



UK  
FINANCE

# Mortgage lending, new build and Help to Buy

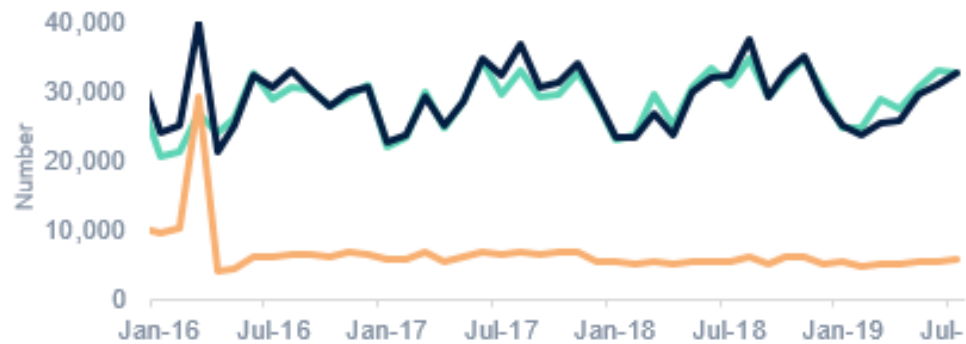
Jackie Bennett OBE, Director, Mortgages

8 October 2019

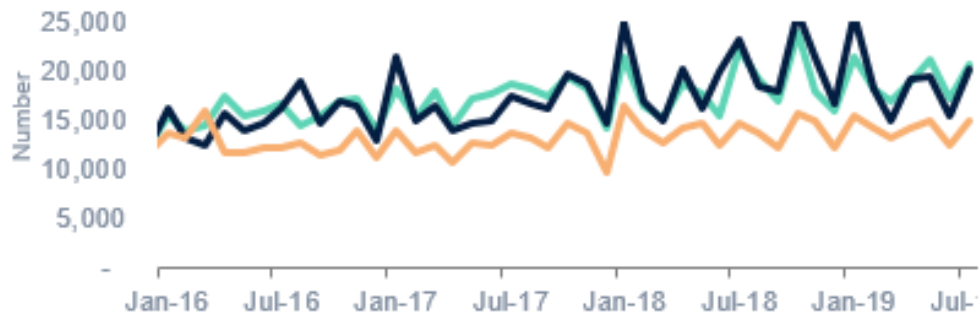
- Current mortgage market
- Policy developments - Modern Methods of Construction, New Homes Ombudsman and Starter Homes
- New build lending and Help to Buy
- What next after HTB?

# Growth in house purchase lending, whilst remortgaging following erratic upward trend

Latest UKF data release, 17 September 2019



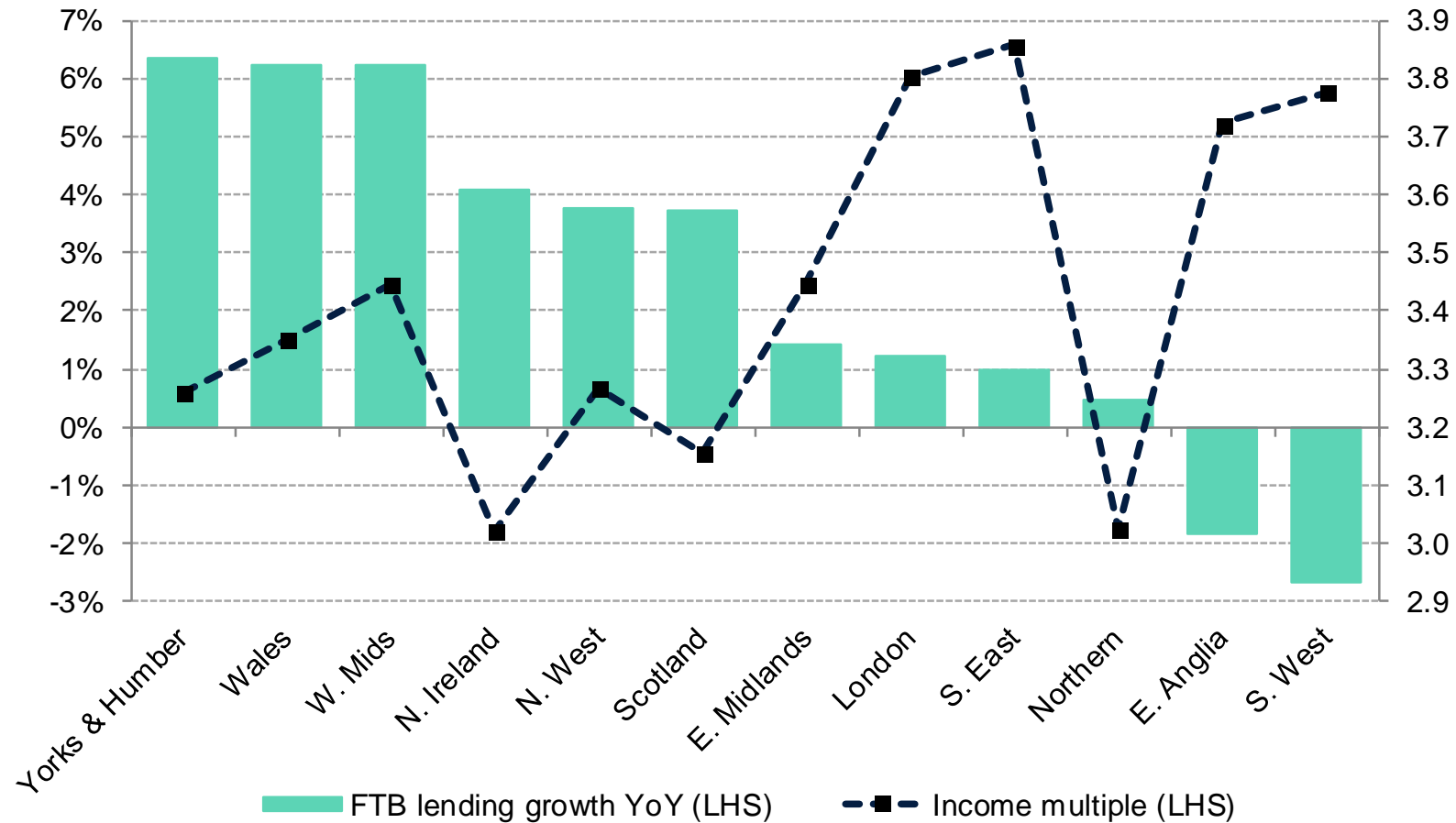
	Latest (Jul-2019)	Y-o-Y comparison
First-time buyers	32,640	5.8%
Homemovers	32,710	1.4%
Buy to let	5,800	5.5%



