National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Help to Buy: Equity Loan scheme – progress review

HC 2216 SESSION 2017–2019 13 JUNE 2019

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Ministry of Housing, Communities & Local Government

Help to Buy: Equity Loan scheme – progress review

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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This report assesses whether the Help to Buy: Equity Loan scheme has been value for money to date, and whether it is likely to be so in the future.

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Contents

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Key facts

211,000
equity loans made to buyers in England by December 2018

£11.7bn
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.

4 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

13 **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).

The government's investment in the scheme

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).

24 **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.

26 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.

Part One

About the Help to Buy: Equity Loan scheme

Background

1.1 The Ministry of Housing, Communities & Local Government (the Department) aims to support the building of a million new homes in England between April 2015 and December 2020, and thereafter deliver 300,000 new homes per year by the mid-2020s.

1.2 Housebuilding declined sharply after the financial crash in 2008. The number of new homes built in England fell from a peak of 160,000 in 2007 to 65,000 in 2009, before slowly rising again. In response to the financial crash, the regulatory authorities tightened the rules on mortgage lending to curtail mortgages where the loan exceeds 90% of the property value and is greater than three and a half times the borrower's income (two and three-quarter times for joint borrowers). For example, the proportion of 95% mortgages dropped from a peak of around 6% in 2007 to less than 1% in 2009. However, this meant some prospective homeowners were not able to obtain mortgages and buy properties as they needed larger deposits. The government introduced the Help to Buy: Equity Loan scheme (the scheme) in 2013 to enable more people to obtain mortgages and buy new-build properties, thereby stimulating developers to build more properties to meet the increased demand.

The Help to Buy: Equity Loan scheme

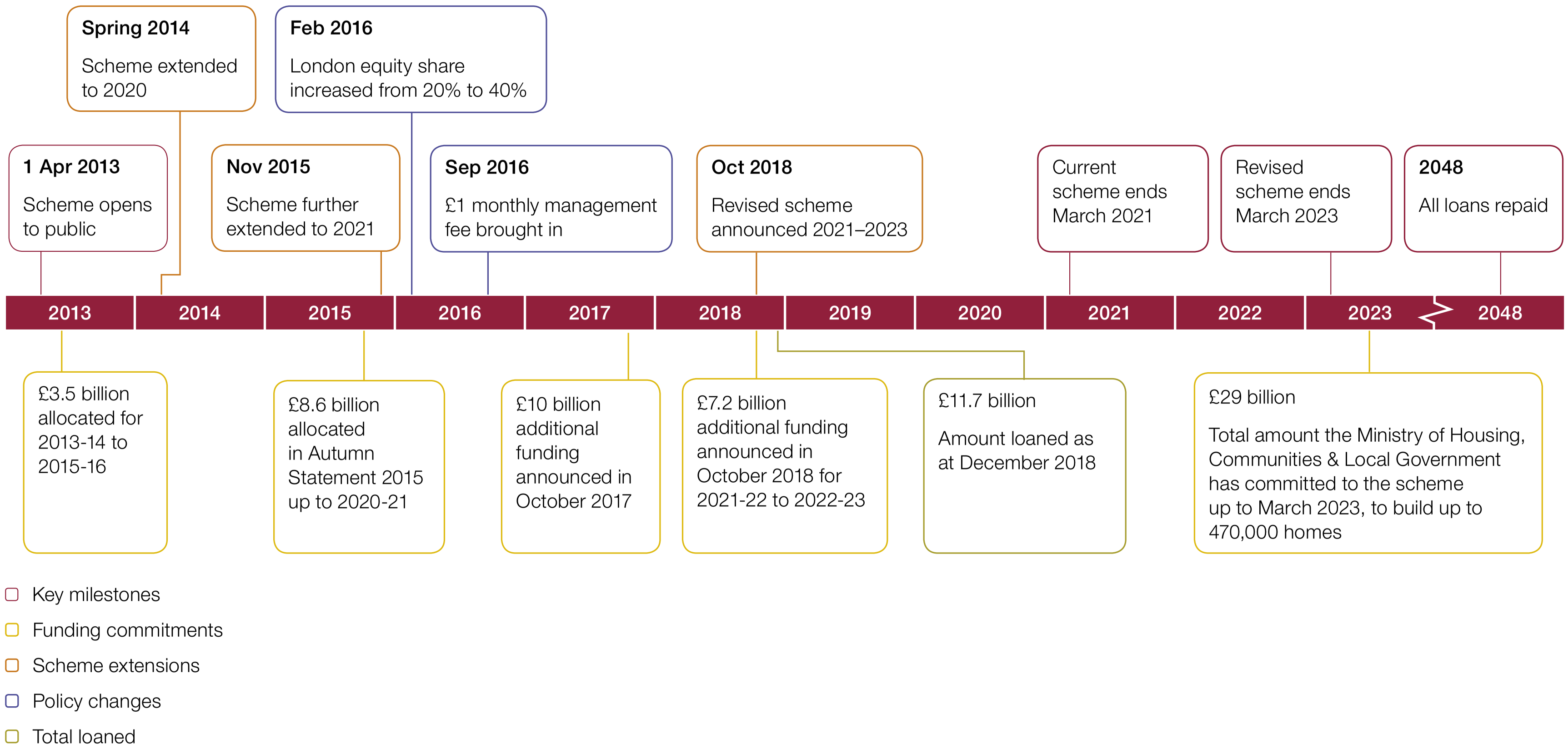
1.3 The scheme is demand-led and does not have targets either for the number of households supported to buy or for the additional number of new homes built. It was introduced in April 2013 with an initial budget of £3.5 billion to March 2016 (**Figure 1**). The Department's objectives for the scheme, as set out in the business case, were to:

- support creditworthy, but deposit-constrained, households to buy a new-build property;
- increase the supply of new housing; and
- contribute to economic growth through the achievement of the first two objectives.

Figure 1

Help to Buy: Equity Loan scheme timeline

The scheme started in April 2013 and by December 2018 Homes England had loaned a total of £11.7 billion, supporting nearly 211,000 participants into homeownership



Source: National Audit Office

1.4 The Department designed the scheme to be straightforward to administer, simple to understand, and easy for applicants to access. For example, the scheme is not means-tested and is open to both first-time buyers and those who have owned a property previously.

1.5 Demand for the scheme greatly exceeded initial expectations. The government met demand by investing more money than originally planned in the scheme. In 2017-18, the Department invested £3.3 billion through the scheme, around 29% of the Department's total annual expenditure.

How the scheme works

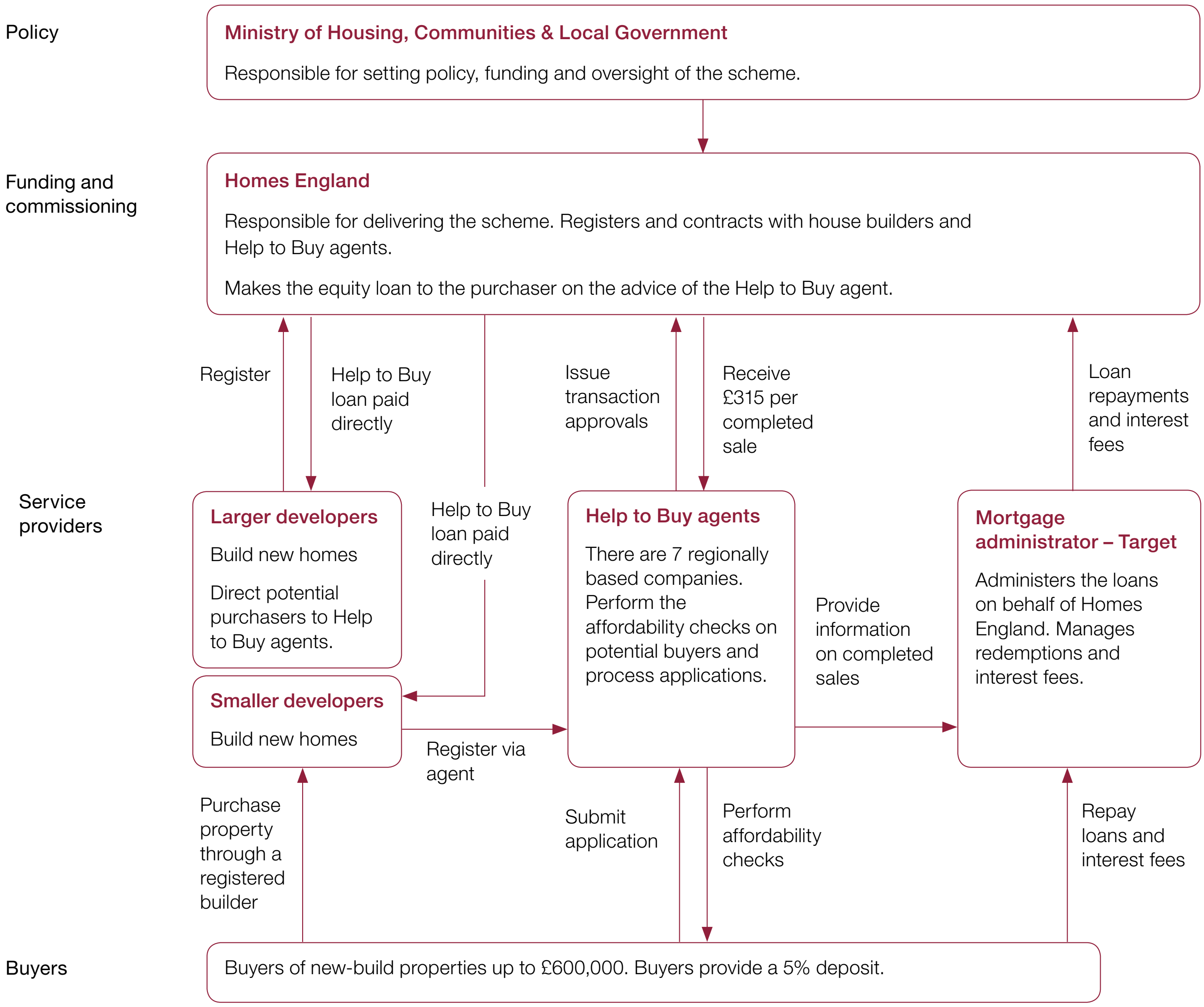
1.6 The scheme is administered by Homes England, an executive non-departmental public body sponsored by the Department, on behalf of the Department (**Figure 2**). The process of buying a new-build property through the scheme differs from a traditional purchase (**Figure 3** on pages 18 and 19). Under the scheme, Homes England offers the buyer of a new-build property, costing up to £600,000, an equity loan of up to 20% (40% in London since February 2016) of the purchase price. The loan supplements the buyer's deposit, which the scheme requires to be at least 5% of the property price. The buyer obtains a repayment mortgage of, typically, 75% of the property's value. Mortgages that are 75% or less of a property's value typically have a lower interest rate and are more affordable.

