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Homes for the future: the CML's response

- In our response to the government's consultation paper on housing, we reinforce our support for the goal of a balance of tenures – providing decent homes, where people want them and at prices they can afford.
- The prime minister has repeatedly said that he wants to expand home-ownership from its current level – at 70% of the population – to three-quarters of households. Our view, however is that the growth of home-ownership must be sustainable. We therefore believe it is time for the government to review state support for home-owners in difficulty, which has largely been withdrawn.
- Increasing the supply of housing is crucial in giving people the homes they want, and easing the affordability constraints on home-ownership. We therefore welcome the government's renewed determination to increase the number of homes being built.
- But increasing housing supply can only be a long-term solution. In the short term, the government has sought to increase owner-occupation through a patchwork of low-cost home-ownership schemes. In order to provide the widest choice of mortgages to customers – at the lowest cost – the government needs to simplify the range of schemes available.
- More generally, the government is keen to improve the take-up of long-term fixed-rate mortgages, even though the experience of lenders so far is that customers do not have a strong appetite for them. We welcome the Treasury's review of wholesale funding, but want to understand clearly what problems it is seeking to overcome.
- Since becoming prime minister, Gordon Brown has re-asserted that housing policy remains high on the government's agenda. We share his aspirations for housing that people can afford, in a range of locations and tenure. But the challenges in delivering this are considerable, and a number of policy conflicts must be resolved to achieve the desired outcome.

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Homes for the future: the CML's response

Shared goals

We share the government's ambition that everyone should be able to have a decent home at a price they can afford, in a place where they want to live and work. That message was at the heart of our recent submission to the Communities and Local Government (CLG) consultation paper *Homes for the future: More affordable, more sustainable*. The reality is, however, that this is becoming increasingly more difficult to achieve in Britain today.

Our own research shows that aspirations to home-ownership remain high. More than three-quarters (78%) of adults want to be owner-occupiers within two years. And the proportion aspiring to home-ownership within a decade rises to 84%. There is, however, a significant gap between these aspirations and the current level of home-ownership, which extends to 70% of the population. And there are risks in seeking to raise home-ownership above current levels. Research by the CLG department published earlier this year showed that increasing the owner-occupation rate above 71% would draw more financially marginal and vulnerable households into ownership.

It is now a decade since we launched our sustainable home-ownership initiative – a unique public/private partnership encompassing lenders, insurers and the government which has sought to extend and strengthen the safety net providing support for home-buyers who run into financial difficulty. We have already suggested on a number of occasions that the time is now right for the government to review – and re-new – its commitment to this partnership.

Government support for home-owners

With budget pressures increasing on all purchasers – but particularly first-time buyers – sales of mortgage payment protection insurance (MPPI) have been falling. Only 20% of all loans are now covered by insurance. And the continuing investigations of payment protection insurance by the Financial Services Authority and Office of Fair Trading could erode take-up of MPPI still further. At the same time, state support for home-owners in difficulty has been largely withdrawn. Income support for mortgage interest (ISMI) was scaled back significantly in 1995, and can now only be claimed after a delay of nine months and up to a maximum mortgage sum of £100,000. We therefore propose:

- A review of ISMI to include when, and for how long, it should be paid. ISMI limits should be reviewed to reflect the current market. If the maximum mortgage limit had been indexed in line with general inflation, it would now stand at £142,000 – and would have risen to around £300,000 if it had been linked to house price inflation. One option would be for the government to consider whether ISMI should be registered as a charge against the property, and reclaimed when it is sold.
- A review of housing benefit to ensure that it does not discourage home-owners in difficulty who want to trade down without going through the full possession process.

Affordability and housing supply

Worsening affordability, particularly for first-time buyers, adds a fresh impetus to the need to improve support for home-ownership. Our research suggests that a key factor in sustaining the number of first-time buyers has been the growing amount of financial help they receive from relatives. Almost half (46%) of those aged under 30 were likely to be getting substantial help with their deposits from relatives, our research showed. The proportion has risen steadily from around 10% in 1995.



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By the simple measure of mortgage interest payments as a proportion of income, affordability is now more challenging than at any time since 1992. First-time buyers now pay 20% of their incomes on mortgage interest, while owners pay 17.2%. However, this remains well below the levels we saw in late 1980s, when the proportion of income consumed by mortgage interest peaked at more than 28% for first-time buyers and nearly 26% for movers. Despite worsening affordability, however, there has been no decline in first-time buyer activity since 2004.

Inadequate housing supply remains the critical unresolved issue in UK housing policy, and a significant increase in supply is perhaps the most crucial goal in bringing about an improvement in affordability for first-time buyers. Indeed, affordability will continue to be a significant problem without a substantial increase in supply. We therefore welcome the government's renewed determination to increase housing supply, and its proposal to build two million new homes by 2016 and three million by 2020.