	Latest (Jul-2019)	Y-o-Y comparison
Homeowner remortgages with equity withdrawn	20,760	-7.1%
Homeowner remortgages without equity withdrawn (simple refinance)	20,380	-12.9%
Buy to let remortgage (all)	15,100	2.0%

# Stretched affordability already a barrier to achieving home ownership....

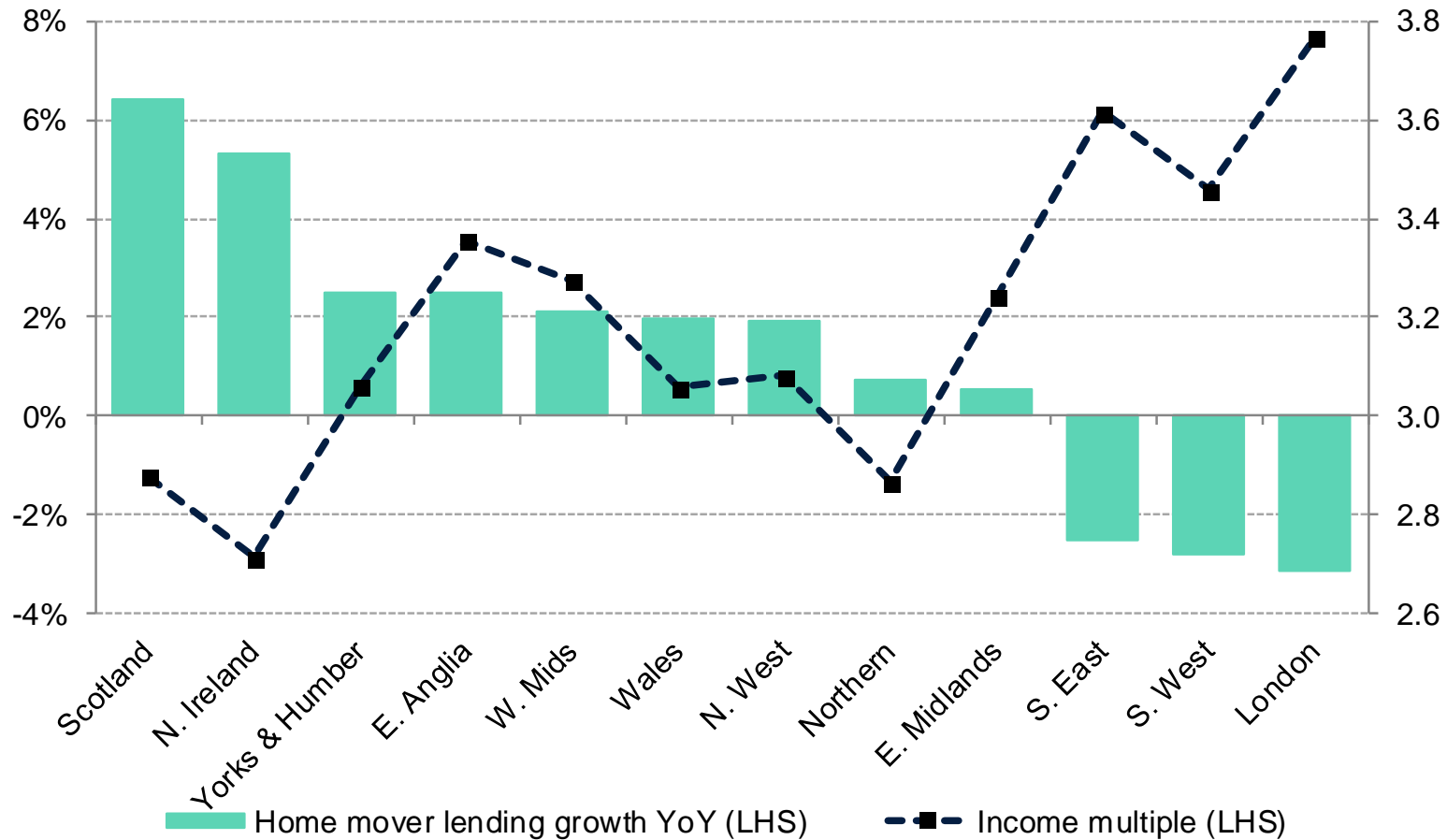
First time buyer loans, Q2 2019



