

Homes for First-time Buyers



The Case for Mortgage Indemnity Guarantee (MIG) Policies

HOME BUILDERS FEDERATION BRIEFING

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1 First-time buyer (FTB) numbers are close to record low levels, with around 80% of successful FTBs reliant on some form of financial assistance from the 'Bank of Mum and Dad', and the average age of unassisted FTBs now 37.

2 Very weak growth in real post-tax incomes, and the likelihood that mortgage availability and higher LTV mortgages will remain very restricted well into the future and may even tighten in 2011, creating a huge deposit hurdle for FTBs (the average FTB deposit is currently around £30-33,000), all point to the need for some form of public support for FTBs, at least until mortgage availability is restored.

3 We believe the reintroduction of MIG policies could help increase the supply of affordable, higher LTV mortgages, and thus reduce the hurdles faced by first-time buyers. While a shared-equity successor to HomeBuy Direct would be very important for the companies operating the scheme, it tends to be restricted to larger home builders. MIG policies, by contrast, could assist home building companies of all sizes.

4 CLG and the Treasury could play a key role in encouraging the insurance industry to re-introduce MIG policies. HBF has held discussions with the CML, lenders

and some potential MIG insurers, but to date the only proposals to emerge have been either very expensive, or only the embryo of an idea. Because insurers would wish to spread their risks, it would be very difficult for an individual home builder to arrange a MIG policy with an insurer. The spread of MIG-supported mortgages needs to be much larger, and so requires an industry-wide initiative.

5 One possibility would be for HM Treasury to offer some form of guarantee to MIG insurers. This would not require up-front public expenditure. And as the guarantee would almost certainly be exercised in only a very small number of cases, in the medium-term any impact on public spending would be very small compared with the considerable benefits such policies could bring.

6 However even if the Government felt unable to offer such a guarantee, we would like to see CLG and Treasury use their expertise and influence to encourage insurers to reintroduce MIG policies, and lenders to consider increasing the availability of higher LTV mortgages supported by MIG policies.

7 Some home builders have indicated they would pay the insurance premium for MIG policies, so that lenders would be protected at no cost to new home buyers.