NewBuy

In partnership with HM Government

A Presentation by:

Department of Communities and Local Government

Home Builders Federation

Jardine Lloyd Thompson

Clyde & Co

5th March 2012

NewBuy
In partnership with HM Government

Communities and Local Government

www.communities.gov.uk
community, opportunity, prosperity

NewBuy

Teresa Clay
Housing Supply & Markets

Communities and Local Government

NewBuy – overview

- Up to 100,000 prospective buyers to gain access to 95 per cent loan to value mortgages to purchase new build properties, both houses and flats
- Builders contribute to indemnity fund backed by Government, with a maximum Government liability of £1bn
- Homes can be sold under the scheme for 3 years until March 2015
- Increased cash flow <u>for builders</u> supports increased housing output
- Increased protection against losses <u>for lenders</u> enables them to hold less capital against each loan and supports new lending

Communities and Local Government

NewBuy - Government perspective

- Key part of housing strategy
- Supports the Government priorities of economic growth and social mobility
- Helps deliver the core housing strategy objective of improving affordability - delivering more new market and affordable homes - also improving accessibility and choice
- Part of package of reforms designed to get the market moving again, including Get Britain Building for stalled sites, Growing Places Fund for infrastructure development and release of public sector land
- Builds on existing reforms, including National Planning Policy Framework, New Homes Bonus and Community Infrastructure Levy

Communities and Local Government

NewBuy - eligibility

- New build houses and flats - first sale, including conversions and refurbishments
- House price cap - £500,000
- Buyers – must have UK citizenship or right to remain
- Full ownership - no shared ownership or shared equity
- Primary home -no second homes or buy to let

NewBuy - eligibility

•Repayment mortgages only

•Not a Publicly Assisted Loan – where the deposit is paid or guaranteed by a public authority

Home Builders Federation

John Stewart HBF

- Liaison with CML JLT & Government to create the scheme

- Providing the vehicle to operate the scheme HBF Insurance PCC Limited

- Have appointed
  - Clyde and Co to review legal matters
  - KPMG to review tax and accounting matters
  - JLT as scheme adminstrators and managers of the PCC

Home Builders Federation

- Will represent all builders on the Board of the PCC
- Will co-ordinate the application process for the scheme
- Will continue to liaise with all parties to ensure the success of the scheme
- Will seek to recover all legal, audit and regulatory costs of operating the PCC and cells

Home Builders Federation

- Scheme open to all home builders: HBF members and non-members, all sizes

- Scheme will determine requirements for home builders: e.g. costs, legal, regulatory approval, lender relationship(s), use of sales incentives, pricing, eligibility of products and buyers, etc.

Introducing the JLT Team

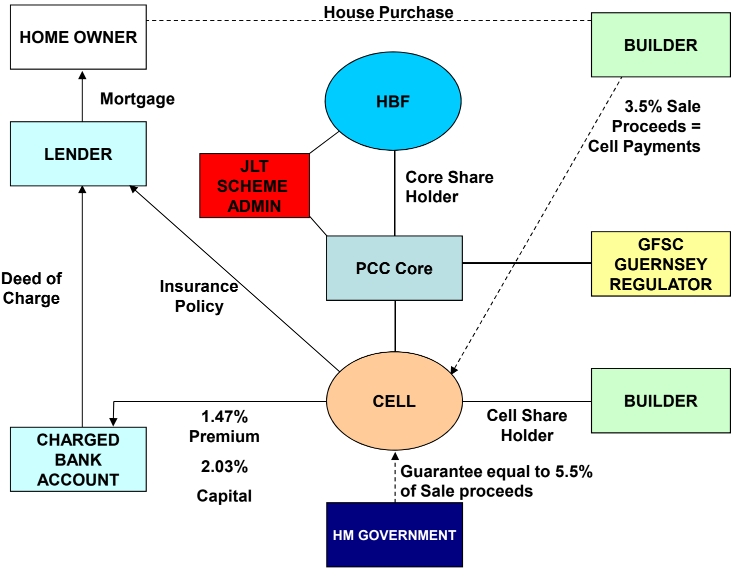
- Scheme Administration
  - Steve Rance Team Leader – JLT London
  - Joanna Locke Project Manager – JLT London
  - Shane O'Neill Group Lawyer – JLT London

