Community Led Homes

Taking the Temperature of the Industry:

A Survey of UK Mortgage Lenders on Community Led Housing and Discounted Market Value Sales.

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Executive Summary

Community led housing (CLH) is a way that people and communities can come together to solve their own housing issues and provide high quality and affordable homes. The homes are owned by the community and managed in the way they want.

The CLH sector develops a wide range of housing, including socially rented homes, affordable rented homes, shared ownership homes and discounted market value ('DMV') sales. CLH homes can be newly built or refurbished and commonly include energy-efficient features. Following a 2017 National Community Land Trust Network report on lender attitudes towards community led housing, this updated and expanded June 2020 survey, conducted by mortgage industry experts of banks and building societies across the UK, indicates mortgage lenders' spectrum of engagement with the CLH sector and specifically the DMV sales tenure.

There is increasing demand within the CLH sector to offer housing via DMV sales as an alternative to shared ownership. DMV sales are a form of homeownership in which homes are sold to eligible buyers at a percentage of open market value, with the same resale price restriction attached to future sales in perpetuity. However, this report finds that whilst there is high awareness of and participation in the CLH sector and DMV sales from a few smaller lenders, there is low awareness amongst the wider lending industry.

The lenders not yet participating in DMV sales in particular said that evidence of market demand and government support, as well as the development of a standard lease, would help them lend on DMV sales.

This report is timely. The Government is committed to offering 'First Homes', a form of DMV sales where homes are sold at a discount in perpetuity, and has a target to build tens of thousands of homes in this way. In order to do so, it will need to address the barriers to lending on the model.

The report concludes with two main recommendations for increasing lending on DMV sales, including within the CLH sector: (1) convene a DMV Task Force of mortgage lenders and CLH practitioners to discuss standard DMV terms, and (2) advocate for and work alongside Homes England to prepare and maintain a standard DMV lease. The goal of these twin recommendations is to attract more lenders willing to lend on DMV sales, both to support the growth in this tenure and to give homeowners choice.

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1. Introduction

In 2017, the National Community Land Trust Network ('NCTLN') published a report and guidance on lender attitudes to community land trusts produced by a research team comprising Andrew Heywood, Andrew Baddeley Chappell and Peter Williams. This new report covers further follow up research which both updates the previous work to 2020; expands the questions to cover all forms of Community Led Housing ('CLH') including community land trusts, co-operative housing and cohousing; expands the survey participants to cover lenders across all of the UK; and drills down into more detail in order to capture a better sense of what lenders do and why, not least on Discounted Market Value ('DMV') sales. Specifically, this report builds on feedback from lenders to examine the prospects for the creation of a DMV model lease, analogous to that provided to the housing association ('HA') sector by Homes England.

2. The latest work

In the three years that have subsequently elapsed since the last report, the UK mortgage market has become even more competitive with both existing and new lenders fighting for market share. The so called "prime market" for mainstream mortgage borrowing is dominated by the largest lenders. These lenders benefit from a number of advantages including brand awareness, existing customer relationships and some regulatory advantages. In addition, a process known as "ring fencing" which was completed on 1 January 2019 has required the large UK high street banks to better match their retail savings and lending balances and to separate this from any investment banking activity. This has resulted in increased appetite to undertake mortgage lending in the UK.

There are now around 145 active mortgage lenders compared to 100 in 2017. The top 6 lenders undertook 67.6% of business in 2018, and the top 15 lenders 86.5% (UK Finance, 2019). Faced with such completion, the remaining 130 lenders are being outcompeted for "mainstream" mortgage customers and are instead, through choice or not, focussing on a wide range of "niche" markets. Whilst these niches vary widely in nature, they are generally too small to warrant the full attention of the larger mainstream lenders who generally prefer to compete for a larger share within the larger "mainstream" market. "Niche" lending is at times associated with higher credit risk but this is an over simplification. Credit risk may be a factor, but in many cases, it is the added complexity of the customer's circumstances that makes the market "niche". This does suggest both an increased operational risk (which can be mitigated by expertise and specialist processes) and heightened conduct risk because weighing up the options for each customer is probably more complex.

In summer 2019, the team engaged with the Community Led Homes Programme ('the CLH Programme') to agree an update and extension of the previous work. A tele-conference took place between Eliza Platts-Mills (the CLH Programme), Gary Hartin (Nationwide Foundation) and Andrew Heywood leading to the proposal upon which this report is based. The scope of the work was widened to include the four countries of the UK alongside seeking additional information from lenders for the lender spreadsheet developed in 2017. In addition, it was agreed to interview lenders about the two key variants of DMV: the first based on open market values and the second pegged to local area incomes.

This work was to be fed into a stakeholder meeting of those involved in standardising and simplifying DMV leases which it was hoped to hold in October or November 2019. In the event, a variety of factors combined to slow down progress on this project. First and despite the research team's efforts and their strong links with the mortgage sector, it has taken much longer than anticipated to secure lender input. Partly this reflects new protections in place in mortgage lenders systems, namely GDPR and tightened firewalls which delayed even getting requests through, and second, given the much more focussed agenda we were seeking answers to it inevitably meant calling on specialists across firms with all the complexities of timing and input which that entails. It appeared that the atmosphere of political uncertainty surrounding the BREXIT debates culminating in the general election of December 2019 may also have been a factor in encouraging lenders to put possible new initiatives aside pending more settled times.

3. Methodology

The research we report on here was undertaken as follows;

1. We undertook a comprehensive search of sources to compile an up to date list of lenders who were lending on shared ownership and allied products/structures. We were able to identify around 30 lenders who were active in the shared ownership sector – a slight increase over the number we had identified in 2017. This may reflect in part the efforts of the Legal and General Mortgage Club to promote shared ownership and lenders associated with it via their broker network, but may also be a consequence of the search for niche markets referred to earlier.

2. The existing NCTLN spreadsheet was updated to incorporate additional information including that on deposits, shared ownership and lender awareness of/support for CLH organisations and whether the lender lends in one or more of the countries of the UK.

3. The lender documentation (intermediary websites and instructions for solicitors) was interrogated and the results transferred onto the updated spreadsheet. The team also examined a number of consumer-facing websites in order to gauge their effectiveness in giving key information to individual borrowers and CLH developers.