Source: UK Finance Regulated Mortgage Survey

# ...and is now a clear brake on moving house too

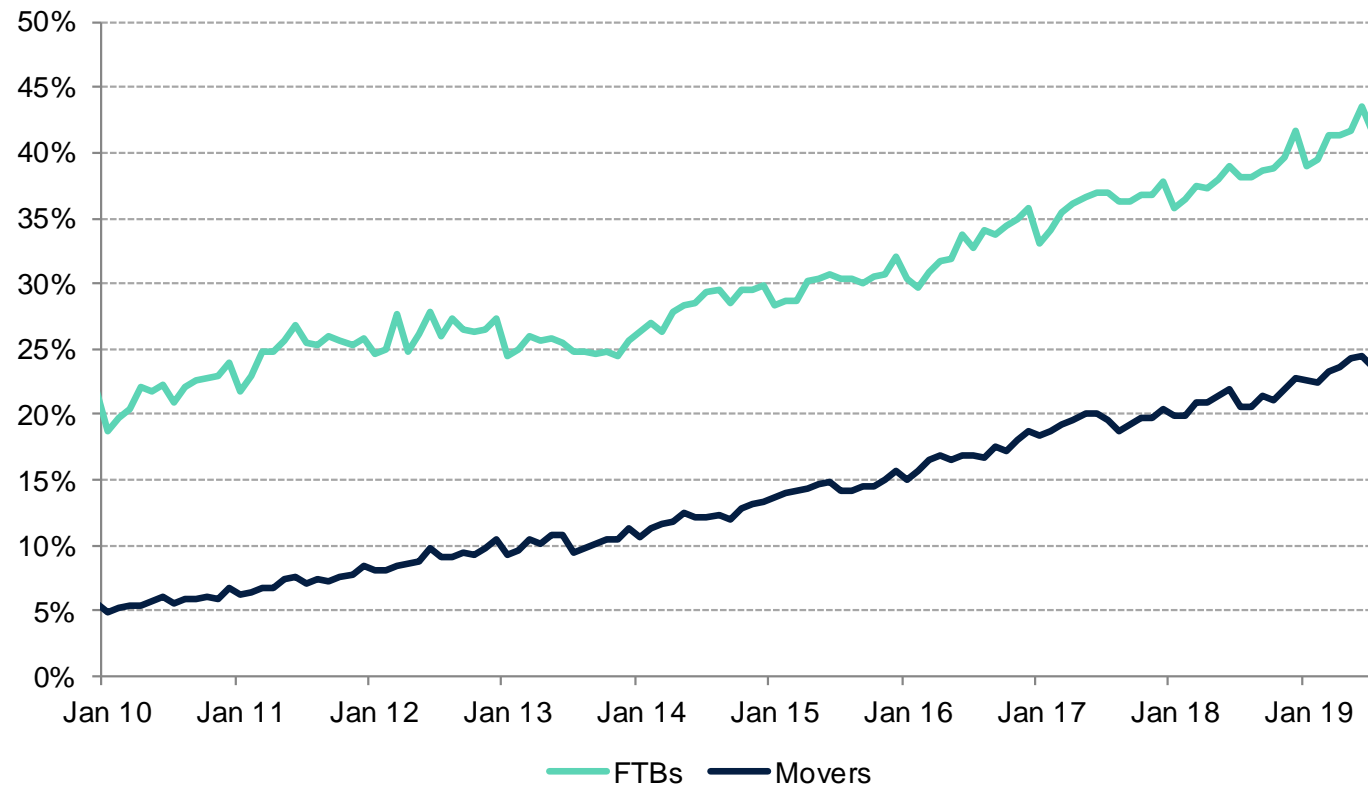
Home mover loans, Q2 2019



Source: UK Finance Regulated Mortgage Survey

# Longer terms mortgages continue to increase in popularity

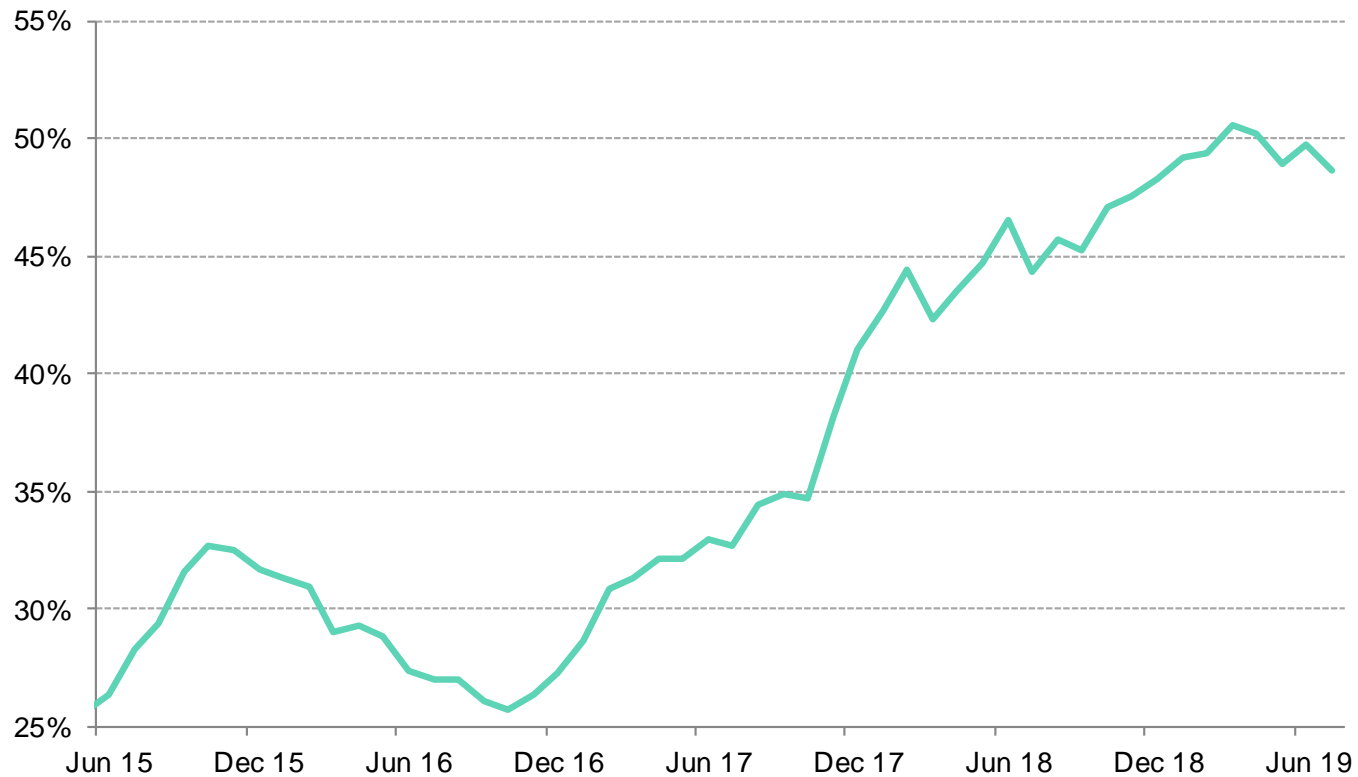
Proportion of new loans taken out at over 30 year term



