



MHCLG – Consultation on the design and delivery of First Homes

Response by the Intermediary Mortgage Lenders Association

March 2020

IMLA

IMLA is the representative trade body for mortgage lenders who lend wholly or predominantly through intermediaries. Our 42 members include banks, building societies and specialist lenders, including 18 of the top 20 UK mortgage lenders responsible for almost £249bn of annual lending. IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market. We welcome this opportunity to comment on the MHCLG's consultation on First Homes.

This response was drafted before the current stringent restrictions were brought into force in order to combat the threats posed by the COVID-19 pandemic. We acknowledge that there will be many practical and economic difficulties and challenges to overcome when more normal circumstances resume. Our members are keen to work with the Government, local authorities and developers to help deliver the housing that will continue to be needed in the short, medium and long-term.

Main observations

- As the consultation acknowledges, many practical questions remain as to how the scheme will be delivered. Much of the potential success of the scheme lies beyond the power of the Government to deliver directly: there is a heavy reliance on the ability and willingness of local authorities and developers to co-operate in order to be able to plan and build-out successful developments which include significant volumes of homes to be made available under the First Homes scheme.

- The proposed initial discount will no doubt be attractive to a number of buyers – but it is less clear what impact this may have on those buyers when they come to sell their properties and are obliged to do so at the same level of discount. The value of the property at that time may be affected by a number of factors – and if prices have risen unevenly across the country, someone who has bought in one area with a 30% discount may find themselves disproportionately affected – and therefore unable to move away to another area. They may also find it difficult to trade up to a larger property in the same area, as they may not have accumulated sufficient equity in the initial First Home. Since that property will, by definition, have been designed for a first-time buyer, it may be quite modest in size. The buyer may find it challenging to sell at the statutory 30% discount and be able to buy a larger property which may be needed to accommodate a growing family.
- The cost of a property with the 30% discount applied may also in effect become its actual value, since there will be so many restrictions on sale.
- It would appear to be very difficult for Government to set any “level of ambition” in relation to First Home delivery, given that the success of the scheme will rest on the appetite and ability of Local Authorities to liaise with developers in order to plan and build sufficient new homes. Where that appetite and ability exists, current legislative powers are probably sufficient to enable plans to be drawn up. But a heavy degree of reliance is being put on private sector delivery. The Government could be doing much more to increase the supply of public-sector property – whether for rent, shared ownership or similar scheme and – eventually – right to buy – and ease the strain on the private rented sector, which already supplies many properties which are in fact let out to public sector tenants.
- The purpose of the Community Infrastructure Levy is to ensure that new developments are not built in a vacuum – but are within properly planned environments which have taken into account the need for access to roads, amenities such as shops, schools, medical facilities and so on. We do not understand the logic of reducing the amount of levy available to Local Authorities in relation to First Homes – the occupiers of which may arguably be in most need of access to facilities such as public transport, schools and so on.

Answers to the specific questions raised are set out below, grouped together where appropriate.

Price caps

Q1:

(a) Do you agree with a minimum discount of 30% (but with local flexibility to set a higher one)?

(b) If not, what should the minimum discount be?

(i) 20%

(ii) 40%

(iii) Other (please specify)

Q2:

(a) Should we set a single, nationally defined price cap rather than centrally dictate local/regional price caps?

(b) If yes, what is the appropriate level to set this price cap?

Q3: *If you disagree with a national price cap, should central Government set price caps which vary by region instead?*

Q4: *Do you agree that, within any central price caps, Local Authorities should be able to impose their own caps to reflect their local housing market?*

It will be for property developers to determine whether a minimum discount of 30% is realistic, as it is they who will need to absorb this and factor it into their pricing of the remaining properties on an individual site. Local authorities may wish to impose higher levels of discount, particularly in areas where housing costs are above the national average, but this may simply not be commercially viable for developers.

If different levels of discount and price caps are applied in different regions, this may make the scheme more complex (and thus less attractive) to some lenders.

