Communities and Local Government

Homeowners Support Package

Impact Assessments

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Homeowners Support Package

Impact Assessments

September 2008
Department for Communities and Local Government

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Summary: Intervention & Options		
Department /Agency: **Communities and Local Government**	**Title:** **Impact Assessment of Homeowners Support Package**	
Stage: Initial	**Version:** 4	**Date:** September 2008
Related Publications: Impact Assessment of Mortgage Rescue Scheme, Impact Assessment of HomeBuy Direct		

Available to view or download at:

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What is the problem under consideration? Why is government intervention necessary?

The housing market has experienced challenges as a result of turbulence in the global financial markets. People are finding it harder to get a mortgage. We have seen falls in house prices and house builders are now experiencing difficult business conditions.

This Homeowners Support Package proposes a range of interventions in response to the following developments: 1.Repossessions are now rising as families are struggling with their repayments; 2.First time buyers now need a much larger deposit; and, 3.House builders are cutting back on supply of new homes and the capacity of the sector is contracting.

What are the policy objectives and the intended effects?

The main policy objectives of the Homeowners Support Package announced on 2 September 2008 are to:

a) Protect the most vulnerable households from homelessness and the other adverse social impacts that can follow repossession, for example poor health and worklessness

b) Ensure the Government is well-placed to meet the country's housing needs in the longer term, by stimulating housing market activity and helping to retain capacity in the housebuilding industry

c) Assist first time buyers who are in work but cannot access housing finance in the current market

What policy options have been considered? Please justify any preferred option.

a) do nothing

b) intervene in the housing market primarily by

- introducing a mortgage rescue scheme for the most vulnerable households
- assist first time buyers in the housing market, and increase medium-term housing delivery and capacity through shared equity loans
- reprofiling of Affordable Housing Programme Expenditure

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Policies will be monitored and evaluated on an individual basis. Please refer to individual Impact Assessments for more details.

Ministerial Sign-off

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Date: 10 September 2008

Summary: Analysis & Evidence

Policy Option: B	**Description:** Intervene in the housing market

COSTS	**ANNUAL COSTS**		Description and scale of **key monetised costs** by 'main affected groups' See individual Impact Assessments for further details	
	One-off (Transition)	**Yrs**		
	£			
	Average Annual Cost (excluding one-off)			
	£		**Total Cost** (PV)	£
	Other **key non-monetised costs** by 'main affected groups'			

BENEFITS	**ANNUAL BENEFITS**		Description and scale of **key monetised benefits** by 'main affected groups' See individual Impact Assessments for further details	
	One-off	**Yrs**		
	£			
	Average Annual Benefit (excluding one-off)			
	£		**Total Benefit** (PV)	£
	Other **key non-monetised benefits** by 'main affected groups'.			

Key Assumptions/Sensitivities/Risks See individual Impact Assessments for further details.

Price Base Year 2008	**Time Period Years**	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			England	
On what date will the policy be implemented?			Varies	
Which organisation(s) will enforce the policy?			N/A	
What is the total annual cost of enforcement for these organisations?			£N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			Yes/No	
What is the value of the proposed offsetting measure per year?			£	
What is the value of changes in greenhouse gas emissions?			£	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)
Increase of £	Decrease of £	**Net Impact £**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Evidence Base (for summary sheets)

Note: This Impact Assessment relates to those elements of the Homeowners Support Package which are the responsibility of Communities and Local Government.

This Impact Assessment was developed for the Homeowners Support package in order to aid Ministerial decision-making. The estimates of costs and benefits necessarily rely on modelling assumptions. These modelling assumptions are not statements of policy.

Rationale for Intervention

The UK housing market has experienced challenges as a result of turbulence in the global financial markets. People are finding it harder to get a mortgage. We have seen falls in house prices and house-builders are now experiencing difficult business conditions after years of favourable circumstances.

It is important to make sure that we are well placed to meet our housing needs in the longer term through achieving the housing completion targets set out in the 2007 Green Paper. Net completions are expected to fall as house builders cut back on supply, endangering future targets and putting at risk delivery once the current market conditions improve. Our objective is to help the industry retain the capacity to boost supply faster than otherwise would be the case when conditions improve.

In addition the Government is keen to mitigate the social and economic effects of mortgage repossessions and there is a strong value for money case when vulnerable families who would need ongoing state assistance with their housing costs are helped to remain in their current home.

As a result Communities and Local Government has announced a series of measures, aimed at increasing confidence, stability and fairness in the housing market by:

- offering up to 10,000 first-time buyers currently frozen out of the mortgage market the chance to get onto the property ladder through a new shared equity scheme
- supporting up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home through a mortgage rescue scheme
- bringing forward £400m in order to deliver up to 5,500 new social homes over the next eighteen months on top of current assumptions
- working with Regional Development Agencies (RDAs) to support the most critical regeneration schemes with the greatest potential to transform their communities

Full Impact Assessments for both the Mortgage Rescue Scheme and HomeBuy Direct programme are published alongside this document.

