defective:
  - Ayrshire County Council (Lindsay)
  - Blackburn Orlit
  - Boot
  - Dorran
  - Myton-Clyde
  - Orlit
  - Tarran
  - Tarran-Clyde
  - Tee Beam
  - Unitroy
  - Whitson-Fairhurst
  - Winget
- **Any Property deemed unfit for mortgage purposes by the appointed Chartered Surveyor.**

**b) Schedule of Property Types on which Scotwest will lend on subject to individual assessment are:**

- **Flats above shops/commercial properties**
- **Timber/metals clad properties**