Source: UK Finance Regulated Mortgage Survey

# But borrowers are increasingly fixing their payments for longer

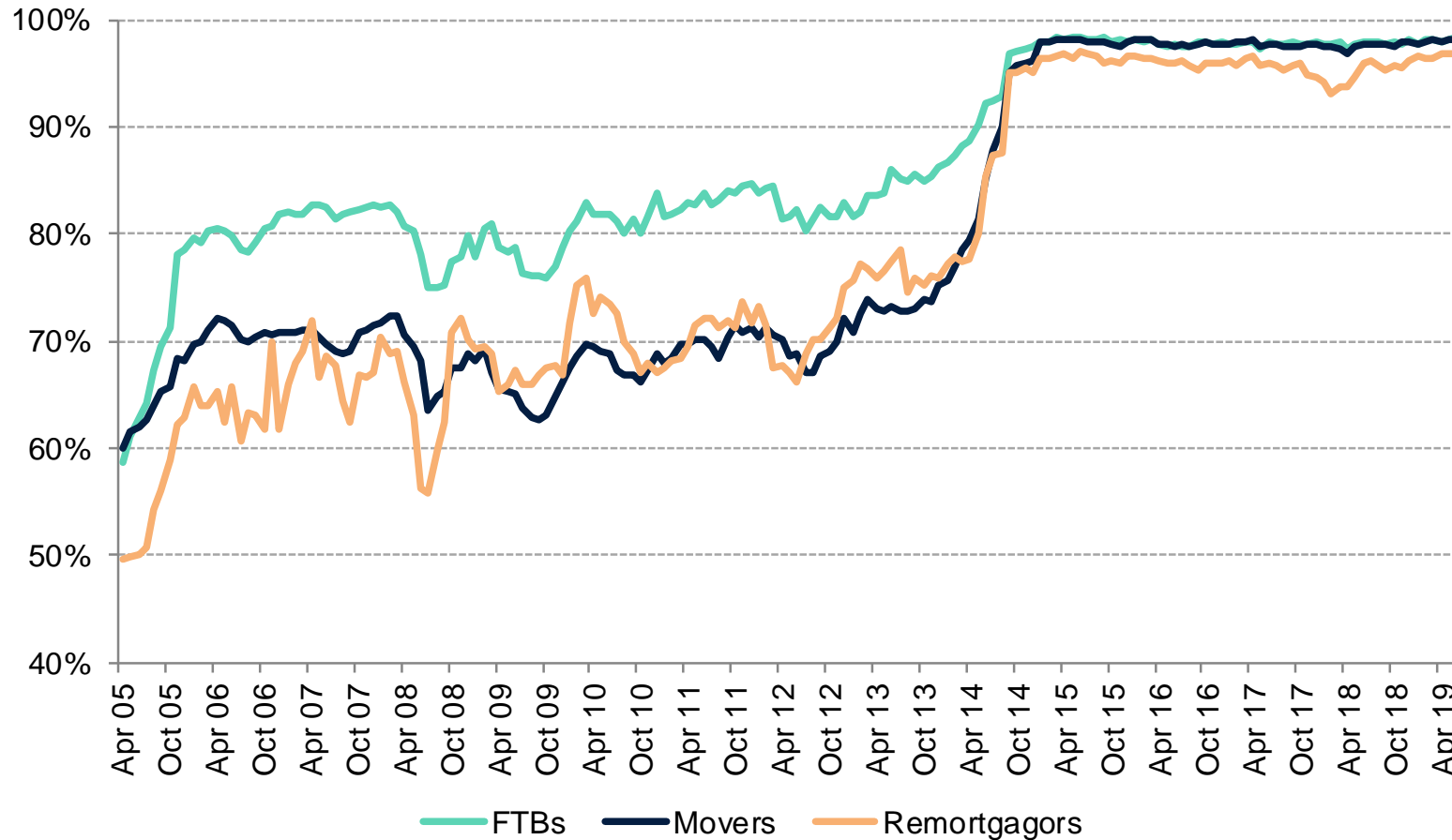
Proportion of new loans with rates fixed for 5 years or more



