WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Corporate and Efficient Governance Committee : 21 September 2011

Subject : Council Home Loan Mortgage Portfolio

1. Purpose

1.1 The purpose of this report is to seek Committee approval to invite tenders for the sale of the Council's Home Loan Mortgage portfolio.

2. Background

2.1 The Council, in previous years, acted as lender of last resort to Council house tenants wishing to buy their Council house.

2.2 The Council currently has 45 home loans still being repaid by owner occupiers and the present value of debt outstanding on these loans is £234,000.

3. Main Issues

3.1 Loans were advanced by the Council in previous years to Council house tenants wishing to buy their Council house. The Council acted as a lender of last resort and, before any application would be accepted by the Council, the prospective buyer had to supply evidence that they could not access mortgage funding from other financial institutions. As a result of this, the majority of applications came from occupiers of properties considered to be of a 'non-standard' construction type that mainstream lenders would not underwrite. At present, 44 of the outstanding Council loans are in respect of mortgages advanced for the purchase of 'non-standard' construction type properties

3.2 The loans are being paid over a number of years and, although the final loan due to be repaid in 2028, the majority of loans will be repaid by 2018. The interest charged on these loans is credited to the Housing Revenue Account (HRA) and, for 2010/11, this amounted to £15,200. The administration of home loans is a specialised function and this service has been outsourced for over 10 years. The cost of administering these loans is £7,350 per year; therefore the net income to the HRA is £7,850 per year. As loans mature, the interest income credited to the HRA will reduce. Although an element of the administration costs will diminish as the number of loans reduces, it does not reduce in direct proportion as there is a fixed fee element to the charge. On current projections, the interest charged on the loans may fail to recover the cost of administering the loans by 2018.

3.3 An assessment was carried out in respect of the potential to sell off the outstanding debt and generate a capital receipt. There is a very limited market for this type of sale. Very few mainstream lenders are prepared to advance funds on ‘non-standard’ construction type properties and this reluctance to advance has been further accentuated by the on-going squeeze on credit facilities.

3.4 Notwithstanding the above, there is a specialised market for selling off Council home loans. A similar exercise was carried out by Fife Council a few years ago and it is estimated that selling off this portfolio could generate a capital receipt of approximately £190,000. There is no requirement in Scotland to obtain the consent of every account holder before any transfer took place, but it would be good practice to engage the home owners in a comprehensive communications exercise prior to issuing the tender. The communication process would seek to inform home owners that any arrears they had at the point of sale would be transferred to the new provider and that, as per the current scheme, their home could be in danger if they fail to maintain their loan repayments. The Council would retain an interest in many of these properties e.g. blocks of mixed tenure, and these rights would not be affected by the sale.

4. People Implications

4.1 There are no people implications.

5. Financial Implications

5.1 Home loans currently generate a net revenue of £7,850 a year to the Council although this sum will diminish over time as loans are repaid. It is anticipated that the net income to the HRA will reduce to nil by 2018. Selling the home loan mortgage portfolio could generate a capital receipt of £190,000 to the HRA.

6. Risk Analysis

6.1 The Council has security on all the loans advanced. There is a risk that no financial institutions would be willing to advance funds to secure the home loan mortgage portfolio.

7. Equalities, Health & Humans Rights Impact Assessment (EIA)

7.1 No issues were identified in a screening for potential equalities impact of this proposal.

8. Strategic Assessment

8.1 This proposal will complement the Council’s Financial Strategy through the realisation of a capital receipt.

9. Conclusions and Recommendations

9.1 This report highlights that there is a potential one-off capital receipt available of around £190,000 through selling the current home loan debt.

9.2 It is recommended that:

i) A tendering process should be commenced to market the current home loan debt portfolio in order to generate a capital receipt;

ii) A process should be implemented to effectively communicate the proposed change of lender to all account holders: and

iii) The result of the tendering process is reported to a future meeting of this Committee.

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Date: 6 September 2011

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Appendices None

Background Papers: None

Wards affected: All Council wards