- Protected Cell Company (PCC) Management
  - Nick Wild MD – JLT Guernsey
  - Ian Drillot COO – JLT Guernsey
  - Adam Buckholt MI Manager – JLT Guernsey
  - Jane Collenette Account Executive – JLT Guernsey

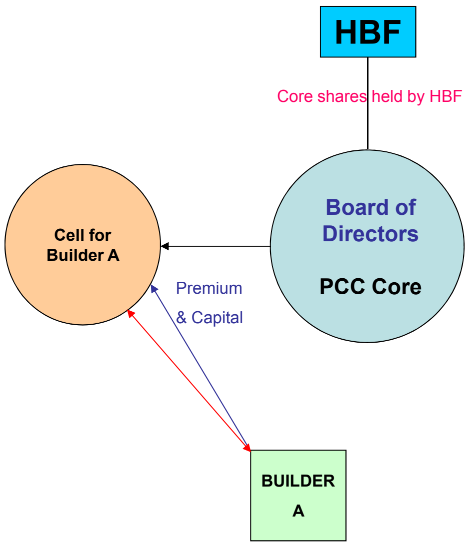
Disclaimer

- This presentation is being made to assist a builder in deciding whether it wishes to participate in the NewBuy Scheme (the "**Scheme**").
- No representation or warranty, express or implied, is made by JLT as to the contents of this presentation.
- JLT is acting solely as administrator to the Scheme and not as advisor to any of the participants in the Scheme. Accordingly, JLT accepts no responsibility or liability for any legal, tax or accounting advice in relation to the Scheme or for any advice as to the suitability of the Scheme to any individual builder's business.
- Any builder who is in any way uncertain about the detail of the Scheme or the suitability of the Scheme to its business should contact the HBF in the first instance for further information.