Source: UK Finance Regulated Mortgage Survey

# Advice dominates all residential lending

Proportion of new mortgages sold on an advised basis



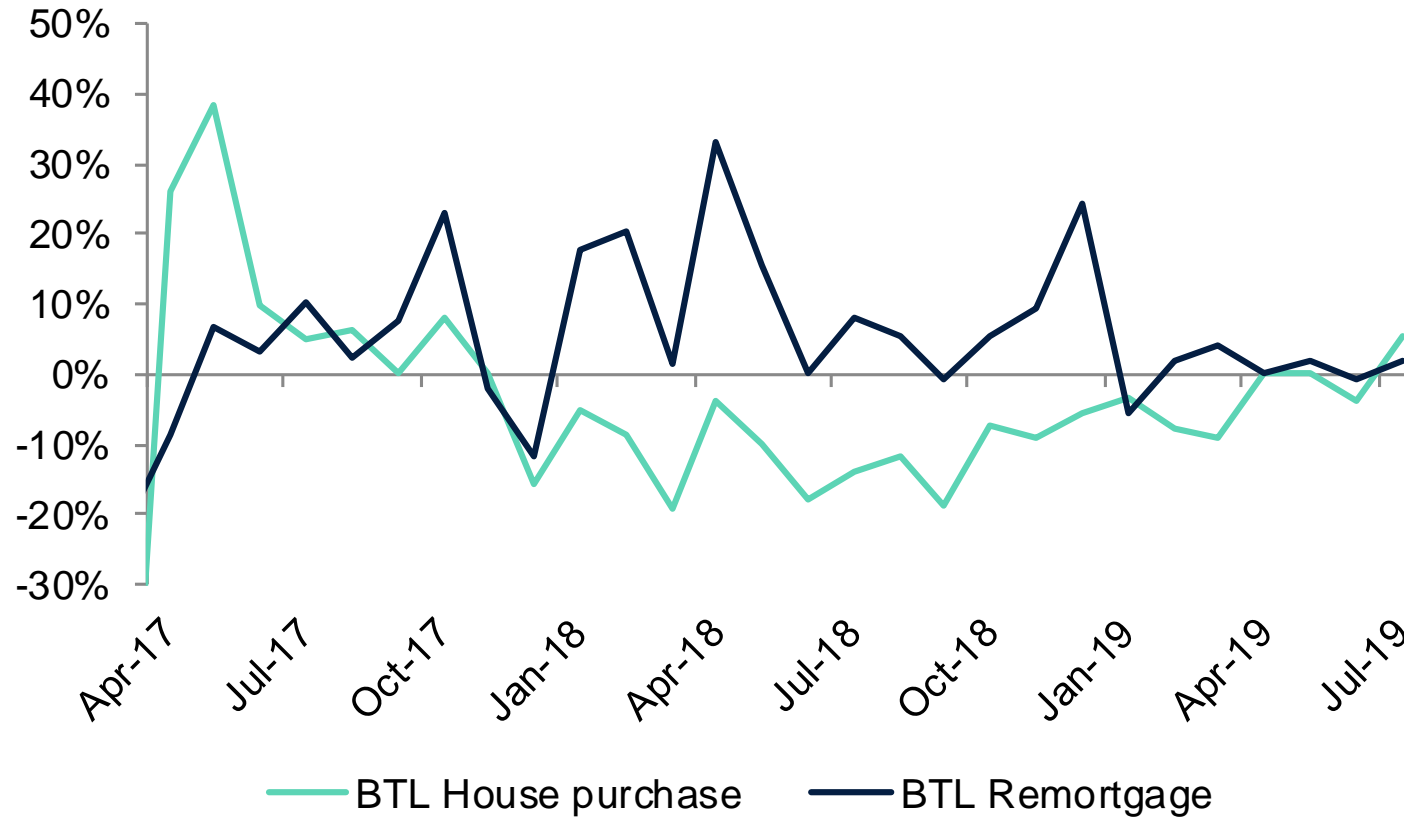
Source: UK Finance regulated Mortgage Survey



# Rate of decline in BTL activity has been tailing off

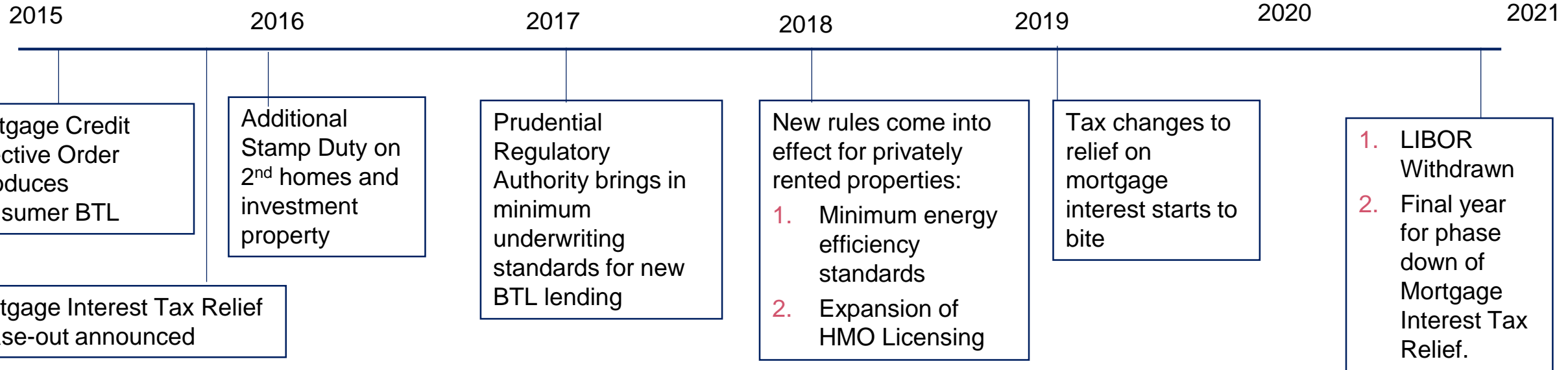


Number of new BTL mortgages, percent change year on year



Source: UK Finance

# Changes impacting the BTL market have come from all angles...



*Other changes impacting the sector: Requirement of landlords to checking tenants' immigration status; revision to wear and tear allowance; reduction in capital gains tax for other assets does not apply to residential property... And of course, Brexit.*

# Modern Methods of Construction

MMC covers a range of building methods (modular, panel construction, machine built). Not all of them modern! They are widely used as a component in traditional builds and increasingly in whole buildings.



# MMC – What do lenders need?



UK Finance has a long-standing position that to lend on MMC lenders need:

- A long lifespan for the property. Typically at least 60 years.
- An acceptable building warranty. Individual lenders can choose which providers to accept.
- Evidence that whole life costs for the property are comparable to those for more traditionally constructed properties.
- Evidence that there will be no undue repair costs and that the usual local repair providers can be used.
- Assurance that the property should, without difficulty, support the range of adaptations/extensions required by homeowners.
- Confirmation that buildings insurance will be available on at least the same terms as for traditional builds.
- A recognised quality standard both for materials and for method of building.

# MMC – an end to end protocol

A government-sponsored group led by Mark Farmer is currently considering how to establish a protocol that covers the whole build – from initial design to manufacture to transport to final build



# New Homes Ombudsman



## 2016

All Party Parliamentary Group for Excellence in the Built Environment published a report *More homes, fewer complaints* which included a recommendation about putting in place a new homes ombudsman.

## 2018

MHCLG consulted on the creation of a Single Housing Ombudsman (which would cover new build, but also leasehold, rented and other housing).

## 2019

Government announced in 2018 that they would create a New Homes Ombudsman and formerly consulted on proposals in August 2019

## 2018-19

Alongside the government proposals the Home Builders Federation decided to take the suggestion from the APPG forward and concluded that a single Code for new build homes should be put in place with an ombudsman service to deal with complaints.

UK Finance has been supporting this work since the beginning as we want to see standards raised in the new build market.