Summary Table of Costs and Benefits of Homeowners Support Package		
Policy	**Benefits**	**Costs**
Mortgage Rescue Scheme	There will be savings to the exchequer from reduced number of repossessions, Temporary Accomodation (especially in high demand areas) and Housing Benefit (HB). Also, Registered Social Landlords will benefit from rent and assumed future staircasing up of rescued households. These benefits are valued between £195m and £390m. Finally, there will be wider social benefits from families being able to remain in their own homes.	Estimated exchequer cost of around £200m. In addition to this, there are potentially more administration costs to Local Authorities.
HomeBuy Direct	Around 10,000 first time buyers are able to move into their preferred tenure at an earlier stage. The level of unsold stock is reduced providing a transactions boost to builders, and mitigating any capacity loss. Potential improvement in responsiveness of industry to improved market conditions with medium gains to first time buyers. The Government benefits from returns to the equity loan. Depending on different housing market scenarios this could be between £225m to £300m, or more.	There is an initial cost to the exchequer of £300m if around 10,000 first time buyers take up the scheme. These equity loans will be co-funded by participating developers.

Summary Table of Costs and Benefits of Homeowners Support Package (continued)		
Policy	**Benefits**	**Costs**
Reprofiling of the Affordable Housing Grant	This will maintain delivery of social rented and low cost homeownership housing at a time when this is under threat	No new grant costs, as bringing forward future spending.
Supporting Regeneration Schemes	Reduces risk of potential blight through stalled regeneration schemes. Can enable the delivery of an increase in sustainable housing supply, which can benefit the wider economy	

Mortgage Rescue Scheme

The Department is offering assistance to up to 6,000 of the most vulnerable households struggling to make mortgage repayments. Depending on their specific circumstances, they could access this assistance through one of the following three products:

- **shared equity** would help householders who have experienced payment shocks and need some help in paying their mortgage
- **shared ownership** would help those with a bigger financial gap but still able to make a contribution to monthly payments
- **sale and rent back** will help the most vulnerable on low incomes with little chance of sustaining a mortgage

Costs

Here the main costs of the programme will be to central Government. We estimate that this will cost in the region of £165m to £330m.

Benefits

Monetised benefits of the policy accrue in the form of:

- housing Benefit savings from preventing these households from ending up in Temporary Accommodation
- rents paid by the tenants and future capital receipts from tenants staircasing up as they return to affordable home ownership

Taking these benefits into account against the cost to central Government, the central estimate for the net benefit associated with the introduction of the mortgage rescue scheme is around £30m to £60m. There are other non-monetised benefits insofar as the vulnerable households rescued will be spared the considerable adverse health, educational and aspirational impacts that are often associated with the process of repossession.

Note: A more detailed discussion of this policy can be found in the full Impact Assessment for this policy, published alongside this document.

HomeBuy Direct

This scheme aims to assist first time buyers in the housing market, and increase medium-term housing delivery and capacity through shared equity loans.

Costs

Communities and Local Government has identified £300m for this programme to be spent over the next 2 years. Like all equity loan products, the initiative poses risks to the Government equity from house price falls (although this also serves to insulate the first time buyer from all but the most severe downturn). These risks will be shared with participating developers, through co-funding of equity loans.

Benefits

By purchasing currently unsold stock from developers and contracting to support the completion of near-complete but mothballed sites, the initiative could both enhance cash flow and make a contribution to maintaining housing supply and activity over the next two years.

Stimulating transactions and helping first time buyers who are in work but cannot access credit in the current market. First time buyers gain access to mortgages and stimulate housing market activity.

Note: A more detailed discussion of this policy can be found in the full Impact Assessment, which is published alongside this document.

Bringing forward affordable housing spending

We are bringing forward £400m from our 2010-11 affordable housing budget to be spent on new social housing this year and next. This funding could deliver up to 5,500 additional new social rented homes over the next 18 months.

Reductions in developer contributions (S106 schemes) and in the proceeds from low cost home ownership sales (including staircasing receipts from sales in previous years) are making it hard to maintain delivery within current efficiency targets. Government intervention could benefit projects that are suffering from these problems as well as bringing forward other housing developments. In addition, Government-supported construction could make an important contribution to the UK economy, at a time when other developers are unable to build.

More support for key regeneration schemes

Physical regeneration remains a priority for this Government, which has a strong track record in renewing some of our most deprived communities. Yet current market conditions have led to some regeneration schemes in deprived areas slowing down or stalling. This can limit the potential of these schemes to transform lives in deprived areas, support sustainable employment and delivers better homes and local environments, and delays schemes which have already begun can blight communities, just at the point when they are ready for renewal. This is a matter of real concern to this Government, and we are keen to take action where possible to alleviate these effects.

