



COUNCIL of MORTGAGE
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The Callcutt review of housebuilding delivery

Response by the Council of Mortgage Lenders

to the call for evidence

24 April 2007

Introduction

1. The Council of Mortgage Lenders (CML) is pleased to respond very briefly to the Callcutt review of house building delivery.
2. The CML is the representative trade body for the residential mortgage lending industry. Its 161 members currently hold over 98% of the assets of the UK mortgage market.
3. The CML and its members naturally focus directly on the UK mortgage market and their interest in the house building market derives from that focus. Nevertheless, lenders are the key funders of home purchase and thus indirectly support new house building. It should not be forgotten that mortgage lenders provide funds both for home ownership and the private rented sector. In addition, the CML members have also lent c. £40 billion UK-wide for new-build, repair and improvement in the social rented sector.
4. Because of the key role played by lenders in the house building process, it is important that they are fully involved in policy discussions aimed at influencing the house building market. Failure to consult properly carries the risk that markets may be distorted because property may be intrinsically unmortgageable or because supply or demand factors may render categories of property unattractive as security for loans
5. This brief response will focus on two areas where government has influenced the house building market in unintended ways and where better consultation with the mortgage industry might have created a happier result.

Modern methods of construction (MMC) and mortgageability

6. Because of the key funding role of lenders it is important that those involved in house building are aware of the features of properties that allow lenders to use them as security for a mortgage loan of up to 35 years term. Briefly these features are:
 - A life span of at least 60 years;
 - Whole life costs comparable to traditional construction;
 - Repair costs comparable to traditional construction and the ability to repair a property using normal (local) trades;
 - The potential for the property to be adapted over its lifetime without excessive cost or difficulty, eg, to add a porch or conservatory; and
 - Buildings insurance to be available on normal terms.

7. Past generations of non-traditional construction have failed to meet prudent lending criteria on one or more of the counts set out above. Lenders (along with owners) are the longest term stakeholders in a property and are rightly cautious about the value of their security over the mortgage term.

8. Government has properly been concerned about overall housing supply. As part of its drive to create a step change in supply ministers have supported increased use of MMC through exhortation and directly via through the distribution of grant for new build by housing associations and others. This has led to an increased use of MMC designs particularly by housing associations building for rent or sale for low-cost home ownership.

9. Unfortunately, by no means all MMC designs meet the criteria set out above, and this has led to some confusion as to which properties are mortgageable. In some cases, properties have been built by housing associations with the intention of moving to open market sale without prior discussions about mortgageability. Pressure by government to adopt modern methods rather than simply to build efficiently has played a part in creating uncertainty. In addition their failure to consult has meant that recognised standards in the area of MMC were not in place at an early stage and this has undermined confidence of both lenders and consumers.

10. For its part the CML has engaged with the Building Research Establishment to develop a certification standard for MMC properties that will recognise and meet the needs of both lenders and buildings insurers. The new standard – known as LPS 2020 is still under development but should make a valuable contribution to improving new build quality in this area.

Planning

11. Government has the ability to influence (and distort) markets through modifications to the planning system. Two examples will suffice.

New-build flats

12. As part of its package of measures to boost housing supply, the government has, through changes to the planning guidance, created a situation where the proportion of new-build flats has increased dramatically. As a result, there are anecdotal reports of localised over-supply of new-build flats in urban areas, manifested in problems in selling such properties and in difficulties for owners in selling properties at their original valuation. In some cases, rental values have also been less than expected. Some lenders have reacted by tightening their lending criteria in relation to new-build flats. This is a situation that could have been avoided by better consultation with stakeholders including lenders. Indeed, the CML wrote to the Minister Yvette Cooper MP some two years ago on this subject.

S. 106 agreements

13. A neglected aspect of housing supply is the difficulties lenders have been facing with restrictive covenants imposed by some local planning authorities through planning obligations (ie, s. 106 agreements) for affordable housing. Despite recent guidance from DCLG local planning authorities (LPAs) are still adopting different approaches to affordable housing in s. 106 agreements and lenders find it very difficult to deal with the variety of restrictions being imposed. Lenders are finally beginning to see the adoption of 'cascade' mechanisms to deal with restrictions on rural exception sites under PPG3. This means that instead of lenders never being allowed to sell the property on the open market, the number of

eligible people is gradually increased until a buyer is found. The cascade has to take place within a limited time period. However, these mechanisms are not being adopted universally and there is a danger that lenders will withdraw support for these schemes if this does not happen. This example highlights the need for local as well as central government to be sensitive to the needs of key stakeholders and for central government to enforce its guidance effectively.

Consultation

14. The key message of this brief response is that lenders are an important stakeholder in the house building process, though they are sometimes forgotten. It is vital that government and other players in this market engage lender representatives fully in planning measures that can have a significant impact upon the market.

Contact

15. This response has been produced by the CML in consultation with its members. Comments and queries should be addressed in the first instance to Andrew Heywood, Deputy Head of Policy:

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