

SUBJECT: PROPERTY APPRECIATION LOAN SCHEME - CALCULATING THE REDEMPTION VALUE ON SETTLEMENT
MEETING: INDIVIDUAL CABINET MEMBER DECISION – Councillor Greenland
DATE: 11th September 2019
DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- 1.1 To approve and adopt an agreed method for calculating redemption values on settlement for Property Appreciation Loans.

2. RECOMMENDATIONS:

- 2.1 To approve the use of **Option 1** as the method for calculating redemption values on settlement of Property Appreciation Loans:
- 2.2 To review and evaluate individual redemption values on an on-going basis to ensure the Council delivers a fair and equitable scheme and review the method for calculating redemption values if deemed necessary.

3. KEY ISSUES:

- 3.1 Welsh Government has provided funding to local authorities in Wales to help improve the standard of properties in the private sector. This funding is a combination of grant and repayable loan streams.
- 3.2 Due to mixed success of the grant scheme throughout Wales, Welsh Government introduced new criteria, terms and conditions in 2018 in the hope that there would be greater take up. The new conditions allowed the creation of equity release loans for homeowners who were unable to access loans under the previous scheme.
- 3.3 Individual Cabinet Member Decision (ICMD) approval was sought and granted on the 25th July 2018 to accept the new criteria, terms and conditions and for our continued participation in the scheme.
- 3.4 For the purpose of the report, the paragraphs below highlight the main points of the equity release scheme known as the Property Appreciation Loan (PAL):
- o The Property Appreciation Loan scheme is for homeowners that have an acceptable amount of equity in their home but have low incomes and are therefore unable to access traditional forms of high street Bank lending.
 - o The scheme will provide loans to owners of 'eligible' properties to undertake repairs to raise the condition of their property to an acceptable condition. In exchange for this, the Council will take an equity stake in the property equal to the value of the loan expressed as a percentage of value of the property at the time the equity stake is created.
 - o Funding for the PAL's will come from the grant-funded portion of the Home Improvement Loan pot.
 - o Under PAL the loan applicant is not required to pay monthly instalments but instead the loan will be redeemed on the sale / transfer of the property or on an early repayment of the loan in full request.
 - o On early repayment of the loan no penalty charges are payable.

- o 'No repossession guarantee'. This exists while the property is in the applicant's name(s) and the property remains their principal residence.
- 3.5 Loan redemption will occur on sale/transfer of the property or on an early repayment of the loan in full request and it is at this point that a redemption value will need to be determined.
 - 3.6 There are number of options available on determining the redemption value of the PAL. The following paragraphs set out the options available to the Council.
 - 3.7 Determining the value of the redemption value for option 1 will require an initial calculation of the value of the PAL as expressed as a percentage of the value of the property at the time the PAL was agreed (the creation of the equity stake).
 - 3.8 The calculations below use average house price values for Monmouthshire (**Appendix 1**).
 - 3.9 **The PAL Percentage Value:** Using a PAL example loan value of £10,000, the following method represents PAL as a percentage value of the value of the property at the time of the PAL application.
 - 3.9.1 Loan value of the PAL = £10,000; the valuation of the property at the time the PAL was agreed in June 2009 is £202,619, therefore the loan as a percentage of value of the property is:

$$£10,000 \div £202,619 = 0.0493 \times 100 = 4.93\% \text{ (the PAL percentage value).}$$
 - 3.10 This percentage value of 4.93% will determine the redemption figure as shown in the examples below.