We will be looking to work with RDAs and the Homes and Communities Agency (HCA) and its predecessor bodies (the Housing Corporation and English Partnerships) on a review of regeneration projects that are experiencing difficulty in the current market conditions across the English Regions in order to ensure that Government funded regeneration interventions are directed at those priority projects that deliver the greatest impact (whilst ensuring each intervention represents good value for money).

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	Title:	
Communities and Local Government	**Impact Assessment of Mortgage Rescue Scheme**	
Stage: Initial	**Version:** 3	**Date:** September 2008
Related Publications: Impact Assessment of Homeowners Support Package; Impact Assessment of HomeBuy Direct.		

Available to view or download at:

http://www.communities.gov.uk

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What is the problem under consideration? Why is government intervention necessary?

Mortgage repossessions have increased significantly in recent years. Latest figures from the Council of Mortgage Lenders (CML) show a further 48 per cent rise in the number of repossessions in the first half of 2008 compared to the first half of 2007, with CML forecasting total repossessions of 45,000 in 2008.

Government intervention would allow many of the most vulnerable households to remain in their home, protecting them from homelessness and the other adverse social impacts associated with repossession. The cost of repossession also presents a significant burden for the exchequer. This is particularly the case where the repossessed households are eligible for the main homelessness duty leading to their occupation of a social unit and, in most cases, a Housing Benefit cost. The mortgage rescue scheme would reduce the Housing Benefit burdens associated with this.

What are the policy objectives and the intended effects?

The main policy objectives of the mortgage rescue scheme are to:

a) Protect the most vulnerable households from homelessness and other adverse social impacts that can follow repossession

b) Reduce the cost for central and local government of those who, following repossessions, require homelessness assistance (often via Temporary Accommodation)

c) Support people in entering the most appropriate housing tenure for their financial situation

What policy options have been considered? Please justify any preferred option.

a) Do nothing

b) Introduce a mortgage rescue scheme targeted at the most vulnerable households

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The policy will be evaluated 2 years after implementation. For further details of monitoring and evaluation arrangements see page 21 of this document.

Ministerial Sign-off

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Date: 10 September 2008

Summary: Analysis & Evidence

Policy Option:	Description:
Introduce a mortgage rescue scheme	**Introduction of a mortgage rescue scheme targeted at the most vulnerable households.**

COSTS

ANNUAL COSTS

One-off (Transition)	**Yrs**
£100m – 200m	2

Average Annual Cost (excluding one-off)

£

Description and scale of **key monetised costs** by 'main affected groups'

Estimated initial outlay of £200m from central Government if 6,000 households are assisted over two years. The overall "upfront cost" of the scheme will be greater than this as Registered Social Landlords will be funding some of the cost of the scheme from borrowing, reserves and capital receipts (as they currently do with Low Cost Home Ownership (LCHO) and Social Rented development).

With a 50 per cent reduction in uptake, up front costs to central Government would reduce to £100m.

Total Cost (PV)	**£100m – 200m**

Other **key non-monetised costs** by 'main affected groups'

Administrative costs of delivery to Local Authorities and Registered Social Landlords (RSLs) – though these costs are expected to be small given that 1) LAs already have a legal duty to assess households' eligibility for the main homelessness duty; and 2) many RSLs already purchase new/existing dwellings partly using Social Housing Grant (SHG) as part of their development programme.

BENEFITS

ANNUAL BENEFITS

One-off	**Yrs**
£0	

Average Annual Benefit (excluding one-off)

£

Description and scale of **key monetised benefits** by 'main affected groups'

Savings to the exchequer from reduced number of repossessions, Temporary Accomodation (especially in high demand areas) and Housing Benefit (HB).

Also, income to RSLs from rent and assumed future staircasing up of rescued households.

Total Benefit (PV)	**£195m – 390m**

Other **key non-monetised benefits** by 'main affected groups'

The scheme will protect vulnerable households from the outcomes that can follow repossession, for example poor health, worklessness and disruption to education.

Key Assumptions/Sensitivities/Risks For the purposes of estimating cost and benefits of the scheme, we have assumed that the scheme is effectively targeted at those households that would have otherwise entered the social sector. The top end of the ranges of costs and benefits presented above assumed 100 per cent uptake by households at risk of becoming homeless. The bottom end of each range assumes 50 per cent of this uptake is realised. Other key modelling assumptions are on: • house price inflation • what percentage of eligible households are most appropriately helped by shared equity, shared ownership or outright sale and rent back • levels of rent/charges paid by rescued household

Price Base Year 2008	**Time Period Years** 20	**Net Benefit Range** (NPV) **£95m – 190m (exchequer only)**	**NET BENEFIT** (NPV Best estimate) **£140m (exchequer only)**

What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	To be agreed			
Which organisation(s) will enforce the policy?	To be agreed			
What is the total annual cost of enforcement for these organisations?	£N/A			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£N/A			
What is the value of changes in greenhouse gas emissions?	£N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	Yes/No	Yes/No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)
Increase of £	Decrease of £	**Net Impact £**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Evidence Base (for summary sheets)

This Impact Assessment was developed for the Homeowners Support package in order to aid Ministerial decision-making. The estimates of costs and benefits necessarily rely on modelling assumptions. These modelling assumptions are not statements of policy.