1.7 The value of the loan changes to remain proportional to the property's value. If the property's value increases, the value of the equity loan will increase in proportion. When the buyer redeems the loan, either when they sell the property, remortgage or choose to repay part or all of the loan, they will pay back more than they borrowed if the property has increased in value. Conversely, if the property value falls, buyers will pay back less than they borrowed. Buyers outside of London may repay either 50% or 100% of the current value of the equity loan at any time after the first year of owning their home. In London, buyers can repay in up to four instalments, each at least 10% of the home's current market value, at any time after the first year. 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 Department expects that most buyers will redeem the equity loan early in the 25-year loan period to reduce the risk that they will pay back significantly more than they borrowed if they keep the loan for longer. If a home is repossessed, the mortgage lender gets their money back first because they are the first charge on the property; the equity loan is the second charge.

Figure 2

Roles and responsibilities for the Help to Buy: Equity Loan

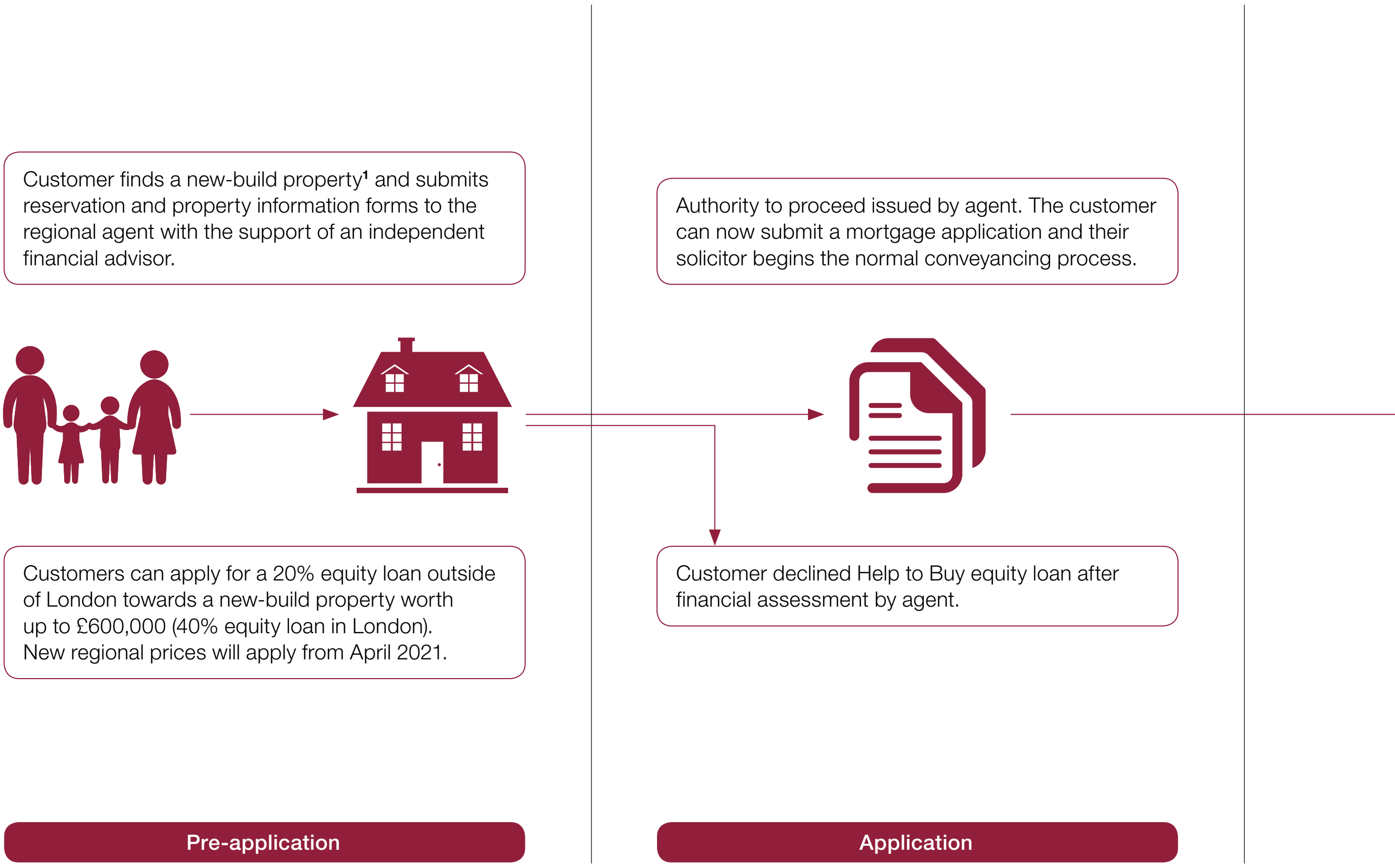
The Department is responsible for the Help to Buy scheme, with Homes England and its agents, developers and buyers playing important roles



Source: Adapted from Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014

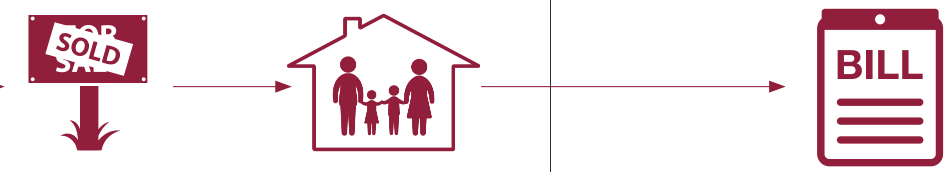
Figure 3
Help to Buy customer experience in England

Prospective homeowners looking to use the equity loan have an additional application stage when purchasing their home



The customer begins paying equity loan interest payments after 5 years, starting at 1.75% of the equity loan and rising annually by Retail Price Index + 1%. Regardless of house price movements, the interest fee repayments remain fixed to the original equity loan price. In addition, the customer pays a £1 monthly management fee from the first month.

These payments do not count towards repaying the equity loan capital.



Buyer provides deposit – at least 5%.

Exchange and complete purchase.

On selling the property, the customer repays the same percentage value of the property as was loaned. Alternatively, they can pay back the loan in full or in two instalments at any time after the first year.[2]

The loan must be repaid in full within 25 years or in line with the buyer's main mortgage if this is extended beyond 25 years.

Purchase

Post-purchase

Notes

1 Customer must not own a property at the point of finalising the equity loan. This is set to change to only first-time buyers in 2021.

2 In London, customers can repay in up to four instalments, each at least 10% of the home's current market value, at any time after the first year.

Source: National Audit Office

1.8 The equity loan is interest-free for five years. From the start of year six, Homes England charges buyers interest, initially at 1.75% of the original equity loan's value. The interest rate rises annually by 1% above the Retail Prices Index, which equates to 1.82% in year seven based on current forecasts.[1] The buyer also pays a management fee of £1 per month from the first year of homeownership. The interest and management fee payments do not count towards repaying the equity loan capital (**Figure 4**).

Figure 4

Illustrative annual interest payments for buyers using the scheme

Buyers using the scheme begin to pay interest after the fifth year of homeownership, starting at a rate of 1.75% in year six and increasing by 1% above the Retail Prices Index each year after that

Property price		Year 6	Year 7	Year 8	Year 9	Year 10
£200,000	England (excluding London)	£700	£728	£756	£788	£820
	London	£1,400	£1,456	£1,512	£1,576	£1,640
£300,000	England (excluding London)	£1,050	£1,092	£1,134	£1,182	£1,230
	London	£2,100	£2,184	£2,268	£2,364	£2,460
£400,000	England (excluding London)	£1,400	£1,456	£1,512	£1,576	£1,640
	London	£2,800	£2,912	£3,024	£3,152	£3,280
£500,000	England (excluding London)	£1,750	£1,820	£1,890	£1,970	£2,050
	London	£3,500	£3,640	£3,780	£3,940	£4,100
£600,000	England (excluding London)	£2,100	£2,184	£2,268	£2,364	£2,460
	London	£4,200	£4,368	£4,536	£4,728	£4,920
	Interest rate	1.75%	1.82%	1.89%	1.97%	2.05%

Notes

1 A long-term Retail Prices Index estimate of 3% is used here.

2 The £1 monthly management fee is excluded from the calculation.

3 The calculation uses an equity loan proportion of 20% for England (excluding London) and 40% for London.

Source: National Audit Office

1 As at April 2019, long-term Retail Prices Index is calculated as 3%.

The future of the scheme

1.9 The Department forecasts that around 352,000 homeowners will have bought with the support of the scheme by March 2021, with a total investment of around £22 billion in cash terms. In October 2018, the government announced that a new scheme would run from April 2021 to March 2023. The government will make available an additional £7.2 billion, which it forecasts will support a further 110,000 households. This will take the overall budget for the scheme to around £29 billion in cash terms. The Department forecasts that this will support a total of around 462,000 households by 2023.