4. As intermediaries are mainly using sourcing systems as well as lender websites to source details on lending we have also looked at Mortgage Brain's site (this company is owned by the big six mortgage lenders) and its offshoot Criteria Hub as well as Knowledge Bank with regards both their overall approach and the information that they hold. Other sourcing sites include Twenty7Tec and Trigold.

5. A questionnaire survey was undertaken with lenders aimed at getting information unlikely to be forthcoming from websites, such as detailed policy on shared ownership, deposits and attitude to CLH organisations. This included questions about the lender's policy on DMV drawing upon two summaries of DMV leases prepared by the CLH Programme. The survey also included information already compiled on each individual lender from their websites (and instructions for solicitors) with the request that the lender check that this information was accurate and up-to-date.

6. 15 lenders were then interviewed, with interviews focussing primarily on their attitude to or policy (if any) on DMV. The results have been analysed and written up and are reported on in this report.

4. The current challenges facing the CLH sector

Mortgage provision across the spectrum of affordable products used by CLH groups

In late October 2019, we submitted an interim report drawing on information collected through inspection of websites. What this revealed was that many mortgage lenders' documentation was consistently inconsistent and often of limited detail, poor quality and out of date. Fundamental information such as where geographically within the UK a lender will lend is often hard to find. Moreover, when it came to shared ownership the information was often too brief and key details such as staircasing were rarely set out in public-facing documentation. Although some of this information is very detailed it can make the difference between a consumer being eligible for mortgage finance or not. It can also fail to alert a CLH developer to issues of mortgageability that may arise from a particular development model or variant. For instance, some lenders will not lend where a lease or covenant imposes any restrictions on who may purchase a property, although these are favoured by CLH developers in the interests of promoting affordability for their local community.

Very few lenders had given explicit attention to the resale restrictions imposed by the use of DMV, and even when this was the case information was limited. Similarly, shared equity was rarely referred to and more often than not confused with Help to Buy equity loans. Cohousing was not explicitly referred to even by those lenders with most engagement with the CLH sector.

The initial review gave some support for further consideration of the creation of a standard DMV structure that could be adopted by all mortgages lenders so they could be clear about where they do and do not lend with regard to the CLH sector. In broad terms these are not competitive issues. They are simply about having a specification that makes sense to potential customers and their advisers as well as to lenders. This would be a significant step forward and our work has highlighted that this is probably a necessary step. We return to this later in the report.

The best and most accessible source of publicly available information on a lender's website is typically the lending criteria for intermediaries – although this is not intended for public use. Information for consumers is much less detailed to the extent that it is very difficult for a consumer or someone preparing an offering for consumers to understand the market. A few lenders have helpfully produced additional guides for stakeholders though these are typically focussed on conveyancers, and are often out of date or inconsistent with information available from other sources within the same lender. The UK Finance ('UKF'), formerly the Council of Mortgage Lenders ('CML'), and Building Societies Association ('BSA') lender handbooks (intended to assist conveyancers) cover the topic of shared ownership/shared equity but the information provided is again very limited.

We have looked at the Mortgage Brain sourcing system and two more detailed market criteria sites Knowledge Bank and Criteria Hub. Mortgage Brain did not really get down into the detail we required for these specialist markets. The other two got closer and do have the potential to deliver details sufficient to offer complete solutions. However to do so would require strong oversight to ensure appropriate information is collected and presented and in a standardised way and that they then require lenders to ensure the data is up to date and complete. In reality these systems rely on lenders supplying and updating their details and given the paucity of information lenders have in these specific areas it is little wonder that what is then put on this sites is very limited. Criteria Hub was the most useful site, but none could really match the more detailed guidance given by selective lenders on their own sites.

Recognising that despite best efforts it was possible we had missed information, all lenders were then sent our completed checklist in order to allow them to make corrections and further clarify their policy. Most responded but despite multiple attempts, some did not. In addition some responses remained incomplete – presumably due to gaps in lender knowledge. This process resulted in some amendments leading to the revised rankings given in Tables 1 & 2 on the following page.

Table 1: Detailed ranking of lender information based upon validated data

Lender	Refers to Shared Ownership	Refers to DMV	Refers to Shared Equity	Refers to Co-housing	Our Rating
Bank of Ireland	No	No	No	No	5
Barclays Bank	Yes	Yes	NAR	No	2
Bath BS	Yes	No	No	No	3
Buckinghamshire BS	Yes	No	No	No	4
Cambridge BS	Yes	NAR	Yes	No	4
Danske	Yes	NAR	NAR	No	4
Dudley BS	Yes	No	No	No	4
Ecology BS	Yes	No	No	No	1
First Trust	Yes	Yes	No	No	5
Furness BS	Yes	NAR	No	No	4
Halifax	Yes	Yes	Yes	No	1
Hanley BS	Yes	No	No	No	3
Ipswich BS	Yes	NAR	No	No	3
Kent Reliance	Yes	NAR	No	No	3
Leeds BS	Yes	NAR	No	No	2
Loughborough BS	Yes	NAR	NAR	NAR	4
Mansfield BS	Yes	NAR	NAR	No	4
Melton BS	Yes	No	No	No	3
NatWest	No	NAR	NAR	No	5
Nationwide BS	Yes	Yes	No	No	1
Newbury BS	Yes	Yes	NAR	No	3
Parity Trust	Yes	NAR	NAR	Yes	3
Penrith BS	Yes	NAR	NAR	No	4
Principality BS	Yes	No	No	No	5
Progressive BS	Yes	NAR	NAR	No	4
Santander	Yes	No	No	No	2
Skipton BS	Yes	No	No	No	4
Teachers BS	Yes	NAR	NAR	No	3
Tipton & Coseley BS	Yes	No	No	No	3
Together	Yes	NAR	NAR	No	4
TSB	Yes	Yes	NAR	No	1
Virgin Money	Yes	No	No	No	2
Yes	30	8	4	2	
Possibly	0	0	0	0	
No	2	11	16	30	
NAR	0	13	12		
Total	**32**	**32**	**32**	**32**	

Source: website survey, and feedback from lenders

Notes:

Yes = lending takes place but may include significant restrictions.

Possibly = wording is not clear but lending may be possible.

NAR = No apparent reference (neither a definite yes nor a no but probably a "No").

