

# BRIEFING



Update: New Build Indemnity Scheme

6 December 2011

## Background

The Government announced its support for the New Build Indemnity scheme in its Housing Strategy (21<sup>st</sup> November). The Chancellor confirmed it within his Autumn Statement last week.

The scheme is designed to offer 95% LTV mortgages to new home buyers, with home builders providing a cash indemnity of 3.5% of the sales value of properties and the Government providing a further 5.5% indemnity via a guarantee. The Government is very anxious to get the scheme operational as soon as possible. HBF and members want the scheme available as early as possible in the New Year to catch the spring selling season.

This note summarises HBF's work on the scheme since the announcement.

HBF has set up a Working Group to assist with detailed work on the scheme. We are also compiling a list of HBF members that are, in principle, interested in the scheme – though at this stage there is no formal process for registering with the scheme.

HBF and CML are in the process of establishing groups that will focus on specific aspects of the scheme such as legal issues, consumer information and valuation and transparency etc.

DCLG has set up two groups: a Project Team of officials from DCLG, Treasury, No.10, HBF and the CML; and a Delivery Group made up of senior executives or officials from HBF, house builders, the CML, lenders, DCLG, No.10 and Treasury. The Project Team meets weekly, the Delivery Group is expected to meet fortnightly although it may meet more frequently at first.

The first major issue to resolve is appointment of an organisation to administer the scheme. JLT, the insurance broker that already has a scheme in operation (Bovis and Barlays/Woolwich), clearly has a great deal of knowledge and has already been through the process of setting up a scheme that is compliant with the necessary regulation, legals, documentation, etc. Its scheme operates via an offshore captive in Guernsey. The Indemnity Scheme captive would operate via cells – each home builder would have a ring-fenced cell for each lender it wants to work with.

However we have serious concerns about JLT's proposed fees which initially fell into three categories: Guernsey regulatory costs, over which there is limited control; an annual JLT management fee per builder per annum of £30,000 and a per-sale fee of 0.7% of the sales price of each unit in the scheme. We have had a series of meetings with JLT senior management, as a result of which we are pleased to report they have reduced their fee proposals and withdrawn the proposed annual management fee. However negotiations are continuing and the issue is not yet fully resolved.

Also since the Housing Strategy announcement, HBF members have been approached by a number of other insurance brokers offering to provide alternative quotes for operating the scheme, in some cases using a simpler onshore approach. (While we understand the reasons for opting for an offshore captive, we do not wish to rule out an onshore solution at this stage although it may be a non starter because of the time it could take to establish and the higher regulatory hurdles in London)

So at the time of writing, negotiations with JLT are continuing and we are waiting for several competitive quotes. We want to resolve the captive administrator before the end of this week because although we can make progress with some aspects of the scheme, the appointment of a scheme administrator is a key stage. Until this is resolved, we cannot advance many aspects of the scheme.

We hope this note helps bring you up to speed but please don't hesitate to contact either of us if you would like to discuss any aspect in more detail

**Stewart Baseley, *Executive Chairman***

**John Stewart, *Director of Economic Affairs***