



East Northamptonshire Council

Policy and Resources Committee - 9 November 2009

Local Authority Repossession Prevention Fund

Summary

This reports provides information on the recently received Local Authority Repossession Prevention Fund; and invites Members to consider how it should be used.

Attachment(s)

Local Authority Repossession Prevention Fund Guidance Notes.

1.0 Background

1.1 The Council has recently received a one-off payment from Communities and Local Government (CLG) of £28,500. Similar payments have been made to all Local Authorities in England.

1.2 We have not been advised as to whether any further payments will be made in future years.

1.3 The fund is intended to be used to help households who, as a result of the recession, are facing possible homelessness through repossession or eviction.

1.4 The guidance notes for the fund (attached at Appendix 1) state that Local Authorities should use the money to make small loans to such households; where this would help them to get back onto their feet.

1.5 The money is not ring-fenced. However the guidance notes state that:

“Although the funding is not ring-fenced, it is important to ensure that this supports the maximum number of households in need of financial assistance, enabling them to stay in their homes. Financial assistance through small loans (where possible) allows money to be recycled to help other households in the local authority area in the future. However, final decisions on efficient and equitable deployment of this additional funding rest with local authorities and should be based on individual local need and circumstances.”

1.6 This grant has been paid in addition to the annual Homelessness Grant, which for this year was £30,000. For 2009/10 the Homelessness Grant is being used to support a number of initiatives which contribute to preventing and responding to homelessness. These include:

- Provision of a weekly ‘surgery’ for people with substance misuse problems.
- Sanctuary Project – home security adaptations for victims of domestic violence.
- PHaSE (Positive Housing and Support Environments) – housing to help people move-on from drug and alcohol problems.
- Funding to the Citizens Advice Bureaux to provide a specific service for people at risk of losing their home

1.7 In addition to these specific projects the Council offers a comprehensive service which provides support, advice and solutions to households at risk of homelessness and feeling the impact of the recession. These services include:

- A housing options team which provides housing advice, takes homelessness applications, and helps households to access alternative accommodation if needed.
- A full range of homelessness prevention initiatives such as the Rent Advance Scheme, and free mediation.
- New initiatives such as the Mortgage Rescue Scheme.
-

1.8 CLG have advised officers that expenditure of the fund will be monitored through the monthly Mortgage Rescue Monitoring Form, which we are required to complete.

2.0 Next Steps

Members are invited to consider how the money should be utilised.

3.0 Recommendation

3.1 Members are recommended to consider how the Local Authority Repossession Prevention Fund should be used; and agree a mechanism for expenditure.

Implications:					
Corporate Outcomes or Other Policy/Priority/Strategy					
Good Quality of Life	<input checked="" type="checkbox"/>	Good Reputation		<input type="checkbox"/>	
Good Value for Money	<input checked="" type="checkbox"/>	High Quality Service Delivery		<input checked="" type="checkbox"/>	
Effective Partnership Working	<input type="checkbox"/>	Strong Community Leadership		<input type="checkbox"/>	
Effective Management	<input type="checkbox"/>	Knowledge of our Customers and Communities		<input type="checkbox"/>	
Employees and Members with the Right Knowledge, Skills and Behaviours				<input type="checkbox"/>	
Other:				<input type="checkbox"/>	
Decision(s) would be outside the budget or policy framework and require full Council approval					<input type="checkbox"/>
Financial	There are no financial implications at this stage				<input type="checkbox"/>
	There will be financial implications – see paragraph Whole report.				<input checked="" type="checkbox"/>
	There is provision within existing budget				<input type="checkbox"/>
	Decisions may give rise to additional expenditure at a later date				<input type="checkbox"/>
	Decisions may have potential for income generation				<input type="checkbox"/>
Risk Management	An assessment has been carried out and there are no material risks				<input checked="" type="checkbox"/>
	Material risks exist and these are recorded at Risk Register Reference - inherent risk score - residual risk score -				<input type="checkbox"/>
Staff	There are no additional staffing implications				<input checked="" type="checkbox"/>
	Additional staff will be required – see paragraph				<input type="checkbox"/>
Equalities and Human Rights	There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications				<input checked="" type="checkbox"/>
	There will be an impact on equality (see categories above) or human rights implications – see paragraph				<input type="checkbox"/>
Legal	Power: Homelessness Act 2002				
	Other considerations:				
Background Papers:					
Person Originating Report: Cat Hartley chartley@east-northamptonshire.gov.uk 01832 742078					
Date: 22 October 2009					
CFO		MO		CX	

Local Authority Repossessions Prevention Fund

Loans to prevent Repossessions and Evictions

The Chancellor announced in the Budget a further £20 million to enable local authorities to extend small loans to families at risk of homelessness through repossession or eviction. This £20 million resource is in addition to the extra £80 million capital which was also announced at Budget to enhance the Mortgage Rescue Scheme. This additional funding will be focused on activities that support the Mortgage Rescue scheme.