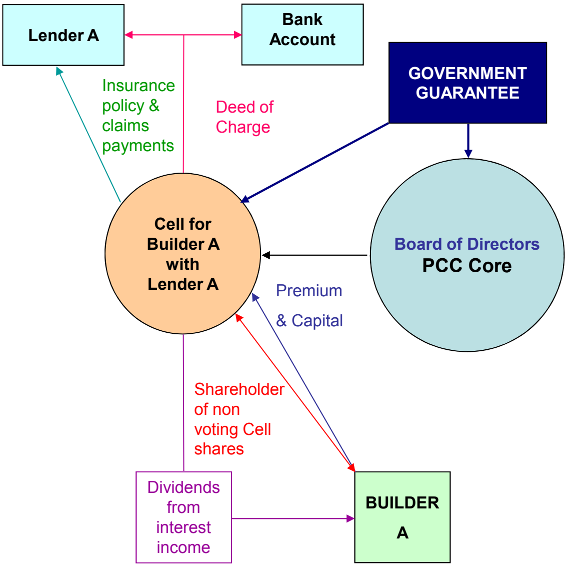
Scheme Overview



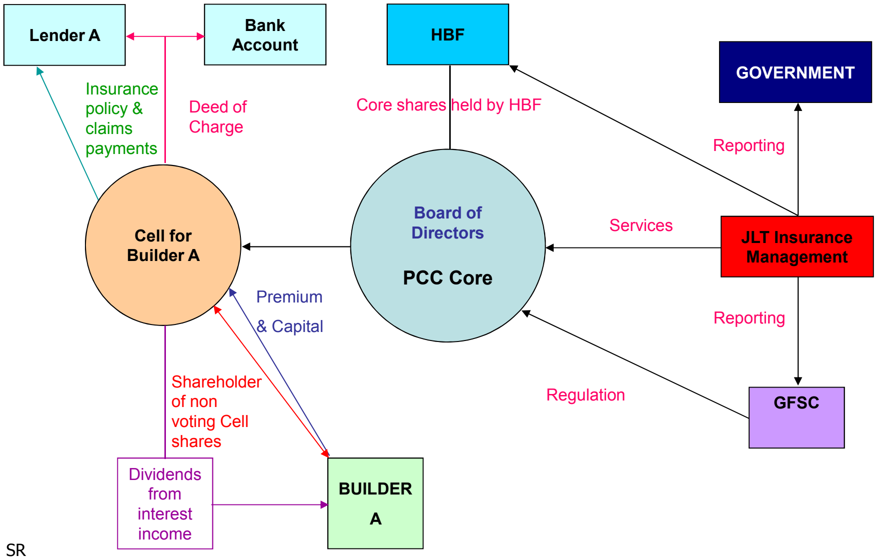
PCC Structure



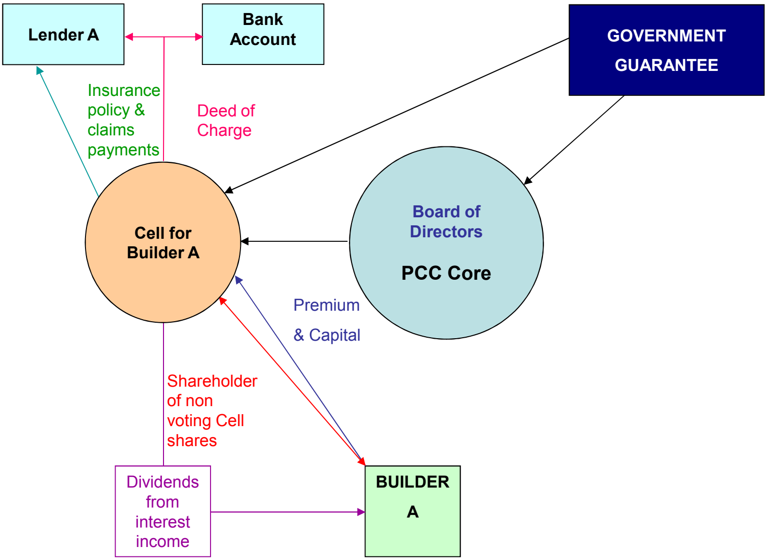
PCC – Insurance, Banking and Dividend



PCC – Reporting and Regulation



Government Guarantee



Government Guarantee

- Is made to the PCC and all Cells
- Operates when a Cell's assets (other than accrued interest) are depleted by claims
- Provides further cover to the monetary sum of 5.5% of sales
- Can be suspended under certain circumstances either at Builder, Cell or Scheme level
- If suspended then notice will be given to those parties impacted

Obligations on Builders to:

- Sign all scheme documentation
- Pay to HBF Insurance PCC Limited the scheme entry fee which is designed to cover operating costs over the 10 year term of the scheme
- Make Cell Payments being premium per sale at 1.47% of sale price plus capital per sale at 2.03% of sale price
- Pay insurance premium tax (IPT) at 6% of premium to the HBF PCC IPT account
- Pay Scheme administration fee per sale at 0.35% of sale price to JLT
- Make eligible properties available for sale under the scheme

Warning

- The collective premiums at 1.47% of sale price are projected to be sufficient to cover expected losses plus a 10% buffer

- However, it is possible that claims could use up the entire amount of the funds that the builder will pay to the Cell (Premium and Capital). Please also see slides on Multi User Cells as regards *“Risk sharing”*

- To the extent Cell Payments are not needed to pay claims they will be returned to the builder not later than 10 years after your first property is sold under the scheme.

