

# BSA Response to First Homes consultation

Restricted  
09 March 2020

# Introduction

The Building Societies Association (BSA) represents all 43 UK building societies, as well as 6 credit unions. Building societies have total assets of £420 billion and, together with their subsidiaries, hold residential mortgages over £330 billion, 23% of the total outstanding in the UK. They hold over £290 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 38% of all cash ISA balances. They employ approximately 42,500 full and part-time staff and operate through approximately 1,470 branches.

The BSA welcomes the opportunity to respond to this consultation on the design and delivery of First Homes and take part in the MHCLG working groups. Building societies are a diverse sector of lenders, but as a whole feel it is a strong part of their core purpose to support first-time buyers onto the housing ladder. They bring a wealth of experience in other home ownership schemes such as Help to Buy and shared ownership, and a number also lend on Discounted Market Sale homes.

## Responses to questions

**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)**

Yes we agree. A discount of 30% should be sufficient in most housing markets to enable a first-time buyer to get onto the housing ladder, particularly where the discount forms part of the deposit therefore also reducing the need to fund the deposit from savings.

Flexibility to set a higher discount will enable local authorities in higher land value areas to make a First Home even more affordable while ensuring the development remains viable. However, setting a higher discount should be the exception rather than the rule and only used where it is truly necessary to ensure affordability. Standardisation of all elements of the First Homes scheme, including discount levels, should be pursued as far as possible in order to make it a mass market proposition.

There should also be a maximum discount, say at 50% to ensure that viability of the development is not affected, and also that the discount on any one home does not eat into the number of homes that can be delivered overall.

**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? i. £600,000 ii. £550,000 iii. £500,000 iv. £450,000 v. Other (please specify)**

A national price cap of £600,000 pre-deduction would appear sensible. This matches the maximum cap of Help to Buy so is well-established, without becoming prescriptive on a region-by-region basis.

Government also needs to consider delivery in areas that are more expensive than the price cap. If the intention of the policy is for all sites to contain an element of First Homes, then the price cap could make this unviable on some sites where the open market value would be

significantly more. Whether Government would be willing to allow off-site contributions from developers in such a scenario should be established upfront.

It is important that a review mechanism is built into the scheme to rebase the price cap otherwise sites in London and the South East could soon become unviable due to increases in land values. A review of the national cap every two years would appear sensible.

**Q3. a) If you disagree with a national price cap, should central Government set price caps which vary by region instead? b) If price caps should be set by the Government, what is the best approach to these regional caps? i. London and nationwide ii. London, London surrounding local authorities, and nationwide iii. Separate caps for each of the regions in England iv. Separate caps for each county or metropolitan area v. Other (please specify)**

The experience of the Help to Buy 2021-23 price caps has shown that regional caps can quickly get out of step with housing market dynamics, and could potentially constrain house price growth outside of London. Given that the aim of the policy is to enable local people to buy in their local area, it would also appear sensible to avoid placing broad brush caps on regions where people would be locked out of higher value markets within that region. Often these are the most challenging areas to attract key workers.

**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?**

Caps set by local authorities are likely to be too granular and could create price distortions. Local housing markets tend to be larger than a single local authority and exist across postcode boundaries. For example, in urban areas there may be two comparable properties that are close enough to each other for a buyer to consider but which are subject to different price caps. This can affect what a buyer would be willing to pay for a property in a higher cap area, if they know they can purchase a similar property in a neighbouring authority with a lower cap. This introduces a level of complexity into the valuation of First Homes which should be avoided, particularly as we are assured the price cap will fall away on first sale.

If local authorities are able to flex their discounts this should enable them to have sufficient tools to keep First Homes affordable where absolutely necessary, without specifying separate price caps. This approach is preferable as it enables the valuer to make an assessment of the market value of the home without a cap, and apply the discount to the market value, which should be more straight-forward.

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

Yes we agree. They should also carry out all eligibility tests for First Homes; this should not fall on the lender to police.