# New Homes Ombudsman



The UK Finance position is that:

- A new homes ombudsman should be free at the point-of-use for consumers
- It should have teeth and drive good behaviour by builders
- An industry-led ombudsman would be beneficial given the time it would take to create a public sector one
- Any industry-led ombudsman should be funded by the industry but independent of it
- There should be an option to put in on a statutory footing / make it public sector in the future

We also believe that one ombudsman that covers the whole of the UK would be beneficial, although housing is a reserved matter

# Shared ownership



Shared ownership is a well-established form of home ownership in the UK and is supported by mortgage lenders. It is a relatively modest sector at the moment but is a competitive one for mortgage lending.

The government is keen for the sector to grow and improve and launched a consultation in August 2019.

It proposed making the current market work better by:

1. Enabling homeowners to buy shares at smaller increments (e.g. 1% or more). This will mean ironing out complications on valuation and reducing fees and charges to a level which makes it worthwhile for consumers.
2. Making it easier to sell shared ownership properties by removing the pre-emption clause which gives the landlord exclusive rights to market the property for the first 8 weeks of sale and replacing it with a 'right of first refusal' allowing the landlord to purchase the property to resell. Lenders support this as it will be easier for consumers.
3. Introducing a standard model for all providers (both publicly-funded and private). Lenders support this as consistency across the market would be beneficial.

Currently shared ownership properties with a mortgage are primarily provided by housing associations who use the 'standard model lease'. It contains fundamental clauses which protect the lender and consumer in the event of arrears and possession (among other things).

Lenders will be keen for any other providers to offer similar assurances. They will also want to be sure that providers will treat customer fairly and avoid any reputational problems.



## Summary

- The HTB equity loan scheme in England runs until March 2021, with a new scaled back version to follow until March 2023. Scotland has announced an extension of its scheme to 2023; Wales has not yet announced what will happen post-2021.
- Buyers of newbuild properties priced up to £600k can take out an equity loan of up to 20% of the purchase price (up to 40% in London), to enable them to buy a property with a deposit from 5% and a mortgage with a LTV ratio from 75% (55% in London).
- Equity loans are interest free for 5 years, with an annual interest fee payable after this. The term of the equity loan matches that of the mortgage. All buyers must repay the equity loan in full when the property is sold.

## New scheme (2021-23)

The new scheme will be for first time buyers of new homes with a market value up to regional price caps, set at 1.5 times current forecast regional average FTB price, and a maximum of £600k in London:

Region	Price cap for properties eligible for Help to Buy Equity Loan scheme from April 2021 to March 2023
North East	£186,100
North West	£224,400
Yorkshire and The Humber	£228,100
East Midlands	£261,900
West Midlands	£255,600
East of England	£407,400
London	£600,000
South East	£437,600
South West	£349,000

# HTB Equity Loan

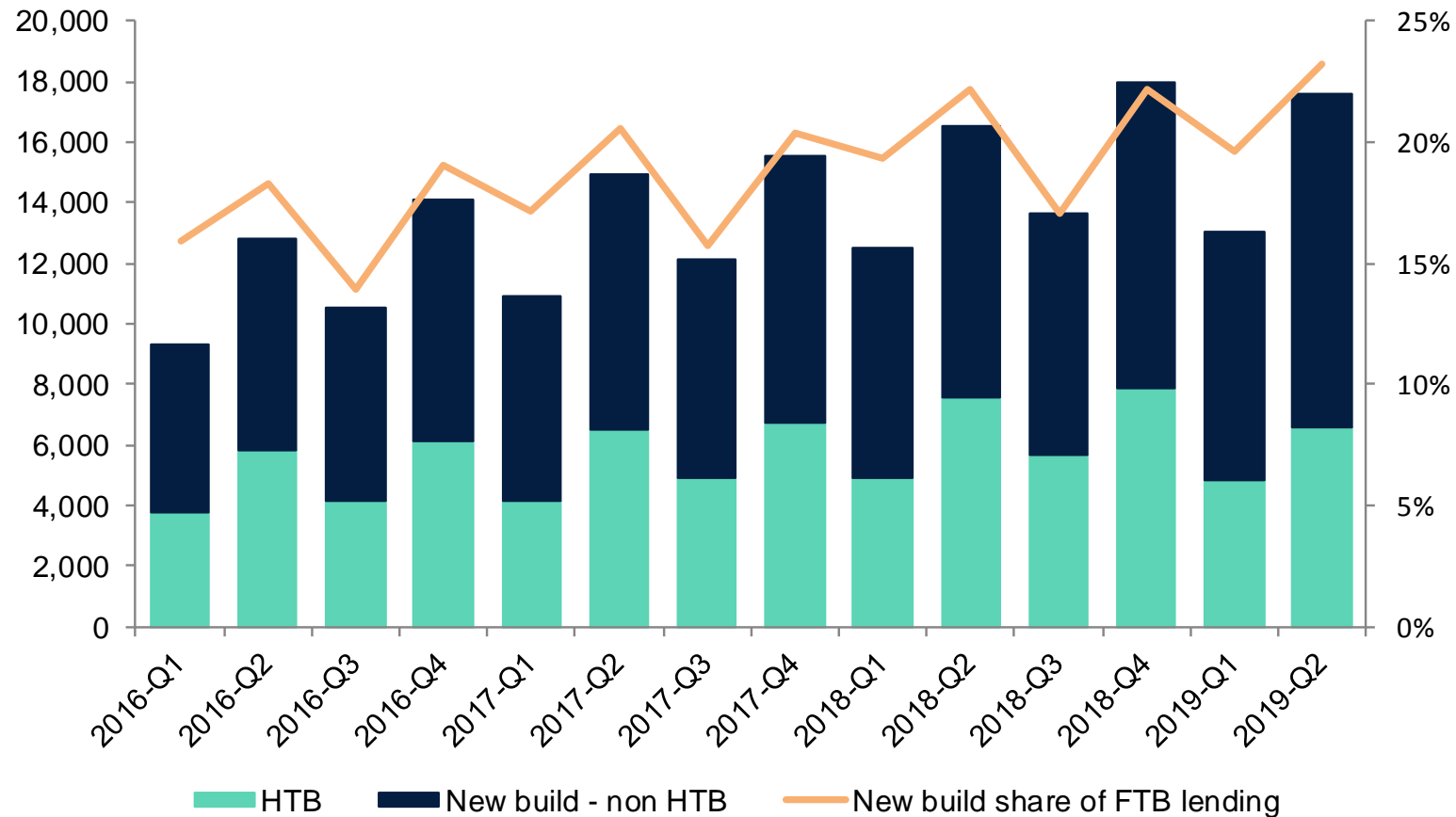
## Comparing scheme loans to the wider market



