



New model for Shared Ownership: technical consultation

Response from Midland Heart

December 2020



Top line

Shared ownership plays an important role in helping lower income households access homeownership. We are increasing our output of shared ownership homes and are committed to providing access to low cost homeownership models, including the Government's proposed model of shared ownership. However, as it stands, it will be difficult and costly to administer. We propose a number of changes to make it work better for both shared owners and housing associations.

Key recommendations

- Housing association liability for internal repairs should cease once a shared owner has staircased to a 50% stake or higher
- There should also be greater clarity about which repairs are within the scope of the reclaim policy
- The minimum increment for staircasing should be 5% and shared owners should still be liable for the administrative fee
- Annual valuation adjustments should be based on data at postcode level, not local authority level

About Midland Heart

Midland Heart is a leading housing organisation, delivering homes and services across the Midlands that enable people to live independently. We own and manage 34,000 homes and are dedicated to providing decent, affordable homes combined with excellent services to over 70,000 customers.

Shared ownership forms a significant part of our housing offer. We have built 700 new shared ownership homes over the last ten years, bringing the total number we manage to 2,100. We are now significantly increasing our output of shared ownership homes with 400 currently on site. We expect to complete at least 3,000 new homes over 5 years, with shared ownership making up at least a quarter of these.

We are proud of our work in shared ownership, because we know it is really helping customers, who would otherwise be excluded from owning their own home. Over the last two years we have helped 149 customers staircase into full homeownership.

Detailed response

- 1. What steps could we take to prevent shared owners from being exposed to unfair lending terms**

We are not aware of unsecured lending playing a significant role in the shared ownership market at present, but with high loan to value mortgages becoming increasingly scarce this is a concern. It is becoming increasingly difficult for homebuyers to secure mortgages with a deposit of less than 20%, especially if they are entering the shared ownership market or are self-employed. At the same time, interest rates for personal loans have fallen, making the prospect of borrowing to top up a deposit an increasingly realistic, if unwise, option for some.

The very nature of the scheme means that shared owners are likely to be the least financially resilient of all homeowners, and so the growth of questionable lending practices could be particularly harmful. Government should work with the main high street lenders to ensure good availability of scrupulous mainstream mortgage options for those looking to take advantage of the new shared ownership model.

2. How will a smaller initial stake impact the relationship between lenders and providers and are there any steps we need to take to address this?

Housing associations may need to increase borrowing to deliver a programme of homes with an initial minimum share of 10% compared to 25%. This means that the capacity for delivering new build housing would reduce as more borrowing is used to build the same amount of homes. This is a natural financial consequence of providing greater access to low cost homeownership. Housing associations are therefore likely to need carefully balanced development programmes, especially before take-up of the smaller initial share is known. Careful attention will be required to assess whether it is possible to deliver half of housing association development programmes for low cost home ownership, as envisaged in the new affordable homes programme.

3. Do you agree that HPI valuations should be valid for 3 months?

Yes.

4. Please give your reasons

If the timeframe were reduced, housing associations would likely end up undertaking multiple valuations, which would increase costs.

5. Are there any specific circumstances where local authority HPI data may not be appropriate and regional HPI data or other would be preferable?

Housing market trends vary considerably across local authority areas. HPI data for local authorities with a lot of high value properties and rapidly increasing prices could be particularly problematic for valuations of shared ownership homes which occupy a specific place in the market. It would be much better if the Land Registry could make HPI data at postcode level available free to housing associations, for valuations. This would still be quite a broad-brush approach but would enable more accuracy than local authority level data.

6. Is there a risk that gradual staircasing will conflict with housing associations charitable obligation to sell assets at best value?

No, we do not see a conflict as long as the process is fair and transparent.

7. Please provide evidence

No further comment.

8. Do you have any further views on how best to implement the 1% gradual staircasing model?

We support the Government's approach and believe the new model has potential to widen access to homeownership. However, moving from a minimum share of 10% to 1% and scrapping fees is problematic. It puts all the administrative costs on to housing associations and does not place any responsibility on the shared owner to act responsibly and ensure their bid is viable.