1.10 The new scheme will introduce restrictions to eligibility. Whereas former homeowners can participate in the current scheme, only first-time buyers will be able to take part in the new scheme. The Department will introduce regional caps on the maximum property price, set at one and a half times the current average first-time buyer purchase price for that region, with a maximum of £600,000 in London.

1.11 The scheme will end in March 2023 and the Department currently has no plans to replace it. The Department told us that signalling the end of the scheme gives developers enough time to plan for a regime without the scheme, to avoid a sudden drop in new-build sales, and consequent reduction in housebuilding.

Part Two

The impact of the scheme

2.1 This part of the report examines how the Help to Buy: Equity Loan scheme (the scheme) has performed against its objectives, and who has benefited from it. It also looks at the other consequences of the scheme, including for developers, and the potential impact of the scheme on new-build house prices.

Progress of the scheme

2.2 When it set up the scheme, the Department for Communities and Local Government (now the Ministry of Housing, Communities & Local Government) (the Department) anticipated that it would support 74,000 property purchases across the three years 2013-14 to 2015-16, at an investment of £3.5 billion. The Department initially expected that between 25% and 50% of sales would result in new homes being built. From the outset, the scheme was more popular with potential buyers than anticipated, supporting 81,000 property purchases over the first three years. The Department increased its investment in the scheme to meet demand. Based on recent performance, it now expects the current scheme to support around 352,000 buyers by March 2021 and to have invested just over £22 billion in cash terms.

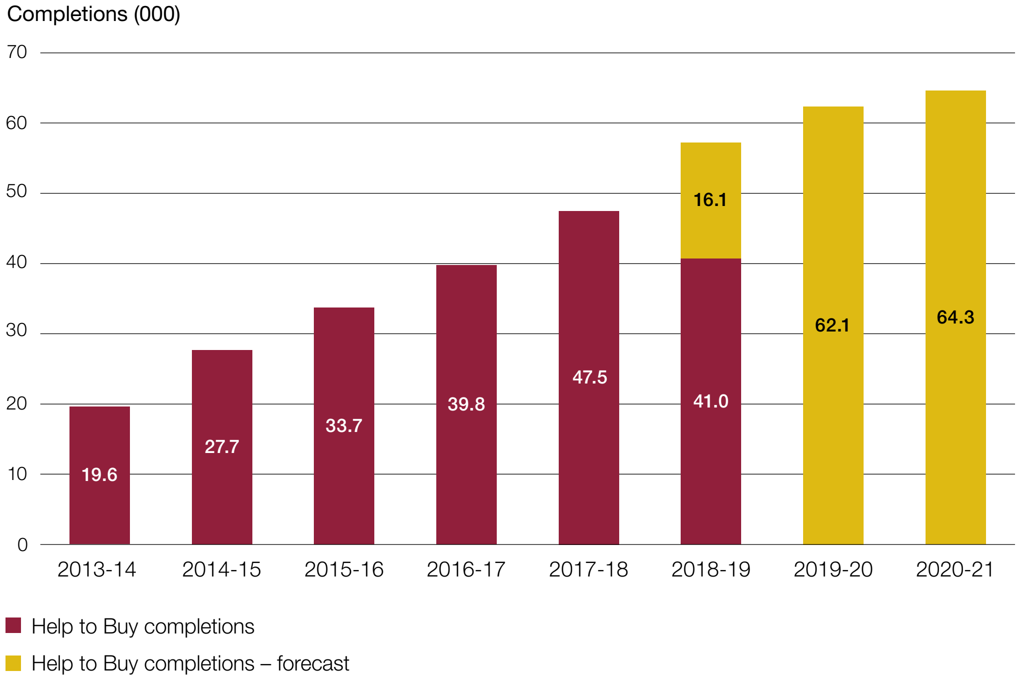
2.3 As at December 2018, the scheme had supported around 211,000 property purchases through loans totalling £11.7 billion (**Figure 5**). Outside London, participants have typically bought properties with three or more bedrooms, and 11% of all sales supported by the scheme have been flats. In London, participants have typically bought properties with two beds, and 84% of sales have been flats. Almost all participants outside London have taken out the full equity loan share of 20%, which has averaged nearly £55,000 since the scheme started.[2] In 2018, over three-quarters of participants in London took out the full equity loan share of 40%. Most properties (57%) have been sold at £250,000 or under, although this proportion varies by region with the overall profile and mix of transactions.

2 £55,000 includes properties in London. Excluding London, the average equity loan nationally was around £48,500 as at December 2018.

Figure 5

Total and forecast Help to Buy sales in England, 2013-14 to 2020-21

The scheme has been used to support nearly 211,000 sales. Homes England forecasts that around 352,000 sales will have been made with support from the scheme by April 2021



Notes

1 Based on Homes England's forecast as at December 2018.

2 Completion figures may not sum to exactly 211,000 due to time lags in updating forecasts for actual sales.

Source: National Audit Office analysis of data from Homes England

Achievement against the scheme's aims

2.4 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. The scheme has no targets. The Department has commissioned two independent evaluations to assess the additionality of the scheme: that is, the number of new-build sales and the number of new properties built that would not have been built if the scheme did not exist. The first evaluation, published in February 2016, examined the scheme's performance to January 2015 and concluded that:

- 43% of buyers would not have been able to afford the same or similar property in the new-build or existing markets without the scheme's assistance; and
- assuming these purchases are of properties that would not otherwise have been built, the scheme resulted in 14% more new-build properties being built.

2.5 The second evaluation, published in October 2018, examined the additionality of the scheme between June 2015 and March 2017. It drew on a broader evidence base, including a larger sample of buyers and a greater number of developers, compared with the first evaluation. It concluded that:

- 37% of buyers could not have bought a property without the scheme, which we estimate to be around 78,000 additional sales. This is the proportion of homeowners who could not have bought without the scheme as a proportion of total Help to Buy sales as at December 2018;
- the scheme had resulted in 14.5% more new properties being built;[3] and
- the scheme had enabled 79% of buyers to buy a property sooner than they would otherwise have been able.

The buyers' responses reflect their recollection of the situation at the time they bought. They do not account for the possibility of the buyers' circumstances changing to enable them to buy a similar property in the future.

2.6 Evaluating the impact of the scheme is difficult because there is not a group of potential buyers for whom the scheme was not available, against whom the impact of the scheme can be compared. We therefore examined the methods used to gather evidence to evaluate the additionality of the scheme. We found that the methodology of the evaluations, which were undertaken by experts in the fields of housing and evaluation, was reasonable given the nature and design of the scheme, and the inherent limitations of relying on responses in surveys to estimate additional house building. To assess the number of buyers who could not have bought without the support of the scheme, the second evaluation surveyed a sample of 1,500 households that bought a property through the scheme, using a series of questions. The evaluations assessed the impact of the scheme and did not look at those people who did not go ahead or were rejected from the scheme. Stakeholders from the housing sector stated to us in interviews that they regarded the evaluations as comprehensive and robust, and the calculation of additionality was reasonable.

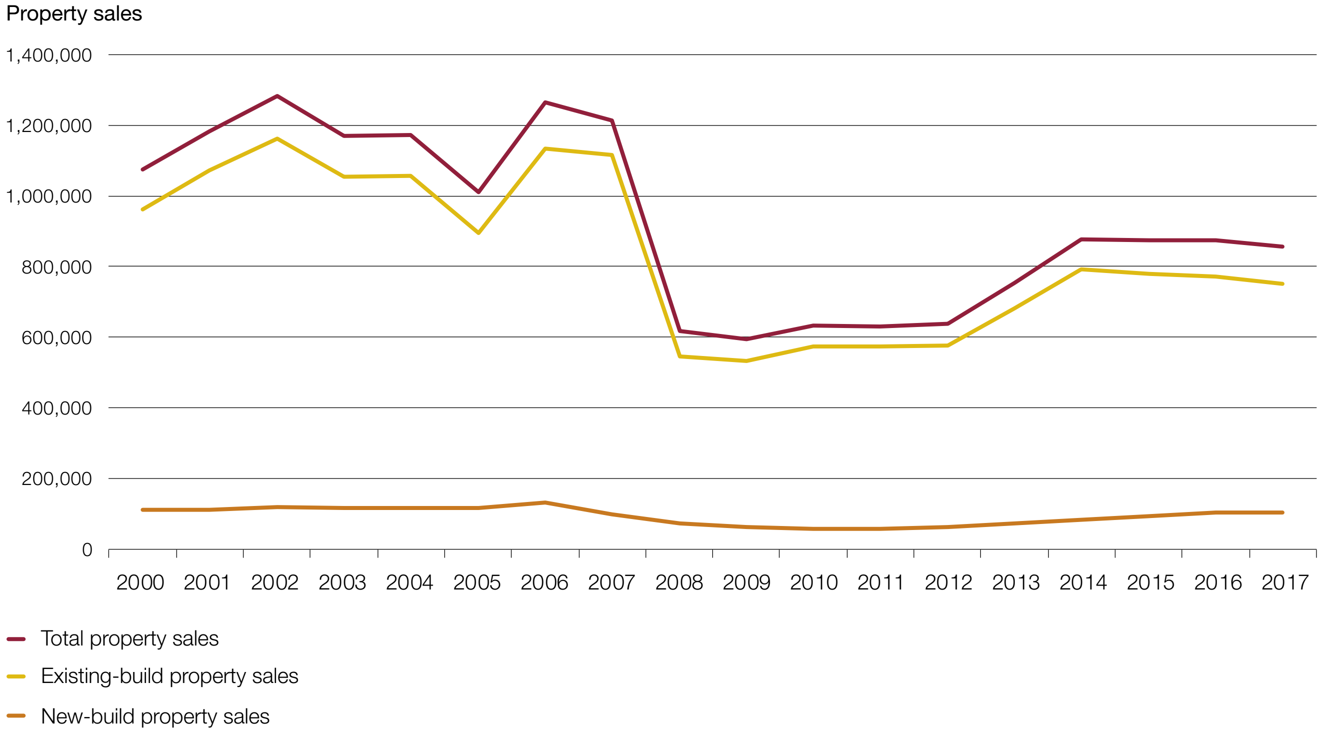
3 The second evaluation calculated additionality differently to the first evaluation, including a further sub-question to assess participants' ability to buy a smaller property than the one they bought.