Eligibility

Q5: *Do you agree that Local Authorities are best placed to decide upon the detail of local connection restrictions on First Homes?*

Q6: *When should local connection restrictions fall away if a buyer for a First Home cannot be found?*

Q7: *In which circumstances should the first-time buyer prioritisation be waived?*

Q8: *Should there be a national income cap for purchase of First Homes?*

Q9: *Are there any other eligibility restrictions which should apply to the First Homes Scheme?*

Local Authorities should be best placed to judge the level of demand for housing in their areas, particularly amongst key workers and local residents who have found themselves unable to buy. They are most likely to give planning permission for developments in areas where they know that demand is high – and may already have effective waiting lists which should ensure that buyers should be found without delay. Whilst it makes sense for the restrictions to be waived after a period, it is likely that circumstances will vary across the country, so it would be sensible to give local authorities discretion to judge at what point to waive them.

It is understood why Local Authorities may wish to be able to assess individuals' income and assets in order to target First Homes at those in most need of support,

but this may need to be done in consultation with lenders, to ensure that those deemed to be in most need by the Local Authority also have a realistic chance of being able to afford a mortgage of the size needed to purchase the property.

Role of Local Authorities

Q10: Are Local Authorities best placed to oversee that discounts on First Homes are offered in perpetuity?

Q11: How can First Homes and oversight of restrictive covenants be managed as part of Local Authorities' existing affordable homes administration service?

Q12: How could costs for Local Authorities be minimised?

Restrictive covenants on properties have traditionally made such properties less attractive to prospective mortgage lenders. Paragraph 38 acknowledges this, but does not make any clear suggestions as to how the problem could be mitigated. It is not obvious how any of the proposed alternatives could resolve the issue, since the essential objection – the existence of a restrictive covenant - would remain, whoever was responsible.

Supporting competitive mortgage lending

Q13: Do you agree that we should develop a standardised First Home model with local discretion in appropriate areas to support mortgage lending?

Q14: Do you agree that it is appropriate to include a mortgage protection clause to provide additional assurance to lenders?

Both a standard model and a mortgagee protection clause would be essential if mortgage lenders were to support the scheme. Many lenders lend across the country and would find it extremely difficult to have to adapt to numerous variations of a model. The mortgagee protection clause, which protects the lender's security in the event of default by the borrower, has been an essential feature of previous similar schemes.

Restrictions on letting

Q15: For how long should people be able to move out of their First Home and let it out (so it is not their main or only residence) without seeking permission from the Local Authority?

- (i) Never***
- (ii) Up to 6 months***
- (iii) 6 – 12 months***
- (iv) Up to 2 years***
- (v) Longer than 2 years***
- (vi) Other (please specify)***

Q16: Under what circumstances should households be able to move out of their First Home and let it for a longer time period?

- (i) Short-term posting elsewhere**
- (ii) Deployment elsewhere (Armed Forces)**
- (iii) Relationship breakdown**
- (iv) Redundancy**
- (v) Caring for relative/friend**
- (vi) Long-term travelling**
- (vii) Other (please specify)**

Borrowers wishing to move out of their property and let it for a period will need the consent not only of the relevant Local Authority, but also of their mortgage lender and insurer. It will not be helpful if each of these three interested parties impose different maximum periods and conditions. A borrower who moves out and lets a property without their lender's express consent risks being in breach of the mortgage contract – which will effectively be a regulated mortgage contract (as defined) if it no longer relates to the borrower's principal residence. Lenders may be prepared to allow borrowers to move out for specified reasons or under specified circumstances, but this will be a matter for individual lenders' policies.

The Armed Forces Covenant - Qs 17 – 19

Q17: Do you agree that serving members and recent veterans of the Armed Forces should be able to purchase a First Home in the location of their choice without having to meet local connections criteria?

Q18: What is the appropriate length of time after leaving the Armed Forces for which veterans should be eligible for this exemption?