- As HTBEL approaches its end date we are considering next steps, and how the market might evolve without this element
- One element of this work is to examine how HTBEL sits currently within the wider house purchase lending landscape.
- Nationally, HTB accounts for nearly half of all new build lending in England from 2016-2018 Q1
- This represents 15% of FTB lending, and 8% of total lending for house purchase
- But as well as its direct impacts on the FTB and new build markets, HTB also affects the mover and second hand markets indirectly, and through substitution effects.

# Help to buy remains a significant minority element of FTB activity

New build lending to First-time buyers

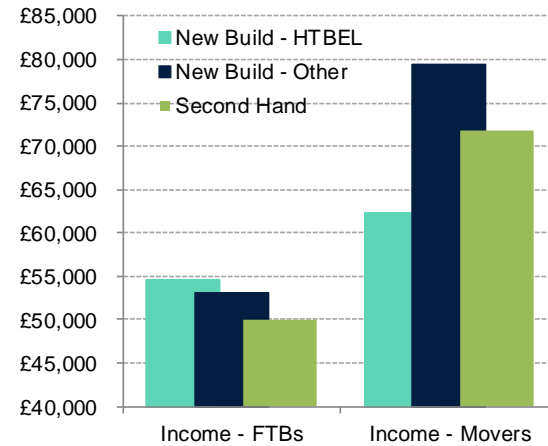


Source: UK Finance Regulated Mortgage Survey

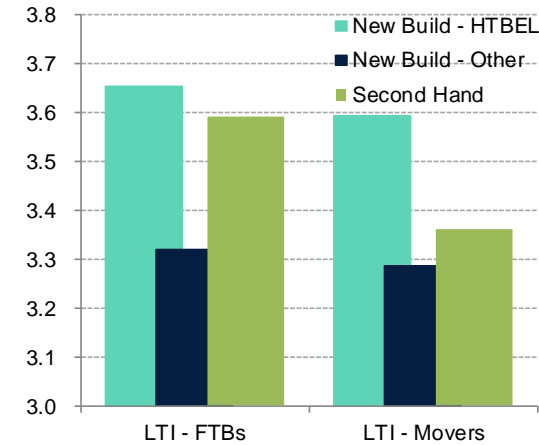
# HTB Equity Loan

At broadest level, HTB customers are a different cohort to those buying new build outside the scheme