No = No

Table 2: Summary (based on finalised checklists)

Rank	Ranking Criteria	No. of lenders
1	Detailed policies across most areas including specific guides for affordable / community housing schemes.	4
2	Detailed policies across most areas	4
3	Active in the sector but information is limited	9
4	Lends to the sector but very limited information suggesting limited focus.	13
5	No apparent lending to the sector.	2
	Total	32

Tables 1 and 2 are based on our investigations plus direct lender input and thus give a reasonably accurate view of the degree to which different lenders actually cater for the key development models used by CLH developers. Not all lenders replied so there must still be room for error. However it was a product of best efforts.

Overall, comparison of the latest research with that of 2017 suggests that in key respects the actual service that lenders currently provide to the CLH sector and its customers has not significantly changed since 2017.

One plus is that the total number of lenders lending for shared ownership appears to have increased from 21 to 30, although this figure inevitably fluctuates (probably for the reasons cited earlier). However, it would appear that lenders are still in many cases refusing to lend where there are restrictions on a property as to who may purchase it or in relation to staircasing. Given the desire of many CLH organisations to put in place such restrictions in order to help ensure on-going affordability, this is naturally disappointing.

In terms of lending for DMV, it appears that there has been little if any change in the small number of lenders prepared to offer it (8), and it is clear both from information provided directly by lenders and the interviews that lender awareness of the product remains very limited amongst those lenders not participating in this sub-market.

The current situation with shared equity is difficult to compare with 2017 because the earlier work did not unravel the confusion between Help to Buy and shared equity to the same extent as we have now achieved. Nevertheless, there is no positive evidence that the situation has improved in terms of the number of lenders offering the product or having awareness of it (4).

These findings do raise issues for the CLH Programme in terms of how best to engage in a sustained dialogue with lenders and communicate key messages to them. The interviews (see next section of the report) suggest that lender attention is more likely to be turned towards products where there is a perceived potential for profitable business on a viable scale. This probably implies that the CLH Programme needs to provide such information and concentrate on smaller lenders for whom the current modest development numbers can offer a viable niche.

Given the very significant resources behind L & G Mortgage Club's successful efforts to boost the shared ownership lending market, the CLH Programme may wish to consider a focussed approach on a very limited number of smaller lenders and perhaps via that Club? These issues are discussed in the conclusions to this report.

5. The Interviews

On the basis of the website work and the revised checklists, we selected 18 lenders for follow up interviews. This was a structured selection based on covering the full spectrum of organisations (both by type and also in terms of their willingness to lend on development models favoured by the CLH sector) as reported by the checklist work as set out in Tables 1 and 2.

The original target was to undertake 18 interviews. In the event, 15 interviews were undertaken. All these semi-structured interviews were conducted by phone and on the basis of a pre-circulated questionnaire which had been drawn up in consultation with the CLH Programme (See Appendix 1). Each interview typically took 30-50 minutes to complete and was undertaken on a non-attributable basis. These interviews were carried out over the period November 2019 to early January 2020 with the results being analysed and written up in the subsequent weeks.

Although the interviews did canvass lenders about their views and awareness of the CLH sector in general, the main purpose of the interviews was to enable the team to gain more insight into the attitude of lenders to DMV. The questionnaire was designed to elicit information as to whether the lender in question did or did not lend for DMV, the advantages and disadvantages of this product from a lender perspective and factors which might make it more or less likely that a lender would participate or expand their involvement in the future, including the possible introduction of a model lease for DMV, analogous to that maintained by Homes England in respect of shared ownership.

Because it was clear that the knowledge of those lenders who lend for DMV is significantly greater than those who do not, the questionnaire diverged in respect of these two groups. Those not lending for DMV answered a less detailed set of questions about DMV and the interview focussed more on why they had not entered the DMV market and what would or would not encourage them to enter that market.

5.1 Attitudes to the CLH sector

Initially, lenders were asked a series of questions about their attitude to and knowledge of the CLH sector in general.

5.11 Lender familiarity with CLH

Lenders were first offered a definition of CLH formulated by NCLTN:
"Community-led housing is about local people playing a leading and lasting role in solving housing problems, creating permanently affordable homes and strong communities in ways that are difficult to achieve through mainstream housing." (NCLTN, 2018)

Lenders were asked whether, prior to the interview, they had been familiar with community-led housing as defined, and whether they agreed that community-led organisations are "creating permanently affordable housing and strong communities in ways that are difficult to achieve through mainstream housing" set out in the definition (NCLTN, 2018). Only one lender, a bank, claimed not to be previously familiar with the CLH sector although it was clear that the level of familiarity varied substantially between lenders, with those lenders already lending for DMV being more familiar than the others. There was also general agreement with the aims set out in the definition, but three lenders were unable to provide a view and one other qualified their answer due to lack of detailed knowledge. Overall, the impression was that while most lenders had come across the term "community-led" and supported the aims as set out ("difficult to deny" as one lender put it), the level of knowledge of the sector and its aims was low and probably still as low as suggested by our previous research in 2017.

5.12 CLH as a source of new business

When asked whether they had ever taken a view on CLH as a potential source of new business or as part of their strategy, 7 lenders replied that they had not but the others claimed to have done so to varying degrees although this could be simply as specific responses to individual requests to lend. Three building societies commented positively that it fitted well within their status and/or ethos.

A number of reasons were advanced for not considering community-led housing:

- **One small lender commented that "Our lending has been on vanilla repayment mortgages."**
- **Another lender commented "It is not discussed within the lending community."**
- **A third lender stated that they had little appetite for new business at the present time.**

Overall, lenders appeared to have given very limited consideration to community-led housing except in the small number of cases where their lending to the sector extended beyond shared ownership.

5.13 What makes CLH more or less attractive?

Lenders were asked what would make the CLH sector more attractive to retail mortgage lenders and presented with a number of options to select which they could add to if they wished. The majority of lenders cited the chance to "make a difference/exercise social responsibility" as the key factor. The focus on affordability was also frequently mentioned and in one case the two reasons were seen as part of an overall social responsibility remit. This should be encouraging to the CLH sector and the sector would be wise to stress social responsibility when interacting with lenders.

It should also be noted that two lenders stated that government support for the sector was a positive factor for them, partly because it gave confidence about future stability and growth but also because it gave credibility to the CLH sustainability agendas.

In this context, the announcement by the Government in 2016 of the Community Housing Fund ('CHF') to boost new development by the CLH sector has been a significant development which has according to NCLTN significantly increased the level of planned development. However, the apparent debacle of the premature closing of the fund has caused controversy in the housing media in early 2020 and could well partially undermine the value of the CHF in improving the perception of community-led housing as a sector enjoying government support and patronage (NCLTN, 2020). This needs clarifying as soon as possible. Lenders were also offered a list of factors that might make the sector less attractive to lenders.