Eligible Loans

Must be:

- on repayment basis and not a publicly-assisted mortgage;
- for a **Property** with a **Sale Price** of £500,000 or less; and
- for a mortgage of at least 90% and at most 95% of the **Sale Price** of the **Property**;
- granted to one or more individuals who:
  - were UK citizens or had indefinite leave to remain in the United Kingdom at the time the mortgage was granted; and
  - purchased the dwelling:
    - as their sole or principal residence; and
    - as sole owner of the equity in it, or as the only co-owners of their equity in it (and not as part of a shared ownership or shared equity scheme)

Entry Requirements

- The scheme is open to all builders for a term of 3 years
- The lenders will decide if they wish to lend on your sites
- If you will produce less than 100 sales to the scheme over next 3 years with that lender you will need to use a Multi User Cell (MUC)
- If your sales will exceed 100 you may use a Single User Cell (SUC) or join a MUC with the lenders agreement
- You will need to deal with the scheme through a UK tax resident company

Single User Cell

- Will be used by one builder in a relationship with one lender
- Some larger builders will have several SUC so they can deal with several lenders
- The builder will own all shares in the SUC
- The shares will be non voting shares
- The shares will give the builder rights to all assets in the SUC
- The HBF hold all the voting stock in the PCC
- If the SUC does not reach 100 sales over the three year term of the scheme it may be tipped into a Multi User Cell with the same lender (mutual consent required)

Multi User Cell

- Will be used by many builders in a relationship with one lender
- It is hoped that there will be several MUC each one to deal with a different lender
- Each builder will own a unique class of share in the MUC
- All shares in the MUC will be non voting shares
- The HBF hold all the voting stock in the PCC
- The shares will give the builder rights to those assets in the MUC they have contributed

Multi User Cell

- All Cell Payments (Premium and Capital) made by a builder will be placed into a single bank account in the name of the Cell
- However, they will be tracked as a Notional Account for that builder
- All claims arising on loans in respect of that builders sales will be deducted from that Notional Account
- When a Notional Account balance is zero any further losses will be allocated to all other Notional Accounts in the Cell in the proportion to which the capital element of each Nominal Account bear to the total Cell capital *“Risk sharing”*

Multi User Cell

- There is therefore the potential for builders in a MUC to share their risk when one builders Nominal Account is exhausted
- It is important that the builders understand this risk sharing which does not exist in a SUC
- Only the lender has right to veto builder entry into a MUC
- This is the only mechanism that could be designed to allow smaller builders to access the scheme

Multi User Cell

- Interest income earned on the total funds in the MUC may be used to meet operating expenses

- Any balance will be paid to the builders as a dividend in the proportion that the total assets in their Notional Account at close of each financial year end of the PCC represent to the total assets in the MUC

The merged firm of Clyde & Co and Barlow Lyde & Gilbert

CLYDE&CO

HBF – NewBuy Scheme

Contractual Framework

Ivor Edwards

05 March 2012

Introduction

- **Guernsey Cell Companies**
  - PCC
  - Cell – limited liability
  - GFSC regulated

Key Agreements

The Guarantee

- Government Guarantee
- 5.5% of the sale prices
- Exhaustion of the cell
- Right to suspend or terminate
- Back to back

The Policy

- 3 years and 7 year run-off
- Claims paid on eligible properties – delinquency costs
- Then Disputed
- Premium and capital into a charged account 3.5% of sale price
- Limits
- 95% of the sale price
- 9% of the sale price in the aggregate

The Cell User Agreement

- Between Builder and PCC regarding use of and operation of a Single User Cell (SUC) or a Multi User Cell (MUC)

- Contains the obligations of the PCC and the Cell user

- For a MUC it explains “Risk sharing”

- Determines the terms of the
  - subscription for Cell shares by the builder
  - dividend policy of the PCC

