

CHESHIRE EAST COUNCIL

Cabinet Member for Prosperity

Date of the meeting: 8 December 2009
Report of: Director of Places
Subject/Title: Assisted Purchase Scheme

1.0 Purpose of Report

- 1.1 This report explains the amendments made to the Assisted Purchase Scheme which was previously administered by Congleton Borough Council and which is now to be adopted by Cheshire East Council and applied across Cheshire East.

2.0 Recommendation

- 2.1 That the Assisted Purchase Scheme, as amended and set out in the Appendix to the report, be adopted and applied across Cheshire East.

3.0 Reasons for Recommendations

- 3.1 To re-launch the Assisted Purchase Scheme across Cheshire East and enable first time buyers to access the housing market.

4.0 Wards Affected

- 4.1 N/A

5.0 Local Ward Members

- 5.1 N/A

6.0 Policy Implications including - Climate change - None - Health - None

7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)

- 7.1 N/A

8.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)

- 8.1 Cheshire East made a capital provision of £600,000 for the Assisted Purchase Scheme, which has been funded through the Regional Housing Pot allocation for 2009/10.
- 8.2 Whilst there are currently no further capital budgets approved for the scheme, a capital bid has been put forward for consideration as part of the Council's medium-term business planning and budget preparation process.
- 8.3 There is currently no certainty regarding further capital cash receipts from the Regional Housing Pot allocation; consequently the capital bids have been proposed as to be financed from unsupported borrowing. If the loans are not financed from external capital allocations or other capital reserves, they would be financed from borrowing and debt repayment charges made on the Revenue Account.
- 8.4 As interest-free loans, the accounting treatments of "financial instruments" such as this can be quite complex; this will need to be researched to ensure accounting regulations are followed and auditors are satisfied with the treatment.

9.0 Legal Implications (Authorised by the Borough Solicitor)

- 9.1 A legal charge is placed on the property to enable the authority to reclaim its investment on sale of the property. This system is already in operation.

10.0 Risk Management

- 10.1 The amendments to the policy will give a time frame in which the assistance has to be repaid. If this is not included, it will not be possible to forecast when the investment is likely to be repaid. If, however, an applicant has not made provision or is under financial pressure there is the option to extend the funding for a further period of time or to apply interest. As this method has not been tested, there is a risk that the authority may experience problems trying to recoup their investment after the ten year period has lapsed.
- 10.2 The inclusion of a payback period will result in additional administration for both the legal and finance services, as systems will have to be set up to apply interest should an applicant demonstrate that they have not made provision to repay the loan after the ten year period.
- 10.3 The spending of the Regional Housing Pot allocation is monitored by the 4NW and has to be used to meet the priorities of the Regional Housing Strategy, which included the delivery of affordable housing. The authority will be highly criticised if the funding is not utilised effectively for housing purposes.

- 10.4 If the property market is buoyant at the time of sale, the authority could expect an increase in its original investment. However, it also takes the risk that if the property market is in decline, the return may be less than the original loan.
- 10.5 Legal services charges equate to £160 per hour and there is a risk that the administration cost of £350 will in some cases not cover this cost.

11.0 Background and Options

- 11.1 In 2006, Congleton Borough Council launched the Assisted Purchase Scheme to help first time buyers to access the housing market. The authority offered a 25% interest-free loan on open market properties up to a maximum purchase price of £140,000. The loan was not interest bearing, but was repayable on the sale of the property; the authority would expect to receive 25% of the open market value. If the property market was buoyant at the time of sale, the authority could expect an increase in its original investment. However, it would also take the risk that if the property market was in decline, the return may be less than the original loan.
- 11.2 In 2008/09 Congleton Borough Council helped 14 first time buyers to access the housing market through the scheme with average payments of £32,142. The scheme was very popular, with a waiting list in operation.
- 11.3 In the current economic climate, with lenders insisting on 20-35% deposits, the scheme is a very attractive offer. However, the scheme is not just about assisting those who do not have a deposit. Applicants have to demonstrate that their income would not allow them to purchase the property at its open market value without assistance from the authority.
- 11.4 A capital request was put before Cheshire East Council to enable the scheme to continue under the new authority. £600,000 was approved which was met by the Regional Housing Pot allocation for 2009/10.
- 11.5 Having considered the original criteria for the scheme, the Officers would propose the following amendments:
- Applicants can apply for a 25% loan on properties up to a maximum value of £180,000, with maximum assistance of £45,000.
 - Applicants would be expected to repay the loan in full within a ten year period from completion. A legal contract would have to be entered into by the applicant and a registered charge would also be placed on the property.
 - If, after a ten year period, the applicant states that they are not in a financial position to repay the loan, a financial assessment will be carried out to verify this. The Strategic Housing Manager, in conjunction with the

Borough Treasurer, can then take the decision either to extend the loan period for a further period of time (maximum of ten years) or to apply interest to the loan at the Bank of England base rate if it is felt that no provision has been made to repay the loan.

- 11.6 The full Scheme, incorporating these amendments, is set out in the Appendix.

12.0 Overview of Year One and Term One Issues

- 12.1 In order to utilise the capital budget and meet the needs of first-time buyers, the policy needs to be adopted as amended and applied across Cheshire East.

13.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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APPENDIX

CHESHIRE EAST COUNCIL'S ASSISTED PURCHASE SCHEME SCHEME RULES FOR PROFESSIONALS

The aim of the Scheme:

To assist first time buyers to access the housing market.

Who can apply:

Those applicants who are on the Council's Affordable Housing Waiting List and satisfy all of the following criteria:

- They are usually first time buyers, or people without any current interest in property.
- They live, work or have a first line relative living within Cheshire East.
- They are in housing need: Definition of housing need:

A household in unsuitable housing and unable to afford to rent or buy on the open market.