These were:

- **Small volume of business?**
- **Regulatory issues?**
- **Risk compared to other lending?**
- **Complexity of products?**
- **Other?**

Complexity was the factor most often cited by lenders. Two lenders linked it to increased costs (staff time/legal advice/skills required etc) and one to the relatively small amount of business generated. There is little surprise here. Two lenders have long identified the shared ownership product as complex and it has been seen as a significant reason, along with the small size of that market, for not lending for shared ownership. We note too that according to most estimates, the shared ownership market, at around 11,000 sales per year, is many times larger than the market for CLH (Clarke, et al., 2016).

Beyond that, the small volume of business was considered an issue in itself although interestingly, less so by the smaller building societies represented in the interviews. Regulatory issues were not seen as important and risk was seen as something to be identified and managed across all lending.

When asked what could be done to overcome the perceived disadvantages of lending to the CLH sector, the need for robust full data on the development and sales of community-led homes was seen as important by a number of lenders. There is still an absence of up-to-date and reliable data for the CLH sector, unlike the relatively well-documented shared ownership sector (which itself still does not have adequate data). Housing associations and others have used data to convince a modestly growing number of lenders that the shared ownership market is large enough to be of interest in spite of the complexity and other issues.

There is clearly a demand for robust development and sales data on the CLH market, including data on development, development models, demand, customer profile and if possible, loan performance (arrears and repossessions).

Continuing Government support for the sector was also seen as important in fostering lender confidence and ensuring that the sector grows to a size where more lenders will take an interest in it. One lender commented that local authorities' priorities in this area were too diverse for them to take the lead here.

5.2 Discounted Market Value

An important aim of the current work is to identify lender attitudes toward DMV as a product and to pinpoint what measures, including the provision of a model lease, might help encourage more lenders to accept mortgage applications involving this product. To this end, interviewees were asked a series of questions on DMV.

For this purpose, two groups of lenders were identified: those who currently lend for DMV and those who do not. Both groups answered three initial questions on DMV after which those who do not lend for it were asked a set of questions focussing on why they do not currently lend for DMV, and how their reservations about the product could be overcome, including whether provision of a model lease could be a positive factor. The group of lenders who do lend for DMV were asked questions designed to elicit the reasons why they lend for DMV, the terms on which they lend and factors that might make DMV more attractive to themselves and other more reluctant lenders. These included questions about the possible structure and content of a DMV model lease.

5.21 Familiarity with DMV

To assess how familiar they had been with DMV as a concept before the interviews, all lenders were asked to choose one of the following options: Very familiar [with DMV], quite familiar, not familiar, never heard of it. Slightly under half of interviewees classed themselves as "very familiar" with DMV. Unsurprisingly this exclusively comprised the lenders who currently accept DMV business. More lenders classed themselves as "not familiar" than "quite familiar" and only one admitted to never having heard of the concept. Given the tendency of interviewees to avoid appearing ignorant or unhelpful and in the light of the frequent need for clarification when interviewees answered subsequent questions, it may be that some who classed themselves as "not familiar" had, in reality, never heard of DMV prior to their interview. This is important, since lenders will probably be less likely to spend time on a product about which they know little or nothing.

The CLH Programme may wish to consider how information on DMV could be most cost-effectively be transmitted to lenders not currently involved in that market.

5.22 Terminology

Lenders were asked whether Discounted Market Value should be adopted as a standard term or whether another term should be adopted, such as Resale Price Covenants, or Discounted Market Sale. Although not all lenders were fully supportive of the term Discounted Market Value, there was no dissension on the need for a single standard term, and almost all the lenders believed that Discounted Market Value was the best of those available.

5.3 Issues for Non-DMV lenders

5.31 Any requests to lend?

All the lenders questioned as to whether they had ever received any DMV lending propositions replied that they had not except one lender, who claimed that:

"We have had the odd query from brokers." (Lender interviewee)

These responses suggest that one important reason that lenders do not consider DMV as a potential source of business is that they do not receive any requests to lend. One cannot but ask why a lender would consider investing in a product for which no borrower has ever asked for a loan. Again, this comes down to the problem of a small market. Data collected for our previous report suggests that CLT DMV development could be in the region of 100-150 units a year. Arguably if more lenders promoted the fact that they lend for DMV it would help to grow that market because more CLH organisations would be confident of their ability to successfully sell the DMV product (there is evidence some CLTs use shared ownership instead because it attracts more lender support), but a fundamental impediment to new entrants remains one of market scale unless the focus is simply one of generating a modest amount of additional business for a limited number of smaller lenders.

5.32 Why don't you lend?

Interviewees were asked to choose the relevant reasons that they do not lend for DMV from the following menu:

- **Lack of information/knowledge?**
- **Small market?**
- **Complexity?**
- **Higher risk?**
- **Lack of standardisation?**
- **Other?**

Although all the above were mentioned by at least one lender, the most popular reason was the small market – not least if failure to receive any enquiries or applications are included under this heading. Currently this is a difficult reason to refute given the low volume of DMV development predicted in 2020/21. However, there may now be more encouraging data about market growth in the context of enhanced government support in the form of the £163 million Community Housing Fund (MHCLG, 2019). A positive story to tell could help convince at least some smaller lenders.

Higher risk was mentioned by two lenders. This appeared to be a perception that there might be a higher risk of default rather than a view based on evidence of actual default. As already noted, it is certainly the case that data on DMV buyer performance over a period could contribute to alleviating such concerns, although collection of such data would almost certainly involve the cooperation of the UKF and/or the BSA.

5.33 Setting the price: variants of DMV

Lender interviewees were asked about the two main variants of DMV: the option to set the price of the home as a fixed percentage of Open Market Value (OMV), and the option to set prices by reference to median local incomes. Lenders were asked to reflect on whether they would consider each variant in the context of deciding whether to offer loans for DMV.

None of the lenders were opposed in principle to setting a house price as a percentage of OMV, although one commented that there was too little appetite to make it even worth taking a view. It was evident all lenders had some reservations. These revolved mainly around the risk that the value of their security could be impaired, although the complexity of this product was also referred to as a problem. In terms of the second option, none of the lenders questioned was prepared to say that they would consider tying the price of a home to local incomes. This suggests that the CLH Programme should think carefully as to whether it makes any tactical sense to promote DMV tied to incomes to currently non-participating lenders.

