



Good House Keeping?

Ideas on local mortgage interventions

NLGN

Tough Times?

Rightly or wrongly, the public see tough months ahead. Newspapers are focusing on the credit-crunch, house price fluctuations, and rising food and energy prices. On housing in particular, neighbourhoods are starting to feel the pinch. Price falls are not increasing affordability for those at the bottom of the ladder, labour mobility is reduced, and thousands fear negative equity. The public is seeking some good news.

The Government's renewed focus on housing has provided some welcome relief. New housing targets (3m by 2020), the expansion of Low Cost Home Ownership, the reallocation of funding for the purchase of empty flats (£200m), and an increase in overall housing funding (now over £8bn) all provide much needed support. But on their own these policies cannot stabilise the current market. Mortgage lending is down a third on last year, with knock-on impacts on development levels. Something more is needed to ease credit pressures and prevent a perceived 'housing crisis' destabilizing neighbourhoods, stalling regeneration and growth.

"Unless there is intervention to change the dynamics of the market, we will find ourselves in a deeper mess than the US."

Will Hutton, Observer, Sunday June 22, 2008

Conservatives suggest abolishing stamp duty on first-time buyers (properties up to £250,000). This may achieve little given the shortage of available finance. The Chancellor has taken some positive steps, providing £50bn liquidity to lenders and encouraging them to be more flexible with debtors, but banks remain unwilling to turn back on the mortgage taps. Only the very wealthy and those with large deposits can now afford to buy, but most must sit out the slump.

Further down the ladder, up to 150,000 home-owners may face negative equity in the next 12 months and mortgage rates have risen over 2% adding over £300 to the average monthly bill. In the past, the benefits system has protected those facing the worst of a housing crisis - not so today. Recent figures suggest mortgage defaults will increase 17% this year, likely to top 100,000. Again, increased investment in mortgage advice may not be enough, More substantial action is required.

Public Mortgage Interventions

The vulnerability of private interbank lending to today's (and future) global liquidity crises demonstrates the inadequacies of UK banks and building societies as the sole providers of residential mortgage capital. Having offered a feast of resources, the ensuing famine threatens to destabilise communities, families and economic planning for households across the country.

With 70 per cent of homes in Britain privately owned, the stakes are high. Housing and the overall health of the economy are intrinsically linked. The Treasury should urgently take stock of the need for long term property market stabilisation and reconsider the proportionate role that publicly-backed credit should play. Orthodoxy suggests that the private market alone should self-regulate and that mortgage buyers should beware. Yet the availability of mortgage capital is today largely disconnected with the creditworthiness of the individual borrower or the prospects for value accrual of any potential property. The normal laws of housing supply and demand are no longer steering the market.

Elsewhere, the American mortgage market, propped up by the once publicly-owned Fannie Mae and Freddie Mac, has at least enjoyed a degree of public insurance for a potentially precipitous property situation. Fannie Mae and Freddie Mac buy mortgages from lenders, package the mortgages into securities, then guarantee and sell the securities to investors. Fannie and Freddie have issued the vast majority of mortgage securities sold in the last six months and own or guarantee about 40% of the US mortgage market.

The privatisation of Fannie Mae in 1968 has only recently proved a dangerous decision, creating a threat to the wider economy in the summer of 2008 which would not have existed if the federal government had continued in ownership. Only the junior offspring 'Ginnie Mae' today remains publicly-owned and able to offer confidence and security, returning a significant surplus to the federal government over its forty years in existence.

In the UK, no such safety net exists. Ironically, the Northern Rock nationalisation arrangements may inhibit a reluctant Treasury from converting this institution into a positive vehicle for correcting a failing mortgage market. Further changes to the Northern Rock regime are difficult to contemplate, but policymakers should be seeking alternative publicly-backed vehicles to actively intervene to stabilise the property market.