2.7 Since the scheme started, new-build sales have increased from 61,357 in 2012-13 to 104,245 in 2017-18. Over the period April 2013 to September 2018, 38% of new-build purchases have been supported by the scheme, equating to around 4% of all housing purchases. New-build sales as a proportion of total property sales has increased from around 9% in 2014, the first full year of the scheme, to more than 12% in 2017. Total property sales have levelled off during this time, following a sharp increase in 2013 (**Figure 6**).[4] Bodies representing developers and lenders told us the scheme had helped increase public confidence in housebuilding and house buying generally, and that the scheme had raised the profile of new-build properties with those looking to buy. Homes England told us the scheme has given local authorities greater confidence that planning consents they grant will be built out by developers, although we have not been able to assess this effect.

Figure 6

New-build and existing-build property sales in England, 2000 to 2017

The proportion of new-build property sales has increased since the scheme began in 2013



Note

1 Data accessed in April 2019. Office for National Statistics data for new-build sales and existing-build property sales originate from the Land Registry which is subject to long delays.

Source: National Audit Office analysis of Office for National Statistics data on new-build sales and existing dwelling sales

4 These data are based on Land Registry transactions and underestimate the actual number of new-build sales because Land Registry data do not identify new-build sales within developments of five or less properties. Land Registry data uploads are also subject to long delays. At April 2019, Land Registry data indicated that new-build sales represented 12.5% of total sales over 2018.

Impact of the scheme

2.8 At local authority level, areas where housing is less affordable have experienced lower proportions of sales supported by the scheme (**Figure 7** and **Figure 8** on page 28).[5] Local authorities of lower affordability generally have higher proportions of properties for sale at prices above the maximum of £600,000 allowed by the scheme. In 2017, 68% of properties in London sold for £600,000 or less, compared with 97% for the rest of England. The Department set a relatively high cap on property prices at £600,000 so that almost all new-build properties would be eligible for the scheme. Across England, in 2013, over 96% of all new-build properties sold for £600,000 or less.

Regional variation in sales supported by the scheme

2.9 London has experienced the lowest take up of the scheme. Following the increase in the maximum loan allowed in London in February 2016, from 20% to 40% of the sale price, the proportion of new-build homes sold with the support of the scheme increased, from around 12% to 26%. However, the proportion of homes bought through the scheme in London is still lower than in the rest of England. Between the start of the scheme and December 2015, excluding London, the take up of the scheme was 34%, and ranged from 29% of new-build sales in south-east England to 42% in north-east England. Between January 2016 and September 2018, this increased to 46%, and ranged from 42% in south-west England to 51% in the East Midlands.[6] Potential homeowners in London face generally higher sale prices than the rest of England. The average price in London in 2018 was over £450,000, 66% more than the average purchase price across the rest of England (around £272,000). This price equates to an equity loan of over £180,000 should the buyer take out the full 40%. After five years, a typical London buyer will pay nearly £3,000 in interest annually, compared with under £1,000 outside London.

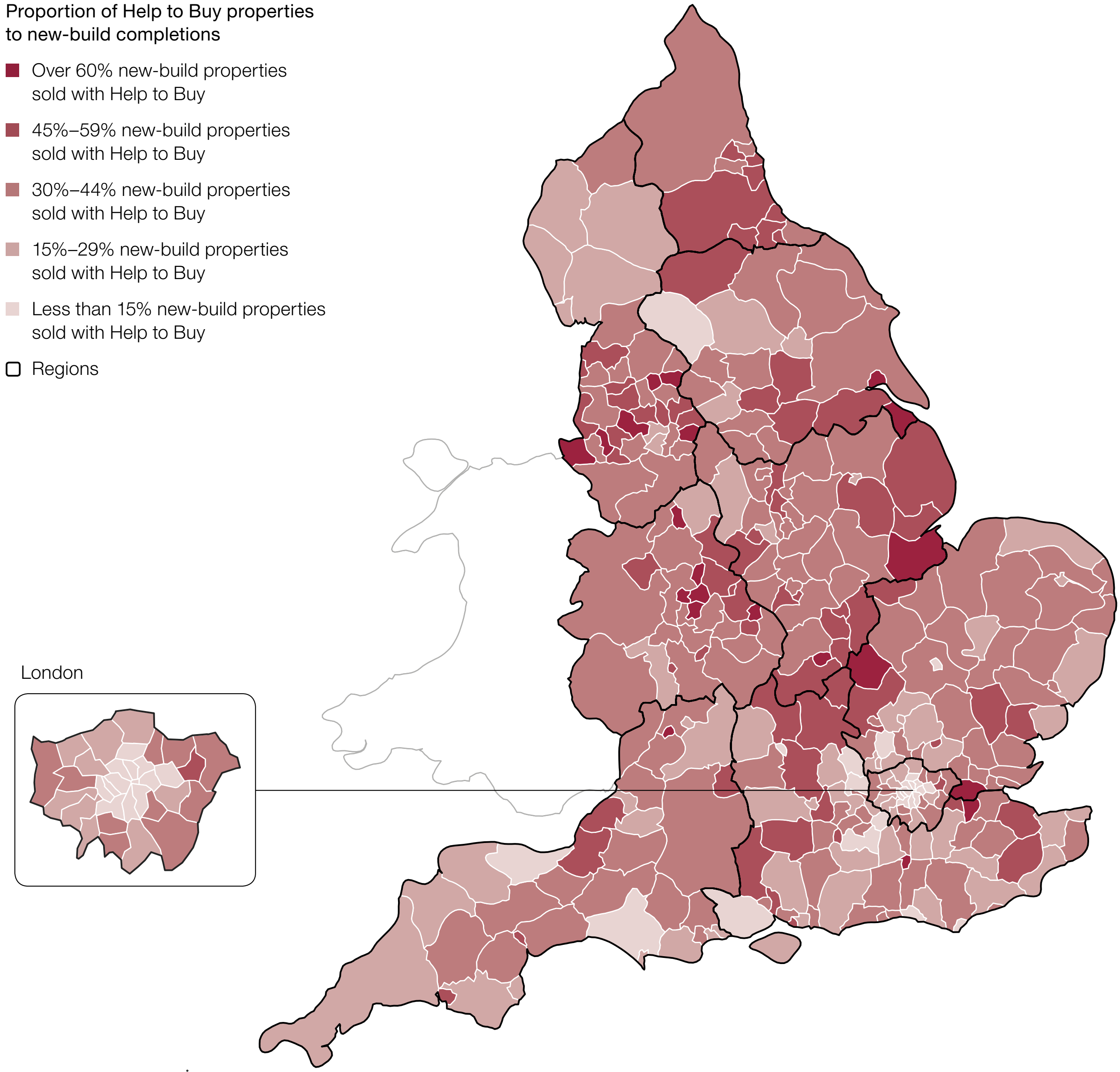
5 Less affordable areas as defined by the Office for National Statistics, where the ratio of median house price to median earnings is higher.

6 Proportion of new-builds sold with the scheme based on data as at September 2018.

Figure 7

Help to Buy sales as a proportion of total new-build sales, April 2013 to September 2018

There is wide variation in the take up of Help to Buy as a proportion of all new-build sales across England



