HOMES FOR THE SOUTH WEST

New model for Shared Ownership: technical consultation
Ministry for Housing, Communities and Local Government

Homes for the South West response

Introduction

All Shared Ownership homes delivered through the Affordable Homes Programme 2021 to 2026 will be subject to the following changes introduced by the government:

i) Reduced the minimum initial share from 25% to 10%
ii) Introduced a new gradual staircasing offer, to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees
iii) Introduced a 10-year period during which the shared owner will receive support from their landlord to pay for essential repairs
iv) Given shared ownership leaseholders (shared owners) more control when they come to sell their home.

This consultation seeks views from all interested parties on the implementation of the new model for Shared Ownership, so that relevant views and evidence can be considered ahead of final implementation.

This document outlines the Homes for the South West response.

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

There are inherent risks in any product targeting those least able to afford outright home ownership; shared owners buying stakes as low as 10% because they can afford no more will clearly present risks. Providers can and should warn of the risks, but it should be recognised that they may not be able to provide more specific advice without straying into regulated financial advice territory. A register of approved lenders for shared ownership that we could provide without comment might be helpful. The terms of the standard mortgagee protection clause are significant here. Such clauses, whilst necessary, instinctively tend towards protecting lenders' interests and unless there are very clear limitations within them then they can attract less scrupulous lenders.

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?**

There is a risk that smaller shares will reduce the sense of ownership that a shared owner feels. This is already sometimes a feature of shared ownership. The risks associated with that are significant and are similar for owners, providers and the public purse – ultimately that is about repossession; the loss of a home, of an asset and of a publicly funded one.
So, in many ways, this links back to question 1 above. Again, appropriate measures in mortgagee protection clauses will be helpful. We would also suggest that rights or opportunities for providers to 'buy back' through reverse staircasing should be considered.

3. **Do you agree that HPI valuations should be valid for 3 months, if no, then how long should they be valid?**

a. Yes – 3 months
b. No – 1 month
c. No – 6 months
d. No – 12 months
e. No – Other

4. **Please give your reasons.**

It is the right balance, and it avoids the 'charitable' risks as set out in question 6 below.

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

No comment.

6. **Is there a risk that 1% gradual staircasing will conflict with housing associations charitable obligation to sell assets at best value?**

a. Yes
b. No

No more so than the 3-month RTB/RTA valuations.

7. **If yes, then please provide evidence.**

N/A

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

Overall, the proposal achieves a reasonable balance; it establishes a process that can be largely driven by the shared owners and which keeps to a minimum the (fee free) administrative burden on providers. There is clearly scope for confusion between the 'gradual' model and the 'traditional' approach to staircasing. This will be the case for new owners able to choose between the two (with significantly different consequences) and potentially also for existing shared owners who aren't able to operate the 'gradual' model. Clarity in distinguishing between the two, and what each means for the shared owner, will be important.

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

a. installations for the supply of water
b. installations for the supply of gas and electricity
c. installations for sanitation (including basins, sinks, baths and sanitary conveniences, but not other fixtures, fittings and appliances for making use of the supply of water, gas or electricity) pipes and drainage
d. installations for space heating and heating water
e. the suggested scope is fine

10. **Please give your reasons.**

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

None.

12. **Do you agree with the maximum costs (£500) that can be claimed by a shared owner for essential repairs inside of the home? If no, then what should the maximum be?**

a. Yes – should be capped at £500
b. No – should be capped at £250
c. No – should be capped at £750
d. No – should be uncapped
e. No – other amount

13. **Please give your reasons.**

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?**

a. Yes – you should be able to roll over 1 years' worth of expenditure (i.e. £500)
b. No – repair expenditure should be used within the given 12 month period
c. No – you should be able to roll over 2 years' worth of expenditure (i.e. £1,000)
d. No – you should be able to roll over for 3 years or more (i.e. £1,500 or more)

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

There needs to be clarity about what repairs are eligible and what distinguishes repair from replacement and/or enhancement – and that only repairs are eligible. In our experience, some repairs damage decoration and this can give rise to misunderstanding: it should be clear that only the minimum required to make good a damaged area is eligible. Guidance on this should also provide an opportunity to highlight to shared owners the importance of appropriate insurance cover. But overall, we feel that this is a model that will enable us as providers to put in place processes that will be straightforward for both ourselves and owners. Above all it gives us clarity on the potential costs.

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

An obligation to allow inspection if required. Requirements that invoices demonstrate appropriate professional qualification, company/VAT registration etc.

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

a. Yes
b. No

No comment.

18. **Please give your reasons.**

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

In the event that any part of the ADP includes purchasing existing homes, even if that is not currently anticipated, the absence of any ‘new build guarantee’ will present problems. It may be that such schemes are amongst those excluded. Sinking funds: it is unclear whether landlords are expected to make contributions in for the first 10 years. If no contributions are made in those 10 years, then there will be a significant shortfall by year 10. The ‘pre-emption period’ proposals are reasonable, but it should be clear that the shared owners’ right to go to the open market after 4 weeks is subject to no nomination having been made by the landlord during the first 4 weeks.