5.34 Shared ownership and DMV

Lenders were asked why they currently lend for shared ownership but not for DMV. The most widely shared stated reason for this stance was the existence of the Homes England model lease for shared ownership. Government backing for shared ownership was also mentioned as was the relatively standardised nature of shared ownership. While the importance of the shared ownership model lease does not demonstrate that a model lease for DMV would necessarily be effective in encouraging more lenders to enter the DMV market, it would probably add credibility to that possibility.

5.35 Mortgagee in possession clause (MPC)

In order to assess the importance of such a clause in the context of DMV, lenders were asked whether the existence of an MPC would influence their decision on whether to lend and if so whether it would affect their attitude to both the main variants of DMV. Only one lender stated that the existence of an MPC would not influence them in respect of lending for DMV. The others were clear that an MPC would either be a necessary condition or that it would certainly help them be more positive about lending for DMV.

This reaction suggests that for these lenders, a standardised and hence well-understood MPC whether or not incorporated into a model lease or used as a “bolt-on” would be of assistance in adding to lender confidence and lending activity.

5.36 The selling organisation

Shared ownership has until very recently been almost exclusively offered by housing associations, and there has been feedback that for most lenders at least, the fact that housing associations are regulated, well-understood and long-established is important (Clarke, et al., 2016). For this research interviewees were asked whether the type of organisation selling DMV would be relevant to their decision whether to lend on it. The majority of responses indicated that the type of organisation is important, although perhaps not as important as the quality of the lease. It was felt that the selling organisation should be well-established and trusted, especially when a borrower defaults. One lender suggested that DMV sellers should be regulated. Another lender suggested that reputational risk could attend linking themselves with the wrong seller. These responses suggest that the CLH Programme should consider how best to further the reputation and understanding of CLH organisations, their structures, standards and policy drivers amongst the lending community.

5.37 The most important factor in the decision to lend

The final question to those who do not currently lend for DMV was one that asked them to consider what factors would be most important in encouraging them to consider or reconsider lending.

The most important reasons according to lenders focussed on the proven existence of demand that could be satisfied profitably, thus adding value for shareholders. This re-enforces previous feedback that suggested that more market data must be made available. It was suggested earlier that such data should include information on demand, the socio-demographics of borrowers and loan performance/arears.

The existence of a standard lease was ranked close to market/demand issues by non-DMV lenders, and as "the key to it all" as one lender put it. Again, this corroborates previous feedback that this must be worth considering further.

A further theme amongst non-DMV lenders was the comfort of knowing that other lenders were in this market ("but not too many" as one lender warned). It was felt to be easier to convince a Board to move forward if it could be shown that DMV was part of a successful strategy for other lenders.

Lenders who currently lend for DMV were also asked what they believed would encourage other lenders to enter the DMV market. For convenience, their response is added in here. Three out of the five current DMV lenders believed that provision of more information about DMV was important, with one commenting on what they perceived as the surprising lack of understanding amongst non-DMV lenders. Three DMV lenders also believed that evidence of a growing market for DMV would be influential in persuading lenders to enter this market, although one was sceptical that the market would ever grow sufficiently.

Interestingly, two of the DMV lenders felt that government support would be both practically useful in smoothing out problems but also in boosting the confidence of potential new lender entrants. Although non-DMV lenders did not rate this as important when answering this question, they did return frequently to the importance of government support as mentioned elsewhere in the interviews.

Standardisation was mentioned as important by one DMV lender.

Overall, clear evidence of a growing and profitable market was seen as the most important factor in persuading lenders to begin accepting DMV business. Standardisation, including a standard lease, was also seen as important, with the need for active government support also seen as significant.

5.4 Issues for lenders currently lending for DMV

5.41 Why do you lend?

The first question put exclusively to existing lenders for DMV invited them to indicate the most important reason(s) for participation in this market. Issues relating to corporate social responsibility ('CSR') both local and national and including sustainability issues came out as most important overall. One lender claimed that DMV is low risk as a lender in possession can sell the property at OMV. A smaller building society put the issue of market size in perspective:

"It is attractive to us. It is £25 million over five years for us". (interviewee)

This is a timely reminder that while size matters, what also matters is who one is talking to. The volume of business required by a large bank to make it viable to set up or modify their systems is very much larger than that required by a small building society, perhaps with a total lending book of under than £200 million. One large lender claimed that they had responded to requests from local authorities and developers, while another claimed inertia; they were in this market mainly because they had always been in it.

Comparing this feedback to analogous feedback from non-DMV lenders suggests that once in the DMV market one's perspective may change and that factors that might encourage entry, such as market size or standardised documentation, may become less important as one becomes an established player and more familiar with the market. For an organisation like the CLH Programme, wishing to communicate with lenders, it could be important not to treat the lending community as homogenous, as well as continuing to publicise the benefits of the participation of existing lenders.

5.42 Setting the price: variants of DMV

The five DMV lenders were asked whether they will lend on both DMV where the price of the home is expressed as a discounted percentage of OMV and the variant where price is calculated in relation to median local earnings.

All those questioned would lend on the price as discounted percentage model but only three out of five would lend on DMV linked to income. The two lenders who would not were both larger lenders who had lent on this product in the past. One explicitly stated that they put this variant in the "too difficult" box. One other lender was not specific about whether or not they would lend on DMV linked to local incomes but claimed that there was little demand for it.

This response identifies practice similar to that identified by our research of 2017. The response of non-DMV lenders for these interviews correlates with the response of current DMV lenders although the non-DMV lenders were even more negative about linking DMV to incomes. As already suggested, the CLH Programme should consider carefully before including DMV linked to incomes in any campaign aimed at attracting additional lenders to this market.

5.43 DMV with further restrictions

DMV is currently offered with a range of additional restrictions on who may purchase a property. DMV lenders were questioned about their attitudes to the following:

- **Restricting eligible purchasers to those on or below median incomes?**
  (Note: income caps already exist for shared ownership)
- **Restricting eligible purchasers to those living or working locally?**
  (Note: local connection test can already apply to some shared ownership homes)
- **Restricting eligible purchasers to those in certain occupations?**
- **Limiting eligibility to purchase to those intending to make the property their main residence?**
  (Note: such requirements already exist for shared ownership)

Two lenders accepted all these restrictions without comment. They were the exception, however. One lender believed that the restrictions were all "not realistic", while another would only accept a restriction based on restricting eligibility to those in certain occupations. One larger lender accepted the list as a whole, but another was concerned about the restrictions binding future sellers.