Homelessness Prevention Funds

The majority of local authorities are already operating successful Homelessness Prevention Funds and these have made a significant difference to prevent repossessions and evictions. Relatively small amounts of money can prevent people from becoming homeless. Prevention Funds have played an integral part in the fall since 2003 of over 60% in the number of households being accepted as homeless.

We want local authorities to extend their Prevention Funds to offer loans to prevent repossessions and evictions, which are at risk of increasing as a result of the recession.

Funding – implementation

The £20 million is a one off payment for 2009/10 in addition to the Homelessness Programme Grant (**Homelessness Revenue Grant, Section 31 of the Local Government Act 2003**) that all local authorities will receive at the end of May. We propose to make this additional funding available at the end of June by uplifting local authorities' existing homelessness grant payments. Amounts will vary between areas depending on the size of the of the local authority.

Although the funding is not ring-fenced, it is important to ensure that this supports the maximum number of households in need of financial assistance, enabling them to stay in their homes. Financial assistance through small loans (where possible) allows money to be recycled to help other households in the local authority area in the future. However, final decisions on efficient and equitable deployment of this additional funding rest with local authorities and should be based on individual local need and circumstances.

In addition to helping homeowners struggling with their mortgage costs, this funding can be used to help tenants in the social or private rented sectors who – through no fault of their own – are struggling with their rental payments in the current climate and face eviction.

We estimate that any loans made by a local authority should range from £1,000 to £3,000 per household. Any loan should be capped to a maximum of £5,000 available at 0% interest.

Suggested principles for administering a local authority repossession and eviction fund

It is important that local authorities develop clear grant principles for the new Fund. Funding should be used for any households which risk becoming homeless through repossession or eviction. It can also be used for individuals at risk of rough sleeping.

There are a number of principles that could sensibly underpin local authorities' use of the Fund:

- a) It is important to avoid the 'moral hazard' of extending loans to households who could pay their rent or mortgage but choose not to. Local authorities should therefore take care to ensure that decisions on payments are robust and seek to support households who genuinely cannot pay their rent or mortgage as distinct from those who choose not to pay. For example, help could be provided to tenants in the private rented sector or the social sector who have accumulated rent arrears as a result of debt or income shock caused by loss of earnings, or reduced hours, and where there is no previous history of high rent arrears. Any loan should only be agreed following confirmation that the recipient is prepared to act on money or debt advice to resolve the problem that has led to accumulation of arrears.
- b) A loan may also be considered in order to reduce mortgage arrears where lenders cannot apply forbearance measures due to the level of arrears. Households can face repossession for relatively small sums owed on a second charge. Again, any loan should only be agreed following confirmation that the recipient is prepared to act on money or debt advice to resolve the problem that has led to the mortgage arrears accumulating in the first place or to ensure that repayments are more affordable following the intervention of an advisor.
- c) The Fund is not intended to be used to fully clear rent or mortgage arrears. A loan should be made to 'recover' the position where all other options have failed. Where possible, loans should be made on the basis of all parties being prepared to compromise on the debt owed in order to resolve a problem that is putting a household at risk of repossession or eviction. For example, a small loan could be made to clear a proportion of rent arrears, combined with a loan to further reduce the arrears; however the loan might only be agreed by the local authority if a social or private sector landlord is prepared to write down or write off the remaining arrears owed.

- d) Loans should not be made where there is another way to resolve the problem. For example, a loan should not be used to reduce or clear arrears caused by housing benefit delays or problems, where this could be resolved through a backdating of benefit, or where the issue relates to problems with the administration of a housing benefit claim that can be resolved. A further example: for local authority or registered social landlord rent arrears cases, all other options should be considered by a Rent Recovery Team through their existing rent recovery process. In this instance, a loan should only be made where it would enable a household to remain in place and where no other options would lead to this outcome.
- e) The funding is intended to enhance and increase the capacity of a local authority existing Prevention Fund and is not intended to be used as a substitute for that Fund.
- f) Local authorities should seek to provide help by way of a loan to ensure that money can be recycled and used to help other households in the future. Wherever possible, households should be asked to agree that a payment should be made directly to a creditor on their behalf.

