

Report

by the Comptroller and Auditor General

Ministry of Housing, Communities & Local Government

Help to Buy: Equity Loan scheme – progress review

Key facts

211,000 £11.7bn

equity loans made to buyers in England by December 2018

loaned in total in England by December 2018

14.5%

is the Ministry of Housing, Communities & Local Government's (the Department's) estimate of the increase in new-build housing supply in England as a result of the scheme

| 352,000 | is the Department's forecast of the number of home purchases to be supported by Help to Buy equity loans in England by March 2021 |
|---------|---|
| 37% | is the proportion of buyers in England who said they could not have bought without the support of the scheme (measured between June 2015 and March 2017) |
| 31% | is the proportion of buyers in England who said they could have bought a property they wanted without the support of the scheme (measured between June 2015 and March 2017) |
| 38% | is the proportion of new-build properties which have been sold with the scheme in England between April 2013 and September 2018 |
| 4% | is the proportion of all property sales which have been sold with the scheme in England between April 2013 and September 2018 |
| 81% | is the proportion of Help to Buy loans provided to first-time buyers in England, at December 2018 |
| 5% | is the proportion of buyers in arrears who bought in the first eleven months of the scheme in England, at February 2019 |
| 2031-32 | is the year by which the Department estimates it will have recouped its investment in full |

Summary

Our report

- 1 The Help to Buy: Equity Loan scheme (the scheme) aims to support the delivery of the Ministry of Housing, Communities & Local Government's (the Department's) strategic objective to "deliver the homes the country needs", through increasing home ownership and increasing housing supply. It is the Department's largest housing initiative by value.
- 2 The government introduced the Help to Buy: Equity Loan scheme to address a fall in property sales following the financial crash of 2008 and the consequent tightening of regulations by the regulatory authorities over the availability of high loan-to-value and high loan-to-income mortgages. The scheme has two principal aims: to help prospective homeowners obtain mortgages and buy new-build properties; and, through the increased demand for new-build properties, to increase the rate of house building in England.
- 3 Homes England, an executive non-departmental public body sponsored by the Department, launched the scheme in April 2013 on behalf of the Department. The current scheme will run to March 2021. Through the scheme, home buyers receive an equity loan of up to 20% (40% in London since February 2016) of the market value of an eligible new-build property, interest free for five years. The value of the loan changes in proportion to changes in the property's value. The loan must be paid back in full on sale of the property, within 25 years, or in line with the buyer's main mortgage if this is extended beyond 25 years. The scheme enables buyers to purchase a new-build property with a mortgage of 75% of the value of the property. The scheme, which is not means-tested, is open to both first-time buyers and those who have owned a property previously. Buyers can purchase properties valued up to £600,000.
- The scheme is demand-led, meaning all eligible applications would be accepted, with funding provided to meet demand. The scheme does not therefore have targets either for the number of households supported to buy or for the additional number of new homes built. The Department expects the scheme to support around 352,000 property purchases by March 2021, via loans totalling around £22 billion in cash terms. A new scheme, to follow on immediately from the current scheme for two years to March 2023, will be restricted to first-time buyers and will introduce lower regional caps on the maximum property value, while remaining at £600,000 in London. Homes England expect to have loaned around £29 billion in total in cash terms by March 2023, supporting 462,000 property purchases.

Scope of our report

- 5 This report follows up on our March 2014 report *The Help to Buy equity loan scheme*. It continues a series of reports we have published on housing in England, which have included *Housing in England: overview* (January 2017), *Homelessness* (September 2017) and *Planning for new homes* (February 2019).
- 6 In our 2014 report, we examined the performance of the Department for Communities & Local Government (now the Ministry of Housing, Communities & Local Government) and the Homes and Communities Agency (now Homes England) in designing and implementing the scheme. We found that they had started the scheme well, early demand for the scheme was strong, and that the scheme was improving buyers' access to mortgages.
- 7 Since our first report, the scheme has increased considerably in size and value. This report assesses how the scheme has performed against its objectives, how effectively the Department and Homes England have managed the Help to Buy: Equity Loan scheme to date, and how they are planning the future of the scheme and its end. This report does not examine whether quality standards for new-build properties are either adequate or have been met.

Key findings

The scheme's performance

8 The Department's independent evaluations of the Help to Buy: Equity Loan scheme show it has increased home ownership and housing supply. Homes England had made around 211,000 loans by December 2018, amounting to £11.7 billion. The Department commissioned two independent evaluations of the scheme, which included sample surveys of households that had bought using the scheme, and interviews with developers and lenders. Around two-fifths of households said they would not have been able to buy any property without the support of the scheme. The Department did not set quantified objectives for the scheme, but expected that between 25% and 50% of sales would result in new homes being built. The second evaluation, covering loans made between June 2015 and March 2017, concluded that the rate of building had increased by 14.5% because of the scheme (paragraphs 1.3 and 2.2 to 2.6).

