Building Societies Association

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# SOCIETY matters

# The future for homes and housing

## contents



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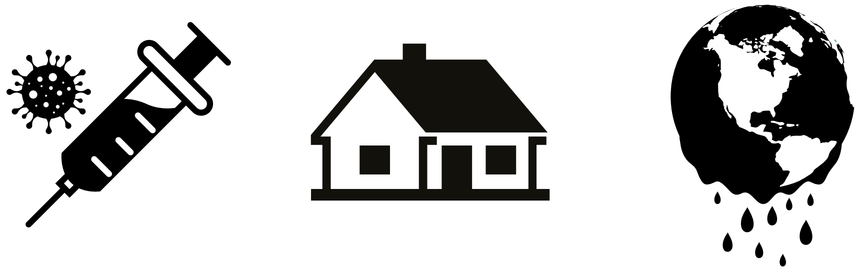
# Hello and welcome to the winter edition of Society Matters



This year has been truly unbelievable. It's been mad, bad and sad but we are hoping for light at the end of the tunnel with a Covid vaccine being rolled out.

2020 will be remembered as a strange year and although our lives are very different now, we can't let this virus beat us. As Andy Haldane, Chief Economist at the Bank of England, says on page 4 we should look for the positives and the opportunities in what has been a dark year. He emphasises that the housing market is booming and the financial services sector has helped people with payment deferrals on mortgages, loans and credit.

This is certainly true and building societies have worked so hard to cope with the surge of applications for mortgage payment holidays; followed by the demand for mortgages after the first lockdown was lifted in May. A demand that has resulted in building societies taking a 28% market share of new mortgage business between July and September, up from 26% the same time last year.

Building societies have also had the challenge of ensuring staff can work from home, kept branches open on reduced hours and made them and other offices Covid safe. BSA CEO Robin Fieth talks more about this year in his regular column.

Our special focus in this issue, starting on page 6, is on the future of housing and homes. Subjects include affordable housing, diversity in house building, climate change risk and a

busy housing market as people want more space and better conditions conducive to working from home. There is also a round-up of what some societies have been doing with green finance initiatives as it becomes ever more important to save our planet.

We close this year with the hope that next year will be much better. So stay safe, stay well and best wishes for a wonderful Christmas and the gift we are all wanting – an end to Covid – let's hope the vaccine works.

***JOANNE ATKIN***
*Society Matters Editor*





# 2020 holidays, pizza windows and steamed up glasses

As we come toward the end of another year, it is customary to look back on the past twelve months, whether formally in our annual reviews, or through the photo-montages of the Sunday supplements. How many of us, I wonder, would just prefer to forget the year that was 2020, and move on?

*By* ***ROBIN FIETH****,*
*BSA Chief Executive*

That would be a mistake, because through the crisis, we have all learnt a huge amount about what is possible, about ourselves and our colleagues, about just how resilient and creative people and businesses can be.

In our town, traders came together to create a shared home delivery service and some of our local pubs switched immediately to takeaways. The pizza collection window at one has been a real hit; another has created a small village store and Christmas shop to tempt you when you are picking up your Friday evening fish and chips.

As in so many parts of the country, our community has also come together to support each other. There is a real sense that we have come to know our neighbours better and have become better neighbours. Zoom village drinks gave way in the summer to a socially distanced street gatherings on Friday evenings.

Many have commented on the mass switch to home working. We salute the armies of IT professionals and office managers who performed incredible feats in just a few days to enable our teams to work remotely. And our teams fed back quickly that they were enjoying the extra hours in the day and the money saved by not having to commute. The BSA's team has told us they are looking forward to a future that does not involve five-day a week travelling into Central London. But, as the blitz mentality of the early days of lockdown gave way to the long haul, I am sure we have all felt the novelty wear off – and some of us may even have started longing for a return to a workplace that is more than a few steps from the kitchen.

2020 has also brought us a whole new type of holiday. And like all holidays, this one does have to be paid for. Around 2.5 million borrowers have benefited from mortgage payment holidays. Add credit cards and unsecured loans, and over 4.4 million people have had some form of payment holiday. Our new normal world, when we do emerge from lives constrained by tiers, restrictions and lockdowns, will in part reflect these collective experiences. The tail effect will not just be in the mountains of government debt. Each of us will have to ease ourselves back into a more open society, where we can move about freely, not worry about social distancing, meet up with friends and family, ditch the facemasks that constantly steam up your glasses.

December is a great month for gift giving and thank yous. This year, more than ever, let's thank all those who have brought light to our lives in 2020: our families, friends and colleagues, key workers and home fitness gurus. There are so many people to be grateful for this year. Above all, could I say a huge thank you to everyone at the BSA, all our members and associates, our regulators and colleagues in government departments – and to wish you all a Peaceful and Happy Christmas.


**Next steps:**
*You can follow Robin on Twitter* ***@bsaceo***

# Rays of economic light

By **ANDY HALDANE**, *Chief Economist, Bank of England*

Looking at the positives for a brighter 2021 – economic recovery, human resilience, financial support to those who need it, opportunities emerging out of the pandemic and a Covid vaccine on the horizon.

The Covid-19 pandemic, and the public health responses to it, have led to significant hardships for many people across the UK and globally. Covid has exposed every person on the planet to a double jeopardy – a risk to both their lives and livelihoods.

The facts are sobering. In the first half of the year, economic output in the UK fell by around a quarter, around one million people lost their jobs and 10 million saw their incomes fall. Most tragically, more than 50,000 people have so far lost their lives.

Even in these dark days, however, it is important not to lose sight of the positives, the rays of economic light. Keeping these in mind is important in its own right, but also as a means of preventing fearfulness and uncertainty about the future having a self-fulfilling impact on our economic fortunes.

First, we have seen large parts of the economy recover far-faster than anyone expected. The third quarter saw the largest quarterly increase in UK output ever recorded, with around three-fifths of the output losses recouped, although that still leaves GDP well below its level at the start of the year.