Background

Mortgage repossessions have increased significantly in recent years – from 8,200 repossessions in 2004 to 26,200 in 2007. This is the highest figure since 1999 and up 25 per cent on 2006. Latest figures from the Council of Mortgage Lenders (CML) show a further 48 per cent rise in the number of repossessions in the first half of 2008 compared to the first half of 2007, with the CML forecasting total repossessions of 45,000 in 2008. However, repossessions are still at a historically low level when compared to the 1991 peak of 75,500.

The majority of repossessions occur due to a major change in circumstance. This can include relationship breakdown (19 per cent), unemployment (27 per cent) and other severe loss of income eg sickness or injury (19 per cent)[1]. But the global economic slowdown has led to other pressures on homeowners:

- the global credit crunch has led to a significant increase in the cost of borrowing and consequently in the cost of meeting mortgage repayments
- increased food and fuel prices have led to a tightening of an average household's disposable income, placing further pressure on meeting mortgage repayments
- the preceding years of cheap credit and low mortgage rates has led to some households overborrowing

The Government has already done much to deal with the increase in repossessions. Earlier this year the Government announced £10m for advice services, supported Court Desks to offer legal advice in 40 County Courts and allocated a further £50m to homelessness prevention work and support. The Government is now taking further action, to ensure that the most vulnerable households are able to remain in their homes rather than face repossession and homelessness.

[1] Data for 2005/06 from Survey of English Housing

Policy objectives

The objectives of the proposed mortgage rescue scheme are to:

a) Protect the most vulnerable households[2] from homelessness and other adverse social impacts that can follow repossession[3]

b) Reduce the cost for central and local government of those who, following repossession, require homelessness assistance (often via Temporary Accommodation)

c) Support people in entering the most appropriate housing tenure for their financial situation.

Policy Options

(1) Do nothing

If homelessness assistance is granted (as it currently is in around 10 per cent of repossession cases), housing will be supplied in the social rented sector (SRS) or via temporary accommodation, supported by Housing Benefit and council tax payers.

Recent evidence shows that an even greater number of repossessed households are likely to end up in the SRS in the near future. The Survey of English Housing (2005/06) suggests that around a quarter of repossessed households eventually enter social housing and around a third enter the private rented sector (PRS).

The costs involved in providing homelessness assistance to the 10 per cent of households in which the statutory homelessness duty would be owed are the baseline against which the mortgage rescue scheme is appraised (below).

(2) Mortgage rescue for the most vulnerable

The proposed mortgage rescue scheme would provide three related mortgage rescue and support elements. Only the most vulnerable households would be eligible for the schemes and independent and accredited debt advisors would ensure that a household is supported by the most appropriate scheme. This will ensure both the best possible value for money from public funds and the minimum necessary intervention from the Local Authority (LA) or RSL. The three elements are described briefly below:

[2] Eligibility criteria will be developed by Communities and Local Government working closely with stakeholders. In order to inform the costings in this IA we have estimated that 10 per cent of 45,000 repossessed households will be eligible per annum, and the final uptake rate will be two-thirds. This results in our central estimate that 6,000 households will receive support over the two-year period.

[3] For discussion, see "The Costs of Unsustainable Home Ownership in Britain", Janet Ford and Roger Burrows, Journal of Social Policy, 1999, **28**, 2, 305-330

(i) Shared equity:

Shared equity would help householders who have experienced relatively minor payment shocks and need some help in paying their mortgage. An RSL would take over up to 25 per cent of the loan to reduce the household's mortgage payments.

(ii) Shared ownership:

Shared ownership would help those with a larger financial gap, but who are still able to make a contribution to their mortgage payments. In this scheme, the applicant reduces the mortgage they have with the lender so that through a combination of their equity and the mortgage, they own approximately 25 per cent of the property. An RSL would take up to the remaining 75 per cent and draw up a shared ownership lease. The applicant would pay rent on this share (and potentially be eligible for Housing Benefit).

(iii) Sale and rent back:

This scheme is designed to help the most vulnerable households who are on low incomes with little chance of sustaining a mortgage. In this scheme, we expect an RSL to pay off secured debt completely and the household to pay rent to the RSL.

Costs

Summary

The initial gross cost of the mortgage rescue scheme to central Government would be approximately £200m. If uptake was half the level hoped for, the cost to central Government would fall to £100m. These are estimated amounts of SHG required for 6,000 mortgage rescues. RSLs will also incur costs since only a proportion of the cost of the rescue will be funded through SHG.