Option 1:

- 3.11 To determine the settlement value, we apply the PAL percentage value of 4.93% to the revised value of the property at sale or transfer, for example:

The value of the property at sale or transfer in December 2017 is £271,187. The redeemed figure is $£271,187 \times 4.93\% = \mathbf{£ 13,370}$

- 3.12 In times of exceptionally high property value increases, using this method can generate higher redemption values as shown as below.
- 3.12.1 Using the example above, if the property was valued in February 2018 it would be valued at £306,800, an increase in value of £35,613 between December 2017 and February 2018.
- 3.12.2 Calculating the redemption figure in this instance the valuation at the date of sale or transfer = $£306,800 \times 4.93\%$ (the PAL percentage value) = **£15,125**.
- 3.12.3 This represents a percentage increase of 13.13% in the space of two months.
- 3.13 This could create the following scenario whereby two applicants, A and B, take out loans in September 2009. Applicant A dies in December 2017 and applicant B dies two months later in February 2018. The increased property value of applicant B's estate would therefore ensure a greater redemption value of the loan.
- 3.14 To avoid this scenario the Council can instead look to the monetary value of the loan in terms of its purchasing power rather than its relationship to the value of the property to calculate a redemption value as exemplified in option 2 below.

Option 2:

- 3.15 This method relies on using monetary inflation calculations to calculate the purchase power of the money borrowed on the date of redemption. Fortunately, a number of these calculators are available on line to help to do the calculations, such as:

<https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>
<https://www.measuringworth.com/calculators/ukcompare/relativevalue.php>

- 3.15.1 For illustrative purposes we will use the following information:

Loan Value: £10,000
Loan Commencement Date: 2009
Loan Redemption Date: 2017

- 3.15.2 Using the online inflation calculator the original loan amount of £10,000 in 2009 is worth **£12,750** in 2017 (inflation averaged 3.1% a year). This becomes the redemption figure.

- 3.16 Both the above options above provide an uplift value that will take into account any monetary inflation. Option 3 below, is to redeem the original amount only.

Option 3:

- 3.17 For example, the agreed loan value is £10k. On sale or transfer of the property, the value of the settlement figure remains the original loan value of £10k. This method does not take into account any uplift in value to offset monetary inflation between the date of the PAL and its redemption. However, in real term the £10,000 repaid to the Council is worth less than the £10,000 originally loaned.

- 3.18 The second option above protects the borrower from any exceptional increases in value of their property. Conversely, to protect the borrower from any decrease value or negative equity due to periods of property depreciation the Council will incorporate into the loan agreement a 'no negative equity guarantee'. This means that on repayment of the loan if the value of the property subject to the equity charge has decreased and as a result, there is not enough equity to cover the loan, the borrower will be required to repay an amount equal to the value of the equity, not the full loan amount.

- 3.19 For example, using the same values as in paragraph 3.9.1, at the time of the loan was agreed the value of the property was £202,691. The initial loan value is £10,000 and there is a current mortgage of £159,095 outstanding. Total amount borrowed against the property is £169,095.

- 3.19.1 If on redemption, the value of the property falls to £168,095. The mortgage company as first mortgagee will redeem their loan of £159,095. This leaves equity of £9,000, the amount the Council would redeem on settlement. The Council would not redeem the full amount (£10k) or any uplift in value under options 1 and 2 above.

- 3.20 A 'no negative equity guarantee' clause also means that the Council would not recover any shortfall from other assets the applicant may have and it has the potential of depleting the overall funding over time.

- 3.21 However to mitigate against the risk of a negative equity situation the loan value, including both the PAL and any existing loans / mortgages, would be no greater than 80% of the value of the property at the time the PAL was agreed.

4. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

4.1 The following is a summary of the evaluation. A more detailed breakdown can be found at **Appendix 2.**

4.2 There are no negative impacts associated with the proposal.

4.3 There are significant positive impacts especially around health and wellbeing goals by contributing to a “globally responsible Wales” and a “healthier Wales”. The proposal meets the sustainability goal by its contribution to the following principles “Balancing short term need with long term and planning for the future” and “Positively impacting on people, economy and environment and trying to benefit all three”.

5. OPTIONS APPRAISAL

5.1 **Option 1: The recommended option.** Using this method offers the benefit of being simplistic and effective and follows an existing product available currently to the Council such as the Low Cost Home Ownership (LCHO) scheme on the calculation of redemption values. In addition, monies earned due to the ‘uplift’ has two further benefits, Firstly, it can be added to the recyclable pot and used for future loans and secondly it can act as a safety fund from which to offset any loan default and the ‘no negative guarantee’.

