

REDDITCH BOROUGH COUNCIL



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Redditch Borough Council's Mortgage Rescue Scheme

Policy and Procedure

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SECTION 1: GLOSSARY OF TERMS

Asset Management Survey	Survey to assess the current condition of the property and the works required to bring it up to Decent Homes Standard (DHS).
Mortgage to Rent	Ownership of the property transfers from the household to the Council. The household becomes a tenant of the Council.
“Haircut” or Home Owners Equity Contribution	This is set at <u>10%</u> and means that the property is acquired at <u>90%</u> of the market value.
FA	Independent Financial Advisor who will provide objective advice to the household on whether to proceed with the rescue.
Mortgage Rescue Scheme	An initiative to prevent repossessions and avoid homelessness. It is expected that households will enter mortgage rescue after all alternative avenues to avoid repossession have been explored by the Council (prior to referral for mortgage rescue).
Property Price Cap	The predetermined maximum open market value for properties to be eligible for Mortgage Rescue is £130,000, to be reviewed annually. This cap has been determined to ensure properties are suitable to be included in the Council’s housing stock.
Property Repairs Cap	If the cost of repairs to bring the property up to the Council’s standard are above £15,000 the mortgage rescue will not proceed. This value has been determined by Housing Capital Team as repairs above this value is likely to require significant structural interventions.

SECTION 2: MORTGAGE RESCUE POLICY

The Mortgage Rescue Scheme provides a vital support to homeowners who are struggling to maintain their mortgage payments, and to keep them in their homes where ever possible. Redditch Borough Council offers a mortgage rescue scheme to help prevent homelessness, support households and families and avoid homes becoming empty.

The scheme is discretionary and is designed to offer assistance to some households who comply with the eligibility criteria and who have exhausted all lender forbearance measures. The Redditch Mortgage Rescue scheme offers an opportunity for some eligible homeowners to sell their home to the Council, and rent it back at a social housing rent.

1. Purpose of the Mortgage Rescue Scheme

The Mortgage Rescue Scheme assists the Council to prevent homelessness and minimise empty homes. It is an option available to eligible households in financial difficulties when all other alternative avenues to avoid repossession have been explored and it contributes towards three strategic purposes:

- Help me to find somewhere to live in my locality
- Help me to be financially independent
- Keep my place safe and looking good

2. Eligibility

The scheme is only available to families and people who are vulnerable, at risk, or elderly (or those households local authorities would have a duty to house under homelessness legislation). It is not available to those deemed to be intentionally homeless.

The Housing Options Team are best able to identify anyone who might meet the requirements of the Mortgage Rescue Scheme.

- Eligibility criteria:
 - a) The households are eligible for social housing and have recourse to public funds
 - b) The household is in priority need under homeless legislation
 - c) The whole household income is less than £35,000 excluding any means tested benefits
 - d) The property value is no more than £130,000. (To be reviewed annually.) The initial valuation will use on line resources to assess eligibility.
 - e) The property must be Freehold or if Leasehold the Council must be the Freeholder.

- f) Where the equity released to the applicant following the Mortgage Rescue amounts to no more than £16,000

Some cases may not proceed from this stage

- The scheme is not available to those in negative equity unless the lender is prepared to negotiate and accept 90% of the value of the property to write the debt off or accept a shortfall agreement for any outstanding debt.
- Applicants must agree to an equity contribution of 10% of the open market value. Therefore, the local authority will pay 90% of the open market value for the property.
- If significant repairs are required to make the property suitable to live in then the Council may withdraw the application for mortgage rescue. The approximate cost ceiling for repairs is £15,000. Once rescued repairs and maintenance will be the responsibility of the Council.
- The Mortgage Rescue scheme is discretionary and therefore the Council may decide that despite an applicant meeting the eligibility criteria, they may not, for a variety of reasons, such as condition or location of the property, be accepted for the scheme.

Following referral and initial assessment by the Housing Options Team the final decision on whether or not a case proceeds rests with the Head of Housing.