**Q6. When should local connection restrictions fall away if a buyer for a First Home cannot be found? i. Less than 3 months ii. 3 - 6 months iii. Longer than 6 months iv. Left to Local Authority discretion**

Our understanding is that local connection restrictions will operate on a cascade basis. If a buyer still cannot be found after the lowest level of the cascade then the restrictions should fall away as soon as possible, so we would be supportive of the less than 3 months option.

It is also vital to consider how any restrictions would operate in the secondary market. For example, if the owner of a First Home is unable to find another eligible buyer then the restrictions should fall away as soon as possible, otherwise people might be prevented from moving for circumstances outside of their control and the saleability of the home will be affected.

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

There may be cases such as divorce or bereavement where it would be sensible to wave first-time buyer prioritisation, particularly in light of the Covid-19 pandemic.

**Q8. a) Should there be a national income cap for purchasers of First Homes? b) If yes, at what level should the cap be set? c) Do you agree that Local Authorities should have the ability to consider people's income and assets when needed to target First Homes?**

Income is relatively straight-forward to prove, whereas assets are much more difficult to ascertain and could become burdensome on local authorities to check eligibility. Generally, an income cap will also catch people with a large amount of assets, and the requirement to be a first-time buyer should catch those who have previously bought buy-to-let properties.

An income cap of around £90,000 for the household would fit with a price cap of £600,000 assuming:

- Discount of 30%
- Lenders offering 95% loan-to-value mortgages
- A loan-to-income limit of 4.5 times

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

There may be a case for limiting the use of gifted deposits, as the aim of the policy is to enable people to buy who would otherwise be unable to.

**Q10. a) Are Local Authorities best placed to oversee that discounts on First Homes are offered in perpetuity? b) If no, why?**

We would anticipate that the terms of the restrictive covenant will be dealt with through the conveyancing process. However, this would be late in the buying process.

Much depends on how active local authorities are expected to be in the secondary market, for example, whether buyers will be required to give the local authority right of first refusal to resell the homes to an eligible buyer.

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

No specific comments

**Q12. How could costs to Local Authorities be minimised?**

No specific comments

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

Yes we agree. From a mortgage processing point of view it would be helpful for this to include at a minimum a standardised model covenant, standardised s106 clauses where possible, standardised mortgagee protection wording, a model clause on eligibility restrictions and cascading mechanisms, as well as standardised wording on any letting restrictions/allowances once these are decided.

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

Yes, we agree. This provides confidence among lenders to offer high loan-to-value products while minimising the risk of negative equity as they should be able to call on the full market value of the property to recover any losses. We would welcome further discussion with Government on the mechanics of the mortgagee protection clause as this is fundamental to securing lender confidence in First Homes.

In the BSA's view, the mortgagee protection clause should cover at least: the sum advanced, the costs of any forbearance measures, 18 months interest and any fees and charges associated with sale of the property. This would include any losses due to arrears which could be recovered by the lender, with the leftover paid to the local authority.

Under the shared ownership mortgagee protection clause, lenders must seek agreement from the landlord for any mortgage on the security. The landlord must give its decision within 28 days. Consideration will need to be given to how this process will work with First Homes, as we understand the local authority will essentially be a third party in the transaction with the sale taking place between developer and purchaser.

From a legal point of view, it is important to fully consider the enforceability of a mortgagee protection clause within a restrictive covenant rather than a lease. It is also important that stakeholders are made aware of this element of the covenant and understand that they may not receive any proceeds from the sale if the lender has made a loss.

Government should also be clear whether local authorities will be able to pursue customers for any losses on the 30% they effectively hold as an equity stake.

The Department should also engage with the Prudential Regulation Authority regarding the form of the mortgagee protection clause. Currently, building societies have to hold higher levels of capital against shared ownership loans as the PRA has doubts about its effectiveness in practice. If societies are able to hold less capital against First Homes mortgages then this will drive more mortgage lending into the sector.