Notes

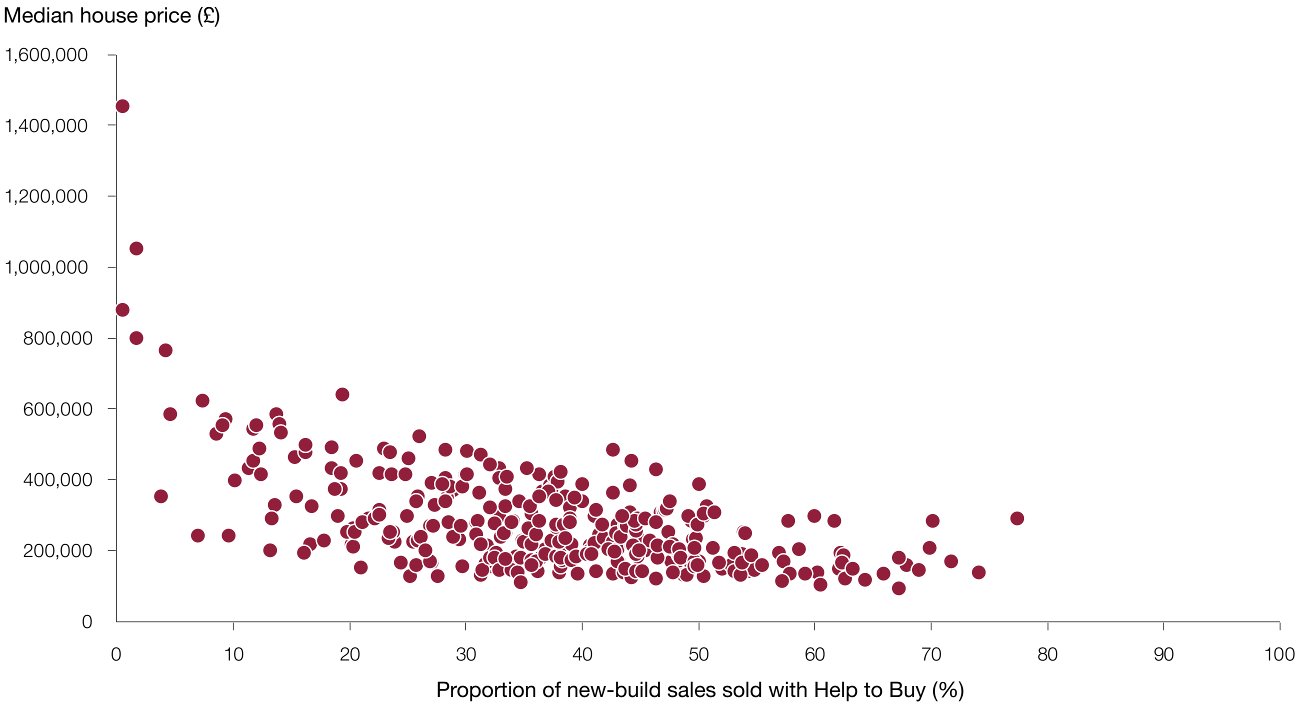
1. New-build sales data between April 2013 and March 2018 taken from Office for National Statistics (ONS) new-build sales dataset. New-build sales data between April 2018 and September 2018 taken from Land Registry price-paid data. This is to account for the ONS new-build sales dataset which is reported as rolling year.
2. Land Registry data accessed in April 2019.
3. All new-build properties are included in this analysis. Removal of non-qualifying property, ie property valued over £600,000, would increase the Help to Buy proportion, particularly in London.
4. Isles of Scilly excluded as no properties have been sold there using the scheme.

Source: National Audit Office analysis of data from Homes England, Land Registry price-paid data, and Office for National Statistics data on new-build sales

Figure 8

Median property prices and proportion of Help to Buy sales for local authorities in England, 2013 to 2018

Local authorities with more expensive properties have generally experienced a lower proportion of Help to Buy sales



Notes

1 Sales data as at September 2018.

2 Isles of Scilly excluded as no properties have been sold there using the scheme.

Source: National Audit Office analysis of data from Homes England, Office for National Statistics on affordability, and Ministry of Housing, Communities & Local Government data on new-build sales

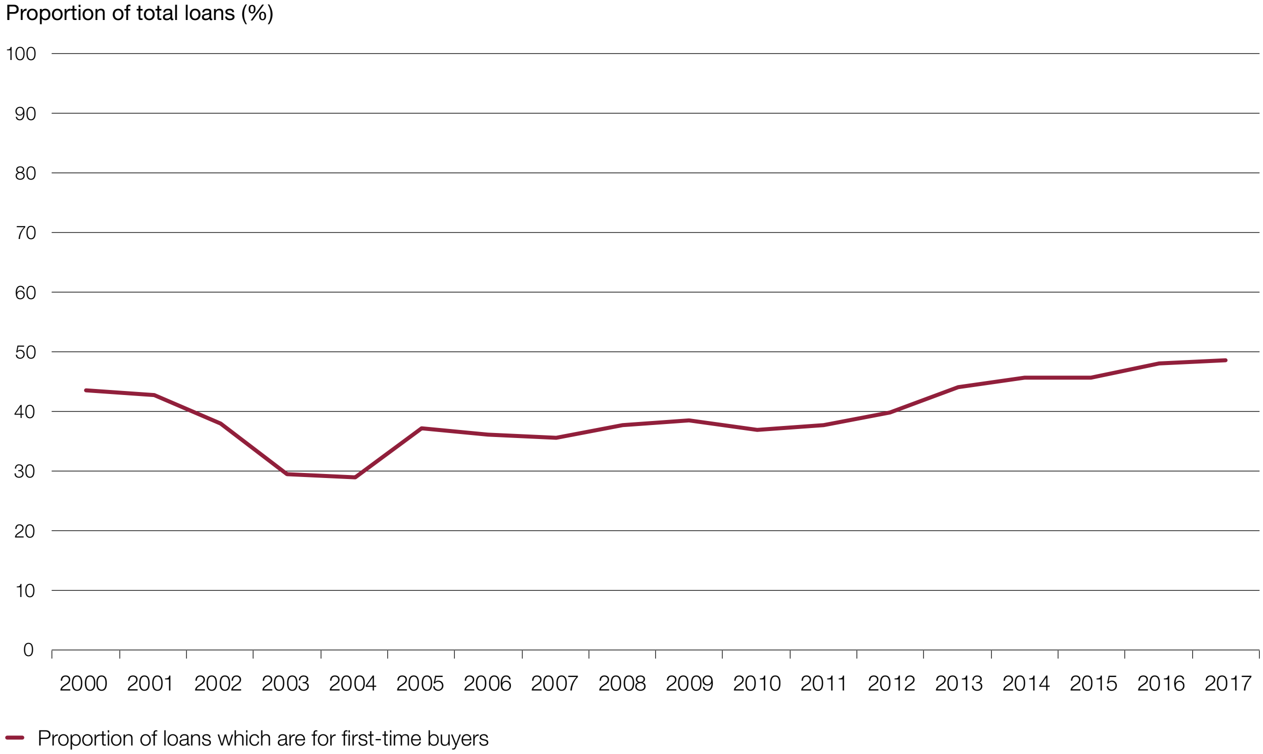
First-time buyers

2.10 As at December 2018, 81% of all buyers supported by the scheme have been first-time buyers. First-time buyers using the scheme have larger household incomes than the typical first-time buyer in each region and nationally (median income of £48,000 in England in 2017 for those using the scheme, compared with £42,400 for all first-time buyers).[7] Some 61% of first-time buyers using the scheme bought with a 5% deposit. The proportion of first-time buyers across the whole housing market has increased from a low of under 30% in 2003 and 2004, to make up nearly half of the total market in 2017 (**Figure 9**).

Figure 9

First-time buyer loans in England, 2000 to 2017

First-time buyers now make up nearly half of all mortgage loans



Source: National Audit Office analysis of data from UK Finance

7 This is a comparison between Help to Buy data and UK Finance data on lending to first-time buyers. UK Finance data do not exclude those first-time buyers purchasing an existing-build property.

Diversity

2.11 Although not an objective of the scheme, it has been taken up by a higher proportion of black, Asian and minority ethnic (BAME) buyers compared with first-time buyers generally. The Department's second evaluation found that a quarter of first-time buyers who have bought with the support of the scheme are from BAME backgrounds. This is compared with less than a fifth (15%) of all first-time buyers from BAME backgrounds nationally. The evaluation also found that 63% of first-time buyers using the scheme were aged 34 and under.

Other consequences of the scheme

Scheme participants

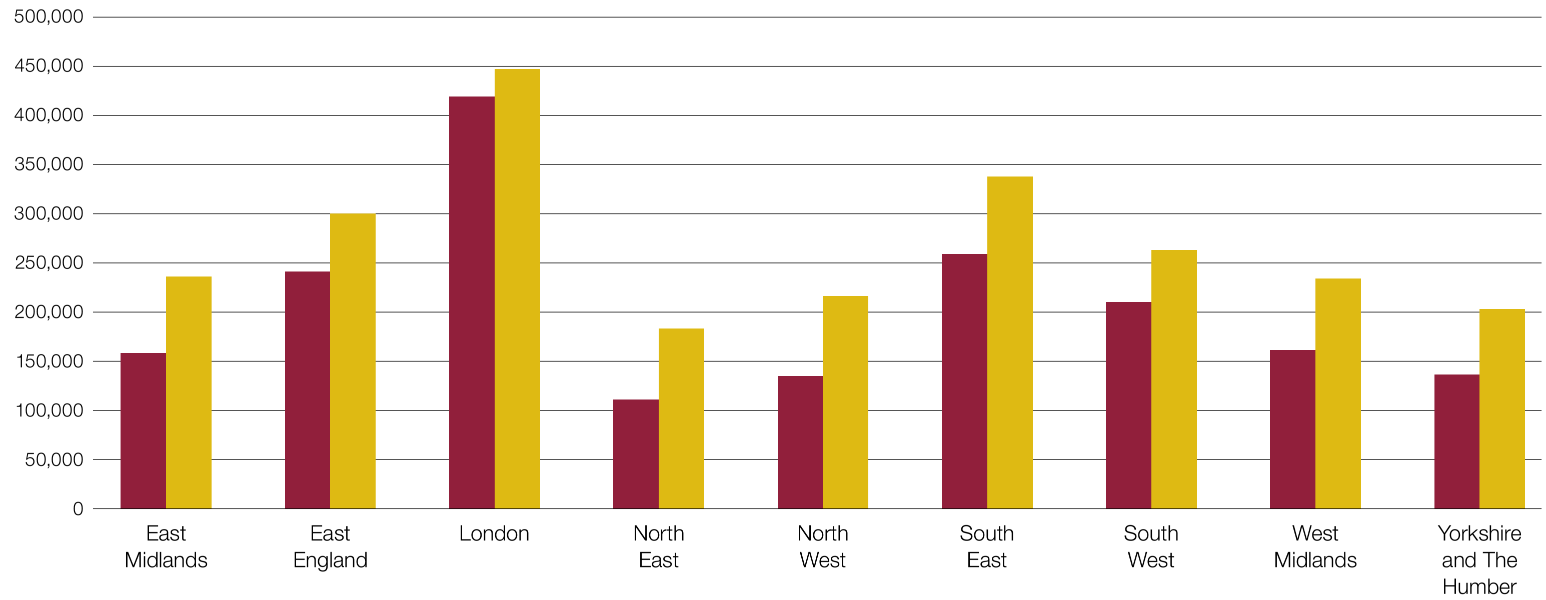
2.12 As at December 2018, 19% of buyers were people who had previously owned a property, equating to nearly 40,000 households. Of these former homeowners, 39% have bought with a deposit of more than 10% of the property value, compared with 17% of first-time buyers. On average, former homeowners have larger households than first-time buyers, have larger household incomes and purchase more expensive properties with more bedrooms through the scheme with a larger deposit. The second scheme evaluation found that 31% of homeowners could have bought a property they wanted without the support of the scheme.

