

**Manchester City Council
Report for Resolution**

Report To: Executive

Date: 24 June 2009

Subject : Waiving Repayment Of "Right To Buy" Discount In Case of Hardship, to Assist Applicants For The Mortgage Rescue Scheme

Report Of: Director Of Housing

Summary

1. To report the role of the Council in helping Manchester residents access the Government's measures to prevent homelessness through mortgage repossession, including the Mortgage Rescue Scheme.
2. To request the Executive to authorise the Director of Housing to waive the Council's right to demand repayment of "Right to Buy" discount to enable homeowners at risk of losing their homes to be eligible for the Mortgage Rescue Scheme.

Recommendations

The Executive is requested to:

- 1) Note the role of the Council in helping Manchester residents in danger of losing their homes access a range of Government measures to prevent homelessness through mortgage repossession, including the Mortgage Rescue Scheme.
- 2) Authorise the Director of Housing to waive the Council's right to demand repayment of some or all "Right to Buy" discount in accordance with the following principles:
 - a) Repayment is only to be waived where homeowners would otherwise be unable to take up the Government Mortgage Rescue (Mortgage to Rent) Scheme (or any subsequent scheme designed to prevent owner - occupiers' homes being repossessed);
 - b) Repayment is only to be waived to the extent necessary to allow the applicant to access the Mortgage Rescue (Mortgage to Rent) scheme;
 - c) The Council reserve the right to refuse an application to waive the repayment of "Right to Buy" discount where an applicant is considered to have made himself intentionally homeless, or where it is considered that refusal would not cause hardship.

Wards Affected : All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub - region	Prevention of repossessions will mean fewer vacant properties coming onto an already depressed housing market.
Reaching full potential in education and employment	<p>People who are not forced to move as a result of repossession are more likely to be able to stay in employment.</p> <p>Children will avoid having their education disrupted.</p>
Individual and collective self esteem – mutual respect	People who are spared the misery and stress of losing their homes will have greater self-esteem.
Neighbourhoods of Choice	<p>Residents who are able to stay near family and friends, in the homes they have lived in for many years, contribute to the maintenance of strong communities.</p> <p>If residents do not become homeless this will reduce the pressure on existing waiting lists for social housing. Ex-Council houses will return to social housing stock.</p>

Financial Consequences – Revenue

In the event that a home is repossessed, and the individual/family are made homeless, then the Council could incur additional costs in respect of rehousing if they met the criteria, or cost of temporary accommodation in certain circumstances. The waiving of RTB discount will enable families to apply to the mortgage rescue scheme, which could help individuals/families who are in difficulty to remain in their homes and not incur any costs in rehousing the individuals.

There are no financial implications for the General Fund.

Financial Consequences – Capital

1. Currently tenants are eligible for a maximum discount of up to £26,000 which must be repaid if the house is sold in the first 5 years of private ownership, the level of repayment decreases by a fifth as each year passes.
2. In order to qualify for the mortgage rescue scheme, the applicant must satisfy certain criteria (see 2.4 for details), but in certain cases, if the Council insist on

repayment of the discount which is secured as a second charge, the 97% secured debt threshold could be breached. So in order to ensure that the applicant is eligible for the mortgage rescue scheme, the maximum waiver will be for up to 3% of the market value. (see Appendix 1 for further details.)

3. Currently any right to buy receipts are split 75% pooled nationally, with 25% being retained by the local authority. Given that the Council can only retain 25% of any capital receipt, and the maximum discount is £26,000 the maximum loss to MCC would be £6,500, which traditionally would be available for reinvestment within the capital programme. In any cases that are approved, this amount would be reduced further, due to the time elapsed since purchase, i.e. one fifth each year for the first five years.
4. The number of cases who will need waiver of the RTB discount is likely to be small, since repayment is only due within five years of purchase. Some applicants may have sufficient equity left to enable them to repay all of the discount anyway. Also the Government budget for the scheme can only help about 6,000 applicants nationwide. It is unlikely therefore that the financial loss will be significant.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

1. Guidance notes for local authorities on the Government Mortgage Rescue Scheme published by the Department of Communities and Local Government. (Further information on Mortgage Rescue is available from the website of the Department of Communities and Local Government.
<http://www.communities.gov.uk/housing/buyingselling/mortgagerescuemeasures/>)
2. "The Manchester Way" – Manchester's Community Strategy 2006 – 2015.