Second, the driver behind this recovery was the behaviour of consumers, who have exhibited remarkable degrees of resilience and flexibility in the face of adversity. Consumers have adapted at pace and scale where and on what they spend in the face of restrictions. So while high street retail and restaurants are sharply down, online retail, supermarkets and takeaways are sharply up. And the housing market is booming.

Third, unlike a decade ago, the financial sector has been part of the solution to the Covid crisis, rather than part of the problem. Millions of payment holidays and new loans have provided essential financial support to households and companies across the UK facing cashflow difficulties. Without this financial support from banks and building societies, personal defaults and business failures would have made a bad economic situation far worse.

Fourth, all crises bring opportunities as well as challenges and this one will be no exception.

- Opportunities to rethink our working practices so that less of our time is spent on the unpaid, unproductive work that is commuting, boosting our well-being and our productivity.
- Opportunities to rebalance our economy regionally, with working and spending now less attached to large city centres, allowing a more even spatial distribution of economic activity.
- Opportunities for firms, financial and non-financial, to re-invest in their digital infrastructures and the digital skills of their staff, in ways that boost firms' performance and productivity and workers' pay and prospects.
- And opportunities to forge ahead in meeting the UK's net zero target by 2050, with reduced levels of travel having provided a down-payment.

Last but by no means least, we have recently received encouraging news about vaccines which, if they come good, would provide clear light at the end of the dark tunnel of this year: an end to the fearfulness that has scarred us as individuals; and an end to the stop-go cycling that has disrupted our businesses. The boost that could provide, financially and psychologically, should give us all realistic hopes of a far brighter 2021.

**Next steps:**

*Visit* ***bankofengland.co.uk***





# "The species that survives is the one that is able best to adapt"

COVID-19, Brexit, and a rancorous US election have all underpinned a sense of volatility in financial and housing markets which will be with us beyond 2021. Lenders have had to respond quickly to the furlough scheme, mortgage deferrals, and the fiscal shot in the arm in the shape of a stamp duty holiday.

By **STEVE CARRUTHERS**, *Principal Consultant (Lending), Iress*

In our Mortgage Efficiency Survey, conducted in the first lockdown, we gleaned some particular insights into the challenges and opportunities facing building societies and how evolving views and demands of technology are shaping their thinking and that of lenders generally.

## Technology will enable risk management and operational change to lending models

It was clear that some once standard processes have been reassessed and changed. Physical inspections and wet signatures are two tactical examples where previously unthinkable change occurred rapidly for many societies.

Many risk processes are being rethought. Making more of risk data available in the market will support more efficient decision-making without losing the personal touch. Some are fast-tracking investigations into open banking and other data opportunities so decisions are less about the toing-and-froing of information for underwriters and more about focussed decision-making.

If banks, as some relayed to us, embrace a more manual approach, societies will need to embrace more automation to meet them in the fight for this middle ground or find themselves forced to embrace more risky lending. Automation is key here but must deliver value at the requisite scale and be flexible and precise enough to deliver nuanced outcomes that support societies' strategies.

In the longer-term, Covid's impact on capital and cash-flow has meant for some lenders that 'quick fix' projects were fast forwarded but others may be delayed. Market share was less of a concern than operational sustainability in 2020. This will continue to be the case for many in 2021 as lenders look to improve the infrastructure and security of a significant home-based workforce. A quick fix now does not lay the path for the future. Whilst in this disrupted world, forward thinking lenders are accelerating their strategic plans to ensure they have a platform fit for the future and not a temporary knee jerk fix for today's problems.

## Technology will change the nature of intermediary and direct distribution

All lenders remain committed to intermediary distribution as they want scale at short notice and value outsourced advice and this will underpin further investment in intermediary distribution. All the lenders with branches foresaw a repurposing of these and acknowledged their distribution footprint might further change to an intermediated one in a post pandemic world where borrowers' requirements will be more complex. We expect from our conversations that lenders will continue to grow their share of the product transfer market and will develop their online solutions for this.

## The consumer push to adopt new technology

The digitalisation of the consumer world in every other walk of life will drive the re-invention of business origination which will increasingly be online. Interfacing with third parties through APIs will eliminate many current frustrations and inefficiencies and will be the focus of more effort going forward. Consumers will not expect to have to meet face-to-face in the future and those that facilitate this quickly will likely steal a march on the competition.

Our findings were of course extensive but while the challenges were common to all lenders, the responses for our building society partners are nuanced and specific. 2021 will offer many opportunities to those that adapt their models quickly and efficiently.

**Next steps:**

*If you want to read more download the survey at:* ***iress.com/software/mortgages/mes2020/***

# The future for homes and housing

By *JOANNE ATKIN*, Society Matters Editor

Housing is such a vast subject and some of the issues covered in this special focus include diversity, affordable housing, climate change, green finance and the type of home we want to live in.

Houses are not generally designed to accommodate how families 'want to live', especially from a cultural perspective. Multi-generational families will have different needs to a household of two adults and two children. People from different ethnic backgrounds and those with disabilities do not fit into a one-size-fits-all home yet houses continue to be built to standard specifications. RICS valuer Michaela Bygrave discusses the issue (p7) and advocates custom and self-build as a way to meet the demands of today's diverse, multi-cultural society.

Christine Whitehead and Peter Williams from the London School of Economics have written a detailed report into what needs to be done to improve the affordable housing situation (p8). *Thinking outside the box. Exploring innovations in affordable home ownership* puts forward recommendations and some examples of innovations that have just started or are in the pipeline.

The report says the Government really needs to come up with a clear, long-term plan to make home ownership more affordable and to work with the mortgage industry. With the main stumbling blocks to home ownership being the deposit and low incomes, a focus on these areas is an obvious start. The recommendations include expansion of shared ownership, more help with deposits and higher LTVs, plus further initiatives around mortgage guarantees.

Now in its 40th year, shared ownership is the third most popular Government scheme after Right to Buy and Help to Buy. Research by Leeds Building Society among housing associations found that many potential home buyers don't know or understand what shared ownership is (p10). This indicates that more could be done to educate people about the scheme.