2.13 Scheme participants have generally bought more expensive properties than the typical first-time buyer, using the equity loan to support the purchase (**Figure 10**). This difference is greater in regions of greater affordability. 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. The Home Builders Federation told us that developers have responded by building more properties of all types. Properties built with three or more bedrooms have become an increasingly common feature of the market (**Figure 11** on page 32).

Figure 10

Average price paid for a new-build property by first-time buyers with and without support from the Help to Buy: Equity Loan scheme in England, 2018

Scheme participants are buying more expensive properties, on average, than those not using the scheme



	East Midlands	East England	London	North East	North West	South East	South West	West Midlands	Yorkshire and The Humber
Average price paid by first-time buyers for new-build properties	157,558	241,584	419,980	109,644	133,959	259,036	208,751	160,086	135,963
Average price paid by first-time buyers for new-build properties using the Help to Buy scheme	235,470	299,682	449,443	182,445	215,351	338,395	263,301	233,135	201,971

Note

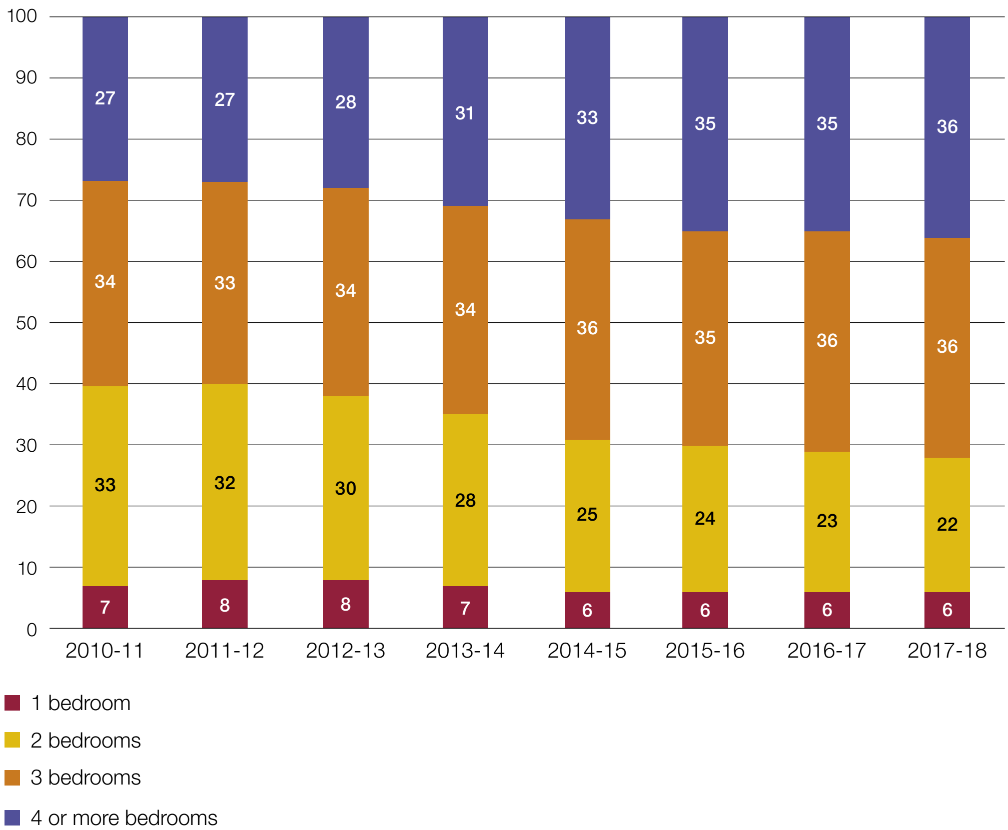
1 Ministry of Housing, Communities & Local Government data for all first-time buyers are taken as an annual average of each month's average purchase price.

Source: National Audit Office analysis of Help to Buy data from Homes England and the Ministry of Housing, Communities & Local Government data on first-time buyers

Figure 11

Number of bedrooms in new-build properties in England, 2010-11 to 2017-18

Properties with three or more bedrooms make up a greater proportion of the new-build market year on year since 2011-12



Note

1 Figures may not sum due to rounding.

Source: National Audit Office analysis of the Ministry of Housing, Communities & Local Government's data on house building: new dwellings

2.14 The Department is aware that some scheme participants have not needed an equity loan to buy their property. It accepts that this is a consequence of the scheme being demand-led and with no restrictions on eligibility based on household income. As at December 2018, a total of 4% of the 211,000 scheme participants had household incomes over £100,000, a proportion that has increased each year from 3% in 2013 to 5% in 2018. In 2018, around 2% of scheme participants had incomes in the upper tenth percentile of household incomes nationally.[8] Ten per cent of scheme participants had household incomes over £80,000 (or over £90,000 in London), the income threshold set for another of the Department's schemes to support Home Ownership.[9] The Department told us that allowing unrestricted access to the scheme has made it simple to administer and has maximised the number of participants, thereby adding to the increased confidence the scheme has instilled throughout the housing market.

New-build premium

2.15 New-build properties typically sell at a higher price than existing properties with similar characteristics, reflecting the fact that they have yet to be lived in. This 'new-build premium' has typically averaged around 20% over time. It dropped to around 15% after the financial crash of 2008, began to rise again from 2010 and has since risen to around 20%.[10] The scale of the new-build premium varies for property type and regionally, for example in London new-build properties typically sell with only a small, if any, new-build premium. Buyers who want to sell their property soon after they have bought it might find they are in negative equity for a period of time, depending on the scale of the premium at the time of purchase and the subsequent change in house prices locally.

2.16 We did not find a relationship when we compared the size of the new-build premium of similar properties within a postcode district with the proportion of properties bought with the support of the scheme. However, the scheme has contributed to increased sales of new-build properties. Between the beginning of the scheme and December 2018, prices paid for new-build properties increased by 41% in England, compared with a 38% increase for existing properties. The increase in the new-build premium since 2010 is likely a response to changes in wider economic and housing market conditions, which the scheme has contributed to since 2013.

8 Upper tenth percentile household income here classed as Office for National Statistics' estimate of UK all households' gross income in 2017-18, calculated at £124,725.

9 These household incomes are the current (as at April 2019) household income caps for the Department's Shared Ownership scheme.

10 New-build premium calculated as new-build property purchase prices compared with existing builds nationally, using UK House Price Index. This calculation does not control for the mix of property sold.

Help to Buy premium

2.17 Analysis by other commentators has found that buyers of Help to Buy properties pay an additional premium, on top of the new-build premium, quoting figures of between a 5% and 20% premium.[11] These figures originate from four different pieces of research that compare the average price of properties bought with the support of the scheme with those bought without. We found that the research did not directly compare like-for-like properties and therefore the differences found will in part reflect differences in the average size or other characteristics of properties bought with and without the scheme. For this report, we compared prices paid by buyers of similar properties (same type of property, similar size of property by square metre, same postcode, and bought within the same month) and found that the difference between buyers who bought with and without the support of the scheme was less than 1%.

2.18 We have not been able to quantify other potential incentives for buyers of new-build properties, such as a developer supplying white goods or paying solicitors' fees. The scheme restricts incentives to 5% of the purchase price, whereas there are no restrictions on incentives to those buying without the scheme. Scheme participants can also achieve savings elsewhere, for example:

- lower interest rates on lower loan-to-value mortgages;
- savings from rent foregone by buying a property sooner; and
- no interest paid on the equity loan for five years.

Developers' engagement with the scheme

2.19 By December 2018, over 2,000 developers had registered with the scheme. Five developers account for over half of all properties sold with the support of the scheme. More small and medium-sized developers have joined the scheme than joined previous schemes with similar aims. The Department designed Help to Buy so that it was more accessible to smaller developers, as there are no criteria over who can apply for funding, and there is no requirement to compete with other firms to develop sites. The 2017 independent evaluation found that around four-fifths of the developers registered with the scheme had made 10 or fewer transactions. The Department's evaluation also included a survey of small and medium-sized developers, which found that fewer than 20% of the 65 respondents were registered with the scheme. The main reason given for not registering was that they were not planning to build properties that would be eligible for Help to Buy loans. Administrative costs were not cited as a major constraint to joining the scheme. However, a group of small and medium-sized developers told us that there is a large amount of paperwork involved in registering with the scheme, which some found difficult to do because of the amount of time and effort required.

