

# MTR – A Practitioner's View

Linda Banks

Finance & Investment Manager

Paragon Housing Association



# MTR – A Practitioner’s View

- About Paragon HA & why me ?
- Our MTR Experience
- Operation of the “old” scheme
- Operation of the “new” scheme
- Issues arising moving from “old” to “new”
- Comments & Observations

# A bit about Paragon HA

- Based in Grangemouth – stock in Forth Valley
- 1389 units as at 31st March 2009
- Mainly general needs stock
- Formed 11 years ago - series of 4 stock transfers from Scottish Homes & Tenants Choice campaign
- Programme of major investment underway
- Turnover 2008/09 £4.3m

# Why Me ?

- Role is Finance & Investment Manager
- Hands On Role – Start to Finish .....

  - consider initial requests from MTR team
  - co-ordinate in house team e.g. inspections, housing management visit
  - prepare financial projections
  - deal with applicants pre acquisition
  - make recommendations to Management Committee
  - deal with solicitors
  - arrange transfer and take on e.g. set up on computer systems, organise insurance etc

# Our MTR Experience

- To date have completed 31 Mortgage to Rent transfers
- PHA in list of top 10 HA's participating in MTR by volume \*
- Cost to PHA to date £732,000
- Purchase Subsidy Received to date £1.58m
- Not dealing with Mortgage to Shared Equity

\* Source Evaluation of National Mortgage to Rent Scheme 2008

# Overview of MTR Scheme

- Scottish Government Scheme
- First introduced in 2003
- “This is a form of 'mortgage rescue' scheme which enables homeowners who are in financial difficulty and at risk of losing their home in certain circumstances to remain in their home by becoming a social tenant”
- Revisions to scheme introduced March 2009
- Open to local authority and housing association participants

# Who qualifies for MTR Scheme

- Mainly owners who are in danger of having their home repossessed as a result in financial difficulties – but it is not the answer for everyone.
- Owner must have obtained independent advice about their financial situation from a Citizens Advice Bureau, Money advice outlet or local authority money advice centre.
- There are various aspects to be taken into consideration at this stage before the application is sent on to the Home Owner's Support Fund for assessment

Details of the schemes can be found on the Scottish Government's website at [www.scotland.gov.uk](http://www.scotland.gov.uk)

# MTR Scheme Operation

- MTR team contacts PHA and asks if interested in a property
- Association then receives details
- Owner contacted and property surveyed
- Information is costed and financial projections run
- To make decision consider -
  - Consider cost of repairs
  - Affordable rent levels
  - Risks to Association – financial & other
  - Private finance element
  - Viability – does it stack up in business plan ?

# Operation of “old” scheme

- 2 subsidies available
- **Purchase subsidy** = Adjusted Open Market Value (ie market value adjusted to reflect repairs required to Scottish Housing Quality Standards) **MINUS** Allowable Repairs up to £6000
- **Repairs subsidy** = Value of Allowable Repairs up to value £6000
- Repairs over value of £6000 may be funded through any equity available eg owner’s equity , trustee release etc

# Operation of “old” scheme

Adjusted OMV	<b>£ 75,000</b>	
Repairs Costs	<b>£ 6,000</b>	
Adjusted Purchase Price	<b>£ 69,000</b>	= OMV – Repair Costs
Purchase Subsidy	<b>£47,400</b>	= (Adjusted OMV) – (repairs costs) – (annual rent – allowances) / 7 % capital allowance + admin allowance
Repairs Subsidy	<b>£6000</b>	
Total Subsidy	<b>£53,400</b>	
Net Purchase Price to Association	<b>£21,600</b>	= Adjusted purchase price- Purchase Subsidy

# Operation of “new” scheme

Adjusted OMV	<b>£ 75,000</b>	
Repairs Costs	<b>£ 6,000</b>	
Adjusted Purchase Price	<b>£ 69,000</b>	= OMV – Repair Costs
Scottish Govt Grant	<b>£41,294</b>	
This grant is now based on Housing Association Grant ( HAG) calculation which take account of benchmark rents, management & maintenance allowances and major repair allowances		
Net Purchase Price to Association	<b>£ 34,606</b>	Based on assumed private finance levels which can be serviced according to HAG calculation

# The Difference .....

<b>Old</b>		
Net Purchase Price to Association	<b>£21,600</b>	= Adjusted purchase price- Purchase Subsidy
<b>New</b>		
Net Purchase Price to Association	<b>£ 34,606</b>	Based on assumed private finance levels which can be serviced according to HAG calculation
<b>Difference</b>	<b>£13,006</b>	

# Comments & Observations

- The new scheme is more costly to participants
- Lower value properties do not attract the maximum level of major repair allowance of £590 because of the impact of the HAG calculation
- This is due to the impact of one factor in the calculation , the major repair allowance, on the private finance calculation

## Example

**On property valued at £75,000 repair allowance is £496**

**On property valued at £90,000 repair allowance is £590 ( max)**

# Comments & Observations

- “Old scheme” – if the cost of repair was above £6,000 max on “old scheme” - provision for MTR team to negotiate on equity contribution
- Any agreement was reflected in offer letter & solicitors dealt with it at settlement stage
- “New scheme”- Associations now required to directly negotiate any equity contribution
- Difficulties - include being aware of range of trustees, accepting offer where equity contribution not binding, increased risk of inability to cover costs, increased legal costs etc

# Comments & Observations

- Can be issues about most appropriate landlord to deal with case
- In Stirling Council area have in principle agreement between landlords on areas of operation
- Key consideration – ability of landlord to provide quick response

# Comments & Observations

- Real risk that scheme will now not be financially viable for housing associations
- Having to borrow to finance – so needs to be financially sound proposition
- Paragon position - considering on a case by case basis
- Our belief is that the scheme can make a difference