The consequences of climate change are having and will continue to have a profound impact on all of us including our homes. In February and March 2020, many homes were damaged by Storms Ciara and Dennis and

cost the insurance industry around £363 million due to flood and windstorm damage. According to the Association of British Insurers, there were 3,350 domestic property flood claims with the average cost of repair for flood damage at around £32,000.

The consultancy Property Risk Inspection is doing some work for the Bank of England into the risks of climate change as this should be part of lenders' business strategy (p11). By assessing the credit and financial risks of weather events future scenarios can be modelled and strategies developed to help homes remain safe and insurable.

We also want homes to be energy efficient with a Government target of a zero-net carbon economy by 2050. At the BSA we have our own Green Finance Taskforce where societies can discuss initiatives. We have highlighted some of these (p12-13) such as mortgages for retrofitting existing homes, a new build green mortgage pilot and calculating the $CO_2$ emissions of mortgaged properties.

The housing market has been busy since the first national lockdown was lifted in May and Connells has seen a growth in demand for indoor and outdoor space (p14). This applies to renting as well as buying with people wanting properties suitable for home working, larger houses and rural homes. All well and good for those who can afford to do that but many people are still struggling to get onto the property ladder, or indeed upsize.

# Meeting BAME housing need with custom and self-build

By *MICHAELA BYGRAVE* MSc MRICS, Pointe Michel Ltd

House builders don't think about family dynamics, cultural needs and disability when planning homes but they should. Diversity must be taken into account when building the homes of the future.

Research from major housebuilders shows only the minority actually want to buy their product. However, it is a large enough minority for housebuilders to keep building. In failing to deliver a diversity of housing to match diversity in communities, we are closing the door to new homes that meet the needs of many who identify in part by ethnicity, culture, age, disability, lifestyle, values or simply taste.

The coronavirus pandemic and the Black Lives Matter movement have both shone a light on ethnic minority housing conditions in the UK. Early in the pandemic, data showed that black people were up to four times more likely to die of coronavirus. There were also higher rates for certain Asian ethnic groups.

Although there are many reasons for this, housing conditions were identified as playing a disproportionate role, particularly as studies showed that black and ethnic minority households are more likely to be overcrowded. At the same time, the Black Lives Matter movement was highlighting how racism was also impacting people of ethnic minority. For these reasons it is worth looking again at housing equality, and how custom and self-build could be part of progress.

## Multi-generational living

Housing diversification, including custom and self-build, is likely to have the most positive impact on those who are least well-served by the current market. The 2011 Census data showed that black, Asian, and other ethnicities were far more likely to live in households of adults with dependent children than white households.

In addition, multi-generational living is the norm for more ethnic minority families. This ranges from around 67% of over-70s living with younger relatives in the Bangladeshi community to around 33% in black communities and just 8% of white people over-70.

Multi-generational living often necessitates both upstairs and downstairs bathrooms and a second reception room that can be used as a bedroom when climbing stairs is no longer possible. This need is rarely met in off-the-shelf new-build homes.

## Build the way you want to live

Designing their own home would give families the opportunity to build the way they want to live, instead of having to live due to the narrow view of family life represented in most new homes. For example, for many ethnic minority families the common open plan kitchen design can be problematic. This is because the kitchen is the heart of the home and forms a space where visitors are not usually received. Being able to design the kitchen as an enclosed space is an example of just one way of allowing families greater breadth of cultural expression within their own home.

This unmet demand represents an opportunity as well as a need. There is currently a sizeable market of families making do with existing stock, either by overcrowding or extending, because their needs are not being met by volume housebuilders.

However, the most profound reasons for delivering custom and self-build plots are self-actualisation and housing justice achieved by homes which actually suit their occupants, things not currently offered by our broken housing market.

Mine is one perspective on one part of the challenge. As I set out at the start, many others will also find the new build market closed to them and their voices must be heard. Planners and local authorities have given this too little thought until now. This needs to change.

## Next steps:

*Michaela Bygrave is a RICS Registered Valuer and runs her own consultancy firm Pointe Michel Ltd focussed on projects that promote socially responsible outcomes. Her email is* ***mbygrave@pointemichel.co.uk***

*The Right to Build Task Force has an advice note for planners about BAME housing and custom and self building* ***https://righttobuild.org.uk/resources/advicenotes/***

*Anyone interested in self building should start by signing their local self build register – find yours at:* ***www.righttobuildportal.org***



[1] Fiserv study 2019 [2] https://bit.ly/3iv88Ft [3] https://bit.ly/31L4d0w

# Affordable home ownership – thinking outside the box

By JOANNE ATKIN, Society Matters Editor

The Government has been behind many affordable home ownership schemes, with varying levels of success, but it needs to set out a clear vision to improve opportunities for aspiring home owners. This is according to a new report which suggests that more could be made of shared ownership, mortgage guarantees and the higher LTV market.

*Thinking outside the box. Exploring innovations in affordable home ownership* is a comprehensive report by Christine Whitehead and Peter Williams. It was funded by the Building Societies Association and the UK Collaborative Centre for Housing and takes a detailed look at affordable home ownership, predominantly in the UK but also in Europe and other parts of the world. The report also contains an interesting and useful chronological history of the mortgage market, products and Government schemes since 1980.

The report says the Government should assess the scale of the affordable home ownership 'gap' taking into account house prices, incomes, raising a deposit and risk attitudes. The two main stumbling blocks to home ownership are lack of a deposit and low income, which may also be linked to job insecurity and credit history. Added to that are wide variations in house prices across the country.

## Government schemes

Various Government housing schemes have come and gone, with some more effective than others. There are three main categories that Government schemes fall into:

- Part-rent, part own – the best known is shared ownership
- Shared equity – the most important being Help to Buy
- Direct subsidy products – such as Right to Buy and the imminent First Homes scheme

There are two other categories, which are savings schemes such as ISAs; and guarantees, like New Buy and guarantor mortgages.