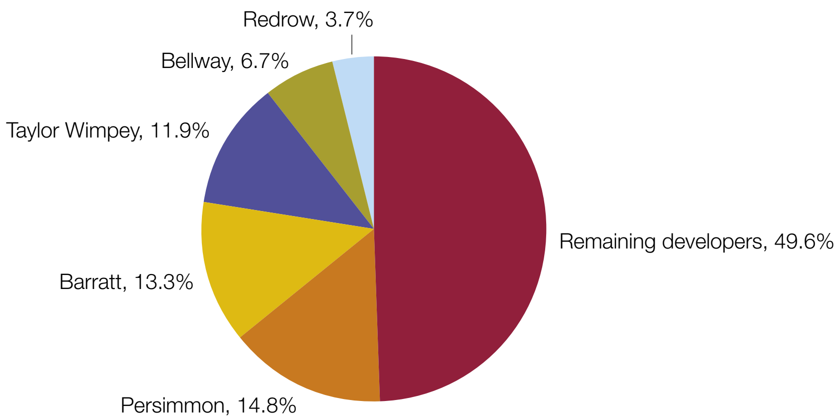
11 Research by property quotes and home-moving company Reallymoving quoted a premium of 12% (www.reallymoving.com/news/april-2019/help-to-buy-premium-12-percent); research by property sales portal Okaylah quoted a premium of more than 20% (www.propertyindustryeye.com/by-a-quarter-if-they-use-help-to-buy); The *Times* quoted a premium of 15% per square metre between comparable properties that are and are not eligible (www.thetimes.co.uk/article/help-to-buy-boom-could-leave-a-generation-in-negative-equity-ddtb68skb); Stockdale research in 2017, stating that there is potentially a premium of up to 5%, is not available online.

2.20 Developers interviewed through the Department's evaluation said that they found the scheme hard to use if they were doing so irregularly. One Help to Buy agent told us that they spend more time supporting smaller developers, for example supporting them to apply to register with the scheme and subsequently processing loans. The Department's evaluation found that larger developers were better equipped to resource the scheme's administration. For example, larger developers can manage their own equity loan payments, whereas smaller developers are more likely to rely on a Help to Buy agent for support.

2.21 Of the six developers in England that build most properties, five sell a greater combined total of properties with the support of the scheme than the remaining developers on the scheme (**Figure 12**). In 2018, these five sold between 36% and 48% of their properties with the support of the scheme.[12] The sixth developer from these top six tends to build high-value properties that sell for more than the upper price limit of the scheme and therefore sells fewer properties with the support of the scheme. The scheme has supported these five to increase the overall number of properties they sell year on year, thereby contributing to the increases in their annual profits and share price (**Figure 13** overleaf), a consequence of the scheme that has been extensively commented upon in the media. Since the start of the scheme, total combined housing completions for these five developers has increased by over a half.

Figure 12
Proportion of Help to Buy sales by developer in England, 2013 to 2018

The top five developers selling properties with the Help to Buy scheme make up just over half of all sales



Note

1 Top five developers as defined by the number of properties sold that used the equity loan scheme.

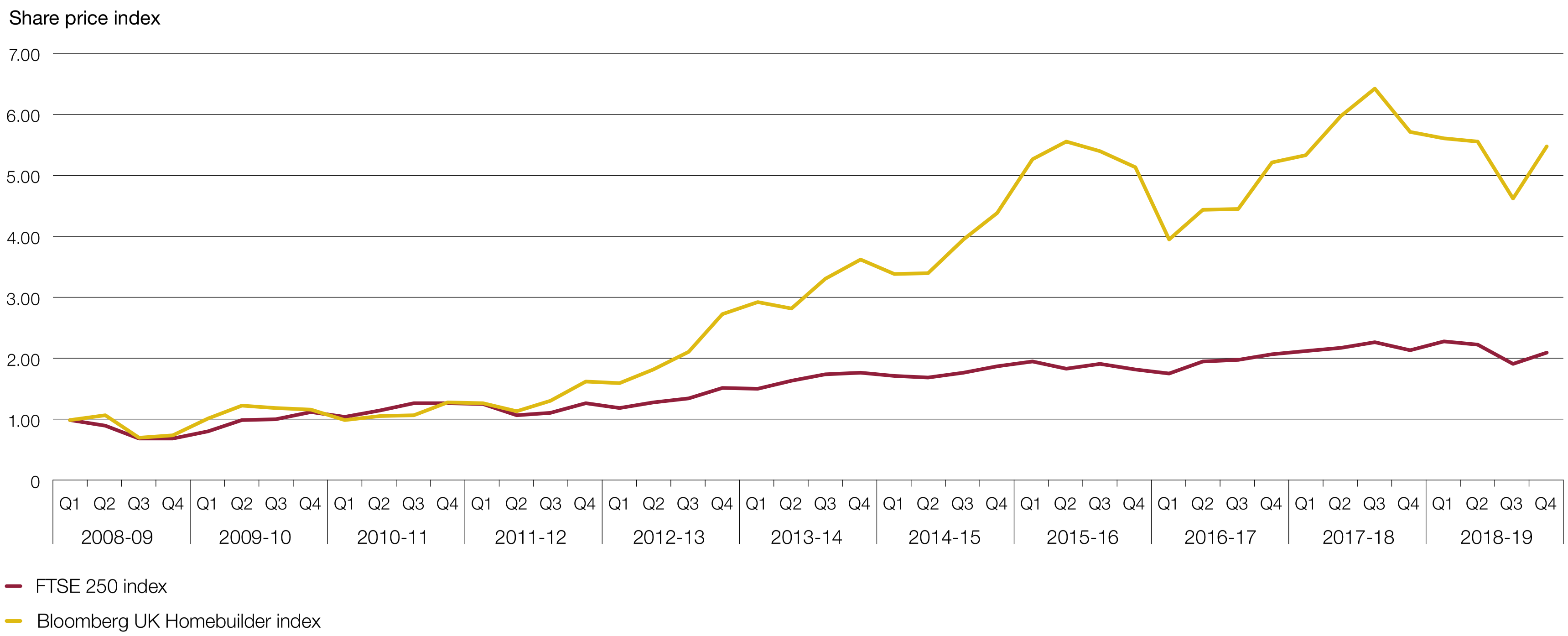
Source: National Audit Office analysis of data from Homes England

12 Data as declared by developers in their annual reports. These data include all activity, which includes activity in both Wales and Scotland for most of the top five developers.

Figure 13

Homebuilder share prices since 2008-09

Homebuilders using the scheme have seen their share value continue to increase since the beginning of the scheme in April 2013



Notes

1 Share prices are taken as the closing prices for each quarter, indexed to April 2008.

2 Bloomberg UK Homebuilder index accounts for 13 developers, including the top-five Help to Buy developers as defined by the number of properties sold that have used the equity loan scheme. These 13 developers account for around 60% of all Help to Buy sales as at December 2018.

3 We have not identified the causes of the increase in profit for these companies. They result from a wide range of factors and identifying specific causation would require access to underlying company financial records.

4 Over the same period, total combined housing completions for the top-five developers increased by over a half.

Source: National Audit Office analysis of Bloomberg data

Part Three

Managing the Department's investment

3.1 This part of the report examines the Ministry of Housing, Communities & Local Government's (the Department's) overall investment in the scheme, and whether it is likely to recover the money loaned. It also looks at how borrowers are repaying their loans and, for those who took out the first loans in 2013-14, the interest that is now due.

Total investment in the scheme

Value of the investment

3.2 The Department expects to have loaned around £22 billion in cash terms by the time the current scheme comes to an end in March 2021 (**Figure 14** overleaf). The total amount loaned, including in the new scheme from April 2021, is forecast to reach around £29 billion in cash terms by March 2023. This investment is the gross figure, as people will pay back their loans, reducing the net amount of the investment over time.

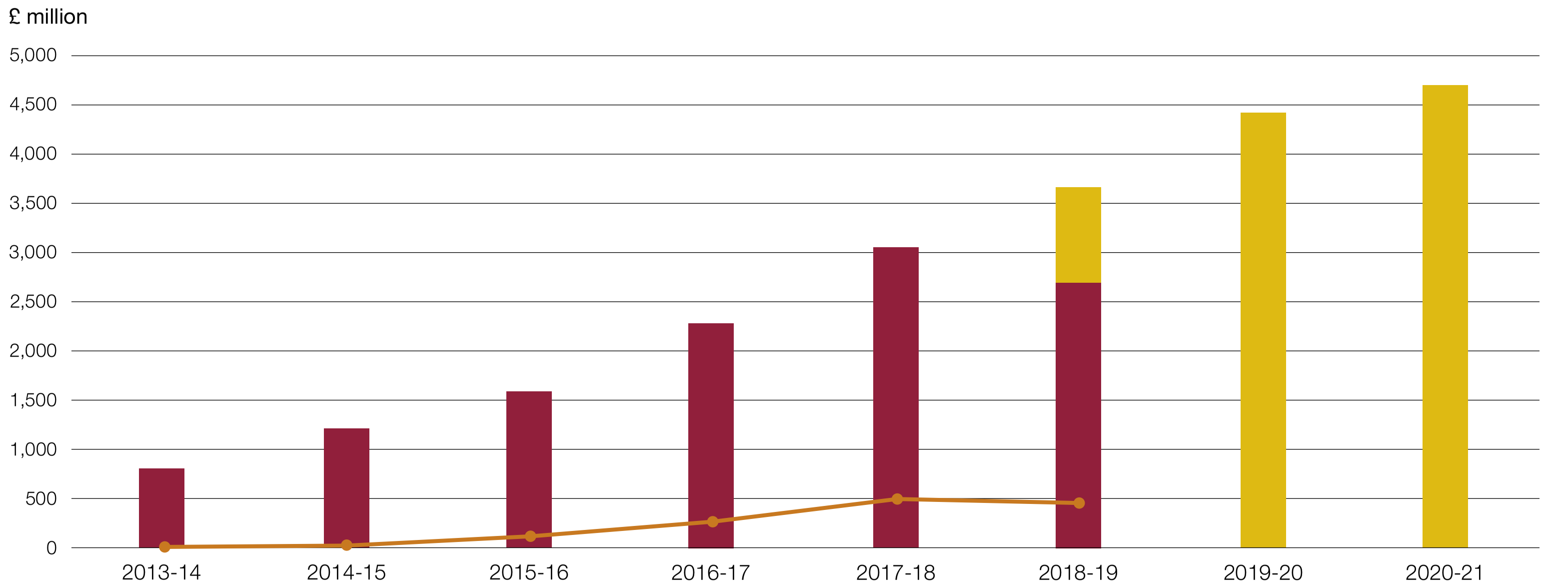
3.3 The loan book, comprising the total portfolio of individual loans, is a significant asset on Homes England's balance sheet. As at 31 March 2018, the value of the loan book was £8.3 billion (72% of Homes England's total assets of £11.6 billion). Its value on a specific date is based on the amount Homes England would have received had all homeowners redeemed their loans on that date. Loan values are estimated using regional house price indices. Our review of Homes England's model for valuing its home equity investments found it to be appropriate and the assumptions within it reasonable.[13] The valuation is sensitive to assumptions, which interact in complex ways, including rates of additions and disposals, levels of arrears and the split between part and full repayments for those redeeming their loans. For example, a 15% fall in house prices might lead to both a 10% increase in redemptions (relative to sales) and a 7.5% increase in accounts in arrears.

