

## **Item: 3**

**Education, Leisure and Housing Committee: 28 March 2018.**

**Review of Charges – Housing Loans.**

**Joint Report by Chief Executive and Director of Education, Leisure and Housing.**

### **1. Purpose of Report**

To review the charges currently in place in respect of administration of the Housing Loan Scheme.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That the Council operates a Housing Loan Scheme to support housing purchase, development, improvement and repair in the private sector.

#### **2.2.**

That the Housing Loan Scheme is administered by Finance Services, with each application requiring to be fully assessed to ensure compliance with the recommended parameters, which incurs the following fees:

- An administration fee of £25.
- Legal Fees of £250.

#### **2.3.**

That the fees charged to applicants for housing loan, detailed at paragraph 2.2 above, no longer reflect the level of work undertaken by Finance and Legal Services in respect of each application.

#### **2.4.**

That a review has been undertaken to determine the level of charges that would be incurred by the applicant if applying for a loan from another financial institution, such as banks and building societies.

#### **2.5.**

That the proposed net fees, detailed in section 5 of this report, compare favourably with those made by other institutions.

**It is recommended:**

## **2.8.**

That the undernoted net fees associated with administration of the Housing Loan Scheme be increased as follows:

- Administration Fee – increase by £125 from £25 to £150.
- Legal Fee – increase by £125 from £250 to £375.
- Redemption Fee – increase by £145 from £50 to £195.

## **2.10.**

That the following net fees associated with administration of the Housing Loan Scheme be introduced:

- Bank Transfer Fee – £22.
- Early Repayment Charge – 1% of the value of the early repayment if within two years from the start date of the housing loan.

## **3. Policy Aspects**

This report relates to the Council complying with its governance and financial processes and procedures and therefore does not relate specifically to progressing the Council's priorities.

## **4. Housing Loans**

### **4.1.**

The Council makes housing loans to eligible applicants to support housing purchase, development, improvement and repair in the private sector.

### **4.2.**

From 1 August 2015, the Housing Loan Scheme has operated under the following parameters:

#### **4.2.1.**

Provision of loan assistance from the Council continues to be limited to those applicants who are unable to borrow from a financial institution.

#### **4.2.2.**

The Scheme is accessed following receipt of two decisions, in principle, from lending institutions evidencing refusal of a loan, together with a copy of the original application, before the Council will consider a loan for the same amount.

#### **4.2.3.**

The ceiling for any single loan is set at a maximum sum of £115,000.

#### **4.2.4.**

From financial year 2015 to 2016, the funding available increased from £250,000 to £500,000, which is underwritten by the General Fund capital programme.

#### **4.2.5.**

Interest only housing loans, limited to £30,000 in value, are available in certain circumstances.

#### **4.2.6.**

The Council lends up to 90% of the price of the property, or 90% of the valuation of the property, whichever is the lesser, up to a maximum of £115,000 for any single loan or £30,000 in the case of an interest only loan.

#### **4.2.7.**

Repayment is at the current applicable interest rate and on such terms and conditions as determined by the Head of Finance, in consultation with the Solicitor to the Council.

#### **4.2.8.**

Assessment of the loan, including consideration of the housing issues of the applicant's household and the extent to which this assists in meeting the aims of the Local Housing Strategy, and conditions are determined by the Head of Finance, in consultation with the Solicitor to the Council.

#### **4.2.9.**

In cases of common repair, in order to avoid any impact on the Housing Revenue Account, the scheme is available to private landlords as well as owner occupiers.

#### **4.3.**

Currently the Council has advanced 21 housing loans, with a further two applications pending. The balance outstanding as at 30 September 2017 was £739,270.37.

### **5. Review of Fees**

#### **5.1.**

An administration net fee for a Housing Loan is currently charged at £25 with legal fees charged at £250, a total of £275. These net fees are not reflective of the time required to administer a housing loan application and are significantly lower than what would be charged by commercial lenders, who would typically charge an arrangement fee of around £1,000.

## **5.2.**

It is proposed that the following increases be made to the current net fees:

- Administration Fee – increase by £125 from £25 to £150.
- Legal Fee – increase by £125 from £250 to £375.
- Redemption Fee – increase by £145 from £50 to £195.

## **5.3.**

It is proposed that the following net fees be introduced:

- Bank Transfer Fee – £22.
- Early Repayment Charge – 1% of the value of the early repayment if within two years from the start date of the housing loan.

## **5.4.**

There may be two to three loan instalments on a self-build property. There is also a cost to the Council for same day bank transfers, hence the proposal to introduce a new charge.

# **6. Financial Implications**

## **6.1.**

The proposed increase in fees would be used to offset the apportioned costs charged to Housing Services at year-end, in respect of the administration of the scheme by Finance Services and Legal Services.

## **6.2.**

When the £115,000 ceiling for any single loan was established on 1 August 2015, the Retail Prices Index stood at 259.8 while the January 2018 figure was 276.0. Application of the increase in the Retail Prices Index would suggest an increase in the loan ceiling to £122,000.

## **6.3.**

Registers of Scotland report monthly average house prices by Local Authority area that show that house prices in Orkney have increased from £130,079 in 2016 to 2017 to £152,011 in 2017 to 2018.

# **7. Legal Aspects**

Section 80 of the Housing (Scotland) Act 2006 outlines arrangements in respect of the terms of any loan and allows the Council to set terms covering interest, any charges and repayment.

## **8. Contact Officers**

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