The Right to Buy scheme, introduced by Margaret Thatcher in 1980, has had the most impact in terms of numbers. Over the past 40 years, Right to Buy has enabled more than two million homes to be bought in England, 500,000 in Scotland and 140,000 in Wales.


The second most successful scheme has been Help to Buy, set up in 2013 but due to be phased out by 2023. While shared ownership, also introduced in 1980, has been the third most popular housing initiative but it could potentially go much further and needs to be reshaped.

## Who innovates?

A few large lenders dominate the prime mortgage market and there are limited incentives for product innovation. With an understandable focus on profitable business expansion and cost reduction, their legacy IT systems and limited risk appetite mean that small scale programmes are harder to develop and support.

On the other hand, innovation often comes from smaller firms who are often willing to explore niche areas where risks might be higher. Because most of these smaller lenders use manual underwriting, they are able to manage that risk effectively.

For all lenders there are barriers to bringing innovation to market, including regulatory hurdles both via the FCA and PRA and lenders' own internal governance and priorities. Innovation is now further complicated by Covid-19 and any potential housing market downturn alongside an economic recession.

## Current innovations

The report notes some private sector innovations that have come to market or are pending – such as Stepladder – a peer to peer platform where would-be buyers join together to collectively fund deposits. One person is randomly allocated the total each month until everyone has received their deposit.

Perenna is developing a long-term fixed rate mortgage (up to 30 years) requiring just a 5% deposit and is waiting for its banking licence





*"The mortgage market has an important role to play in providing home loans that support government sponsored schemes."*

to be approved. Prime Minister Boris Johnson is also advocating long-term fixed rate mortgages but so far has produced no details.

Market Mortgage is being designed by Resolution Compliance and is an investor funded top-up loan blended into the lender's main mortgage product. It is being developed for higher LTV lending on new build and existing homes and aims to be on the market in 2021.

A re-insurance specialist is creating a product where a housebuilder pays into a remote fund which provides the lender with mortgage insurance on higher LTV lending on their properties. This is being developed with 16 UK housebuilders with a soft launch planned for 2021.

WayHome is a joint purchase structure yet to be launched and works a bit like shared ownership but without a mortgage. The property is bought by the home buyer (minimum 5% equity) and the rest by an investor; and the buyer can staircase up as and when they like. The investment partner is Allianz Global Investors.

However, Covid-19 has thrown a spanner into the works, causing delays to these innovations. The report also notes some lender reluctance to back schemes with conventional mortgages because of conduct risk issues.

## Family assistance

Other ways to assist people to become owner-occupiers are the Bank of Mum and Dad and guarantor mortgages.

The Bank of Mum and Dad has emerged as a top 10 lender to help out largely with the deposit, seen as the biggest barrier to buying a home. Parents and grandparents are also delving into equity release to assist with deposits although reduced incomes in the pandemic might constrain some.

Guarantor mortgages are another option but lenders are required by the FCA to carry out a full affordability check on the guarantor which rules out many potential guarantors. This has led to the creation of the Joint Borrower, Sole Proprietor mortgage where some people contributing to the mortgage are not legal owners.

There are also group mortgages where friends can buy a home together and home loans that allow people to let out rooms as part of the income affordability calculation.

## Recommendations

The report makes a number of recommendations for affordable home buying. Shared ownership has so much more potential and has long been in need of reform, states the report. The Government's proposals include bringing the minimum equity share down to 10% from 25% and enabling staircasing up in increments of 1% with reduced fees. But the authors argue the Government must go further and consider the costs, benefits and risks for both providers and purchasers. It must tackle the tensions around leasehold and the need for proper market reporting and data. Simplifying the regulatory framework and the role of Homes England should also be priorities.

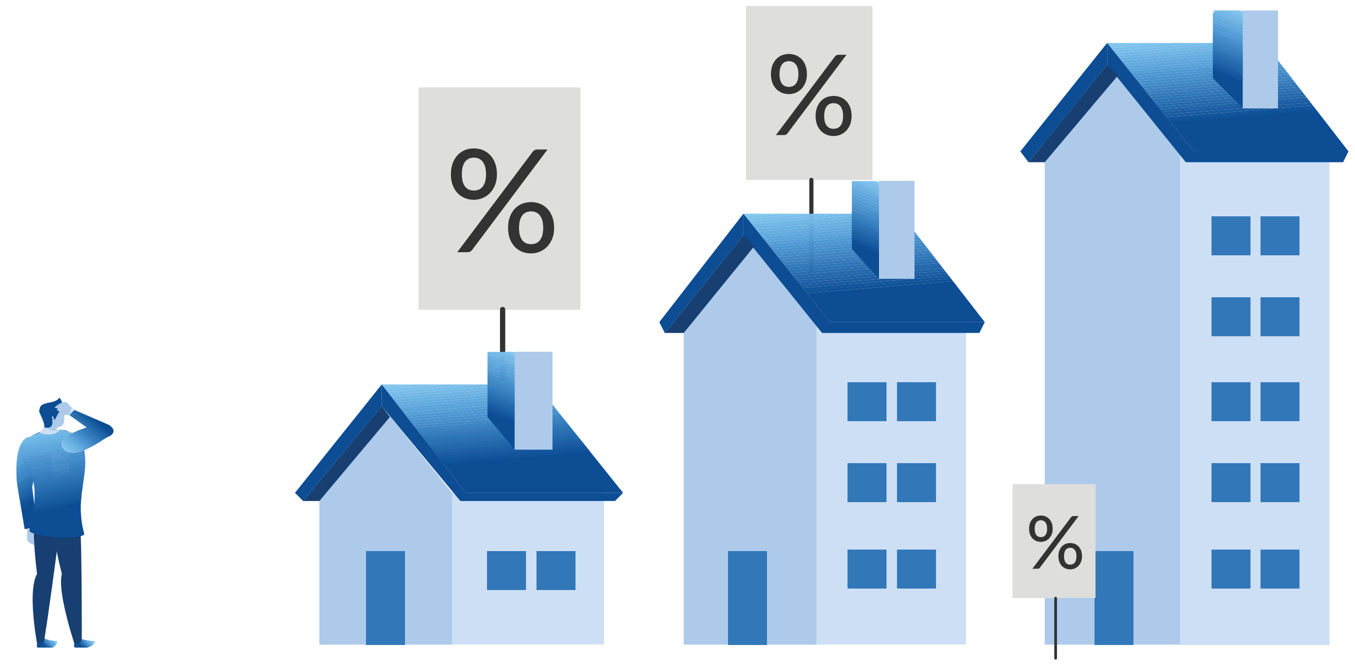
There needs to be more assistance with deposits and securing higher LTV borrowing in the mainstream market. The report notes there are encouraging signs that market-based initiatives will come forward to help re-open the higher LTV market.