5.2 **Option 2:** This strikes a balance between option 1 and 3, in that it removes the issue of high property value and high redemption values (option 1) and the original loan and its depreciation in real terms over a period of time (option 3). However, the uplift is ‘capped’ to the cost of living meaning that although the recyclable ‘pot’ does not depreciate it will not appreciate to a level that can fund a greater number of loans in the future.

5.3 **Option 3:** To redeem the original amount only. This is the most simplistic option. However, there is the very realistic scenario that PAL’s might take years to redeem with the danger that that the original loan amount will have depreciated over time leaving the ‘pot’ diminished and fewer loans being funded in the future.

6. EVALUATION CRITERIA:

6.1 Evaluation of scheme will take place during March 2021. This will give the loan scheme sufficient time to establish itself and in which to evaluate its performance.

6.2 Evaluation will be based on the following measures.

- The number of expressions of interest (EOI’s) received, □ The number of applications that proceed
- The number of aborted EOI’s
- Value of loans
- House improvements undertaken

7. REASONS:

7.1 It is the expectation of Welsh Government that Local Authorities support low-income households at risk of fuel poverty and ill health, to access funds to improve their housing situation since they are unable to access high street loans.

7.2 The Council made the decision a number of years ago to withdraw discretionary private sector housing funding, such as renovation grants. Therefore, there are no alternative funding streams available to householders that are unable to access typical forms of lending, such as bank loans.

8. RESOURCE IMPLICATIONS:

8.1. There are currently no monies loaned on the Property Appreciation Scheme. The service will be delivered using existing staff resource following a full income and expenditure and

suitability assessment. The funding for Property Appreciation Scheme is £604,749.00 and provided by way of grant by Welsh Government.

9. CONSULTTEES:

Cabinet; Senior Leadership Team; Head of Planning, Housing & Place-shaping; Assistant Head of Finance; Audit Manager; Head of Law; Housing & Communities Manager; Chair of Adult Select Committee

- 9.1 At Adult Select Committee on the 18th June 2019 there were some concerns regarding the use of the term vulnerable when referring to applicants of the Property Appreciation Loan Scheme. This and concerns regarding equity values have been further considered by the Cabinet Member for Enterprise and Land Use Planning and response provided in **Appendix 3**