- Existing tenants of Registered Social Landlord's (RSL) can apply on the grounds that their existing rented property can be re-let. The Equity Share Scheme will not assist RSL tenants to purchase their property through the right to buy/acquire schemes.

An applicant must meet the above criteria then they must satisfy the authority that they can:

- Only afford to purchase 75% of the property, this figure not exceeding £135,000 with the Local Authority making up the remaining 25% to a maximum purchase price of £180,000.

The applicant must complete an application form in which financial information and evidence will be sought to determine the value of properties they can purchase. We calculate this by taking the main earners gross wage and multiplying it by 3.75, if purchasing with a partner/spouse then we would use 3.5 x the joint income plus any savings, as shown below:

| | | | | | | | |
|-----------|------|-------|------|-------|------------------|-------------|-------|
| Applicant | Wage | 17000 | X3.5 | 94500 | Single Applicant | 19000 x3.75 | 71250 |
| Ptnr | Wage | 10000 | | | | | |
| Savings | | 5000 | | 5000 | Savings | 10000 | 10000 |
| | | | | 99500 | | | 81250 |

In the example of the couple:

75% of purchase price being maximum of £99,500

25% interest free loan from Local Authority, maximum of £33,166

Maximum purchase price = £132,666

In the example of a single applicant:

75% of purchase price being maximum of £81,250

25% interest free loan from Local Authority £27,083

Maximum purchase price = £108,333

An applicant must be able to obtain a mortgage to cover their contribution and have savings to cover the costs of purchasing the property for example legal charges and search costs.

- Applicants must have no outstanding arrears on any previously rented properties.

How does the Assisted Purchase Scheme work?

The scheme enables those applicants who meet the qualifying criteria to purchase 100% of a property on the open market up to a limit of £180,000. (These figures will be reviewed on an annual basis by the Housing Department using Land Registry Data). This must be funded through a mortgage from an approved lender (a building society, bank, friendly society or an insurance company) and personal savings. The mortgage must not exceed 75% of the purchase price.

Cheshire East will provide an interest free loan to cover the 25% of the purchase price. This is an on going loan with the expectation that after a ten-year period the loan will be repaid. The applicant will be expected to make provision to enable the loan to be repaid in full within this time period. If the loan is not repaid within the specified time, either by the sale of the property or buy out of the loan, then the applicants will be financially re assessed and the Strategic Housing Manager in Conjunction with the Borough Treasurer will take the decision based on an individual basis, to either extend the loan for a further period of time (maximum ten years) or to apply interest to the loan at the levels in line with the Bank of England base rate, which may be variable during the time period.

If the authority agree to extend the period of time and do not apply interest at this stage and after the agreed period of time the applicant has still made no provision to repay then the authority will apply interest and work out a repayment plan with the applicant.

The loan is secured as a second charge upon the property.

The properties purchased **must be the permanent primary and sole residence** of applicants.

What type of Property can an applicant buy?

Properties which are:

- Houses and flats within the Borough of Cheshire East. (To meet the needs of the applicant: single/couple maximum 2 bed)
- Acceptable for mortgage purposes.
- A residential property which is being sold with vacant possession.
- The property is fit to live in and is supported by a Homebuyers survey. Properties in poor condition which the mortgage lender would hold a retention exceeding £3,500 will not be considered
- Freehold property (In some cases a leasehold will be accepted as long as the lease has a remaining term of at least 55 years)
- The purchase price does not exceed £180,000.

We will not accept properties which are:

- On sale at auction.
- Properties which are offered under another affordable housing scheme for example shared ownership.
- Self build properties.

How does an applicant apply?

The applicant will need to complete an application form which can be obtained from the Housing Department.

When this has been completed and the application form returned a letter of approval “in principle” will be sent out within 14 days enabling them to proceed further. This **DOES NOT** represent a commitment on behalf of the local authority at this stage. It allows applicants to search for a suitable property. Once they have identified a property they **MUST** then come back to the Local Authority to confirm that funding is available before proceeding with a sale. If the local authority refuses the application a letter will be sent stating the reasons why.

The letter of approval will give permission to look for a property up to a certain price limit. When they have found a suitable property they **MUST** then confirm that Local Authority Funding is still available, and then negotiate a price that will not exceed the Assisted Purchase price limit set.

The applicant is responsible for the arrangement and the financing of a **Home Buyers Report** on the property. A copy of the Home Buyers Report must be sent to the local authority for approval. Once approval has been given by the Local Authority a further letter will be produced outlining the terms of the offer, only then

will the applicant be able to enter into a legal agreement. The local authority will provide a letter detailing the scheme for the applicant's solicitor.

After the property has been purchased.

When the property is purchased it will be owned outright by the applicant who will therefore be responsible for all repairs and maintenance as well as meeting the mortgage repayments. The applicant must also ensure that the property is insured in case of fire etc.

The applicant must inform the local authority in writing of any alterations or improvements which they intend to carry out to the property and await approval before commencing. If an applicant wishes to consider taking out any further loans that will be secured against the property they must consult the local authority before proceeding. The total of secured loans (including the original mortgage) should not exceed 75% of the property valuation.

The applicant must inform the local authority if they are selling the property and they are responsible for the production of the Home Information Pack (HIP).

If the applicant wishes to buy the authority out of the loan then they are responsible for any charges made by the Land Registry in relation to the removal of the charge.

The Local Authority reserves the right to revalue the property at regular intervals, the cost of which will be covered by the authority.

Fees

The local authority will charge a fee of £350 plus VAT to cover administrative and legal costs.