The report highlights mortgage guarantees as a cost-efficient way of expanding affordable home ownership opportunities. Here the UK could learn from abroad where some countries have Government guarantees which reduce the mortgage interest rate charged including Latvia, Finland and the Netherlands. But the report notes there is widespread lender suspicion about such guarantees and resistance to these solutions would have to be overcome.

The mortgage market has an important role to play in providing home loans that support government sponsored schemes – and it is here that much of the growth has occurred aided by mortgage lenders. The Government needs to work with the market and provide a strategic framework and evidence base that can support and encourage further market development.

### Next steps:

*Read the full report here*
***https://bit.ly/3ngUWWZ***



By MATT BARTLE, Director of Products, Leeds Building Society

# Is this the moment to rethink our approach to affordable housing?

Events of recent months have reminded us all of the value we place on our homes and communities, and reinforced how mutual support among colleagues, friends and neighbours makes a real difference in challenging times.

In 2020 our homes have had to adapt and become temporary workplaces and classrooms. We've also connected more with our communities, and according to nationwide research* for Leeds Building Society, eight out of 10 people say they are talking to their neighbours more as a result of the pandemic and one in four feel community spirit has improved.

There's no doubt coronavirus has caused a seismic shift in all our lives. However, as we map out the route ahead, there's a real opportunity to consider how our industry can help more people have the homes they want, whether that's to rent or buy.

## A fresh approach

The reality remains that many struggle to get on the property ladder and it's clear the UK needs innovative approaches to deliver more affordable homes for people to buy or rent.

A barrier for many first-time buyers is the size of the deposit needed to get a foot on the housing ladder. As a result, shared ownership – which can significantly reduce the size of deposit needed – is attracting renewed interest from Government and policy makers, who want to increase opportunities for home ownership.

> *"Now feels like the right time to pause, reset and rethink our approach to housing."*

Considering what we can do to make schemes such as shared ownership better understood and more widely used could reframe the market. Bringing down the size of deposit can make the scheme particularly suitable for first-time buyers, as it offers an alternative to typical residential purchase using a higher-LTV mortgage, a sector particularly hit by the pandemic.

There is also the potential for customers to increase their share of the property over time. Yet, despite being established for over 40 years, shared ownership remains underused.

A YouGov study** commissioned by Leeds Building Society as part of research into future needs of shared ownership as it reached its 40th anniversary, found housing associations said the main barriers to being able to support more home buyers included a lack of consumer knowledge or understanding of the scheme and how it works.

## Building the country out of a downturn

It isn't enough, to simply build homes; as a country we need to look at the bigger picture and ensure we're addressing need. Taking a more holistic approach means we can consider the types of properties our communities need longer-term; and whether enough is being done to increase the supply of affordable homes in the right locations.

By helping our members into the home they want, we can also have a positive impact on our local communities. Events of recent months have repeatedly reminded us how much we all rely on others and how collaboration and co-operation can help us to reach what might seem unachievable goals.

Now feels like the right time to pause, reset and rethink our approach to housing. Harnessing this momentum and putting in place a blueprint for the future could mean many more will be able to have the home they want.

### Next steps:

For more on the research visit ***https://bit.ly/36VWY8j***

*A UK survey sought the views of 948 people at the end of August 2020.

**Qualitative research comprising eight 45-60-minute in-depth interviews with senior staff in eight housing associations across England was conducted by YouGov on behalf of Leeds Building Society.





# Water will shape the future of our civilisation

By GRAEME WINSER and MICHAEL LAWSON, Directors, Property Risk Inspection

Climate crises have happened before. Some 3,000 years ago the late Bronze age collapse took just 50 years and saw multiple empires and kingdoms perish. A drying Mediterranean saw forests die, crops fail and whole cities abandoned. Climate change now is a risk we must all address.

Today in the UK, we are blessed with a relatively benign climate, it's green, it's pleasant and it's wet. We are surrounded by water, in the ground, in the air, it laps at the shores and races down our streams and rivers, it batters our defences and seeps unseen into dry spaces, it bursts up through Victorian infrastructure and pours in through every badly maintained surface, structure, seal and soffit.

Flood, not drying soils nor eroding coasts will define our experience of changing weather and ultimately climate.

For the building societies, there are important steps to take. The Bank of England has asked us to do some homework, because the regulator wants us to demonstrate that knowing what risks we carry today is the only practical starting point from which to engender a culture of putting climate at the heart of every strategic business decision that is made. Our weather events are evolving into a recognisable and measurable climate shift.

The assessment of credit and financial risks in a modelled future scenario has no 10/10 or magic judgement of right or wrong. However, models can provide the starting point for sensible analysis and assumptions and these can be baselined by looking at what has happened before.

During recent severe weather events, some of which have savaged the same locations, even the same homes on multiple occasions, we can begin to study the data and ask: "What happened next and how did people and markets behave?"