Further details of the assumptions underlying these estimates are outlined below.

1. Do nothing

We have estimated that the average quantifiable cost to the exchequer of a repossession of a vulnerable household is £16,000. This is a cost associated with the HB payments that would be paid to this household in order to house them in Temporary Accommodation (TA), and then in the SRS.

This is the present value cost of a household entering the SRS (in many cases via a TA route) assuming that they will remain in the tenure for 8 years (the median length of stay in the sector). The figure is also regionally weighted in line with data from the Ministry of Justice on court actions (2008 Q1).

In total, this means the exchequer cost of 6,000 repossessions over a two year period is estimated in present value terms at around £95m. This figure does not include the significant costs to the court system that repossession proceedings bring.

The lender also incurs costs, broken down into three components:

1. **Loss on sale**: repossessed properties sold at auction or otherwise command a lower sale price

2. **Lost interest**: interest part of mortgage repayment is not regained upon sale

3. **Fixed costs**: cover court costs, legal fees and estate agent/ auction fees

2. Mortgage rescue package

The initial estimated cost to Government of assisting 6,000 households over two years is around £200m.

Overall costs to government will also depend crucially on assumptions about the following variables:

1. **Uptake**. This will depend on RSL appetite, delivery issues and awareness and also attitudes of vulnerable householders. We believe that around 9,000 households will be eligible for the scheme over a two year period, and that two-thirds of these eligible households will ultimately be rescued. If uptake is half of our central estimate of 6,000 households then costs, benefits and net benefits would all be 50 per cent of the levels discussed (n.b. the ranges presented in the 'Summary' section of this IA include this risk of a 50 per cent reduction in uptake).

2. **SHG rates**. Costs to the exchequer will depend on the grant rates associated with the different elements of the mortgage rescue scheme. This in turn will depend on how the Housing Corporation is able to allocate scheme funds in order to maximise public value for money.

3. **The proportion of people requiring help from the three different schemes**. The costs are currently based on 60 per cent requiring shared equity, 25 per cent shared ownership and 15 per cent sale and rent back. This assumption is based on the experience in the 1990s and the views of practitioners today. However, it is possible that the actual mix would differ considerably from this.

4. **The regional distributions of repossessions of the most vulnerable households**. Costings are based on an assumed distribution of repossessions based on the latest Ministry of Justice court actions data (2008 Q1). The cost of scheme then depends on the interaction of the pattern of repossessions with regional house prices.

5. **How much equity we expect to be held by householders entering the different schemes**. As shown in the table above, the costings currently assume that households that are entering the shared equity and shared ownership scheme on average hold 25 per cent equity in their property. The equivalent equity holding assumed for a household entering the sale and rent back scheme is 5 per cent.

6. **The number of repossessions in the second year**. The costs are based on the number of repossessions being the same in years 1 and 2 (ie 45,000 repossessions per annum).

7. **Value of the properties of the householders offered support**. The costs are based on lower quartile house prices (£127,000 for England in 2007[4]), and overall costs will depend on the regional distribution of households assisted through the mortgage rescue scheme.

Benefits

Summary

The estimated monetised benefit of assisting 6,000 households is £390m. This is assuming that this scheme runs for two years and prevents 6,000 repossessed households from becoming homeless. If half of the estimated 6,000 households were rescued the estimated monetised benefit would be around £195m. These quantifiable benefits of the scheme accrue in the form of:

- Housing Benefit savings, since the household will not need to go into Temporary Accommodation, but will remain in their own home
- Rental income from the rescued household, along with capital receipts from future staircasing / property sales then much of the initial cost is recouped

[4] Communities and Local Government Live table 587 available at: http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/locallevelstatistics/tableshousingmarket/

Monetised benefits of a mortgage rescue scheme accrue in two main ways. First, there are quantifiable benefits from preventing the repossession, and subsequent homelessness, of vulnerable households. As discussed above, we have estimated that average quantifiable cost of a repossession of a vulnerable household is £16,000. This is a cost associated with the housing benefit payments that would be paid to this household in order to house them in TA, and then in SRS.

The monetised benefits accruing from this source have been estimated at around £95m if 6,000 households are successfully assisted

Second, RLSs will receive future revenue from rent paid on un-owned equity and upon the sale of the property. To estimate these benefits of the mortgage rescue schemes the following assumptions have been made:

- Sale and rent back / shared ownership properties will be sold / bought back in year 8.
- Shared equity properties will be sold / bought back in year 5.
- Tenants will pay social or intermediate rents or charges on the unowned equity in the property.
- 50 per cent of the rent will be paid for by Housing Benefit in the shared ownership and sale and rent back elements of the scheme.

