MHCLG discussion paper on *Making Home Ownership Affordable*

Response by the Intermediary Mortgage Lenders Association

September 2019

IMLA

IMLA is the representative trade body for mortgage lenders who lend wholly or predominantly through intermediaries. Our membership of 41 banks, building societies and specialist lenders include 16 of the 20 largest UK lenders (measured by gross lending) and account for about 90% of mortgage lending (89.4% of balances and 90.6% of gross lending). IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market. We welcome this opportunity to comment on the proposals set out in the discussion paper on *Making Home Ownership Affordable*.

We strongly support the Government's intention to ensure that more homes are built and sold at affordable prices. IMLA members have been strong supporters of the Help to Buy scheme and are now looking at the best ways of maintaining the momentum created by HTB when it is withdrawn in 2023. Shared Ownership has for 40 years offered a practical option to aspiring home owners. Ten of our members participate in Shared Ownership, and we agree that a review of how it works and how it could be made to work better, and expanded, is timely.

Summary of our views

- We understand the desire to make the possibility of "staircasing" as flexible as possible for homeowners but question the practicality of this. The proposal to allow homeowners to buy shares as small as 1% sounds very attractive but we wonder how many homeowners would be able to take advantage of it, and whether it would make sense for lenders to administer such an arrangement. If lenders had to impose an administration fee each time, and also agree an appropriate valuation figure with the relevant Housing Association, the process would begin to look rather unwieldly. We are aware of a scheme which has been offered to homeowners during the first 3 years of their SO contracts – where 1% staircasing was permitted, and no fees or charges were levied. We understand that take-up has been minimal – which is perhaps not surprising, given that homeowners in the first 3 years of an SO scheme are likely to be at the limits of what they can afford by way of mortgage repayments. Indeed, the capital funding guide states that the initial tranche of SO borrowing should be maximised – ie as high as possible - so homeowners will simply not have additional cash to spend in the early years unless they experience some lifestyle change such as a significant increase in earnings, or inherit some money. More generally, we understand that the take-up rate for all staircasing is actually only around 5%: it might be valuable to conduct some research with homeowners to better understand why this rate is so low.

- We are surprised by the reference (in para 30) to the process of selling a SO property as being "slow and cumbersome" and that the "pool of eligible buyers" may be "limited" as this is contradictory to our understanding of the position. We understand that there is considerable demand for SO properties and that, where one becomes available, the relevant Housing Association would generally have a list of prospective purchasers, some of whom might also already have gone through an affordability assessment and therefore be ready to buy. If it is the case that sales are sluggish in some areas, then a reduction in the 8-week period might be helpful, but further specific evidence might also be valuable.
- There has for many years been a standard model lease used by Housing Associations and lenders. We absolutely support the principle of having a single standard document as this greatly helps lenders, who would find it difficult (and probably not cost-effective) to have to adapt to and deal with multiple variations on a standard model. This is one reason why lenders have generally been reluctant to enter into agreements with private SO providers.

Answers to the specific questions raised in the discussion paper are set out below.

Q1. What would be the impacts of smaller staircasing increments on shared ownership mortgage products?

We think the impact would in practice be very small: whilst the proposal might appear attractive in principle, current staircasing rates are only around 5% and many homeowners are already stretched in terms of affordability so unlikely to be able to take advantage of a smaller increment. If administrative and valuation fees also need to be added on each occasion, the cost could well outweigh the (relatively small) benefit.

Q2. What do you think the minimum staircasing increment should be?

As above, the actual size of the increment may not be very relevant given the likely take-up.

Q3. What products could be developed to support a flexible approach to staircasing that enables people seamlessly invest in their homes from as little as £250?

As above, a homeowner who was able to afford a small incremental purchase would likely be deterred if an additional administrative charge was levied. But facilitating very small increases without charging for the cost of doing so might deter some lenders from enabling this. The gap between 1% and 10% is quite large – a mid-way point of 5% might be more practical. An alternative approach might be to facilitate some form of linked savings vehicle which enabled small amounts to be saved until a larger increment could be afforded, although it is understood that Housing Associations may be reluctant to explore this option given that they would then require authorisation to take deposits/handle client money.

Q4. How should an estimated HPI-based valuation be implemented to ensure that people can staircase at a fair price?

The valuation could be based in the original purchase price for the first few years (possibly depending on actual HPI rates) and thereafter on some recognised generic calculation. Care would need to be taken in relation to the "new build premium" which, it is recognised, applies to new-build properties – and to the character of a new estate a few years after completion. Some lenders may always require a physical valuation: those whose funding is derived from external investors, for example, may not be permitted to rely on automated valuation models (AVMs).

Q5. How can we ensure that the administrative costs for each staircasing transaction are fair?

Individual lenders will have different costs – significant outliers are likely to lose market share if they become uncompetitive.

Q6. What else is preventing people from staircasing?

Homeowners are likely to be fully stretched when they first buy on a SO basis. Their ability to staircase may depend on whether they move jobs, get promotion, or inherit money. For younger homeowners, an increase in income may swiftly be balanced by starting a family, having a partner ceasing work or going part-time (to look after children or parents). Individual households will have different priorities and capabilities in terms of spending and saving.

Q7. Are there other ways to improve staircasing that we should consider?

The facility is there for those who can afford it: there may be scope for better communication between Housing Associations and homeowners to explain the current value of the property and the financial benefits of staircasing as opposed to continuing to pay rent on the same proportion of the property's value.

Q8. What is the minimum amount of time we need to provide landlords to repurchase the homes without causing a lengthy delay to the sales process?

Our understanding is that there is a shortage of properties available and that landlords frequently have a waiting list of suitable purchasers ready and waiting. We are not aware that there are regularly lengthy delays – but one option might be for landlords to be asked to indicate whether or not they do have prospective buyers waiting – and, where they do not, to reduce (or even disapply) the exclusive period.

Q9. How can we ensure a new standardised product works for all providers of shared ownership homes?

There has traditionally always been a model lease with which Housing Associations and lenders are familiar and comfortable. Having said that, a number of Housing Associations have introduced their own variations to the "mortgagee-in-possession" clause, which is essential to ensure lenders' protection. It is preferable for there to be as much consistency as possible, in order to encourage lenders to participate in the scheme.

We are aware that there are a number of private providers who have expressed interest in SO. Such providers are not required to be Registered Providers – but this means that they do not have to comply with the same rules and this leads lenders to have reservations about working with them. For example, Under the terms of the standard lease, Housing Associations are entitled to foreclose on a SO homeowner who defaults on rent to the HA – but the HA will always work in agreement with the lender and exercise some forbearance. This is not, however, a contractual requirement and a private SO provider will not be bound by it. Lenders may therefore be reluctant to enter into arrangements under which their borrowers may not be treated as well as they might under a scheme with a HA. In some cases the private provider may itself be funded by another investor, which may impose its own requirements, thus limiting the flexibility which the provider may be able to exercise in individual cases. Lenders may also be wary of potential reputation risk if a private provider takes action against a defaulting homeowner in a way which is harsher than the lender would normally expect.

Q10. How else can we improve shared ownership mortgage availability and reduce lending costs?

- Competition between participating lenders is currently very strong: there is undoubtedly scope for SO to increase in volume but that will require significant building programmes to increase the supply of properties for purchase.

- Good communication between Housing Associations and SO homeowners may stimulate more staircasing activity and help promote the product.
- Good communication between Housing Associations and lenders could help minimise arrears cases.

Q11. We welcome your views on the effectiveness of the shared ownership restricted lease in rural areas.

We have no specific comment on this.