## Trends

This brief article cannot hope to ask all the questions, let alone provide the answers in any detail but we can hint at trends and truths that are showing through now:

- Some homes and some locations impacted by apparently similar events are far more resilient than others, they bounce back.
- The more obvious the factor leading to flood or damage, the less likely that it will be a surprise to the owner. Rivers are nice to live next to; coasts erode.... and defences can be built because the damage is anticipated.
- But flooded car parks that spill their water into urban homes have no such attraction or upside and surface water is more complex to predict or defend against.

> *"Adults keep saying, 'We owe it to young people to give them hope.' But I do not want your hope. I do not want you to be hopeful. I want you to panic. I want you to feel the fear I feel every day, and then I want you to act. I want you to act as you would in a crisis"*
> Greta Thunberg, Swedish climate activist

So, this first piece of homework is important; it is a foundation of knowledge from which to build the ethos and culture of how to help all homes remain safe, insurable and maintain their value over time. Expect to partner with other stakeholder businesses, insurers, energy providers etc who share the necessity to safeguard homes, reduce their energy consumption and create a sustainable future.

And expect the Chancellor and the investment markets to reward those that live their 'good plans' and penalise those that simply publish empty promises.

Flooding isn't a simple matter of portfolio assessment, of balance sheet reviews, of technical delivery of projections. Water will literally shape the future of our civilisation, to paraphrase Greta, "I want you to act as you would in a crisis. I want you to act as if your house is flooding and your families may drown."

### Next steps:

*Property Risk Inspection Limited is a consultancy service provider to the UK lending and insurance sectors. It is a key consultant to Airbus who is seeking to model and lead on property climate change assessment.*

*Follow PRI on Twitter **@UKPropertyRisk***

# Building societies supporting green finance initiatives

With energy efficiency taking centre stage more and more, building societies can pay their part in contributing to greener housing and finance. Here we have a quick round up of what some societies are doing in the green space.

## Ecology: Building back better and greener

Ecology is calling for the pandemic to be turned into a defining moment for climate, supporting a green recovery so we can build back better.

We're already seeing positive momentum towards unlocking the investment needed to deliver a net-zero future. Done effectively decarbonising will create thousands of jobs, tackle climate change and secure the post-Covid recovery.

Ecology has been providing sustainable finance to support positive environmental and social impact for nearly 40 years. Our unique C-Change mortgages incentivise energy efficiency through mortgage pricing, all funded by our members who can be confident their savings are being used to tackle the climate crisis.

The pathway to net-zero isn't easy and we must collaborate if we are to unleash our collective potential in aiding the green recovery. Through the BSA's Green Finance Taskforce we're working with other societies to exchange ideas on retrofitting existing housing as well as joining the Green Finance Institute's Coalition for the Energy Efficiency of Buildings.

We already report the emissions arising from our business activities and now we're taking that a step further by calculating the CO2 emissions of the properties we lend on by using the Platform for Carbon Accounting Financials (PCAF) methodology, which intends to harmonise the approach to carbon accounting.

We've also signed up to the Bankers for Net Zero initiative as well as continuing to participate in networks supporting a just and fair transition to net-zero. This includes the United Nations Environment Programme Finance Initiative (UNEP FI), Principles for Responsible Banking and the Global Alliance for Banking on Values.

It has never been more relevant and important for Ecology to continue to be a progressive force for positive environmental change. We hope we're seeing a genuine step change in the way financial services is supporting decarbonisation – greenwashing is no longer an option.

## Saffron introduces retro-fit mortgage and enviro saver

In 2019, Saffron Building Society watched with interest as the government created the Green Finance Strategy. Therefore, 2020 was always going to be the year the society focused on its green strategy and began to plan products that would be industry competitive while offering an incentive to borrowers.

Laura Bright *(pictured)*, Senior Product Manager at Saffron Building Society, explains: "The society launched the Retro-Fit mortgage in May this year, and it has performed so well for us. The premise of the mortgage had to remain simple so as not to confuse the borrower. We offer a rate reduction of 0.1% if the homeowner can improve the EPC rating of their home by one band, within six months of completion. Following our review of the green finance initiative guidelines, launched in July 2019, we obtained approval for the mortgage and entered the green finance market.

"Our retro-fit mortgage was also recognised by the Green Home Retro-Fit Finance Guidelines providing industry credibility for the society and the first foray into green finance.

"Alongside the retro-fit mortgage, the team and I had aspirations to develop a green product for our savings range too. The Enviro Saver account allows savers to operate their savings online. When interest is due to be paid, 0.1% is donated to an environmental charity. The chosen charity – during each 12-month interest period – is decided by the customers from a list of nominated environmental charities, which can be changed each year.

"As a regional building society, we are keen to expand our green credentials and support the communities we operate in. As well as developing products to support our members, we have also created a Green Hub on our website, which provides information and ideas on how we can all take small – or big – steps towards a greener future."





## Monmouthshire partners in green mortgage pilot

A Green Home Finance Innovation Pilot has been launched to explore innovative finance products that incentivise improving the energy efficiency of UK homes, with Monmouthshire Building Society at the helm.

The VALUER research project is a ground-breaking scheme that will see the first mortgages and additional borrowing offered in the UK that recognise home energy efficiency in their affordability calculations.

Monmouthshire is joined on the project by the Royal Institution of Chartered Surveyors, Rightmove and zero carbon homebuilder and sustainable energy service provider Sero.

The VALUER research aims to develop understanding, and demonstrate the emerging difference in value, between low and high energy homes. As part of the project, green mortgages and additional borrowing products will be made available to two 'geofenced' pilot areas in south Wales. This will include a number of new build low energy homes at Parc Eirin in Tonyrefail *(pictured)* and the Eastern High development in Cardiff. Existing homes in the area making retrofit energy improvements will also take part.

The team will closely monitor product uptake and property values in the pilot areas, to understand the specific features and behaviours that drive the value difference that may emerge. The idea is that home valuations can better reflect low energy homes in future.

Monmouthshire will be the first lender in the UK to adopt the findings from a previous piece of research known as the "LENDERS" project. It can adapt its affordability calculation tool to more accurately reflect actual home energy bills. This could potentially increase the maximum affordable mortgage by up to £12k for a very low energy home, compared to a poorly performing property.