The monetised benefits accruing from this source have been estimated at around £295m if 6,000 households are successfully assisted

On this basis, our estimate of overall benefits of the scheme is £390m. This estimate assumes that 6,000 households can be assisted by the scheme. If fewer households access the scheme, the costs and benefits fall proportionally. For example, if only 3,000 households are assisted then estimated benefits fall to £195m.

Net benefits

By taking into account costs and benefits as outlined above, we can consider the net benefits to the exchequer associated with the introduction of a mortgage rescue scheme. Table 1 (below) shows estimated net benefits to the exchequer of the scheme under three house price scenarios[5] assuming that 6,000 households are assisted by the scheme:

[5] Note that these scenarios are not forecasts – they are simply presented as illustrative. The impact of house price changes has the greatest impact in the first 8 years of benefits accrual, and it is this period that the scenarios in Table 2 are covering.

Table 1: Costs, benefits and net benefits of mortgage rescue by house price scenario

Average annual house price inflation (next 5 – 8 years)	Initial cost to the exchequer	Benefits from Housing Benefit savings	Benefit from rents and capital receipts	Overall net benefit to the exchequer
0%	£200m	£95m	£255m	£150m
3%	£200m	£95m	£295m	£190m
5%	£200m	£95m	£335m	£230m

Evaluation

We will develop an integrated package of monitoring and evaluation activity so that we can track, over the two year duration take-up, spend, people assisted and the immediate and longer term housing outcomes for the mortgage rescue scheme. We may also wish to monitor and evaluate incomplete applications. This would be particularly beneficial in helping us to assess the outcomes for those who benefit from the assistance and those who do not.

The full evaluation will be carried out towards the end of the two year programme in order to determine its effectiveness and a case for extension of the programme. The evaluation could include 1) for those applicants who benefit from the programme, the outcomes for them and the savings to government and mortgage lenders; 2) for those who were eligible but were not applicants to the programme, the outcomes for them and the costs to government and the private sector that would have been avoided had they been.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency: Communities and Local Government	**Title:** Impact Assessment of HomeBuy Direct	
Stage: Initial	**Version:** 2	**Date:** September 2008
Related Publications: Impact Assessment of Homeowners Support Package, Impact Assessment of Mortgage Rescue Scheme.		

Available to view or download at:

http://www.communities.gov.uk

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What is the problem under consideration? Why is government intervention necessary?

The housing market has experienced significant challenges as a result of turbulence in the global financial markets. This has given rise to significant short-run affordability problems for those first time buyers unable to access mortgages due to higher deposit requirements. It has also led to difficult business conditions for house builders. Falling house prices and market uncertainty have resulted in a decline in both the number of housing transactions as well as the demand for new-build homes; these pose challenges for longer run housing-supply objectives.

What are the policy objectives and the intended effects?

The two main objectives of HomeBuy Direct are to:

a) Assist first time buyers by providing an affordable LCHO option; and

b) Ensure the Government is well-placed to meet the country's housing supply needs in the longer term – by stimulating housing market activity and helping to retain capacity in the housebuilding industry.

What policy options have been considered? Please justify any preferred option.

a) Do nothing

b) Helping first time buyers to purchase properties directly from developers through a new LCHO scheme.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Data on each transaction from the scheme will be collected through existing processes set up by the Housing Corporation. The policy will be fully evaluated 2-3 years after implementation.

Ministerial Sign-off

> ***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister:

Date: 10 September 2008

Summary: Analysis & Evidence

Policy Option: A	**Description: Purchase unsold or partially complete units for a new low cost home ownership scheme for first time buyers.**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' There is an initial outlay of £300m if around 10,000 first time buyers take up the scheme. This cost is met fully by central government.	
One-off (Transition)	**Yrs**		
£300m	1		
Average Annual Cost (excluding one-off)			
£		**Total Cost** (PV)	**£300m**

Other **key non-monetised costs** by 'main affected groups' If house prices fall after the purchase, first time buyers could have purchased the property at a lower value in the future, though they are insulated from all but the most severe falls by the equity loan.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' This money is an investment in housing. As a result of rent charged from year 6 and future sales receipts the initial cost is expected to be largely or fully offset by these benefits.	
One-off	**Yrs**		
£			
Average Annual Benefit (excluding one-off)			
£		**Total Benefit** (PV)	**£225-300m**

Other **key non-monetised benefits** by 'main affected groups' Around 10,000 first time buyers would be able to move into their preferred tenure at an earlier stage. The level of unsold stock is reduced, providing a transactions boost to builders, and mitigating any capacity loss. Potential improvement in responsiveness of industry to improved market conditions.

Key Assumptions/Sensitivities/Risks It is assumed that these 10,000 additional transactions will not 'crowd out' existing transactions due to there not being enough credit available. Medium term supply benefits are contingent on schemes encouraging build-out of sites and not just purchasing stock already built.