1. Background

1.1 In January 2009 the Government introduced a package of measures to prevent owner - occupiers losing their homes through mortgage repossession. Although these initiatives are funded by central government, local authorities are expected to deal with the initial enquiries from homeowners. Council officers, especially Manchester Advice, play an essential role in providing advice and assistance to homeowners on the various alternatives for which they may be eligible including:

- support to out-of-work homeowners who may be eligible for Support for Mortgage Interest (SMI), reducing monthly mortgage repayments;
- support to homeowners who have suffered a drop in income and who may be eligible for the new Homeowners' Mortgage Support allowing them to defer payment of part of their loan and thereby reduce monthly payments;
- advice for households at court;
- public awareness campaigns and debt advice;
- a local authority Repossession Prevention Fund;
- the Government Mortgage Rescue Scheme.

All these measures will help to prevent homelessness and save the Council the cost of providing households with alternative accommodation.

2. Mortgage Rescue Scheme

2.1 The Government's Mortgage Rescue Scheme (MRS) is intended to provide an additional safety net for up to 6,000 vulnerable households nationwide who are at risk of losing their home through repossession over the next 2 years. Depending on their specific circumstances, homeowners eligible for help under the MRS may be offered either:

- **A shared equity option with a local Registered Social Landlord.** Great Places Housing Group have been chosen to operate this scheme in the North West, through their subsidiary Plumlife. Plumlife buys a percentage of the property from the homeowner, which pays off part of his mortgage. The homeowner pays rent to Plumlife on their share and the reduced mortgage payments on his remaining share;
Or
- **Government Mortgage to Rent.** Plumlife buys the whole of the property from the homeowner. This enables him to remain in the property as a Plumlife tenant on an assured shorthold tenancy, paying an intermediate rent. He will usually be able to claim Housing Benefit to help pay the rent.

2.2 Officers from Manchester Advice, Homelessness, and Private Sector Housing carry out an exhaustive assessment to determine whether applicants are eligible for the scheme. Following the assessment, any homeowners who are eligible for the MRS are referred to Plumlife who decide whether to offer the shared equity or Mortgage to Rent option. At present, six cases have been

referred over to Plumlife to arrange mortgage rescue, with another six in the pipeline.

2.3 In order to be eligible for the scheme, applicants must be able to satisfy a number of strict conditions, including their household financial circumstances and the value and condition of their property.

2.4 Three particularly relevant criteria for the purposes of this report are that:

- The applicants must be in priority need for housing – i.e. those who would qualify for homeless accommodation by reason of having children or who are vulnerable because of old age, illness or disability.
- The amount of debt secured on the home must not exceed 97% of the market value. If the debt is greater than 97%, creditors (including the Council) must be willing to write off the “overhang” i.e. the proportion of the debt that exceeds 97% of the equity.
- The applicant must be able to afford to pay his outgoings after Mortgage Rescue so there should be no risk of his subsequently losing his home anyway.

3. Right to Buy Discount

3.1 Council tenants are entitled to buy their homes at a discount which varies according to the length of their tenancy. The maximum discount is £26,000. The discount must be repaid if the house is sold within five years of purchase. The amount that must be repaid goes down by one fifth for each year since the purchase, for example, if the owner sells after one year he must pay four fifths of the original discount. If a Right To Buy (RTB) owner was to need assistance under the Mortgage Rescue Scheme, this would trigger the repayment of the RTB discount and this is the reason for this report and for the request that the Director of Housing be given the authority to waive repayment of the discount within certain stated guidelines.

3.2 The discount is a debt secured on the property and counts as a second charge after any mortgage. So if the proceeds of sale are not enough to pay off both debts, the mortgage lender takes its share first and the Council only gets whatever is left. (See Appendix 1 for further information). It is important to remember that in many cases where arrears have built up on top of the existing mortgage debt, there may be little if anything left to repay the discount. So in practice when a property is repossessed, the City Council may be forced to write off some or all of the discount secured on the house.