The project is funded by the Department for Business Energy and Industrial Strategy, Green Home Finance Innovation Fund, and is supported by the Green Finance Institute.

## Nationwide looks towards a net-zero economy

Claire Tracey, Chief Strategy and Sustainability Officer at Nationwide, explains what the society is doing to support the transition to a net-zero economy.

"We are making £1 billion of funding available for our Green Additional Borrowing mortgage that offers a lower interest rate to make green home improvements. We've also committed to at least 50% of all the homes in our mortgage lending book being EPC C-rated or above by 2030.

"This will build on what we've already delivered. In April 2020 all of Nationwide's operations became carbon neutral, including energy use and emissions – and by 2030 our business operations, suppliers and commuting will be carbon neutral. We use 100% renewable electricity, we're Carbon Trust Triple Standard accredited for water, waste and energy – and we send no waste to landfill.

"We're also cutting down plastic waste from debit and credit cards, recently confirming we will introduce cards and card readers made using recycled plastics from spring next year – the first high street lender to commit to do so.

"Those efforts are backed by a drive to effect change beyond Nationwide. We're a member of the Green Finance Institute's Coalition for the Energy Efficiency of Buildings, and part of The Partnership for Carbon Accounting Financials (PCAF) UK coalition to promote measurement and disclosure of carbon emissions in the finance sector.

## Newbury's green ambition

At Newbury Building Society, we recognise the key role we can play in helping to preserve the environment, improve UK housing stock, and in contributing to a more sustainable society.

We have published internally our 'Green Ambition', a strategy which outlines our long-term commitment to sustainability. Objectives focus on preserving the environment and encouraging the society, its colleagues and its members to make sustainable choices.

**Our Green Ambition has three areas of focus:**

1. A greener Newbury Building Society ensuring the society, as a business reduces its carbon footprint and makes sustainable choices in its operations.
2. A commitment to helping our customers and employees lead greener lives by providing access to guidance, education and green financial products.
3. Our responsibility to make homes greener: being prepared for regulatory and environmental change. Understanding how climate change may affect homes and borrowers in the future.

In July, we launched our first green mortgage product, a further advance for existing members, who wish to improve the energy efficiency of their existing home by making environmentally friendly improvements. We are working towards an additional green mortgage product and introducing a green savings product.

We welcomed and were pleased to sign up to the Green Finance Institute's Green Home Retrofit Finance Principles (GHRFPs), which provide a consistent and transparent framework for financial institutions to use when allocating lending for energy-efficiency improvements in UK homes.

By the end of this year we will have commenced on the path to our Green Ambition; committed to making positive changes for the future.

By **DAVID PLUMTREE**,
Chief Executive,
Connells Group
Estate Agency

# How coronavirus is affecting the housing market

Pent up demand for housing during lockdown was unleashed when restrictions were lifted, buoyed up by a stamp duty holiday and a desire for more space.

The UK housing market has experienced something of a mini boom since reopening from lockdown in May, with the market still able to operate throughout various regional restrictions. During the second lockdown in England, Connells Group has been able to service pent up demand from customers from across its network of nearly 600 nationwide estate agency branches.

The pandemic has not been a deterrent for buyers and renters determined to make a move. This unprecedented situation has shone a spotlight on people's lives, prompting them to re-evaluate their aspirations, reassess their needs, how and where they want to spend their lives. It has given the impetus to put plans into action including making that house move, with real impetus created by the temporary stamp duty holiday.

## House hunter demand

We've witnessed a noticeable 'race for space', with many house hunters looking for larger houses suitable for home working, or rural homes, and those bigger properties with outdoor space. Space – and having access to your own private space – has become so important. Inevitably, there has been a pull out of London and other cities, with customers happier to commute from further afield on the assumption they will need to commute less frequently post-Covid. With an emphasis on remote and more flexible working, customers are willing to endure longer journeys when this isn't five days a week.

The same applies to renters – again, we're seeing slightly less demand in central London. There is a lack of need to be right in the city centres, but certainly heightened demand to be within close proximity to tubes and stations for ease of travel into towns and cities for work when need be.

In terms of actual layout and design of homes, there has been a definite focus for customers on those homes that provide compatibility for homeworking – be it requests for information on properties that feature a study, or a garden office area that allows for a separation between 'home' and 'work', or the availability of superfast broadband. Digital connectivity is not a 'nice to have' but an essential service, and homes that do not have good, reliable connectivity are likely to be harder to sell.

These demands are expected to shape new housing and filter down into housebuilder's planning. Where once the kitchen table or spare bedroom may have worked as a temporary solution, as home working or 'agile working' increasingly becomes the norm developers are likely to respond and incorporate dedicated home working spaces in new build homes with, of course, the required digital connectivity and 'smart' features thrown in.

## House prices

In terms of house prices, Connells Group is currently seeing c. 6% year on year growth and we expect this to move toward 8% over the next couple of months, based upon prices currently being achieved at the 'sale agreed' stage. There is strong demand from buyers and an increase in supply of new instructions to the market and increasing confidence in the housing market.

Without a crystal ball, it's difficult to predict 2021, and the big unknown is whether we will experience a down-turn as unemployment levels spiral and if we enter a recession. However, we do expect H1 to show good growth created by the mammoth pipeline converting in Q1 and those prices pulling through to the various indices.

We believe demand will tail off from around February onwards, unless there's an extension to the Stamp Duty holiday, and asking prices will inevitably soften from Q2 onwards and, therefore, likely to create a downwards effect on H2.

My best guess for house prices for 2021 would be a range of -2% to +2% dependent upon extent of damage to economy, level of unemployment, on-going Covid issues, Brexit deal/no-deal and resultant impact on housing market.

**Next steps:**

*Visit **connellsgroup.co.uk***

# Mortgage surge: how technology helps lenders to be more agile

Portals can improve communication and efficiency between lenders and brokers, which is even more important when faced with lockdowns and social distancing.