  and addresses the tax issues discussed later

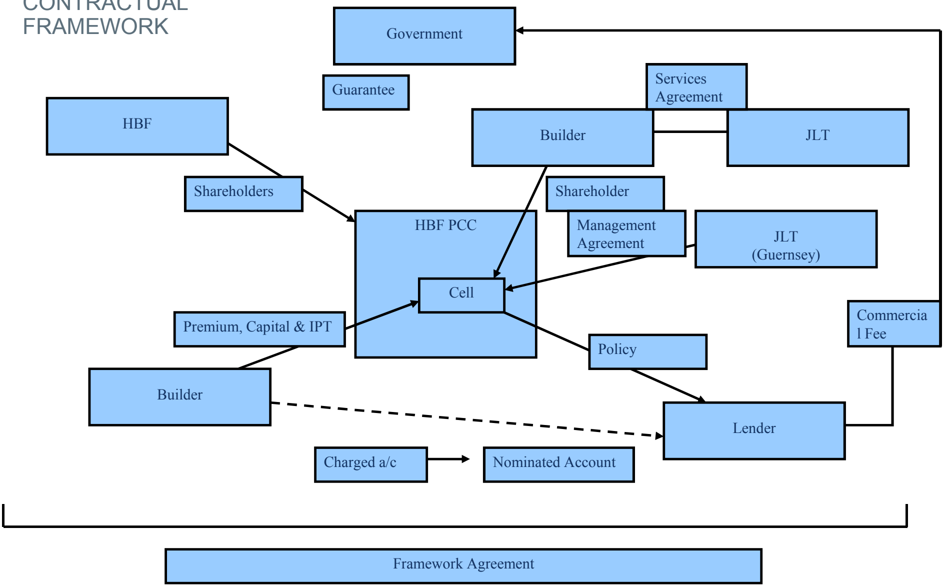
- This is a very important document for the builder to understand

The Framework Agreement

- PCC operations
- Payment terms
- Insurance coverage
- Insurance Premium Tax
- Mortgage provision
- Reconciliations
- Security requirements
- Distribution and Marketing
- Data requirements
- Data protection
- Announcements
- Confidentiality

How does it all fit together?

CONTRACTUAL FRAMEWORK



Builder obligations

10 days before each completion

- Email JLT and the Lender with certain information. A template will be provided
- Pay the Premium and Capital to the Nominated Account
- Pay the IPT to the PCC

Monthly in arrears on receipt of an invoice

- Pay the JLT fee plus VAT

Deed of Charge over Nominated Account

- Security over the funds paid by builder to the Nominated Account with lender
- Only Lender signatories to Nominated Account
- JLTIM will reconcile payments to loans and advise any irregularities and coordinate rectification
- Interest only is transferred to a non charged Cell Account

Builder MI - Weekly

Excel spreadsheet provided to JLTIM
Separate spreadsheet for each Lender

- Unique loan identifier
- Date of Exchange
- Date of Completion
- Amount paid to Cell bank account
- Property postcode
- House / Flat indicator
- Customer surname
- Date of Notice to Complete
- Sale price
- Amount paid to IPT account
- Lender identifier
- *Quarterly Build information as required by CLG*

Regulation

- The insurance company will be a Protected Cell Company (PCC)
- Licensed and regulated by the Guernsey Financial Services Commission (GFSC)

JLT Insurance Management

- Will provide all management services to PCC under terms of Management Agreement
- Also regulated and licenced by GFSC
- ISO 9001:2008 certified Quality Management Systems

Control of PCC

- HBF as PCC sponsor control the company
- Elect the Board of Directors who determine
  - when dividends can be paid
  - closure of Cells with GFSC approval

PCC Board Structure

- Law requires at least one director independent of HBF and JLTIM
- Director appointments are subject to the approval of the Guernsey Financial Services Commission

- Board will be
  - Stewart Baseley — Exec Chairman HBF
  - Callum Beaton FCII — Independent (Ins professional)
  - Christopher Anderson — Independent (lawyer)
  - Nick Wild FCII — Director of JLTIM

PCC Core and Cells

- The PCC is one legal entity comprising the Core plus the Cells
- Each Builder will use a SUC or MUC issuing an insurance policy for mortgages provided by a single Lender
- Separate records and accounts will be maintained for the Core and each Cell

Accounting

- Core and Cells will have same auditor – KPMG
- Financial year end of PCC will be 30 June 2013 and annually thereafter
- Cells will each have statutory accounts (private)
- Accounts will be prepared under IFRS