What can 'Repossession and Eviction Prevention Fund' loans be used for?

The following list of examples demonstrates what loans may cover. This is not exhaustive and local authorities will no doubt already have criteria listing examples for their current Prevention Fund.

The examples detailed below all focus on targeting loans at preventing repossessions and evictions across all forms of tenure. In each case the intention is for the local authority to make a loan on the basis of the lender or landlord being prepared to compromise on the debt owed in return for the payment which, in turn, results in the threat of repossession or eviction being removed.

- Small loans to, when necessary, 'top up' lender write down on Mortgage Rescue Cases where the household is in negative equity (where their mortgage and secured loans are greater than the value of their home). In these cases the emphasis is on the lender to write down any negative equity. Lenders will be willing to do this on a flexible case by case basis and can do so in a number of ways:
 - by writing down the loan(s); or
 - by allowing any debt to remain as an unsecured debt which would be treated as a normal loan; or
 - by allowing the debt to remain and charge the customer a nominal charge (e.g. £5 or £10 a month).

In those cases where lenders are unwilling to take any of these measures, or their write down is insufficient to keep the household in the scheme then a small loan could be issued to 'top up' and rescue the household.

For example, customer X has a property worth £100,000 and a mortgage of £115,000. The RSL make an offer of £97,000 on the property. There are three possible options for the lender

1. The Lender can agree to a full and final settlement by reducing the loan to £97,000 and accept the RSL's offer
 2. Alternatively, the Lender may decide to accept the shortfall amount of £18,000 release their charge, and place the £18,000 as an unsecured debt on the customer. Instances like this would require the customer to advise the Lender of how much they could afford to pay each month on that shortfall, and most Lenders would be willing to accept a nominal amount each month.
 3. If the Lender were not to accept a full and final settlement and instead offered to write off the £15,000, the local authority could agree a loan with that household for the remaining £3,000 to be able to meet the RSL's offer of 97% of the market value
-
- Small loans to reduce mortgage arrears where lenders can not apply forbearance measures due to the level of arrears. This would normally require action from a lender to write down the level of debt. The principle would be that these loans are not made unless the homeowner had acted on money advice and is able to meet any existing or newly negotiated monthly payments.
 - Small loans to reduce, or part settle, second charge actions where that charge had been taken out against the property for security. This would normally require action from a second charge lender to write down or write off the level of debt. The principle would be that these loans are not made unless the homeowner had acted on money advice and were able to meet any existing or newly negotiated monthly payments.
 - Small loans for tenants in the private rented or social sectors to reduce the level of debt for those who are in rent arrears due to income shocks as a result of loss of earnings, or reduced hours, and where there is no previous history of significant rent arrears. In these instances, the household may be unaware of entitlement to housing benefit support and back payment of a legitimate claim may not be possible.
 - A loan or guarantee up to a capped level payable to the lender or landlord to a household which is due to be imminently evicted or repossessed. The household may then be given a 'last chance' by their landlord or lender after the direct intervention of the Housing Options Team, and the tenant agrees to keep to a repayment schedule.
 - A loan to householders threatened with imminent repossession. This could be paid in instalments to the lender on behalf of the household. Eligible

applicants could receive an interest free loan of up to £5,000, secured against the property. At the end of the interest free period, the loan is repayable, and if not repaid in full, interest is chargeable.

- Making a joint agreement with a lender, landlord and household to resolve arrears. For example, a third of the arrears could be paid by off through a hardship payment, a third through a loan from the Fund, and a third written off by the landlord or lender.
- 'Last chance' or emergency payment to lenders, social landlords or private sector landlords. This can be made at the point where a possession order is about to be enforced but where it is possible to hold the position to allow further intervention from debt and money advice where it has been assessed that there is a good prospect of resolving the overall problem. A short term guarantee could be made to cover rental payments from that date whilst targeted intervention is taken to resolve the problem.

Monitoring

It is important that feedback is given by local authorities on the effectiveness of the Fund. We therefore propose to add a short section to the monthly Mortgage Rescue monitoring form which local authorities should complete and return.