10. BACKGROUND PAPERS: None

11. AUTHOR: Sarah Turvey-Barber, Strategy & Sustainable Living Manager

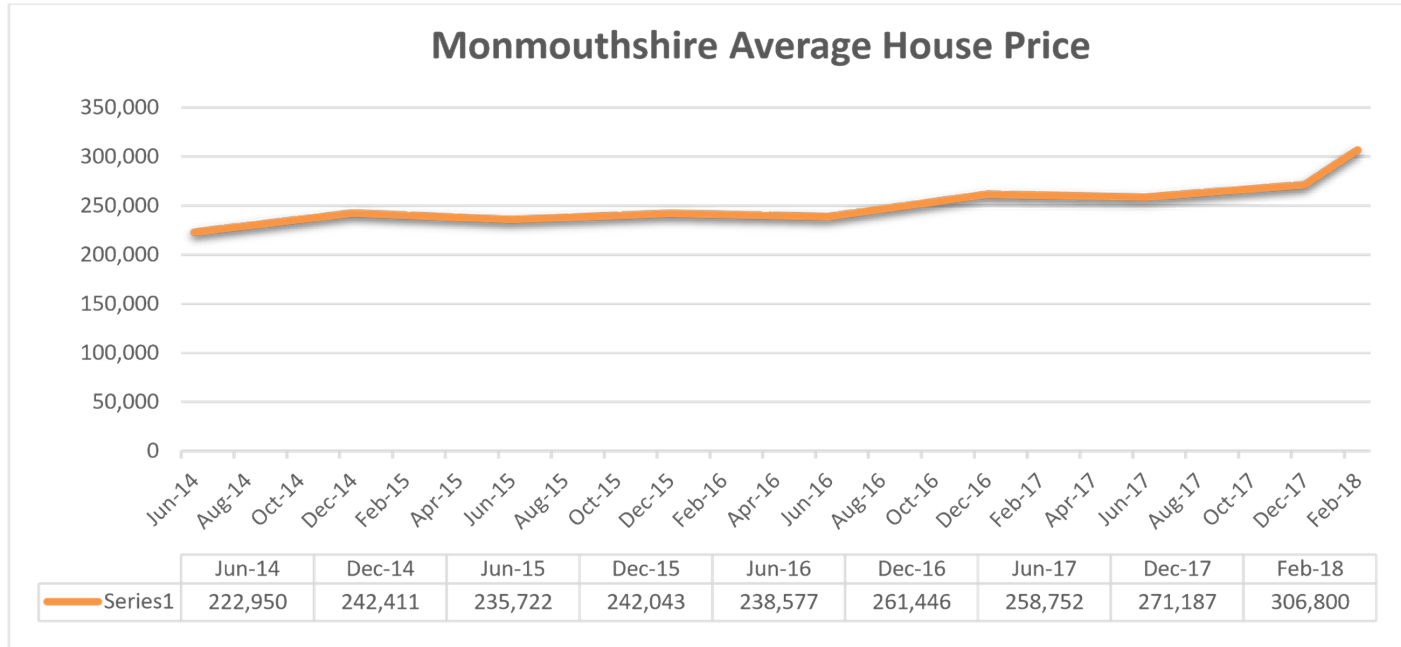
12. CONTACT DETAILS:

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Monmouthshire Average House Prices 2009 – 2018 – Source: Hometrack July 2018

Monmouthshire Average House Prices	
Jun-09	202,619
Dec-09	217,802
Jun-10	225,137
Dec-10	226,213
Jun-11	215,241
Dec-11	224,791
Jun-12	228,135
Dec-12	218,617
Jun-13	215,604
Dec-13	214,715
Jun-14	222,950
Dec-14	242,411
Jun-15	235,722
Dec-15	242,043
Jun-16	238,577
Dec-16	261,446
Jun-17	258,752
Dec-17	271,187
Feb-18	306,800



Appendix 2



monmouthshire
sir fynwy

(includes EFuture Generations Evaluation qualities and Sustainability Impact Assessment)


<p>Name of the Officer completing the evaluation Stephen Griffiths</p> <p>Phone no: 01633 644455</p> <p>E-mail: stephengriffiths@monmouthshire.gov.uk</p>	<p>Please give a brief description of the aims of the proposal</p> <p>Property Appreciation Loan Scheme - Calculating the Redemption Value on Settlement</p> <p>The proposal sets a few options to establish a method of calculating the redemption figure.</p>
<p>Name of Service</p> <p>Housing & Community Services</p>	<p>Date Future Generations Evaluation form completed</p> <p>26th May 2018</p>





1. Does your proposal deliver any of the well-being goals below? Please explain the impact (positive and negative) you expect, together with suggestions of how to mitigate negative impacts or better contribute to the goal.

Well Being Goal	How does the proposal contribute to this goal? (positive and negative)	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
<p>A prosperous Wales Efficient use of resources, skilled, educated people, generates wealth, provides jobs</p>	<p>Neutral Contribution.</p>	
<p>A resilient Wales Maintain and enhance biodiversity and ecosystems that support resilience and can adapt to change (e.g. climate change)</p>	<p>Neutral Contribution</p>	