3. Benefits of Mortgage Rescue

- The Council increases its housing stock and reduces homelessness.
- The property is brought up to Decent Homes Standard (DHS) as part of the process.
- There is a tenant in situ. It is recognised that some households will need additional support, such as ongoing access to money advice, to sustain their tenancy.
- The tenant is awarded an introductory tenancy that is converted to a secure tenancy after one year subject to satisfactory conduct of the tenancy.
- If the occupier wishes to exercise their Right To Buy there will be a 'cost floor' in place for 15 years which means that the property cannot be sold for less than the amount paid to purchase the property under mortgage rescue. (Housing (Right to Buy) (Limit on Discount) (England) Order 2012)
- The scheme helps to avoid homes becoming empty.

4. Financial responsibilities in respect of the Mortgage Rescue Scheme

The Council will pay the following costs:

- The purchase price of the property;
- The cost of the necessary repairs to bring the property up to a minimum of Decent Home Standard;
- The fees associated with specifying the works including Asset management survey, electric survey, gas survey, Valuation report and EPC
- The reasonable fees of the Vendor's (applicant's) solicitor up to a maximum of £600 excluding VAT plus disbursements.

Section 3: Mortgage Rescue Procedure

This procedure sets out the various activities within each stage required to complete a Mortgage Rescue.

The Housing Options Team are best able to identify anyone who might meet the requirements of the Mortgage Rescue Scheme and they will:

Undertake an eligibility assessment and ensure that:

- The households are eligible for social housing.
- The household are in priority need
- The whole household income is less than £35,000.
- The property value is no more than £130,000 unless there are exceptional circumstances at the discretion of the Head of Housing. The on line valuation figures will be used to initially assess the value of the home eg. Zoopla.
- The property must be freehold unless the Council is the freeholder.
- There is insufficient equity for the household to access alternative accommodation.

If all of the eligibility criteria are met, the Housing Options Team will then refer the applicant to the officer responsible for Mortgage Rescue who will:

- Ensure the appropriate financial assessments are carried out. Shelter and other debt advice agencies are able to carry out these assessments.
- Arrange for an asset management, electric, gas and asbestos survey and Energy Performance Certificate (EPC). Where the repairs required are extensive, for example where the household would need to be decanted or if structurally unsound, then the Council may refuse the mortgage rescue. The approximate cost ceiling for repairs is £15,000.
- Carry out a home visit to ensure that the applicant understands the implications of the scheme.

- Check land title (if not already undertaken) and commission County Council Property Services to complete a Valuation Report of the property (assuming proper title is established) to determine the value property and social rent amount.
- Once the valuer has confirmed the value and rental value, arrange for a post rescue financial assessment based on social rent.
- If the case is proceeding, make an offer to the household based on the value of the property.
- If the offer is accepted, the officer responsible for mortgage rescue will co-ordinate and manage all the legal work with solicitor throughout the case. The applicants will instruct their own solicitor, the costs of which will be met by the Council up to a maximum of £600 excluding VAT plus disbursements.
- Prior to completion the officer responsible for Mortgage Rescue and Locality Officers will carry out a joint visit to explain the Tenancy Agreement and ensure the applicant understands their responsibilities as a tenant. During the visit a Direct Debit form or Housing Benefit application will be completed to ensure rental payments are made.
- It will be expected that one month's rent will be taken upon completion of the purchase and at the same time any other council debts will be repaid where there is sufficient equity.

The officer responsible for Mortgage Rescue will forge good relationships with lenders and conduct any negotiations required in respect of resettlement figures and shortfalls in conjunction with money advice agencies. In order to do this they will require:

- Consent from the household to discuss the mortgage and other secured loans with the Lenders.
- The customer's income and expenditure form and their application form.
- A copy of the valuation and the Council's offer in writing, and any shortfall offer from the applicant.
- Lenders are under no obligation to waive their early redemption charge. However, it may be possible to negotiate a reduction in this figure, if it is necessary to allow the rescue to complete.

ASSESSMENT OF REPAIR REQUIREMENTS

Once the Asset Management survey has been completed and the cost of the repair work quantified, it is assumed that the rescue will proceed unless it is considered that the extent of the works and consequent costs are considered to be too extensive and/or economically unviable to undertake, and/or there are severe structural issues associated with the property which will cause a long-term asset management issue for the Council. The Council has set a cap of £15,000.