Price Base Year 2008	**Time Period Years**	**Net Benefit Range** (NPV) **£-75 to £0m**	**NET BENEFIT** (NPV Best estimate) **£-35m**

What is the geographic coverage of the policy/option?			England	
On what date will the policy be implemented?			September 2008	
Which organisation(s) will enforce the policy?			Housing Corporation	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?				
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£N/A	
What is the value of changes in greenhouse gas emissions?			£N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)
Increase of £	Decrease of £	**Net Impact £**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Evidence Base (for summary sheets)

This Impact Assessment was developed for the Homeowners Support package in order to aid Ministerial decision-making. The estimates of costs and benefits necessarily rely on modelling assumptions. These modelling assumptions are not statements of policy.

Background

The UK housing market has experienced significant challenges over the past year as a result of turbulence in the global financial markets. People are finding it harder to get a mortgage, there have been falls in house prices, and house-builders are now experiencing difficult business conditions after years of extremely favourable circumstances.

First time buyers

We have witnessed a significant decline in mortgage approvals (according to the Bank of England in July these were 71 per cent lower than a year earlier) and falling numbers of first time buyers (in June 46 per cent lower than a year earlier according to the CML). The reduced availability of mortgage finance due to the credit crunch has been felt the hardest by first time buyers. Availability of 90 per cent or 95 per cent Loan-to-Value mortgage rates has been curtailed, and first time buyers are often required to have a 25 per cent deposit in order to secure competitive rates. As a result, potential first time buyers who are able to service a mortgage and previously would have been able to secure a competitive mortgage are excluded from entering the market since their deposit is too small.

House-builders

The reduction in housing finance, along with falling house prices and market uncertainty, have led to difficult business conditions for house builders. The large fall in transactions has left many house builders with a substantial overhang of unsold stock. This has been compounded by a contraction in new buy-to-let lending. As a result builders have reduced housing starts and are cutting costs through job losses and office closures. The Government is concerned about the impacts of this trend on the sector's capacity to increase housing supply in the longer-term.

As well as impacting on house builders, the significant reduction in the number of transactions has had wider knock-on effects on other industries such as home removals, furniture retailers and estate agents.

Policy objectives

HomeBuy Direct will help up to 10,000 first time buyers into affordable home ownership over the next two years. The two main objectives are to:

a) Assist first time buyers by providing an affordable LCHO option; and

b) Ensure the Government is well-placed to meet the country's housing supply needs in the longer term – by stimulating housing market activity and helping to retain capacity in the housebuilding industry.

Rationale for intervening

The Government is committed to supporting sustainable home ownership. Current market conditions have made it more difficult for some potential first time buyers who are able to sustain a mortgage to access housing finance due to higher deposit requirements. Providing equity loans would allow these first time buyers to access mortgage finance.

It is also important to make sure that we are well placed to meet our housing needs in the longer term through achieving the housing completion targets set out in the 2007 Green Paper. Net completions are expected to fall as house builders cut back on supply, endangering future targets and putting at risk delivery once the current market conditions improve. Our objective is to help the industry retain the capacity to boost supply faster than otherwise would be the case when conditions improve.

Option for appraisal

HomeBuy Direct

HomeBuy Direct is a new LCHO scheme designed to support more first time buyers into affordable homeownership, by helping them to purchase direct from developers. The proposed scheme would help developers to sell unsold stock and incentivise them to complete partially complete units.

The equity loan will be funded by Government and developers and would be free of charge to the purchaser for the first five years. From year 6, a charge will be levied.

Purchasers will be able to redeem the equity loan, in tranches of 10 per cent or more, purchasing up to 100 per cent equity after their initial purchase by buying additional equity at the market rate.

If the first time buyer wishes to apply for HomeBuy Direct, their eligibility for the scheme will be assessed by the HomeBuy Agent. General eligibility for the scheme would be the same as for the other HomeBuy products (ie households earning less than £60,000 who could not afford to buy a suitable property on the open market without assistance in the area where they live or work).

Costs

The initial cost of this scheme to the exchequer is £300m spread over the remainder of 2008/09 and 2009/10. This would be used to fund equity loans of up to 30 per cent to help qualifying first time buyers buy properties that are already built but as yet unsold, or near completion. These equity loans will be co-funded by participating developers.

Based on an average selling price of £180,000-£200,000 the unit cost to government of this scheme is expected to be £27,000-£30,000. This would enable delivery of around 10,000 units.