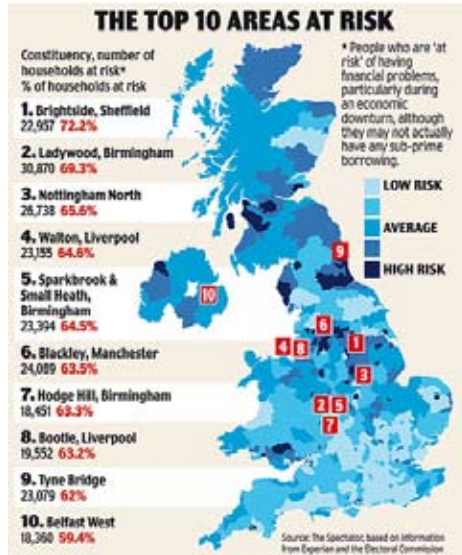
Prior to the credit crunch Gordon Brown floated the idea of long-term fixed rate Government-backed mortgages. Should the UK now be considering something more? Could we make public sector mortgage offers available at all points on the housing ladder, including the buy-to-let market, in order to prevent a precipitous plunge in prices followed by yet another boom? There is a legitimate role for the public sector in correcting this banking failure, and ensuring that good housing continues to provide a bedrock for strong, cohesive communities.

A New Role for Councils

We need institutions with sound, multi-functional financial awareness, able to act quickly in 2008, who understand property and locality, and can take a long term view for the best interests of the wider community. Who better, therefore, than existing local authorities to step up to the challenge and offer partial or full mortgage support to all levels of the property ladder?

The resources of these institutions will be stretched if the crunch is allowed to go unchecked. The LGA suggest social housing waiting lists could top 5m people within two years, while regeneration projects and affordable housing agreements are already suffering in some areas.

English local authorities should be encouraged to combine their prudential borrowing powers with their 'power of community wellbeing' to offer prime mortgage finance where the banks and building societies have quit the field. They have done so before and should do so again. Supporting those areas hit hardest could be vital to sustaining local communities. The impacts of the crunch will be felt locally, and will vary from place to place. Some people will be trapped in homes away from the jobs they aspire to, others might lose their homes and be left relying on state support, exacerbating housing waiting lists. Where the effects are significant, councils have an inherent interest in preventing the decline of the mixed, sustainable neighbourhoods they have worked to build up.



The idea of local public-backed mortgages does not require as large a leap of imagination as one might think. Building societies and local councils once competed for mortgage-market share, until public borrowing concerns and the fiscal policies of the 1980's drove authorities out of the sector. Even today, there are small-scale mortgage schemes for key workers (e.g. Hambleton), or incentives for economically active young home-buyers to stay in the area (e.g. Hillingdon) as well as some appetite for more widely available council-backed mortgages (e.g. Newcastle). London Mayor Boris Johnson recently noted his interest in the idea too.

Furthermore, local authorities already have financial stakes in market properties through asset-backed joint-ventures, with Local Housing Companies looking likely to take this market intervention further. The reintroduction of local public sector mortgages might not be a significant departure from this. Prudential borrowing could support lower-interest debt than the markets can support, though at present these investments are likely to be stunted by the fear of Treasury caps on Public Sector Borrowing.

The ability of local authorities to take a longer-term view of property, combined with a duty to prevent homelessness and promote neighbourhood prosperity, all point us toward a more pro-active role for councils in stabilising local housing markets.

Councils could use new powers to buy equity stakes in struggling homeowners properties, or to intervene in repossession cases, allowing residents to remain in their homes as private tenants. The money that might be risked in supporting local homeowners through difficult financial times might represent excellent value for money when compared with the benefit and development costs of housing a homeless mortgage defaulter.

Options for reform

- Government allocate £2bn of its £50bn intervention package to allow councils hit hardest by the credit crunch to apply for funding to provide lower-rate mortgages. This could help up to 15,000 people out of difficulty and even provide a long-term profit to the Treasury.
- Councils could be allowed greater freedom under Prudential Borrowing to secure money which would then be used to provide lower-rate mortgages. Of course, this could impact on public sector borrowing (over £6bn has been borrowed prudentially) and requires Treasury approval.

Local Prudential Borrowing in 2006/07

GLA	£677m
London boroughs	75% have borrowed; £14m
Unitary authorities	82% have borrowed; £6.8m
County councils	94% have borrowed; £20.4m
Metropolitan districts	97% have borrowed; £14m
Districts	29% have borrowed; £1.5m

- Local councils and housing vehicles could also intervene with Buy-to-Let investors in crisis, purchasing properties at a lower market value, or supporting owners in return for certain covenants or conditions on sale or use of properties. A balance must be struck between predatory behaviour, fair competition, sound investment and community management.

N | L | G | N

NEW LOCAL GOVERNMENT NETWORK

