Making home ownership affordable

Discussion Paper

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UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

Overview

1) UK Finance welcomes this government Discussion Paper on making home ownership affordable. Many of our members are actively involved in shared ownership, both as providers of mortgages to individual homeowners and as funders of housing associations and landlords. It is a long-standing market with room to grow and develop.
2) It is important that interventions in the shared ownership market are made on the basis of evidence to ensure maximum impact. While we support moves to enable smaller staircasing increments we are keen to make sure that this will increase the level of take-up and confidence in shared ownership as there are considerable practical considerations to work through.
3) The focus on standardisation of shared ownership offerings is welcome and supported by the lending industry. We would also suggest that this could be an opportunity to update current rules so that they reflect the best current practice.

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

UK Finance recognises that a minimum staircasing increment of ten per cent may be a challenge for many homeowners and may make shared ownership less desirable for consumers as a result. We would, however, be keen to understand if there is clear evidence that backs this up. Anecdotally we understand that many homeowners choose not to staircase at all or staircase up to full ownership in one go (often before selling). It would be helpful to know how many homeowners want to staircase incrementally but are unable to do so because of difficulties in accumulating the money required for a ten per cent share.

There are some practical difficulties involved in staircasing in one per cent increments that could mean the cost of staircasing is disproportionate to the share of property gained. These include:
- Legal costs involved for mortgage lenders and housing associations, including those relating to the Land Registry
- Barriers in providing small further advances which do not meet the minimum levels required by lenders
- Valuation costs
- Other fees and charges

The practical considerations are not necessarily insurmountable and in an ideal world one per cent staircasing would be done in a way that has little to no impact on mortgage products. The Thames Valley Housing shared ownership plus scheme is an example of a shared ownership scheme that allows one per cent incremental increases, although it is an add-on to their standard shared ownership scheme rather than a replacement. It was developed with the involvement of lenders and, while it is not accepted by all lenders willing to lend on shared ownership properties, Thames Valley Housing has already worked through many of the concerns lenders have about one per cent incremental increases. It would be helpful to draw on their experiences when considering smaller staircasing increments.

The overall market position of shared ownership properties could change if it is possible to staircase in smaller amounts. Some lenders have raised concerns that shared ownership properties could become less attractive to future buyers looking for a shared ownership property as the owned share increases and becomes less affordable. If the overall market for shared ownership properties is reduced this may have an impact on valuation for lenders.

The lender's security in a shared ownership property is an important concern for lenders. There are concerns around lenders security if a homeowner staircases towards 100 per cent and the lender's charge does not keep pace. This can probably be resolved, perhaps through a cap, but will need consideration if incremental staircasing becomes more prevalent.

Consideration must be given to situation where the homeowner is seeking a further advance on their mortgage in order to staircase. Lenders operate minimum loan sizes to ensure that lending is commercially viable. This may mean that a one per cent increase cannot be funded through an increase in a homeowner's mortgage.

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

A minimum staircasing increment of five per cent could be a sensible compromise between the current level of ten per cent and one per cent if the practical considerations around one per cent increments cannot be resolved. It might also make sense to introduce a level of geographical flexibility. Saving for a smaller amount than five per cent could be beneficial for homeowners in areas such as London where property levels are higher and in parts of the country when property prices are increasing rapidly.

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

The consultation states that the government is interested in "working with industry to develop private sector savings products, which support shared owners to buy more equity in their home at any amount (e.g. above £250) at a time". Our members already provide a considerable range of savings products which could be used by homeowners to save in order to purchase more equity in their home. These also have the advantage of providing flexibility to consumers who may not want to lock their money into a vehicle designed for one purpose. If the government wanted, however, to support savings specifically for the use of equity purchase it could consider incentivising it in some way. It is also possible that Housing Associations could consider whether they could provide a vehicle to enable people to invest in their homes.

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

Different mortgage lenders will use different HPI-based valuation methodologies. These may be separate from those used by other stakeholders such as landlords and Homes England. It is possible that a universally accepted methodology could be found but it would need considerable work and compromise between the various parties involved and, potentially, government intervention to ensure that it is used.

Some lenders have argued that using HPI as a basis for valuation would not be accurate compared to a proper valuation carried out by a valuer and would be unfair for the parties involved.

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

The most obvious way would be to mandate acceptable levels of administrative costs and include these in the lease. This would need to be implemented after dialogue with landlords to ensure that accepted levels meet the actual cost of administration.