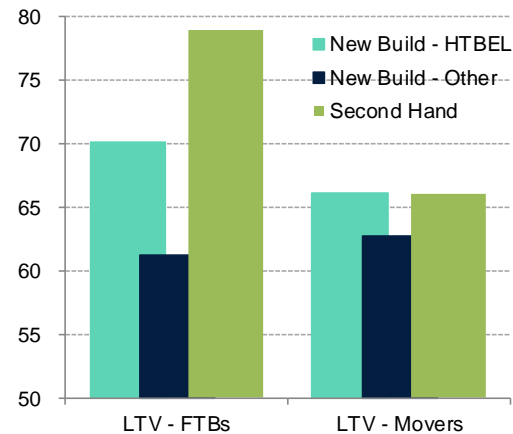
## Income



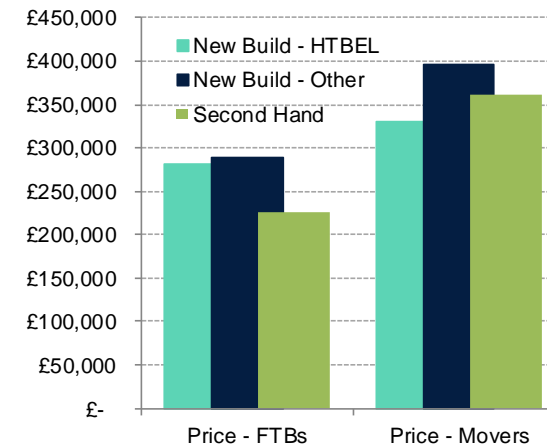
## Income multiple



## Loan to value



## Purchase price

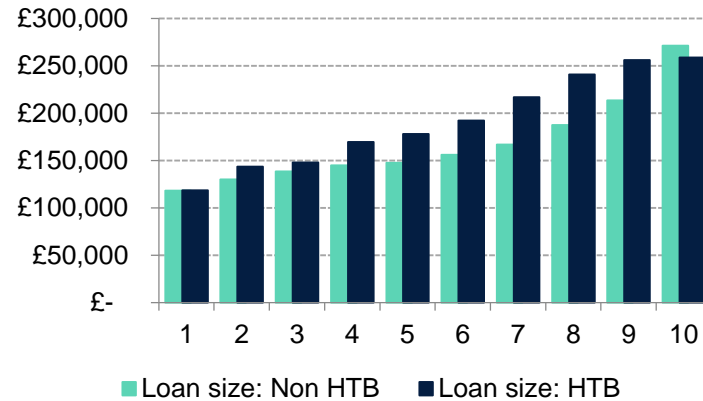


Source: UK Finance Regulated Mortgage Survey

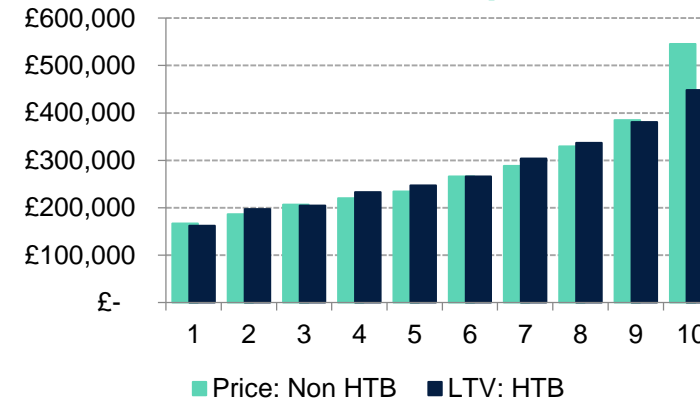
# Sub-regional analysis

## New build loan characteristics in 2018, HTB vs other FTBs by price decile

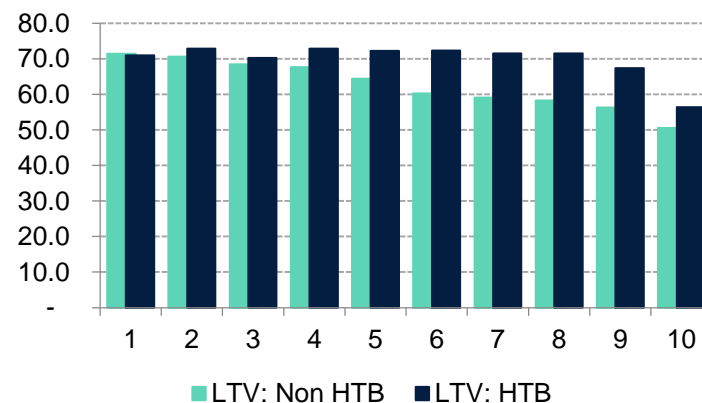
### Loan size



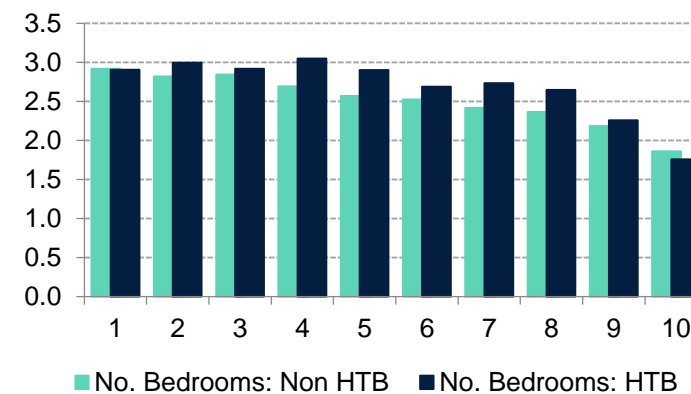
### Purchase price



### Loan to value



### Number of bedrooms



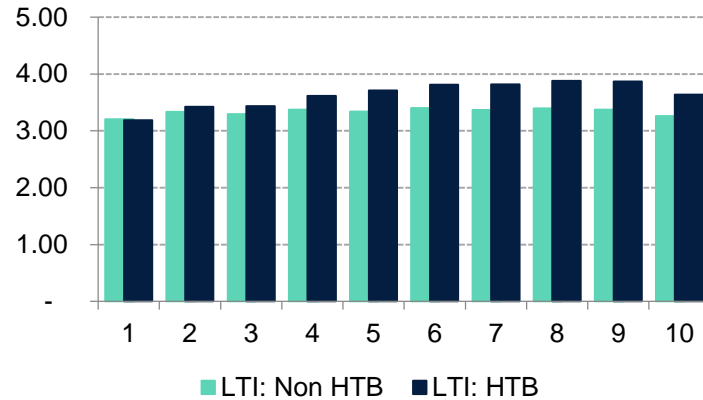
Source: UK Finance Regulated Mortgage Survey

1. Price deciles and other data disaggregated to Local Authority level

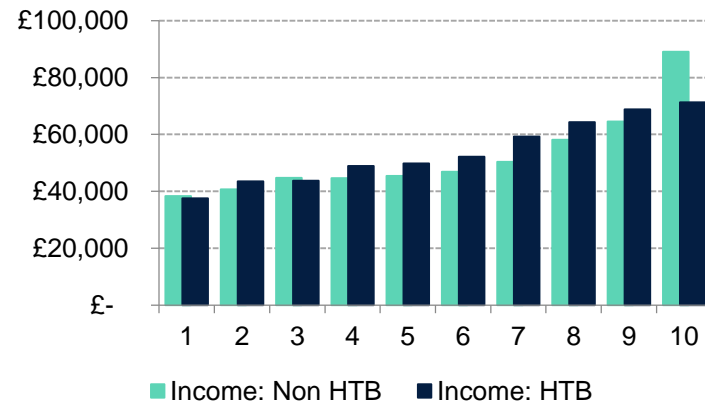
# Sub-regional analysis

## New build borrower characteristics in 2018, HTB vs other FTBs by price decile

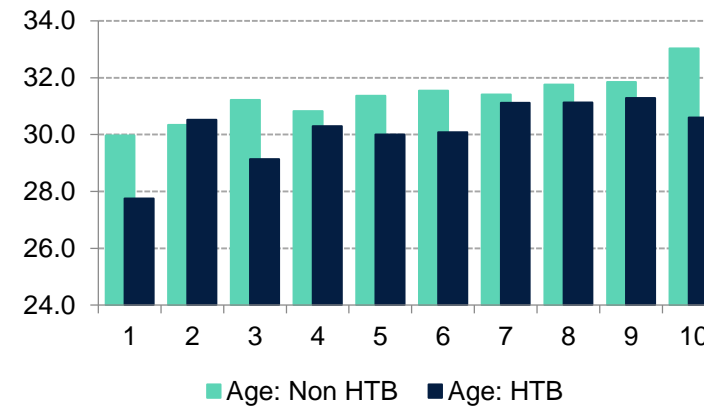
### Income multiple



### Income



### Borrower age



Source: UK Finance Regulated Mortgage Survey

1. Price deciles and other data disaggregated to Local Authority level

# HTB Equity Loan



# Post Help to Buy?

Higher LTV lending?

HTB: Mortgage  
guarantee?

Private Mortgage  
Indemnity scheme?

Developer/private  
led equity schemes?



**Any questions?**