**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)**

Under a lender's normal terms and conditions, borrowers would not be allowed to let the property out without notifying the lender. The reason for this is to avoid people taking advantage of preferential rates for residential mortgages to fund an investment. Failure to notify the lender is a breach of the terms and conditions.

This objective is doubled by the need to ensure that First Homes are purchased by people who cannot afford to buy on the open market. Allowing people to let out these homes without having to prove a genuine reason could potentially open the scheme up to investors and defeat this purpose. Even with a letting allowance of two years, an unscrupulous investor would be able to make a good profit by funding the purchase at 30% discount and potentially seeking to sell the property once the two years are over.

There are also concerns that if letting is allowed, this could frustrate a lender's enforcement of their security if they need to repossess a tenanted property.

It can be difficult in reality to police whether somebody is letting out a property without permission so local authorities will need resource in order to do this. There is also a question as to what the consequences should be if a First Home owner is discovered to have been letting out their home without authorisation. Under the Starter Homes scheme the penalty was anticipated to be repayment of the discount on a tiered basis. As the homeowner will not

benefit from receiving a windfall, this would not be possible under First Homes so some sort of fine or threat of repossession is likely to be necessary. We understand that unless Government passes specific legislation, then any enforcement would need to follow normal court processes.

**Q16. Under what circumstances should households be able to move out of their First Home and let it for a longer time period? (Tick all that apply) i. Short job 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)**

In the BSA's view these should all be acceptable, but should require authorisation from the local authority and lender and would attract a higher rate on the mortgage, other than deployment by the armed forces where a number of building societies will agree to waive the interest surcharge.

**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?**

Yes we agree.

**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**

No comment.

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

The BSA has produced a series of financial top tips, along with a range of other trade bodies, which are hosted on GOV.UK. These should be updated to highlight the First Homes scheme. It is important that members of the Armed Forces are able to explain their pay structure, particularly around guaranteed income, so that lenders can understand their income for affordability purposes.

**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**

No comment.

**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**

The BSA's primary concern is that delivery of First Homes should not entirely crowd out other tenures, particularly shared ownership where building societies play a predominant role.

**Q22. What is the appropriate level of ambition for First Home delivery? i. 40% of section 106 ii. 60% of section 106 iii. 80% of section 106 iv. Other (please specify)**

We do not agree that First Homes ambition should be set at such a high bar, as this would crowd out other forms of affordable housing such as shared ownership. Of the options provided, however, 40% would appear to be the most sensible, as this provides greater scope for a mix of other affordable housing to be delivered alongside.

**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?**

Yes.

**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?**

No comment

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

No comment

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

The Starter Homes Land Fund should be recycled into First Homes. First Homes could also be considered for grant funding in the Affordable Homes Programme, as local authorities will protect the investment and this could improve viability in areas with high land values.

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

No comment.

**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?**

No comments.

**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?**

No comments

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

In the BSA's experience the most important element of creating any successful affordable housing scheme is to ensure that there is as much standardisation as possible to attract lending and to keep the process simple.

For example, the consultation is silent on the valuation process and whether local authorities will accept the lender's valuation or require their own. We believe local authorities should accept the lender's valuation as standard in order to cut-down on fees and processing times due to duplication. There also needs to be sufficient funding and support for local authorities so that they are able to respond to customers and lender stakeholders in a timely manner.

The consultation also appears to be silent on whether there will be a minimum mortgage requirement on First Homes. The BSA is supportive of this to ensure that they go to people who need them the most, rather than buyers with a cash rich family able to support a purchase.

By Charlie Blagbrough  
Mortgage Policy Manager  
charlie.blagbrough@bsa.org.uk  
020 7520 5903

York House  
23 Kingsway  
London WC2B 6UJ

020 7520 5900  
@BSABuildingSocs  
www.bsa.org.uk

BSA EU Transparency Register No: 924933110421-64

[www.bsa.org.uk](http://www.bsa.org.uk)

The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £420 billion, and account for 23% of the UK mortgage market and 19% of the UK savings market.