Q6. What else is preventing people from staircasing?

Consumer research into this would be helpful. It may be the case that there is not a significant body of homeowners who want to staircase but are prevented from doing so.

Anecdotally, we understand that some people who buy a shared ownership property do so as a first step to buying a longer-term property. Staircasing is not beneficial to them.

It may also be the case that some homeowners see shared ownership as a long-term way of owning property. A focus on staircasing could be seen to imply that it is not as good as full ownership and it would be helpful to avoid that.

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

The key to improving staircasing is to make it cheaper and easier for consumers.

It has been suggested that the government could consider incentivising it in some way as well.

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?

UK Finance supports the removal of the pre-emption clause and its replacement with a Right of First Refusal for landlords. It does not directly affect lenders but is clearly better for consumers and likely to make shared ownership properties more attractive.

The repurchase of a shared ownership home by the landlord will depend, in part, on their financial position and it seems fair to provide landlords with time to manage the expense, especially if they are smaller organisations with less access to cash. A two-stage process would probably be best for homeowners: the landlord could have a short time to indicate if they would like to repurchase the property (e.g. three weeks) followed by a longer period to make the necessary arrangements (e.g. a further five weeks or so). This would be a considerable improvement overall for the homeowner while providing the landlord with ample time to repurchase the property if they decided they wanted to.

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

Currently shared ownership in England is based on the use of the Homes England standard model lease, backed by other policy documents including the Homes England shared ownership joint guidance for England, the guidance for handling arrears and possession sales of shared ownership properties developed by the CML/UK Finance, NHF, HCA, and BSA, and bilateral agreements between lenders and housing providers.

Lenders expect the model lease to be used for shared ownership properties and underlying guidance to be followed, even where housing providers are not using grant-funding for a scheme. This will be checked as part of the mortgage process.

The use of the model lease and associated documentation has ensured that mortgage lenders can be comfortable that they understand the shared ownership property being purchased and how the landlord will act in specific circumstances such as the homeowner falling into arrears. It also gives comfort to other professionals, such as conveyancers and valuers, that they can accurately understand the product and advice lenders and consumers correctly.

Any standardised product for all providers of shared ownership would need to provide the same level of assurances provided by the current model. A standardised product based on the rules currently used, although not necessarily identical to them so there is scope for innovation by providers, would go a large way towards achieving this. Key would be the inclusion of items which specifically protect the lenders interest, such as a mortgagee protection clause that safeguards their ability to recover mortgage arrears in the event of repossession. These fundamental clauses are the key concern of lenders and lenders would want them reflected in shared ownership leases regardless of who provides them.

For many lenders the ethos that lies behind the actions of a provider will be as important as the legalities. Lenders need to be sure that homeowners will be treated fairly by providers acting in the spirit of any standardised product as well as the letter of any rules. This would mean that private shared ownership providers would need to be properly monitored to ensure that they met the standards expects of them.

If there is going to be an overhaul of the regime for shared ownership to enable more providers to enter the market then it would make sense to consider the current documentation governing shared ownership. It has been several years since the standard model lease was updated and it should be amended to reflect current best practice, such as the inclusion of arrears and possessions rules.

It is worth noting that housing associations are not the only organisations currently providing shared ownership products. Community Land Trusts are a relatively small part of the market but it would be helpful if their needs could be considered alongside housing associations and private providers.

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

UK Finance would suggest that the market for shared ownership mortgages is a reasonable size for the size of the shared ownership market. Improving the lease arrangements and guidance for housing providers and standardising these could help encourage more lenders to enter the market. The biggest driver for more lenders to do so would probably be a significant increase in the number of properties being offered on a shared ownership basis (and the number of consumers seeking mortgages).

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

The main concern for lenders about restricted leases is whether they continue if the lender takes possession. They will generally not be applicable in the case of shared ownership properties that they lend on as many will not lend on properties with restrictive lease terms that include mortgagees-in-possession.

Restricted leases in rural areas generally make it more difficult for homeowners and reduce the attractiveness of these properties. We understand the reasons driving these but a reasonable approach needs to be taken to both the marketing of properties and their sale so that they can open up to the wider market if there is no initial take up locally.

If you have any questions relating to this response, please contact Matthew Jupp (matthew.jupp@ukfinance.org.uk)

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