- 9 The scheme has helped increase the number of new-build properties being sold. Between the start of the scheme and September 2018, 38% of all new-build property sales have been supported by loans through the scheme, equating to around 4% of all housing purchases. Since the scheme was introduced in 2013, the number of new-build property sales has increased from 61,357 per year in 2012-13 to 104,245 per year in 2017-18. Sales of new-build properties have also increased from around 9% of all property sales in 2014 to over 12% in 2017. From 2013, the scheme contributed to a general increase in transactions throughout the housing market and planning system, although the Department acknowledges that the rate of transactions was picking up before the start of the scheme and the housing market is sensitive to a range of economic factors (paragraph 2.7).
- 10 The scheme has helped fewer people to buy new-build properties in areas where less housing is available for sale below £600,000. Excluding London, between the start of the scheme and December 2015, the proportion of new-build properties bought with the support of the scheme ranged from 29% in the south east to 42% in the north east. Over the same period the proportion was only 12% in London, where the ratio of median house prices to median earnings is greatest (less affordable areas as defined by the Office for National Statistics) and where there are fewer new-build properties below the cap. In February 2016, the government decided that it needed to improve the take up of the scheme in London, while accepting the variation across other regions of England. It increased the maximum loan in London to 40% of the property value. The change improved the scheme's take-up in London, to 26% of new-build sales between January 2016 and September 2018, although this is still lower than the rest of England (46% of new-build sales over the same period) (paragraphs 2.8 to 2.9).

Buyers

- 11 The Department's second evaluation found that around three-fifths of buyers could have bought a property without the support of Help to Buy. The Department intentionally set broad eligibility criteria for the scheme to enable as many households as possible to benefit, not just first-time buyers. There are no limits on household income and no restrictions on the number of scheme beneficiaries. As at December 2018 around 81% of all buyers supported by the scheme have been first-time buyers. The Department's second evaluation, covering loans made between June 2015 and March 2017, found that:
- 37% of buyers stated that they could not have bought without the support of the scheme. We estimate this to be around 78,000 additional sales of new-build properties since the scheme started.
- 63% of first-time buyers were aged 34 and under.

However, the evaluation also found that:

- 19% of buyers have previously owned a property and are using the scheme to buy, on average, more expensive properties than first-time buyers using the scheme. We estimate that this equates to nearly 40,000 households (paragraphs 2.5 and 2.10 to 2.12).
- 31% of buyers could have purchased a property they wanted without the scheme.
 Extrapolating this proportion over the whole of the scheme suggests that around
 65,000 households could have purchased a property they wanted without the scheme.
- 12 Some 4% of the 211,000 buyers who had used the scheme by December 2018 had household incomes over £100,000. The proportion has increased each year, from 3% in 2013 to 5% in 2018. Over the whole scheme, 10% of buyers had household incomes over £80,000 (or over £90,000 in London), the thresholds above which they would not be eligible for the Department's shared ownership housing scheme (also designed to help with home ownership). The Department regards these transactions as an acceptable consequence of designing the scheme to be widely available. The Department also intended to keep the scheme simple to administer and easy for applicants to access (paragraph 2.14).

Help to Buy properties

The scheme has enabled buyers to purchase properties with more bedrooms, or to buy a property more quickly, than they would otherwise have been able to. Buyers have been able to borrow more through taking out both a mortgage and an equity loan than they could have borrowed through a mortgage alone. Around four-fifths of buyers reported, through the evaluations, that the scheme had enabled them to buy a property sooner. Buyers took out mortgages and equity loans that together were typically around four and a half times their annual income (increasing to over six times in London). In contrast, first-time buyers generally took out mortgages that were three and a half times their annual income over the same period. The increased spending power of buyers using the scheme has contributed towards developers building properties with more bedrooms. Though not a stated objective, the Department regards the scheme's support to buyers to move up the property ladder more quickly as a positive outcome, as it brings more properties onto the market for other buyers (paragraphs 2.5, 2.12 and 2.13).