<p>A healthier Wales People's physical and mental wellbeing is maximized and health impacts are understood</p>	<p>It positively contributes to the health occupants of properties that are of substandard quality through their refurbishment that will make them warm safe and secure.</p>	
<p>A Wales of cohesive communities Communities are attractive, viable, safe and well connected</p>	<p>It positively contributes through the refurbishment of substandard houses</p>	
<p>A globally responsible Wales Taking account of impact on global well-being when considering local social, economic and environmental wellbeing</p>	<p>Through the provision of good quality housing with greater energy efficiency properties that will help reduce both fuel poverty and carbon emissions.</p>	
<p>A Wales of vibrant culture and thriving Welsh language Culture, heritage and Welsh language are promoted and protected. People are encouraged to do sport, art and recreation</p>	<p>A neutral contribution</p>	

2. How has your proposal embedded and prioritised the sustainable governance principles in its development?

<p>Sustainable Development Principle</p>	<p>How does your proposal demonstrate you have met this principle?</p>	<p>What has been done to better to meet this principle?</p>
 <p>Balancing short term need with long term and planning for the future</p>	<p>The provision of the loan to owner occupiers who would be deemed 'too risky' to access loans from the commercial market will meet their short term need to live in housing that is of good quality of being warm, safe and secure. Once refurbished these properties will add to the number of good quality houses that will be available in the long term.</p>	

 <p>Working together with other partners to deliver objectives</p>	<p>Not Applicable</p>	
<p>Sustainable Development Principle</p>	<p>How does your proposal demonstrate you have met this principle?</p>	<p>What has been done to better to meet this principle?</p>
 <p>Involving those with an interest and seeking their views</p>	<p>Not Applicable</p>	
 <p>Putting resources into preventing problems occurring or getting worse</p>	<p>Not applicable</p>	
 <p>Positively impacting on people, economy and environment and trying to benefit all three</p>	<p>Through the availability of good quality housing. This can contribute to the quality of life to the homeowner now and in the future. It also benefits the environment both now and in the future.</p>	

3. Are your proposals going to affect any people or groups of people with protected characteristics? Please explain the impact, the evidence you have used and any action you are taking below.

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
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Age	Positive – Although the loan scheme is available to anyone over the age of 18, they are particularly relevant to homeowners that are elderly and considered asset rich but cash poor.	None	
Disability	None	None.	
Gender reassignment	None	None	
Marriage or civil partnership	None	None	
Race	none	None	
Religion or Belief	None	None	
Sex	None	None	
Sexual Orientation	None	None	
Welsh Language	None	None	

4. Council has agreed the need to consider the impact its decisions has on important responsibilities of Corporate Parenting and safeguarding. Are your proposals going to affect either of these responsibilities? For more information please see the guidance note <http://hub/corporatedocs/Democratic%20Services/Equality%20impact%20assessment%20and%20safeguarding.docx> and for more on Monmouthshire’s Corporate Parenting Strategy see <http://hub/corporatedocs/SitePages/Corporate%20Parenting%20Strategy.aspx>

	Describe any positive impacts your proposal has on safeguarding and corporate parenting	Describe any negative impacts your proposal has on safeguarding and corporate parenting	What will you do/ have you done to mitigate any negative impacts or better contribute to positive impacts?
Safeguarding	None	<i>No negative impacts</i>	
Corporate Parenting	None	No negative impacts	

5. What evidence and data has informed the development of your proposal?

None

6. SUMMARY: As a result of completing this form, what are the main positive and negative impacts of your proposal, how have they informed/changed the development of the proposal so far and what will you be doing in future?

The main positive benefits of the proposal are:

- Improving the quality of sub-standard housing.
- Improving the quality of life for those living in substandard low quality housing
- The loans are available to applicants who would otherwise be excluded from accessing commercial loans. The main negative impacts are: None identified to date

7. Actions. As a result of completing this form are there any further actions you will be undertaking? Please detail them below, if applicable. Yes

What are you going to do	When are you going to do it?	Who is responsible	Progress
Submit to Individual Cabinet Member Decision	July 2019	Stephen Griffiths	
Review the Policy and submit to Select	March 2021	Stephen Griffiths	

8. Monitoring: The impacts of this proposal will need to be monitored and reviewed. Please specify the date at which you will evaluate the impact, and where you will report the results of the review.