Benefits

Over time both the Government and participating developers would receive future revenue from the charge on the un-owned equity, and upon sale of the property. To estimate these benefits the following assumptions have been made:

- the average time in the property for the first time buyer before sale will be 7 years. According to the Survey of English Housing, households buying with a mortgage stay an average of 10 years in a property, however we would expect first time buyers to be there for a shorter period, and for this scheme in particular due to the charge imposed from year 6
- a charge is payable on the equity loan from year 6 (no charge is payable in the first five years)
- capital appreciation is shared proportionally between the first time buyer, developer and Government
- in the event of equity loss the proceeds from the sale would go firstly to paying off the first charge mortgage. Government and the developer will only share the sale proceeds that are left over once the mortgage has been repaid. The Government and the developer's entitlements to the future sales proceeds would be enforced through a joint (and equal) second charge on the property
- various scenarios for house price inflation are assessed below

Table 1: Scenarios of Costs and Benefits to Government of the equity loans (net present values, £Net Present Value)[6]			
Average annual house price inflation scenario	**Initial total cost (£m)**	**Benefits – rental income and sales receipts (£m)**	**Net cost (£m)**
0%	300	225	75
3%	300	265	35
5%	300	300	0

Based on the scenarios for house prices set out above for house price inflation, and assuming a discount rate of 3.5 per cent, it is possible to estimate approximate net costs to the exchequer. Average house price inflation of at least 5 per cent per annum over the next seven years would see the benefits to exchequer at least equal the initial expenditure, which would be a significant improvement on a grant-based approach.

Wider costs and benefits

Housing market

The 10,000 HomeBuy Direct purchases will boost the number of first time buyers above the level they would be without intervention. By effectively removing the deposit constraint, the scheme will 'price in' first time buyers who may otherwise have not been able to access finance.

The scheme is not expected to have an impact on house prices in the second hand property market. For new build properties, prices are likely to be buoyed (slightly) by the scheme.

There are also a number of wider benefits that may result. For example, this scheme guarantees properties for first time buyers, as opposed to other buyers such as buy to let investors.

In addition it is likely that there would be an increase in transactions as some first time buyers currently not able to attain finance due to large deposit requirements would be brought into the market.

Developers

The drop-off in sales relative to completions in 2008 has left developers with a backlog of unsold stock, and as a result they are slowing their completion rates and not building out some sites which would have otherwise been developed.

[6] Note that these scenarios are not forecasts – they are simply presented as illustrative.

Without any government intervention, house builders have three main options for dealing with the unsold stock: to sell, to rent out or to leave empty. To leave properties empty for a significant period is unlikely. Without sufficient cash reserves and little / no revenue stream, house builders will be unable to repay loans and satisfy shareholders. A strong rental market could provide a short term flow of income; however, whilst this may be an option for smaller privately owned builders, this is unlikely to be a viable option for larger house builders with significant debt leverage.

The most likely outcome therefore is for builders to continue at the current slow pace to sell unsold stock at a market-clearing price. The overhang of stock may not totally clear until market conditions improve.

HomeBuy Direct would provide a much needed transactions boost to participating developers through additional sales at potentially higher values. It would also enable them to build out some sites on which they have currently stopped or slowed development. Although the scheme is small relative to the size of the new build sector, it will provide a targeted cash injection to the important first time buyer market.

Housing supply

With prices falling in 2008 and the number of annual transactions falling quickly, housing supply is likely to be significantly reduced in the short-term. A number of developers are now operating as cash-only businesses, and not completing units where the sales price / timing is uncertain or where there is further upfront capital investment necessary, even when such schemes have already been started.

This scheme is likely to bring forward the transactions of unsold stock, providing a transactions boost to developers, and encouraging the completion of some sites which otherwise may not have been built out (or completed at a slower rate). This will therefore reduce the overhang of unsold stock more quickly and serve to stimulate additional construction at least in the short-term.

Therefore the scheme will help to achieve our objectives of reducing the amount of unsold stock more quickly, and slowing the rate of capacity loss by stimulating some additional construction activity.

Assessment of risks

Like all equity loan products, the initiative poses risks to the Government equity from house price falls (although this also serves to insulate the first time buyer from all but the most severe downturn). These risks will be shared with participating developers, through co-funding of equity loans.

There is also a risk that demand for the scheme could be lower than expected, due to prevailing market conditions. However, this would not pose a risk to the public purse.

There is a risk that there could be a mismatch between the properties which first time buyers might want to purchase and the unsold stock which developers offer as part of the scheme. Focusing the scheme on unsold stock alone would probably not directly impact on the capacity of the industry (as the units have already been built, developers will continue to cut costs aggressively). However, we expect to use the bidding criteria for the scheme to encourage developers to build out part-completed projects and guarantee future completions.

Monitoring and evaluation

We will develop an integrated package of monitoring and evaluation to track the implementation of HomeBuy Direct. This will include monitoring, take-up, spend, first time buyers assisted and their characteristics. Data will be collected through existing systems for the monitoring of low cost homeownership.

A full evaluation of the impact and effectiveness of the scheme against its objectives will be conducted 2-3 years after implementation. This evaluation could include: 1) total net cost to the government, 2) assessment of the level of staircasing, 3) overall value for money and 4) impact on the house-building sector.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No