

BRIEFING



Launch of 95% Mortgage Scheme for New Home Buyers

21 November 2011

A Major Opportunity for Home Builders

The Prime Minister and Deputy Prime Minister this morning visited an HBF member's site to launch the Government's Housing Strategy, including announcing Government support for a new 95% LTV mortgage scheme for new home buyers.

The mortgage scheme represents a tremendous success for HBF and should bring very significant benefits for home builders and the economy.

We have long argued that 95% LTV mortgages are the key to unlocking home buyer demand - the deposit gap is just too large for many potential buyers.

We first initiated discussions with the CML and major lenders back in April to see if we could design a 95% LTV scheme. However our negotiations reached an impasse. Therefore we decided to approach the Government (DCLG, No.10 and Treasury) to see if they could play a role in designing a scheme that met the needs of home buyers, home builders and lenders. We presented the case for Government involvement as long ago as September, putting in a formal Autumn Statement submission a few weeks ago.

Broad details of the scheme are as follows:

Home Buyers

- It will be developer/sales led. Buyers will visit the sites of participating home builders. If they find a suitable property, but could only fund a 5% deposit, they will be referred to an Independent Financial Advisor (IFA) to be assessed. IFAs will be briefed about the availability of 95% mortgages under the scheme and the lenders' underwriting criteria.
- Mortgages will be available under the scheme for any buyers only able to afford a 5% deposit (subject of course to approval by a participating lender). It is not limited to FTBs. The lenders have assured us that approvals rates for mortgage applicants will be high.
- Buyers will be able to buy almost any new house or flat, excluding second homes or buy-to-let, from a home builder signed up to the scheme with a 5% deposit, provided they meet the lender's underwriting requirements. (We understand there will be an income and house price cap, but these are not expected to be onerous.) We will also seek to allow part ex homes to be included as we negotiate the detail

of the scheme. Our view is that if the Government wants quick results, maximum flexibility is key. The lenders will insist that no other financial incentives are provided, such as gifted deposits, although incentives such as carpets and curtains will be allowed. (We have not yet clarified exactly what will be allowed – e.g. paying stamp duty or legal fees.)

- The rate of interest on the mortgage will be competitive – expected to be the rates charged for 80-85% mortgages, not the higher rates charged for 95% mortgages.
- So from a new home buyer's perspective, buying under the scheme will be straight forward – find a suitable new property, assessment by an IFA, apply for a 95% mortgage.

Home Builders and Government

- The Government wants the scheme to be available to as many customers as possible through any home builder who wishes to participate, though the operational requirements of the scheme and captive fund's fees will probably make it unsuitable for very small companies.
- For sales under the scheme, the home builder will deposit 3.5% of the sale price for a period of 7 years in a captive fund. The Government will provide a further guarantee equivalent to 5.5% of the sale price. Each participating home builder will have a "cell" in the captive for each lender they have an arrangement with. We understand 7 of the largest lenders will support the scheme, accounting for over 80% of the mortgage market.
- In the event of a lender incurring a loss through repossession for any of the properties in the scheme, the house builder's deposits in that lender's cell will be used to cover the loss, up to the value of the funds in the cell. Should losses exceed the funds in a home build-lender cell, the Government guarantee will kick in – up to the value of the Government guarantee
- The scheme will be limited to England, but the Government wants to see sites right across England offering homes under the scheme. Similar schemes are being discussed with the Scottish and Welsh Governments.
- Our intention is to have the scheme sufficiently firmed up to allow home builders to market it and take reservations early in the New Year. However the lenders are likely to need longer, so that legal completions might not be possible until April. The scheme will run until at least the life of this Parliament (May 2015 if it runs to full term), so it has at least a three year life, although we understand there will be a formal review after two years to check the scheme is working as planned.

Lenders

- Lenders will benefit from much lower capital requirements than would be required for a straight 95% loan because the house builder's indemnity and the Government guarantee will make the loans extremely low risk.
- While mortgage funding is severely constrained, we have been assured that funding will be made available for this scheme, and that it will not be at the expense of other new build lending. So from the home building industry's perspective, we will benefit from an increase in funding availability.

We still have a great deal of work to do before we finalise details with Government, the lenders and the firm that will operate the captive. At this stage, HBF members do not need to do anything. This note is just to keep you informed. However as soon as we reach the stage where we need to canvass interest and put home builders in touch with lenders, we will be in touch.

John Stewart
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