But increasing the supply of housing is clearly only a potential solution in the long term. More immediately, the government's response has been to develop a range of low-cost home-ownership (LCHO) schemes. Unfortunately, however, these schemes have become increasingly piecemeal and complex. As well as promising an extra 25,000 shared ownership and shared equity homes annually up to 2010-11 (through the Housing Corporation), the green paper discusses the provision of LCHO schemes through shared ownership on public sector land, developer contributions, section 106 requirements, an expansion of social homebuy, community land trusts and new local housing companies.

Low-cost home-ownership

Lenders are finding it increasingly difficult to deal with this patchwork of schemes. Their own systems are becoming increasingly automated and less able to incorporate small schemes benefiting relatively small numbers of people. Complicated schemes that have to be underwritten manually are likely to attract the involvement of only a small number of lenders, restricting choice for consumers. And complexity adds to costs, meaning that lenders may not be able to offer the cheapest loans possible.

We urge the government to simplify the range of schemes available. If it continues to proliferate, borrowers will at best have only a small number of lenders to choose from and at worst may not be able to find a mortgage at all. We would also encourage the government to remind local authorities of the model 106 agreement published by the CLG department in August 2006. Restrictive covenants potentially constrain both lenders and borrowers, and may make it more difficult to obtain a mortgage on some properties.

On shared equity, we would like to see the government's efforts go into publicly funded schemes linked to new supply, like English Partnerships' first-time buyer initiative. The open market homebuy scheme launched last year has proved complicated and unpopular. Lenders involved in it have put considerable resources into overcoming the challenges, only for the government to change the parameters before allowing the pilot to run its course.

Housing and the environment

Delivering the government's targets for increasing housing supply will be difficult given its challenging aspirations for improving the environmental performance of homes. The government has said that it wants all new homes to be 'zero carbon' by 2016. We fully support the drive to improve the environmental efficiency of residential property. But delivering zero carbon homes requires commitment from a range of stakeholders, including manufacturers of building materials, construction firms and planners. At this stage, the definition of a zero carbon home is not clear – and yet agreeing a definition is still only a starting point. The market will then have to deliver them, and zero carbon homes will need to be insurable and mortgageable on normal terms.

There is much that could be done to improve the energy efficiency of existing property. We support the concept of energy performance certificates (EPCs), but question whether delivering them in home information packs (HIPs) will encourage home-buyers to adopt energy-saving measures. Householders are more likely to

“A significant increase in housing supply is crucial in bringing about an improvement in affordability for first-time buyers. We therefore welcome the government's renewed determination to address this”



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make improvements to their homes when they are living in them, rather than at the point of sale. At that stage in the process, budgets are constrained and there are other things that buyers need to spend their money on. We therefore believe that EPCs should be more widely available during home-ownership. It will be important to find out as part of the roll-out of HIPs what action buyers and sellers are taking as a result of receiving an EPC.

As the impact of climate change become more apparent, it is crucial that flood risk is taken into account when planning decisions are made. But there is still no outright ban of building on flood plains, and too many planning decisions are made against Environment Agency advice. If homes are built where there is a risk of flooding and preventative measures are not taken, it will be more difficult for properties to get insurance and therefore mortgage finance. The government needs to monitor the planning process to ensure that there is adequate protection against flooding.

Mortgage funding

We welcome the Treasury's review of wholesale funding for mortgage lenders, and acknowledge that the government remains interested in exploring ways of making long-term fixed-rate mortgages more attractive to borrowers. One advantage of this type of loan is that it helps insulate borrowers from 'payment shock' when they re-finance from a short-term deal in a higher interest rate environment.

But lenders have found that long-term fixed-rate loans, priced at a modest margin over funding costs, have not proved to be as popular with customers as discounted variable or short-term fixed-rate loans. Borrowers have also been averse to taking out loans with early repayment charges for extended periods. We want to understand clearly what problems the Treasury review is seeking to overcome, and what outcomes it sees as desirable.

A mix of tenures

We recognise the challenges in extending home-ownership further, and the government's desire for a healthy mix of tenures. But the green paper makes no mention of the valuable role of a private rented sector supported by buy-to-let. Buy-to-let has grown strongly over the last decade, and has made a positive contribution to the revival of the privately rented sector and brought about an improvement in standards of accommodation. We accept that there has been speculation about the extent to which buy-to-let has contributed to affordability problems for first-time buyers. The reality is, however, that the impact of buy-to-let will vary from one local market to another. The fundamental issue affecting affordability is the under-supply of housing, which the government has pledged to tackle.

Lenders also support the government's commitment to extend provision of social housing. Private finance already makes a significant contribution to the social sector, and our members already have almost £40 billion invested in property run by registered social landlords. Future investment depends on lenders continuing to have confidence in the way the sector is run, and we therefore welcome the government's decision to create a new, stand-alone regulator for housing associations that are registered social landlords. We favour this approach, rather than the alternative of a transfer of regulatory responsibilities to the Audit Commission.