By **NICK LAWLER**,
Sales Director, DPR

Remember the credit crunch? Long before the pandemic, the mortgage industry faced a different challenge. During the credit crunch lending shrunk due to the shortage of funds and the effects continued for years.

In October 2020 mortgage approvals rose to 97,500, boosted by the stamp duty holiday. This is their highest level since the credit crunch began to bite back in September 2007.

Today lenders face a twin set of problems – exceptional demand as the stamp duty deadline nears and the operational impact of lockdowns and social distancing.

An external stimulus to the mortgage market would put extra pressure on lenders and intermediaries at the best of times. However, with staff working from home because of Covid-19, it's been harder to process mortgage applications efficiently. Without enough capacity, there's a risk that backlogs build up in the pipeline and transactions fail to complete.

As a result, these unique challenges call for different ways of working and that's where technology can help.

## How technology makes it easier to work with brokers

Digital transformation has accelerated due to the pandemic. However, as the end of the stamp duty holiday gets closer, innovation is needed now more than ever to deal with the wave of mortgage applications.

Central to that innovation is the relationship between brokers and lenders. With more customers relying on intermediaries for help and advice to find the best deals, lenders want a better way to work with brokers.

The DPR Group Mortgage Insights 20/21 showed that 52% of lenders think brokers account for 61%-79% of the market, whilst 76% of providers are looking for an easy to use broker portal. The Intermediary Mortgage Lenders Association expects lending via mortgage intermediaries to rise from £169 billion (2019) to £171 billion this year. Technology solutions like online portals help both parties to improve communication and efficiency. The heart of a portal is a common source of information about cases. This makes it easier to process applications, especially when staff are working remotely.

## Broker portal: digital transformation in practice

Leading technology supplier, DPR, part of DPR Group, provide origination and servicing for mortgages, savings and loans. The broker portal is one of many innovative features included in the DPR software platform and gives lenders an easy to use channel for broker engagement.

To reduce the need for manual processes, documents for each application can be uploaded and managed through the portal. Whilst the portal also provides the key information required by brokers such as Mortgage Illustrations as well as Decision in Principle.

Above all, the broker portal makes it easier to manage the mortgage journey for both lenders and brokers. Each case is tracked with all the critical information in one place. This provides clear visibility of the status of each mortgage application and helps to avoid backlogs.

## Build a stronger business with technology

Technology like the broker portal is helping lenders to adapt and respond to the current demand. Lenders who are easy to deal with and offer competitive rates will attract more interest from brokers.

Whilst the future is uncertain, especially during a pandemic, lenders who are more agile will also be in a stronger position for the future.

**Next steps:**

*Find out more about DPR's Broker Portal, visit **https://bit.ly/32lyQ7U**.*

*Find out more about DPR Group Mortgage Insights 20/21, visit **https://bit.ly/3nEla4Y***

# Dates for your diary

BSA events have moved online. View the latest schedule and register at **bsa.org.uk/events**

### Arrears handling course

**19th January 2021**

This bespoke virtually presented course will give an overview of regulatory requirements as well as a basic understanding of the legal process of repossession. In addition, the regulator expects an arrears handler to be able to identify vulnerable customers, deal with them in an understanding and sensitive way and take into consideration their vulnerability when discussing missed payments on their accounts.

**Cost:** £325 (VAT exempt) BSA Members/Associates

£595 (VAT exempt) Non-members

**Information & registration:**
bsa.org.uk/arrearshandling

### Lending in later life course

**11th February 2021**

With people over 65 currently holding £1.5 trillion in housing wealth, and with mortgage borrowing in this age group projected to double by 2030, lending in later life has the potential to be a huge growth area for building societies in the years to come. This virtually presented course is designed to upskill Mortgage Advisers to understand the wider implications and possibilities for customers looking to raise money in later life.

**Cost:** £325 (VAT exempt) BSA Members/Associates

£595 (VAT exempt) Non-members

**Information & registration:**
bsa.org.uk/laterlife

### Treasury management courses

**The introductory course** (on 3rd & 4th March) provides an overview of treasury operations within financial services, more specifically within building societies and within the regulatory environment. Following this there is an in-depth study of treasury operations, focussing on liquidity, wholesale funding, credit risk and financial risk. It has been designed for those with no treasury experience.

**The treasury risk course** (on 17th & 18th March) provides participants with an overview of the financial and balance sheet risks a building society faces as a consequence of being a mortgage lender and how these risks are managed by the treasury department. It will help those with some treasury experience, who need to improve their grasp of treasury risk – including NEDs and senior management.

**Cost:** £350 (VAT exempt) BSA Members/Associates

£495 (VAT exempt) – Non-members

**Information & registration:**
bsa.org.uk/treasuryintro
bsa.org.uk/treasuryrisk

# Prepare to collect – a key priority

*By* ***LYNSEY MOORE****, Managing Director, Kind Consultancy*

## Demand for Collections staff is increasing as Covid takes its toll on people's finances

In our uncertain, fast changing world, a common question I'm asked by senior managers across many financial services organisations is: "What kind of resource should we be investing in? Which teams are other businesses expanding right now?" In some years, there's no clear answer, with different businesses in different situations having different needs. But going into the winter of 2020 I can give a confident and clear response: Collections.

We are seeing a significant increase in requests for experienced, knowledgeable Collections resource. The wide-reaching effects of the Covid-19 pandemic have created economic uncertainty, and many people are in substantially different positions financially compared to where they were, when they were applying for credit in recent years. At the same time, many businesses are operating with a reduced head count and a reduction in reliable income sources.

It is therefore vital for any retail financial services business to invest in the right calibre of people, now. Consider the FCA's continued focus on vulnerable customers, more customers being classed as vulnerable than ever before and customers who already were vulnerable now being in even more difficult situations. The only way to balance that regulatory focus on vulnerability with your business needs is to have Collections staff who have a truly in-depth understanding of how to work successfully with these vulnerable customers.