- 14 Buyers who want to sell their property soon after they purchase it might find they are in negative equity. New-build properties typically cost around 15%–20% more than an equivalent 'second-hand' property, termed the 'new-build premium', which reflects that these properties have yet to be lived in. The new-build premium fell away following the financial crash of 2008 but has since recovered to pre-crash levels, as wider economic and housing market conditions have changed, and sales of new-build properties have increased (paragraphs 2.15 and 2.16).
- 15 Our analysis indicates that buyers who used the scheme have paid less than 1% more than they might have paid for a similar new-build property bought without an equity loan. By comparing prices paid for similar new-build properties in the same area with and without the scheme, we estimate that buyers supported by the scheme have paid less than 1% more. Our estimate is significantly less than others in the public domain, which range between 5% and 20%. We found that these estimates do not compare similar properties and so do not accurately assess any additional premium paid by those using the scheme on top of the new-build premium. We have not, however, quantified other financial incentives that buyers of properties without the scheme might receive. Incentives on properties sold with the support of the scheme are restricted to 5% of the total purchase price, but there is no restriction on incentives on new-build sales generally (paragraphs 2.17 and 2.18).

Developers

- 16 The scheme has supported five of the six largest developers in England to increase the overall number of properties they sell year on year, thereby contributing to increases in their annual profits. Five of the six developers in England that build most properties account for over half of all loans through the scheme. They sell a greater proportion of properties with the support of the scheme than other developers. Between 36% and 48% of properties sold by these five were sold with the support of the scheme in 2018. The profits of all five developers have increased since the start of the scheme. Over the same period, total combined housing completions for these five developers have increased by over a half. It is not possible to determine what proportion of a developer's profits directly relates to sales through the scheme because this information is not publicly available (paragraphs 2.19 to 2.21).
- 17 Some small and medium-sized developers have required more help than anticipated from Help to Buy agents to engage with the scheme. The Department designed the scheme so that it is easier for smaller firms to access. More small and medium-sized developers have joined the scheme than joined previous schemes with similar aims. By December 2018, 2,000 developers were registered with the scheme, the majority of whom are small and medium-sized developers. However, some small and medium-sized developers have struggled with the administration required to join the scheme and sell properties with its support (paragraphs 2.19 and 2.20).

- 18 By 2023, the government will have invested up to £29 billion in the scheme, tying up cash which cannot be used elsewhere. Homes England had loaned around £11.7 billion by December 2018 and estimates it will have loaned around £22 billion in cash terms by the close of the current scheme in 2021, rising to around £29 billion in cash terms by the close of the new scheme in 2023. Factoring in the estimated rate of redemptions, the net amount loaned is forecast to peak at around £25 billion in 2023 in cash terms. There is an opportunity cost in tying up this money in the scheme for a considerable period, rendering it unavailable for other housing schemes or departmental priorities (paragraphs 3.2 to 3.5).
- 19 The Department expects to recover its investment in the medium term and make a positive return overall, although it recognises the investment is exposed to significant market risk. By December 2018, Homes England had received £1.3 billion in redemptions, around 11% of the amount loaned. Based on current estimates of the long-term performance of the housing market, Homes England expects total redemptions to equal the amount loaned by 2031-32, and to have made a positive return on investment by the time all loans are repaid by 2048. However, both the payback period and the return on investment are sensitive to house price changes and the timing of buyers repaying loans. Recent housing market data indicate that house price growth is slowing down, and that there has been a recent fall in prices in some regions, notably London (paragraphs 3.6 to 3.11).

Interest repayments

20 Homes England has recognised the need to improve processes for recovering interest. The first homeowners in the scheme started paying interest in May 2018, five years after the first loans were issued. At December 2018, around 7% of homeowners using the scheme were paying interest; most homeowners are still within the five-year interest-free period. At February 2019 around 5% of homeowners were in arrears, and the proportion of interest due that had not been received was around 4%. In almost all cases, homeowners have fallen into arrears because processes to collect interest were not set up when the loan was issued, and they have not responded to contact from Target (the organisation administering the loans on behalf of Homes England). From September 2016, Homes England has required all homeowners to set up a direct debit on issue of the loan, in anticipation of the interest payments. In May 2019, the Department approved an improved interest-recoupment policy (paragraphs 3.12, 3.13 and 3.17).

Contract management

21 Target was not prepared for the volume and complexity of queries from homeowners once they started redeeming their loans and paying interest.

In May 2018, Target faced an expected increase in enquiries as the first homeowners to have bought with the support of the scheme came to the end of the interest-free period. Target had planned on the basis of Homes England's forecast, but the overall number of telephone queries received was over 75% higher than the forecast for the previous year. In addition, the queries received were more complex than predicted, requiring more and longer interactions with customers. Target experienced problems in dealing with this higher-than-expected level of engagement. Homes England and Target worked together to address this, for example Target tripled the number of staff dedicated to administering the scheme to 75. Homes England is undertaking a digital transformation programme to speed up and streamline the administration of the scheme and to improve the experience for buyers (paragraphs 3.14 and 3.16).