Overall, it is clear that such restrictions can cause uncertainty for lenders about the ability to easily sell a property at full value in the event of default and in any case, they add complexity to the package. Nevertheless, it is part of the affordable housing proposition for CLH organisations to specify who a property should be affordable for. It may be that the CLH Programme should consider whether some standardisation of what restrictions are acceptable may have benefit here. It is noticeable when examining information from lender websites, that even in respect of shared ownership, many lenders who do not lend for DMV are also lenders who refuse to lend when there are restrictions on the resale of shared ownership properties.

5.44 Special terms on new-build properties

Lenders were asked whether they apply special terms on new-build homes and whether such terms apply to DMV, even if the seller is a not-for-profit organisation.

The lenders divided, with one offering the same terms on new-build but with a lower LTV on DMV lending, one offering the same terms across the board and the others restricting DMV lending on new-build. One of these additionally restricted the LTV on shared ownership and DMV on new-build.

At present there is no data on the number of sales of second-hand DMV properties or on the market share of individual lenders in the DMV market so it is difficult to assess the impact of any additional restrictions on LTV in respect of DMV sales as a whole.

5.45 Towards a standard lease?

Three questions were put to DMV lenders about the possibility that a standard lease might be introduced for DMV along the lines of the model lease for shared ownership. The possibility that the same function might be fulfilled by changes to property deeds of DMV homes was kept open although in practice lenders focussed on the possibility of a lease.

The first question asked whether such a lease would be helpful and if so in what ways. Four lenders were supportive of a standard lease but of these, three had reservations. One believed that a standardised discounted price against OMV would not be helpful, while another was concerned that a standard lease could define the market and limit it when this market is still developing-although overall, they were supportive.

Another believed that a standard lease was a good thing but more to encourage others to enter the DMV market than for themselves as an established player. They believed that a range of standardised options on restrictions on purchasers of DMV properties would be useful to all.

One lender was equivocal about a standard lease. They were sceptical about how it would work in a diverse market with different stakeholders. This lender favoured a code of best practice that could be subscribed to by sellers, lenders and local authorities and which could become a kitemark.

If a lease were to be drafted, four out of five lenders believed that Homes England should draft and maintain it. Stakeholders who should be consulted for consultation included UK Finance, the NHF, BSA, National CLT Network and local authorities. One lender was concerned that regulation of housing associations is as important as the model lease in the case of shared ownership in terms of comfort to lenders. At the present time, most CLH organisations are unregulated although most develop in partnership with a regulated housing association. It may be that these partnerships could provide some comfort to retail mortgage lenders if such arrangements were better understood and publicised.

Interviewees were asked to comment on what elements should be covered by a standard lease. There was agreement that the lease should contain an MPC which would include the right of the lender to take possession and sell at OMV after a specified period in the event of default by a borrower. One lender suggested the MPC could be included in a S.106 agreement rather than the lease but this was a minority view.

The lease should also specify the restrictions as to who is eligible to purchase the property, but it was recognised that some flexibility might be needed here given different local requirements.

Length of the lease was seen as a key term within it, although one lender took the opportunity to argue for longer leases than are customary with shared ownership; up to 500 years was suggested by this lender. The level of ground rent should also be specified.

Repair and maintenance obligations on the seller (if applicable) and buyer should also be specified, and one lender suggested that the lease should certify that there were no cladding issues in relation to the property. Finally, it was suggested that the price discount formula should be specified in the lease.

5.5 Towards a strategy?

It is clear that awareness of the CLH sector remains low amongst those lenders not already consciously serving this market. Knowledge of DMV is even lower amongst this group. There is still a major communications project to be undertaken to change a situation that remains much as it was in 2017.

Taking the interviews as a whole, it is clear that if lenders are to enter the DMV market, there must be evidence of demand that can be safely and profitably satisfied. This evidence could be instances of individual customers approaching the lender or being referred by a broker (which appear to be largely absent for those not already in this market) or in the form of data about the market and its customers.

It is also becoming apparent that the attitudes of those already in the market for DMV are different to those who are not. The former tend to see DMV as providing some type of CSR benefit with other commercial advantages a secondary. Non-DMV lender appear to be swayed more by commercial (market) considerations, although other issues such as lack of standardisation appear to be a deterrent to entry.

All this might suggest that the CLH Programme requires a strategy for the DMV market that is three-pronged:

- **To inform those lenders who are not consciously lending for DMV about its potential as a source of profitable and socially responsible new business, particularly for smaller lenders. This requires serious collection of data and a properly planned media campaign.**

- **Re-assurance is desirable for lenders already consciously participating in the CLH market and particularly DMV, that their efforts are widely recognised in a CSR context.**

- **Work to increase standardisation of the DMV product, whether in the form of model clauses for such items as the MPC and restrictions or whether a more radical approach in the form of a comprehensive model DMV lease. It is clear from the information presented in the large and detailed lender spreadsheet (see Appendix 2) that lenders vary widely in their approach to restrictions on who may purchase a property for shared ownership. It may be that were there to be a "standard" set of community-orientated restrictions lenders might, overall, be less cautious and might tend to take a common approach which would be easier for consumers and brokers to grasp. Thus, work to standardise restrictions on who may purchase a DMV property could potentially have a useful spin-off for shared ownership also if the standard restrictions could be applied as an option for the shared ownership lease also.**

6. What we said last time and what we have seen this time

In our previous report (Baddeley Chappell et al (2018)) we highlighted many of the issues listed here. Clearly this new report has gone further and deeper and covered new ground, most notably around DMV. In that earlier report, we highlighted the widespread lack of lender knowledge of the CLH sector, and there is little evidence in this report it has changed greatly for the better. We also made 12 recommendations for NCTLN and its members to take action on. In particular, we highlighted issues around the adoption of the single DMV term, the use of mortgagee in possession clauses and the need to build working relationship with the lending industry. We are aware there has been some engagement between lender trade bodies and NCTLN but are unclear as to the desired or planned outcomes. Indeed as far as we know our recommendation 12 to promote awards in this area has not progressed at all?