If the Council does not wish to proceed with the rescue at this stage because of the condition of the property, the case will be closed at this point.

VALUATION

On the **same day** of receipt of the completed RICS valuation from County Council Property Services or District Valuer, the following actions will be taken depending on the outcome of the valuation:

- i. **If the open market value of the property is more** than the price cap, the Mortgage Rescue Officer will discuss the case with the Head of Housing to agree whether the rescue can proceed or should be refused.
- ii. **If the open market value is within the price cap**, a further “Quick Financial Assessment” needs to be completed using the actual open market value to use as the basis for a formal offer to the lender(s)/charge holders. The Mortgage Rescue will only be able to proceed if all parties are satisfied with the valuation.
- iii. The Mortgage Rescue Officer will make an offer to lenders/other charge holders.

Negotiations with the lender(s)/other charge holders will continue until the end of the rescue process, depending on the complexity of an individual case. The case cannot proceed until in principle agreement has been reached with all lenders/charge holders, although the final redemption figures will not be available until 48 hours prior to contract exchange. It is good practice to chase the lender(s)/other charge holders periodically to ensure hold-ups in the process are minimised as much as possible.

FORMAL OFFER

This stage can only commence when provisional (in principle) acceptance in writing of the offer by **all** the lender(s)/other charge holders at stage 2 has been received. Subject to the complexity of negotiations, this can take an extended period of time.

On the **same day** that provisional acceptance is received, the next actions for the Council are to:

- i. Undertake a final financial assessment in preparation for making the offer to the applicant based on the post rescue social rent.
- ii. Write to the applicant to make a formal offer which will be subject to the final redemption figures. This will include advice about obtaining

independent financial advice before accepting the offer and proceeding with Mortgage Rescue, appointing a solicitor to act on the applicant's behalf, and will explain the repair work required to be undertaken to the property. The following documents need to be enclosed:

- Mortgage Rescue Question and Answer Leaflet setting out information about what happens next.
- Details of the valuation
- Repair consent form – this needs to be completed and returned if the formal offer is accepted.
- Information about 2 – 3 solicitors operating in the area – if the applicant decides to proceed with rescue, they must instruct an independent solicitor to act on their behalf. A standard document that the applicant can use to instruct their solicitor should also be provided in order to make the process as easy as possible for all parties. A financial cap of £600 (plus VAT and disbursements) will be placed on the contribution that will be paid for solicitors fees.
- A copy of the draft standard Introductory Tenancy for information
- An offer acceptance/decline pro forma which the applicant is required to complete to confirm their decision to proceed or not with the rescue

The formal 14 day cooling off period commences on issue of the offer letter to the applicant.

- iii. The applicant must formally accept or decline the offer in writing by signing and returning the pro forma. If the applicant accepts the offer, the next stage can commence (once the cooling off period has expired).
- iv. If the applicant decides to reject the offer, the **case will be closed**. Where possible the applicant should be asked to provide reasons.
- v. A courtesy call will be made to the applicant during the fourteen day cooling off period to ensure they have all the information they need to make their decision or answer any queries/concerns they may have.
- vi. The legal team will be notified that the offer letter has been issued.

COMPLETION

Receipt of the formal acceptance of the offer from the applicant is the trigger required to commence the last stage in the MRS process, which is the legal and conveyancing activities required to complete the acquisition of the property and transfer of ownership to the Council.

Approximately 48 hours before the planned exchange of contract, the client's solicitor will need to obtain the final redemption figures from all lenders/charge-holders.

- i. In preparation for the acquisition of the property, the Council will ensure that its own internal arrangements are set up to incorporate a new property into the housing management arrangements, this will include:
 - Arranging a joint tenancy sign up visit with Locality Officers and the Mortgage Rescue Officer.
 - Handover arrangements to the locality team
 - Setting up the property/tenancy on the housing management system

- ii. **On the day of completion**, the Council will instruct Asset and Maintenance Services to undertake any safety checks required. Any repair works should be scheduled to accommodate the household's family circumstances, and should ordinarily commence within **six weeks** of purchase completion.