22 Homes England's oversight of its mortgage administrator Target and the Help to Buy agents needs to improve. In February 2019, Homes England's internal auditor gave only a limited assurance opinion for Target's administration of the Help to Buy portfolio due to control weaknesses in several areas of Target's operations, making a number of recommendations for further improvement. A second internal audit report, in March 2019, identified problems with the arrangements at the Help to Buy agents for securing documentation to support loans, and Homes England's limited oversight of information security arrangements at the agents. Homes England has accepted the recommendations of the internal audit report and has a number of actions in place to strengthen its monitoring and oversight for these key contracts (paragraphs 3.15 and 3.16).

The future of the scheme

23 In October 2018, the Autumn Budget included an announcement that, from April 2021, the new scheme would be targeted towards those who need more help into home ownership. The new scheme will be restricted to first-time buyers. Outside of London, lower regional limits on the maximum purchase price will restrict the scheme to buyers purchasing cheaper properties, who are likely to be people on lower incomes. The Department also intends these changes to reduce overall demand for the scheme in its final two years, preparing the housing sector for its end (paragraphs 4.4 to 4.10).

The Department accepts there is less need for the scheme now that higher loan-to-value mortgages are more available, and plans to end the scheme in 2023. The scheme was introduced in 2013 to address the difficulties that buyers were experiencing with the availability of high loan-to-value mortgages. Lenders are now offering high loan-to-value mortgages more widely, but eligibility is more restricted than before the financial crash of 2008. The Department believes the scheme is therefore still needed. It has announced the end of the scheme, giving developers and lenders four and a half years to devise other ways for buyers to raise the necessary finance to purchase new-build properties. Nevertheless, there is concern across the housing sector that the end of the scheme will still result in a drop in new developments and sales (paragraphs 4.2 to 4.4, and 4.11).

Conclusion on value for money

- 25 The Department's independent evaluations of the Help to Buy: Equity Loan scheme show it has increased home ownership and housing supply. It seems likely to continue to do so as long as the scheme remains open, provided there is no significant change in the housing market. The scheme is therefore delivering value so far against its own objectives. The Department is currently forecasting a positive return on its investment and redemptions are running ahead of expectations.
- Given that the government has entered the equity loan market place, it has put reasonable arrangements in place to benefit from increasing property prices. However, this is dependent on the performance of the housing market and property values can go down as well as up. At points when the market turns down (whether over the near, medium or longer term), the taxpayer could lose out significantly, as the government's investment in housing capital would reduce in value. Furthermore, property owners could face the trap of negative equity, exacerbated by the new-build premium. The scheme also has an opportunity cost in tying up a great deal of financial capacity, and its broad participation criteria have allowed some people who did not need financial help to buy a property to benefit from the scheme.
- 27 The government has indicated that it will wean the property market off the scheme. It will need to ensure that developers continue to build new properties at the rates currently achieved, or better, if it is to meet its challenging ambition of creating 300,000 new homes per year of sufficient quality from the mid-2020s. The scheme may have achieved the short-term benefits it set out to, but its overall value for money will only be known when we can observe its longer-term effects on the property market and the net return, or cost, to the taxpayer when the very substantial portfolio of loans has been repaid.

Recommendations

- 28 The Department's greatest challenge is to wind down the scheme to minimise negative effects on the housing market. It should also seek to maximise, as far as it can, the return on its investment. Our recommendations aim to support the Department to achieve these goals.
- a Housing market conditions have changed since the start of the scheme. The Department should assess the existing scheme against current market conditions and determine whether any changes to how it operates and criteria for eligibility would increase its impact.
- **b** The Department should consider further changes to the new scheme from 2021 to achieve other housing policy goals, for example to enact the government's commitment to addressing the practice of developers selling new houses as leasehold.
- c The Department should plan a further evaluation of the scheme, either soon to inform the new scheme from 2021, or after the end of the current scheme to inform potential new initiatives to support home ownership and housing supply after 2023.
- **d** The Department should support Homes England to take appropriate enforcement action to recover money due from homeowners who have fallen into arrears.
- **e** Homes England should continue to improve its oversight of the Help to Buy agents and its mortgage administrator Target.
- f The Department should review the information given by the Help to Buy agents and developers to potential buyers, to confirm that it fully explains the financial risks of buying a new-build property through the scheme.
- g The Department has not undertaken a detailed assessment of the impact of the scheme on the wider housing market. It should expand the scope of its next evaluation to examine such wider effects, including a potential influence on the new-build premium, and identify lessons learned for any future interventions.