All of this might point to both the CLH Programme and lenders having other priorities. This is entirely understandable in a rapidly changing landscape. All we can do is point to ways of taking this agenda forward.

7. Conclusions

The lending market is currently deeply competitive notably around the prime market which in turn is forcing some lenders to look for underserved niches in which to offer products. This might suggest therefore that there would be an ever-increasing number of lenders seeking to enter or expand in new markets some of which might be the areas which the CLH Programme would like to see better served. There has been for example a notable expansion of lenders operating in the shared ownership and new build markets.

However, in reality there are a number of factors which continue to work against any expansion in low volume markets by most (but not all) lenders. To re-iterate, these factors include the following:

a. The scale of the market set against the costs of acquiring the knowledge and skills to operate in that market successfully and without undue risk of losses, damage to reputation and failing to meet a range of regulatory requirements, not least around conduct.

b. The lack of immediate and apparent demand for change and market expansion. This of course is a vicious circle, less activity, reduces awareness, reducing activity and so on.

c. The need to change the status quo. In simple terms, lenders rarely need to justify what they already do but the process of doing something new requires leadership and persistence from inside an organisation, driven by a discernible benefit that outweighs the resistance to change or perhaps to prioritise X over Y. There has to be a good reason to champion the specific cause over others and the lack of volume let alone other issues does make that difficult.

d. The lack of fast track solutions to entry. Without an established market, lenders face additional burdens when seeking to break through and enter a new market. Given the low volumes and low profile there is not really any very substantial first mover advantage. Indeed, there are some risks given the complex nature of this market segment, reflecting that most lenders would prefer to piggyback on the initial work of others.

The mortgage trade bodies appear to have less capacity and appetite to show leadership in this area than we have seen in the past. Like their lender members, they have to prioritise on the bigger issues and on government agendas.

At root however and despite these challenges, there is no fundamental barrier to lenders offering these products which on close examination are not so dissimilar to shared ownership. For example, the core structure of DMV is more straightforward than shared ownership, even though the latter is more established and better understood and supported by lenders. DMV brings the issues up front and has none of the complexities of rent payments alongside a mortgage and all the other tensions shared ownership can generate.

In our view, the CLH sector has in some senses over-complicated the issue by developing variants and using varying language and terminology. DMV has some of the simplicity of the Help to Buy scheme albeit in a different way (a discount on the price rather than an equity loan), and of course it has closer links with the new structure proposed by government for the First Homes scheme which effectively will replace the abortive Starter Homes scheme. In that sense, when First Homes is brought to fruition, it could have a spill over benefit for DMV as both will be based on a discounted market price. Indeed, already more lenders will be engaging with this structure so there is a real opportunity for the CLH sector to piggyback on this new activity.

8. Recommendations

Since our last report, the mortgage market has become more competitive, and the CLH market has continued to grow (although numbers remain small). Even so, on the evidence of this latest piece of work, little progress has been made in terms of opening up this lending market and engaging more lenders. This unfortunately is not a surprise. The previous report highlighted the challenges and the proposed preferred solution based on making the wider case for support and encouraging CLH organisations to standardise schemes and develop relations with local lenders as need arises.

It is clear from this report that lenders are unlikely to enter this market unprompted and therefore as with the last report it falls on the CLH Programme with its limited funding and bandwidth to create a communications strategy that brings lenders on board.

There are two different approaches that could be followed, there is some question about whether these are fully compatible.

8.1 Establish a small “panel” of lenders with an appetite for the sector

At this stage the sector does not need a large number of lenders. In fact, large numbers would dilute volume and worsen the business case for individual lenders. Smaller lenders are attracted by relatively small volumes of business, e.g. from one per month. However, there are compromises. Rates may be relatively high and lending in London in particular may be a challenge. However, there are lenders out there looking for this specialisation, in particular building on their knowledge of shared ownership (and in future the First Home scheme).

The advantage of working with a specialist panel is that they can help support the growth of the market through enabling a range of products to emerge until with greater volume the market begins to standardise around specific models.

8.2 Create standard structures for DMV to deliver an “easy” route for lenders into the market

This approach makes it potentially easier for more firms to operate in the market. It would be suitable for say a CLH organisation linking up with a local lender (or using the lenders already in the market). The challenge with this approach is that first, the structure requires standardisation and second that such standardisation could result in a loss of flexibility. This may not be an issue (less flexibility means the removal of choice and at the same time an easier path to delivery). The challenge here is that there is a clear difference between the preferred model of CLH organisations (in London in particular) and the appetite of lenders. Standardisation would certainly include a Mortgage Protection Clause (MPC) and could extend to a full lease although interviewed lenders were not universally in favour of this. A standard lease would include the MPC, specify the length of the lease, set out repair and maintenance obligations and the formula and conditions for discounting the price in perpetuity.

The MHCLG consultation paper on First Homes appeared just as this report was finalised. Given the clear preference of the Government for covenants rather than leases (except for new-build flats) in respect of the discounted First Homes scheme as set out in the paper, it may be that in the interests of promoting simplicity, CLH will, ultimately, wish to adopt a covenant rather than a lease approach. This may become clearer as the consultation on First Homes progresses towards conclusions.

On balance we recommend that the CLH Programme try approach (1) first, although they should continue to lobby for some work towards (2) in particular if they can secure the support and resources to do it- not least through grant or through government and Homes England.

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Appendices

Appendix 1: Interview questions discussed with retail mortgage lenders

Background

The questions set out below have been developed to facilitate interviews with senior staff within the UK retail mortgage lending industry. The interviews will constitute the final phase in a project commissioned by the Community Led Homes Programme and the Nationwide Foundation.

This project builds on work previously undertaken and aims to explore issues surrounding access to retail mortgage finance for those seeking to purchase homes developed by community-led groups including community land trusts and cohousing organisations. The aim is to assist community-led groups and retail mortgage lenders to better understand each other and to work together in ways that meet the needs of both parties.

The first phase of our work involved analysis of the websites of mortgage lenders to identify which lenders would lend on tenures (such as Shared Ownership, Discounted Market Value and Shared Equity) typically developed by community-led groups.

The second phase of the project involved checking the above information with individual lenders and asking for additional information, which will ultimately be shared with potential borrowers seeking a mortgage lender. Our thanks for your co-operation with this.