Accounting

- Premium earning and reserving in accordance with insurance accounting principles
- Premium earning will be over 7 year policy period
- If earned premium exceeds claims underwriting profit will emerge in Cell accounts
- Underwriting profits will be retained on Cell balance sheet until a Release of Fund calculation

Premium Earning Example

Premiums £100,000

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
Earned	**0%**	**7.70%**	**18.87%**	**24.23%**	**20.25%**	**14.76%**	**14.19 %**
	0	**7,704**	**18,870**	**24,229**	**20,247**	**14,758**	**14,192**
Profit assumed at 10%	0	770	1,887	2,423	2,025	1,475	1,419

NB Dividends other in respect of interest income less operating expenses can only be paid from the end of year 8

Release of Funds at end yr 8

Losses are pooled throughout the life of the scheme so

Year 1 2012 /13: Cell Payments = £1m
Year 2 2013 /14: Cell Payments = £1.5m
Year 3 2014 /15: Cell Payments = £1.2m

At the end of Year 1 coverage
i.e. at end of scheme year 8 of the claims paid are
£200k for year 1
£200k for year 2
£300k for year 3 Total Claims £700k

The Cell would be able to release **£300k** of funds in 2020

(Cell Payments Yr1 £1m - £700k claims = **£300k**)

Release of Funds at end yr 9

Losses are pooled throughout the life of the scheme so

Year 1 2012 /13: Cell Payments = £1m
Year 2 2013 /14: Cell Payments = £1.5m
Year 3 2014 /15: Cell Payments = £1.2m

At the end of Year 2 coverage
i.e. at end of scheme year 9 the claims paid are
£600k for year 1
£500k for year 2
£400k for year 3 Total Claims £1.5m

The Cell would be able to release **£700k** of funds in 2021

(Cell Payment Yr1 £1m + Yr2 £1.5m – £300k previously released - £1.5m of claims = **£700k**)

Release of Funds at end yr 10

Losses are pooled throughout the life of the scheme so

Year 1 2012 /13: Cell Payments = £1mn
Year 2 2013 /14: Cell Payments = £1.5mn
Year 3 2014 /15: Cell Payments = £1.2mn

At the end of Year 3 coverage
i.e. at end of scheme year10 the claims paid are
£700k for year 1
£800k for year 2
£800k for year 3 Total Claims £2.3mn

The Cell would be able to release **£400k** of funds in 2022

(Cell Payment Yr1 £1m + Yr2 £1.5m+ Yr3 £1.2m – £1mn previously released - £2.3m of claims = **£400k**)

Why Guernsey

- It has taken over 2 years to design the solution you are bring presented today

- Many technical issues have had to be accommodated

- Guernsey has more flexible Company and Insurance Law

- This flexibility has been vital to the successful design

- Guernsey was not chosen for tax reasons

Tax Treatment

- No tax payable in Guernsey by the PCC the Cells or their shareholders
- Fully transparent
- Insurance Premium Tax (IPT) payable at 6% of the premium as risk insured is UK risk

Tax treatment by UK

- HBF has taken tax advice from KPMG and is working closely with HM Treasury. Final details are being agreed with HM Treasury this week.
- That advice can be shared with any builder applying to join the scheme
- HMRC need to be assured no tax leakage from the UK Exchequer
- Scheme design requires that UK tax is paid equal to that which would be paid if HBF Insurance PCC Limited were based in the UK

Tax

In the Cell User Agreement the builder must agree to the following:

- Cell shares can only be held by a UK tax resident company
- Dividends SHALL be paid whenever it is possible for the PCC to do so, whilst complying with solvency requirements and only from unencumbered assets
- The shareholder must evidence to the PCC that they have made a S931R election to pay tax on the dividends from the Cell

Tax

In the Cell User Agreement the builder must agree to the following:

- Dividends exceeding interest income can only be paid from the end of year 8. *See Release of Funds slide*
- A calculation will be made before the dividends are paid such that the tax that will be paid in the UK on receipt of the dividend will equal the tax that would have been paid had the PCC been UK tax resident
- Calculations will be made by professional tax advisors