4. Key Policies and Considerations

(a) Equal Opportunities

4.1 The proposals in this report will assist households who are in financial difficulties.

(b) Risk Management

- 4.2 As mentioned in Section 2 above, the amount of repayment the Council may be asked to forgo is unlikely to exceed 3% of the equity of the property concerned (see Appendix 1 for further details). The Director of Housing would be given the discretion to decide each application individually, on its merits.

(c) Legal Considerations

- 4.3 The main provisions of the Right To Buy legislation are contained in the Housing Act 1985. However, this legislation has been amended, most recently by Part 6 of the Housing Act 2004. The City Solicitor advises that the Director of Housing already has the power to waive repayment of Right to Buy discount as this falls within his general delegation to discharge the functions of the Council as a local housing authority. However, the City Solicitor recommends that the Executive formally agree guidelines for the Director's decision in respect of the Mortgage Rescue Scheme. It is expected that the Director will continue to refuse to waive repayment in cases outside the scope of this Report, however, having formal guidelines will help to justify and defend his decisions.

5. Human Rights Implications

- 5.1 There are no adverse Human Rights Act 1998 implications arising directly from this report.

6. Conclusion

- 6.1 The Mortgage Rescue Scheme will help homeowners avoid losing their homes through repossession. If repossession takes place, in addition to the considerable misery and distress to the household in losing their home, the Council will incur the cost of rehousing the residents. If residents do not become homeless this will reduce the pressure on existing waiting lists for social housing and ex - Council houses will return to the social housing stock. The amount of discount that the Council would actually forgo is relatively small.
- 6.2 Having regard to the above, the Executive is requested to agree the recommendations contained at the front of this report.

APPENDIX 1

Case Study - Application for Mortgage Rescue

The information below is from an actual case. Name and address details have been withheld to protect the homeowner's privacy.

Mr M____, is 70 years old, in poor health and suffers from Alzheimer's disease. His family live nearby to provide care. Astonishingly, he was granted a mortgage two years ago. It appears that his mortgage lender did not check whether he was able to meet the repayments. However the Council would still be liable to re-house him because of his age and vulnerability.

He bought his flat from the Council in September 2007 with the maximum £26,000 Right to Buy (RTB) discount on its value of £87,300. The original mortgage was for £61,300. To be eligible for Mortgage Rescue (Mortgage to Rent) he needs to have at least 3% of the value of his house left as equity after debts are paid. (He would be expected to pay the 3% equity to the Registered Social Landlord (RSL) to take part in mortgage rescue.)

He owes about £77,000 on his mortgage including the arrears that have built up. (His monthly mortgage payments are £1,200 a month.) At the time of preparing this report his flat is thought to be worth about £90,000. However, since he only bought the property in September 2007, he is still liable to repay £21,600* RTB discount if the house is sold.

If the property was repossessed

The mortgage lender claims its share of the debt first and the Council takes what is left. There is not enough money left to repay the full amount of the discount owing - only about £13,000 ($£90,000 - £77,000 = \mathbf{£13,000}$)

The Council must pay to re-house Mr M_____

If some of the discount repayment was waived to allow Mortgage Rescue

To comply with the rules for Mortgage Rescue Mr M_____ must have 3% equity left in the property to pay to the RSL. This means that the Council must agree to waive enough of his debt to leave Mr M_____ with at least 3% equity.

3% of £90,000 = £2,700

Council receives ($£90,000 - £77,000 - £2,700 = \mathbf{£10,300}$)

Since Mr M_____ stays in his home there is no cost to the Council in rehousing him.

Bearing in mind that the Council would have to pay for the cost of rehousing Mr M____, waiving a proportion of the discount would appear to be good value for money.

* The amount of discount to be repaid if a property is sold within 5 years of purchase will be a percentage of the resale value of the property. (Therefore if the property value had increased and the property had been sold within the first year, the repayment could have exceeded £26,000.) The amount that must be repaid goes down by one fifth for each year since the purchase. (For example if the owner sells after one year he must pay four fifths of the original discount.)

In this case the property was valued at £87,300 at the time of selling and a discount of £26,000 was given, equivalent to 30% of the value. If the property is sold after one year after purchase and is now worth £90,000, the seller will have to repay $£90,000 \times 30\% \text{ discount} \times \frac{4}{5}$ i.e. £21,600.