We are now conducting a series of interviews in order to gain a stronger understanding of what type of community-led housing groups and products lenders will support and why, but with a particular focus on Discounted Market Value ('DMV') which is much favoured by community-led groups. DMV is one of a number of terms used to describe structures where there are restrictions over the price of a property on sale and resale. Other terms include Discounted Market Sale, Restricted Resale Price and Resale Price Covenants. If you require additional information on DMV a helpful paper is attached to this email.

The interviews will be conducted by Andrew Heywood. It is anticipated that each interview will last a maximum of 40 minutes. These semi-structured interviews will take place on a non-attributable basis. This means that any comments you make or views you express will not be ascribed to you or to your organisation.

If you have any queries about the interviews or the questions, please telephone Andrew Heywood on: 01440 730218.

Thank you for agreeing to be interviewed.

General questions on the community-led sector

1. "Community-led housing is about local people playing a leading and lasting role in solving housing problems, creating permanently affordable homes and strong communities in ways that are difficult to achieve through mainstream housing."(NCLTN 2019)

    a. Were you familiar with the concept of "community-led housing" prior to this interview? (yes/no). If yes go to b.

    b. Do you agree that community-led housing is "creating permanently affordable homes and strong communities in ways that are difficult to achieve through mainstream housing"? (strongly agree/agree/disagree/strongly disagree/don't know)

2. Has your organisation ever taken a view on the potential of the community-led housing sector as a source of new business and/or as a part of your mortgage strategy?

    a. Yes/no. If yes, why?/if not why?

3. In your view, what are the characteristics/activities of the community-led sector that could make it attractive to some retail mortgage lenders (may select more than one)?

    a. The chance to "make a difference"/exercise social responsibility?
    b. The focus on affordability?
    c. Government backing for the community-led sector?
    d. Other?

4. What characteristics/activities of the community-led sector might make it less attractive to some mortgage lenders (may select more than one)?

    a. Small volume of business?
    b. Regulatory issues?
    c. Risk compared to other lending?
    d. Complexity of products?
    e. Other?

5. How do you think any negative factors identified above could best be overcome?

Questions on Discounted Market Value ('DMV')

6. How familiar were you with the concept of DMV before this interview?

    a. Very familiar?
    b. Quite familiar?

c. Not familiar?

d. Never heard of it

7. Although we have used the term DMV in these interviews, other terms exist for the same products including, Retail Price Covenants, Retail Price and Discounted Market Sale.

a. Do you think there is a case for using Discounted Market Value as a standard term to describe this product?

b. If not, what term would you favour?

8. Does your firm already lend on DMV propositions?

a. If "no" continue interview with questions 9-16

b. If "yes" continue interview with questions 17-25

Questions for those who do not lend for DMV

9. Have you encountered any DMV lending propositions in practice?

a. Yes/No/Don't know

10. Could you tell me why your firm does not lend for DMV?

a. Lack of information/knowledge?

b. Small market?

c. Complexity?

d. Higher risk?

e. Lack of standardisation?

f. Other?

11. The most common approach to DMV is to set the price of the property in perpetuity as a percentage of its Open Market Value ('OMV').

a. If you were to consider lending for DMV would you consider lending on this basis? If not then, why not?

12. Other variations of DMV seek to do more to retain the affordability of a property in perpetuity, even if property prices rise faster than incomes. They may for example link value to median local incomes for subsequent sales.

a. If you were considering lending for DMV would you consider this form of DMV lending? If not, why not?

13. You lend for shared ownership but not for DMV. What do you consider the key differentials between them

which led to your current policy?

14. A mortgagee in possession clause [MPC] (similar to that for shared ownership) can operate with DMV lending.

a. Does the existence of such a clause as a standard feature influence your decision whether to lend?
b. Is this the same for all forms of DMV or solely for certain variations?

15. If you were considering lending for DMV homes would the type of selling organisation (e.g. housing association, CLT) be relevant?

a. Why/why not?

16. What factors would be most important in encouraging you to consider/reconsider lending for DMV?

a. Higher volumes of potential business?
b. A standardised DMV lease analogous to that used for shared ownership?
c. Knowing that more lenders were already in this market?
d. Other?

Questions for those who lend for DMV

17. What are the three most important reasons (most important first) that have encouraged you to participate in the DMV market?

a. Market size?
b. Issues related to social/community responsibility?
c. Low risk?
d. Other?

18. The most common approach to DMV in relation to price is to set the price of the property in perpetuity as a percentage of its Open Market Value ('OMV').

a. Do you lend for this DMV variant? If not, why not?

19. An alternative variant of DMV links the price of the property to median (local) incomes.

a. Do you lend for this variant of DMV? If not, why not?

20. Currently, in addition to restricting the price, DMV is usually offered with one or more of the following additional restrictions. Which of these would you accept for lending purposes and why?

a. Restricting eligible purchasers to those on or below median incomes?

(Note: income caps already exist for shared ownership)

b. Restricting eligible purchasers to those living or working locally?
(Note: local connection test can already apply to some shared ownership homes)

c. Restricting eligible purchasers to those in certain occupations?

d. Limiting eligibility to purchase to those intending to make the property their main residence?
(Note: such requirements already exist for shared ownership)

21. Do you normally apply special terms such as a lower maximum LTV, to lending on new-build properties? If so, do such special terms apply to DMV even if the home is being sold by a not for profit organisation?

22. There has been discussion about the possibility of drafting a standard lease (or deed) for DMV purchases. Would such a lease be helpful to your firm?

a. Yes/no
b. In what ways would it be helpful?

23. If a standard DMV lease were to be drafted:

a. Who should draft it / maintain it- e.g. Homes England?
b. Which bodies should be consulted such as UK Finance, NHF, BSA, National CLT Network etc?

24. What key elements should be covered and standardised by the lease (or deed):

a. MPC?
b. Formulae for prices on resale going forward?
c. Conditions as to who is eligible to purchase?
d. Length of lease (if applicable)?
e. Repair/maintenance obligations?
f. Other?

25. Finally, what do you think would do most to encourage more lenders to lend for DMV?

a. Provision of more information about the DMV product?
b. Growth in the size of the market?
c. Encouragement from Government?
d. Standardisation of the lease?
e. Other?

Appendix 2: The Detailed Lender Spreadsheet

View document here

The Community Led Homes Programme is a partnership between the National Community Land Trust Network, the Confederation of Co-operative Housing, the UK Cohousing Network and Locality.