Cell Reporting

- For each Cell JLTIM will undertake:
  - To reconcile Builder payments to bank account
  - To reconcile Builder sale completions with Monthly Lender management information
    - to ensure that the Lender has security over the correct amounts of funds at all times
  - Reporting of irregularities and coordination of rectifications between Builders and Lenders

Cell Reporting

- JLTIM will provide each builder with:
  - Quarterly Cell P&L and Balance sheet
  - Analysis of arrears and possessions data in respect of your properties plus if in MUC the overall position for the Cell

Lending Audits

- JLT will provide:
  - Regular audits of Lenders compliance with agreed criteria
  - Findings will be reported to HBF, PCC Board, Government and relevant Lender, with requirements for action or sanction

Application for a Cell

- HBF sends builder explanation of the scheme
- HBF sends CML a weekly list of builder enquiries, with any lender preferences
- CML forwards details to lenders for a decision
- Lenders to respond to CML with their decision within 10 working days (NB they have right of veto)
- CML to collate responses and send to HBF
- HBF to inform builders of Lenders decision

Application for a Cell

- JLTIM will provide an application pack comprising:
  - GFSC Cell application form
  - JLTIM due diligence requirements and application guidance
  - GFSC Form PQ for individuals owning more than 15% of the Builder
  - HBF PCC Business Plan
  - Builder MI template
  - Builder payment email template

Application for a Cell

- The application form will allow the GFSC to consider an in principle approval for the Builder
- Builders can make an in principle application at the same time as the Lender approval process is taking place
- In the event that no lenders are willing to work with the Builder the GFSC application fee of £1,420 cannot be refunded

Scheme Entry Fee

- HBF have and will incur various costs in relation to the scheme
- Start up costs of £150k which include significant expenses for legal and tax advice

  Any queries on these costs should be referred to HBF

- These will be recharged to HBF Insurance PCC Limited

Annual Costs – HBF PCC Core

Core costs will be recovered from Builders via the Scheme entry fee

• GFSC Annual licence fee	5,040
• Company Registry/Data Protection	800
• Audit and tax computations assumes 50 Cells	125,000
• Directors fees (2 at £10,000)	20,000
• Meeting expenses	4,000
• Insurance (D&O + Legal protection)	30,000
• Compliance audit	1,000
	£186k

Annual fees – Per Cell

	£
• Annual licence fee	1,650
• Annual Company registry	10

Scheme Entry Fee

- Based on assumption of 20,000 units sold over 3 years
- £150k + (186k x 10) +(1.66k x 10) + 3% annual inflation and 10% buffer = £2.5m
- Entry fee will be £125 per sale based on estimates upon joining. NB yet to be agreed by HBF Board

Scheme Entry Fee

- If you sell more units than estimates provided your entry fee will be adjusted to actual sales

- If there are funds left at year 10 they will be returned to you. The entry fee is a not for profit levy

Other Costs:

As set out earlier in *Obligations of builders slide*:

- Make Cell Payments being premium per sale at 1.47% of sale price plus capital per sale at 2.03% of sale price
- Pay insurance premium tax (IPT) at 6% of premium to the HBF PCC IPT account
- Pay Scheme administration fee per sale at 0.35% of sale price to JLT

Summary of costs:

Sale Price £175,000		**COSTS**	
Capital	2.03%	£3,552.50	
Premium	1.47%	£2,572.50	
IPT on premium at	6%	£ 213.15	
JLT 0.35%		£ 612.50	
Scheme Entry Fee		£ 125.00	
Total costs		£7,075.65	= **4.0%**

- **Capital may be returned** 2.03%
- **Net costs could be as low as** **2.01%**

Commercial Issues Remaining

- Tax & Legal
- Lenders product and pricing
- Agreements between Builders and Lenders
- Marketing

SALES

Timeline

6 March	• First Board meeting of PCC
12 March	• Launch date
March/April	• Builder/ Lender agreements Cell applications, regulatory processing then sales

Questions

NewBuy
In partnership with HM Government

For further information please contact

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