- (i) 1 year**
- (ii) 2 years**
- (iii) 3-5 years**
- (iv) Longer than 5 years**

Q19: Are there other ways we can support members of the Armed Forces and recent veterans in their ability to benefit from the First Homes scheme?

The extent to which Local Authorities feel able to give priority to Armed Forces personnel and veterans may depend on the other pressures on available housing in a particular area. It may not be possible to impose specific criteria on a national basis.

Delivery – Qs 20 – 22

Q20: Which mechanism is most appropriate to deliver First Homes?

- (i) Planning policy through changes to the National Planning Policy Framework and Guidance**
- (ii) Primary legislation supported by planning policy changes**

Q21: Which do you think is the most appropriate way to deliver First Homes?

- (i) As a percentage of section 106 affordable housing through developer contributions**
- (ii) As a percentage of all units delivered on suitable sites**

Q22: What is the appropriate level of ambition for First Home delivery?

- (i) 40% of section 106**
- (ii) 60% of section 10**
- (iii) 80% of section 106**
- (iv) Other (please specify)**

It would appear to be very difficult for Government to set any “level of ambition” in relation to First Home delivery, given that the success of the scheme will rest on the appetite and ability of Local Authorities to liaise with developers in order to plan and build sufficient new homes.

Exception sites – Qs 23 – 26

Q23: Do you agree with these proposals to amend the entry-level exception site policy to a more focused and ambitious First Homes exception site policy?

Q24:

- (a) Do you think there are rare circumstances where Local Authorities should have the flexibility to pursue other forms of affordable housing on entry-level exception sites, because otherwise the site would be unviable?**
- (b) If yes, what would be an appropriate approach for Local Authorities to demonstrate the need for flexibility to allow other forms of affordable housing on a specific entry-level exception site?**

Q25: What more could the Government do to encourage the use of the existing rural exception site policy?

Q26: What further steps could the Government take to boost First Home delivery?

We have no specific comments on exception sites.

Community Infrastructure Levy exemptions – Qs 27 and 28

Q27: Do you think that the proposal to exempt First Homes from the Community Infrastructure Levy would increase the delivery of these homes?

Q28: Do you think the Government should take steps to prevent Community Infrastructure Levy rates being set at a level which would reduce the level of affordable housing delivered through section 106 obligations?

Exempting First Homes from the Community Infrastructure Levy appears to be counter-intuitive: the purpose of the Levy is to ensure that new developments are not built in a vacuum – but are within properly planned environments which have taken into account the need for access to roads, amenities such as shops, schools, medical facilities and so on. It would be particularly negligent, in the midst of current concerns about climate and the need to use energy wisely, to build homes in areas where access was only really possible by car, and which ignored safe access for pedestrians and cyclists, to give just one example. There is already evidence that Local Authorities are sometimes unable to adopt the roads and communal areas surrounding some new developments because they have insufficient resources. This can lead in some cases to those communal areas being managed by private companies, which charge residents fees, over the level of which the residents have little or no control. If the Levy is intended to ensure that planning takes account of the wider needs of communities, how can it make sense for it to be effectively removed in relation to First Homes?

Equality impacts – Qs 29 and 30

Q29:

(a) *What equality impacts do you think the First Homes Scheme will have on protected groups?*

(b) *What steps can the Government take through other programmes to minimise the impact on protected groups?*

We have no specific comments on equality impacts.

Q30: Do you have any other comments on the First Homes scheme?

We support the Government's intention to help deliver more homes for first-time buyers but have concerns about the lack of detail regarding the First Homes scheme. We also think that the scheme should not be seen in isolation from the need for a much more ambitious programme to build more public sector housing. Whilst home ownership may remain the aspiration of many, it may well remain beyond the reach of many – who will have to seek alternative options in the public or – increasingly – private rented sectors. More – and more varied – ways of delivering greater volumes of dwellings in all tenures are likely to be necessary.