Regular purchases of 1% would also produce a significant new administrative burden, which would have to be resourced entirely at the expense of the housing association. Ultimately this would reduce our ability to invest in building new homes and improving our existing ones. At a current rate of just £85 (excluding VAT) our administrative fees should not present an obstacle to staircasing.

It is also worth noting that if the shared owner still has to instruct a solicitor, then 1% staircasing is unlikely be a viable option for them either.

Finally, we are also unsure of the positions of lenders and how any incremental staircasing will affect the security applied to shared ownership homes under the new model. This is a critical factor in our ability to borrow and any loss of security will impair our ability to invest in building new homes.

We suggest instead that the administrative fees should be retained and a minimum increment of 5% adopted. This would make it easier for those who are serious to staircase closer to full homeownership, whilst also ensuring our resources are used responsibly. Under the regulatory standards, we have a responsibility to deliver value for money for all of our customers. Without these changes, we fear the new model may undermine this important principle.

9. Should any of the specified repairs, inside the home, not be within scope for this policy?

We agree with the specified internal repairs, as long as the recommended time period and costs limits are applied. However, we also believe the liability of housing associations for these internal repairs should cease if a shared owner staircases to 50% or more of their home, within the first ten years. It is not reasonable to expect

housing associations to pay the full cost of repairs for homes they only own a minority share of.

Our recommendation is that whoever is the majority shareholder should be liable for internal repairs during the first ten-year period. This would offer a better compromise and make the additional liability for housing associations more manageable. If the goal of the new model is to widen access to those who can only afford a small initial stake, then introducing this mitigation for housing associations should not be a limit to success.

We would also like clarification that we will be able to continue levying service charges for our sinking funds within the first ten-year period, even if these are not to be used for works until after this period is complete. This has significant implications for our business modelling.

10. Please give your reasons

As above.

11. Are there any further repairs inside the home, that should be within scope for this policy?

As above, we agree with the list of repairs specified.

12. Do you agree with the maximum costs (£500) that can be claimed by a shared owner for essential repairs inside of the home?

Yes.

13. Please give your reasons

We are comfortable with the proposed cap. The important thing is to understand which types of claims are eligible.

14. Do you agree with the maximum roll over period (1 year) for unused repairs expenditure? If not, then what should the roll over period be?

Yes.

15. What process should be put in place to enable shared owners to reclaim eligible repair expenditure from their landlord and resolve disputes?

Housing associations should establish their own internal processes. In the event of a dispute, shared owners should appeal to the Housing Ombudsman. Shared owners are already within the scope of the Housing Ombudsman scheme and it would make sense for this approach to continue to avoid duplication. In turn, the Housing

Ombudsman needs to have a clear and transparent policy framework in place to cover these issues to ensure decisions are consistent.

16. What steps should be taken to ensure claims are genuine?

Shared ownership is different to renting. The reclaims policy should be about protecting shared owners from the cost of correcting defects, rather than providing the sort of routine maintenance a tenant would expect.

The regulations must also make clear that housing associations are not liable for repairs where there has been a breach of tenancy such as deliberate or avoidable damage. This includes where shared owners have failed to ensure appropriate routine servicing and maintenance arrangements.

It would be helpful if the regulator could publish a comprehensive list of defects that are within the scope of the reclaims policy, for the avoidance of doubt. Any ambiguity here could lead to protracted and costly legal appeals, that are not in the interests of shared owners or their housing association.

17. Do you agree that we should apply the same transitional arrangements to Shared Ownership as the one proposed for First Homes?

Yes.

18. Please give reasons

It makes sense to align the new model with the introduction of the next affordable homes programme.

19. Are there any further delivery issues we should consider ahead of implementing this approach?

We support the new model for shared ownership, however, as the paper acknowledges, it will mean additional costs for housing associations, both for repairs and administering purchases. We need to achieve the right balance between widening access and ensuring good use of resources. We believe retaining fees and setting the minimum increment at 5% would achieve a better balance.

Get in touch

For further information about Midland Heart or our submission to this consultation, please email Robert.hunter@midlandheart.org.uk