Conclusion

Our response to the CLG department is very wide-ranging, reflecting the breadth of issues raised in the original consultation paper. Since he became prime minister, Gordon Brown has re-asserted that housing remains a key policy area for the government. And it was clear from the recent party conference season that housing remains high on the political agenda. We share the government's aspiration for housing in a range of locations and tenure, and at prices that people can afford. But the challenges in delivering this are considerable, and there are a number of policy conflicts that must be resolved to achieve the desired outcome.



“The government should simplify the range of low-cost home-ownership schemes. Unless it does so, borrowers will at best have only a small number of lenders to choose from and at worst may not be able to find a mortgage at all”



Lenders welcome inheritance tax measure

We welcomed the decision by the chancellor Alistair Darling to double the inheritance tax threshold for married couples, announced in the pre-Budget statement.

With the estates of married couples now exempt up to £600,000 – a figure due to rise to £700,000 by 2010 – the effect is broadly the same as if the chancellor had fully indexed inheritance tax for the effect of house price movements since Labour came to power. Such a move would have resulted in an exemption threshold of £608,600.

On fixed-rate mortgage funding, we look forward to seeing what proposals the chancellor makes in his Budget. The key trade-off for borrowers in choosing a longer-term fixed-rate mortgage is the cost of exiting the deal early. That is an important feature the chancellor will have to address if he wants to simulate mainstream consumer appetite for long-term fixed-rate borrowing.

We also welcomed the government's commitment to increase spending on flood defences, and its desire to build more homes. While the spending on flood defences is a modest measure, it is crucial to achieve sensible results and minimise the number of homes at risk of flooding.

Golf day raises funds for charity



Golfers from a number of lenders and other firms took part in the annual CML golf day at The Belfry earlier this month. Players, including the BBC football pundit and former Liverpool defender Mark Lawrenson, competed over the PGA National course. The day was generously sponsored by insurer and CML associate member Cardiff Pinnacle. A raffle in aid of the CML adopted charity Habitat for Humanity, raised £385.

- Shadow housing minister Grant Shapps has re-affirmed the Conservatives' commitment to scrapping the "pointless and costly bureaucracy" of home information packs (HIPs). Writing to the Association of Home Information Pack Providers and the Department for Communities and Local Government, Mr Shapps described HIPs as an "unnecessary piece of red tape."
- Annual UK house price inflation dropped to 11.4% in August, according to the Department for Communities and Local Government. Prices were rising at an annual rate of 12.4% in July.
- Checkmate Mortgages, which is planning to launch in the UK next year, has become an associate member of the CML. There are now 102 associate members.





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Lenders back regulation of sale-and-leaseback

We are calling for the regulation of sale-and-leaseback schemes because of concerns about the way some consumers are being treated at a potentially vulnerable time when they may be facing repossession of their home.

Under a sale-and-leaseback scheme, an owner-occupier agrees to sell their home to a company or individual but then leases it back and is allowed to stay in the property as a tenant. But there are concerns that a lack of understanding about sale-and-leaseback – and the potentially misleading way in which some schemes are advertised – has created confusion and potential detriment for some consumers in what is currently an unregulated marketplace. Criticism of sale-and-leaseback has been wide-ranging, with concerns that:

- the property is often bought at a discounted rate, stripping out equity at a time when the home-owner may already be in debt;
- there is not always an independent valuation of the property, even though it may be sold at a discount;
- leases are usually on an assured shorthold tenancy, affording little security of tenure to the occupier, who may therefore lose the right to live in the property in any case;
- consumers may be entering into sale-and-leaseback agreements on the basis of inadequate – or non-existent – legal or financial advice;
- misleading advertising, and in particular any promise that people will be able to stay in their home as long as they want;
- consumers may be entering sale-and-leaseback agreements without properly understanding – or having been misled about – how it will affect their entitlement to housing benefit;
- a lack of clarity about any option a householder may have to buy back the property; and
- uncertainty about how consumers might be affected if the firm offering a sale-and-leaseback later goes into insolvency.

Along with Citizens Advice and Shelter, we have written to the economic secretary to the Treasury, Kitty Ussher, expressing concern the absence of safeguards for consumers and the lack of consistency in the way firms treat home-owners. We believe there is a good case for the Office of Fair Trading to investigate standards of advertising, sales and customer care.

In a climate of rising mortgage arrears and possession, consumers should be well informed and protected. The government therefore needs to consider urgently whether regulation of sale-and-leaseback by the Financial Services Authority (FSA) is appropriate because it would provide protection for potentially vulnerable consumers.

Mortgage lenders dealing the borrowers in arrears are already regulated by the FSA. Regulation of sale-and-leaseback would therefore ensure that firms and consumers are treated consistently. It would also reduce uncertainty for consumers and give them greater confidence that they would be treated fairly by firms if they fell into mortgage arrears.