The impacts of this proposal will be evaluated on:

March 2021 and submitted to Select

Appendix 3

The following feedback was received by the Adults Select Committee on the 18th June 2019, to which the Cabinet Member for Enterprise and Land Use Planning has replied directly to the Committee:

1. It was requested that the decision was considered and made by Full Council.

The Cabinet Member for Enterprise and Land Use Planning stated under the Councils constitution, this is not a matter for decision by Full Council. It is an executive decision, either by single member or through a formal Cabinet meeting.

2. The Committee expressed concern about the Council benefitting financially at the ‘expense’ of vulnerable clients

The report that went to Committee made reference to vulnerable clients. This was potentially misleading and inappropriate terminology, although some applicants accessing the service may indeed be vulnerable.

The Cabinet Member for Enterprise and Land Use Planning suggests that the residents this scheme might appeal to, may or may not be vulnerable. Being vulnerable is not a defining criteria for being considered for the scheme although I believe that if they need a loan to bring their property up to a reasonable standard, if they don't get it from this scheme which will be fair and carefully monitored, they may be forced to look at the commercial market options, some of which have a poor reputation. Then they could be vulnerable to some sharp practice.

The term, therefore, vulnerable has further been replaced with a descriptor of the applicant having the required equity in the property but unable to access traditional methods of high street bank lending due to affordability criteria.

3. The Adults Select Committee considered whether to go for the scheme based on an uplift in capital value (option 1) or the scheme based on interest CPI interest rates (option 2).

	Advantages	Disadvantages
Option 1	1. This could generate surpluses to re-invest so more people can benefit from this limited WG funding. 2. If there was a need to redeem less than the value of the loan through our "no negative equity guarantee", this option is more likely to give us the funds to do so without depleting the amount available for future applicants.	If property values increase dramatically whilst interest rates remain low, the borrower will pay more back into the scheme than under option 2

	<p>3. On the assumption of a rise in value of the property, linked as it is to any capital rise in value over the period of the loan, the borrower will never be in a position of not being able to repay the loan AND receive a capital uplift on the loan free element of the value of the property.</p> <p>4. The loan is not subject to fluctuating interest rates which would introduce an element of doubt as to if the interest payable at the end of the loan will eat into the loan free element of the property value.</p> <p>5. The purpose for which the loan is taken out will in most cases enhance the capital value of the asset and the interest will only be payable if the value increases. The borrower is guaranteed never to have to find the accumulated interest from another source other than the increased capital value.</p>	
Option 2	If capital values increase dramatically whilst interest rates remain low the owner will pay back less.	There has been very low interest rates over the last decade. However they are unlikely to stay this low for ever. It could be very probable that, depending on the outcome of Brexit, we might see substantial increases in interest rates that would probably be accompanied by much slower growth in capital values of property. If this were the case the borrower could find that the accumulated interest payable on repayment might exceed the capital rise in the property value and on repayment they would be paying all the rise in value of the property in interest.
Option 3`	No comments	No comments

The Cabinet Member for Enterprise and Land Use Planning advised:

Option 1 appears to offer the certainty of knowing that if property prices continue to rise, on redemption the loan free element of the value of the property will have increased the net value of the property. With option 2 on the other hand, it is possible that the loan free element of the capital value at redemption might be eaten into by interest rates, particularly if the loan remains outstanding for a number of years. The time the loan is taken out will not diminish.

If the homeowner were to go into care, the costs would be borne by the Council if assets and income dropped to £23,250. A higher interest paid on the loan would mean the Council stepping in to meet the costs sooner.

The other question that occurred was about compound interest under option 2. I assume that would be applied and if so, then that could rack up costs exponentially if the loan remained over more than a few years.

On balance I am therefore minded to go with option 1 but am happy to discuss it further if any Committee Members would like.