3.4 The scheme is a long-term investment and therefore exposed to market risks over which the Department and Homes England have limited influence; Homes England's annual accounts state that "a downturn in house price or other economic conditions could place the balance sheet under considerable pressure".[14] Homes England is the second-charge lender and is therefore exposed to greater risk should house prices fall. Should a borrower encounter financial difficulty and their property is repossessed, the mortgage lender, as the first-charge lender, gets the first cut of the sale proceeds. By December 2018, there had been 16 repossessions in total.

13 National Audit Office Audit Completion Report on Homes England's financial statement 2017-18.
14 Homes and Communities Agency, *Annual Report and Financial Statements 2017-18*, HC 1135, 19 July 2019, page 27.

Figure 14
Total and forecast Help to Buy: Equity Loan expenditure in England, 2013-14 to 2020-21

Total equity loan expenditure is £11.7 billion, as at December 2018, of which 11% has been recouped



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total equity loans (£m)	801	1,207	1,585	2,269	3,048	2,708		
Total equity loans – forecast (£m)						932	4,390	4,683
Receipts from full and partial redemptions	0.38	10	102	262	490	453		

Notes

1 Based on Homes England forecast as at December 2018.

2 Total equity loans may not sum to exactly £11.7 billion due to time lags in updating forecasts for actual sales.

3 Full and partial redemptions relate to when a homeowner pays their equity loan back in total or two instalments outside London, and up to four instalments in London, each amounting to 10% of the value of the property.

4 Of the £11.7 billion total expenditure, £1.3 billion (11%) has been recouped, as at December 2018.

Source: National Audit Office analysis of data from Homes England

Opportunity cost

3.5 The scheme has accounted for a significant proportion of the Department's total expenditure, totalling around 29% in 2017-18. Although money is to be recovered over time, a large proportion will be unavailable for other housing schemes or departmental priorities during the scheme and for a period after its end. The Department recognises the opportunity cost of this money being unavailable for other uses for up to three decades. Should current trends of loans and redemptions continue, by the end of the new scheme in March 2023, around £25 billion in cash terms will still be invested in properties bought with the support of the scheme.[15]

Return on investment

3.6 Homes England currently forecasts that total redemptions will equal the amount loaned by 2031-32, and that by the time all loans have been redeemed in 2048 the scheme will have achieved a positive return on investment. The rate of return will depend on:

- the trajectory of house prices over the course of the scheme; and
- the timings of redemptions.

3.7 One Help to Buy agent told us that they are detecting signs of a slowdown in demand for the scheme. We heard that the slowdown may relate to potential buyers' uncertainty over the implications of Brexit for house prices in the long term. The rate of increase in house prices has recently slowed and is forecast to continue on this trend until 2020.

3.8 Homes England has estimated the impact of different housing market scenarios:

a a 20% fall in house prices would result in a reduction in the portfolio value by £3 billion (29% of current estimated value); and

b a 30% fall would result in a £5 billion reduction (47% of current estimated value).

These are falls in portfolio book value which the Department does not consider would turn into overall cash losses.

3.9 Reductions in the value of the portfolio would not materialise immediately after the start of a market downturn, because the total equity has built up over the first six years as house prices have risen. Continued house price rises will reduce the scale of risk to the portfolio should a downturn occur in the future.

15 As these are financial instruments, the budget could only be used for programmes with similar financial instruments. The budget could not be exchanged for housing investments for grants or loans as the fiscal impact would differ.

Redemptions

3.10 Buyers can redeem at any point, when the funds are available to do so. This typically happens when buyers remortgage, or when the property is sold. To December 2018, 11% of the total equity loan value had been redeemed: £1.3 billion of £11.7 billion invested. Nearly 50% of loans made in the first year of the scheme had been redeemed by December 2018. The vast majority of buyers who have redeemed their loans to date have redeemed in full, rather than redeeming part of the loan. Buyers who redeem their loans in full within the first five years avoid paying interest.

3.11 The number of redemptions since the start of the scheme has been higher than initially expected. The number of redemption transactions has exceeded Homes England's expectations every year by between 11% and 35%. In response, in December 2018, Homes England increased its forecast of the rate of redemptions over the period 2018-19 to 2021-22 by around 8%, increasing confidence that the Department will recoup its investment. Homes England re-forecast the overall return on investment based on the higher rate of redemptions, resulting in a small reduction in the estimated return. The Department does not collect detailed information on household finances to assess the ability of buyers to redeem in the future.

Interest fees

3.12 Buyers who bought at the start of the scheme started paying interest from May 2018. By December 2018, 7% of buyers had started paying interest on their loans. Some 5% of buyers who had bought in the first 11 months of the scheme were in arrears in February 2019. Arrears totalled £54,000, around 4% of the £1.5 million due. In almost all cases, buyers have fallen into arrears because arrangements to collect interest were not set up when the loan was issued, and they have not responded to Target (the organisation administering the loans on behalf of Homes England). Homes England attributes this mainly to out-of-date or incomplete contact details held by Target for these buyers.

3.13 In September 2016, Homes England introduced a monthly management fee, to be paid by buyers from the start of the loan. This requires the buyer to set up a direct debit as part of the registration process. After five years, Target starts to recover interest through the direct debit, alleviating the need to contact the buyer at that point to set up a new direct debit.

Scheme administration

3.14 From around May 2018, Target began having problems dealing with the volume and complexity of queries from buyers. Queries mainly related to how the interest is calculated and paid, and how the loan works as an equity share. Target had planned on the basis of Homes England's forecast of 11,250 calls per month in 2017-18, and neither it nor Homes England had anticipated the actual volume, which was 20,000 queries per month in 2018-19 (over 75% higher).[16] Homes England's forecast also assumed that each query would, on average, require Target to engage two to three times with the customer to resolve the query. The queries received were more complex than predicted, requiring more and longer interactions with customers. In response, Target tripled its capacity to 75 staff to respond to queries, and worked with Homes England to improve processes around redemptions and recovering interest. The volume of queries has settled to around 13,000 calls per month, though this is still higher than forecasted. Target is now able to deal with the volume of queries, and the process changes have reduced the volume.

3.15 In February 2019, Homes England's internal auditor raised concerns over the accuracy and completeness of data held by Target, including a lack of checks carried out on the records supporting the data on loan amounts and timings. The report acknowledged that Homes England and Target had been working together to improve processes, but further changes were needed to address the issues identified to improve Target's performance and Homes England's oversight and monitoring of Target. A second report, in March 2019, identified problems with the arrangements at the Help to Buy agents for chasing up outstanding documentation from solicitors, meaning some loan amounts were not supported by a complete set of documentation, and raised concerns about Homes England's limited oversight of information security arrangements at the agents. Homes England has accepted recommendations to strengthen its monitoring and oversight to improve the way it manages its contracts with agents and Target, for example introducing additional data quality checks.

3.16 Homes England told us that aspects of the scheme's administration are hampered by a lack of automation. Much of the administration involves paperwork and human verification, which had led to data-quality issues and inefficiencies. In January 2019, Homes England started a programme to improve administration processes through digitisation. The programme aims to put in place, by April 2020, improved processes that will increase the speed of some aspects of the scheme administration, reduce the risk of data errors, and improve the experience for buyers.

Management of arrears

3.17 Homes England told us that, until recently, the processes for recovering outstanding debts were ineffective – for example Target did not use enforcement agents or share information with credit reference agencies. This was mitigated by Homes England's ability to collect any outstanding debt when the buyer sells the property. In May 2019, the Department approved a new interest recoupment policy, which addresses these issues, and Homes England and Target are currently implementing new processes. These include the use of credit reference agencies and field agents, who will visit the customer and help develop a payment plan.

16 This refers to the peak volume of queries during summer 2018-19, when the first scheme participants began to pay interest on their equity loan. The number of queries through email and letter were also higher than forecasted.

Part Four

The future of the scheme

4.1 The current Help to Buy: Equity Loan scheme is due to end in March 2021. In October 2018, the government announced that a new scheme will operate between April 2021 and March 2023. The Department is not planning to run an equivalent scheme after March 2023. This part of the report looks at the Department's plans for the new scheme, and how it is planning for the end to the scheme in 2023.

Continued need for a scheme

4.2 The government introduced the scheme in 2013 to help deposit-constrained buyers to obtain mortgages. Since the scheme has been in place, mortgage availability has improved and buyers now have more opportunity to access higher loan-to-value mortgages, including 95% mortgages. Between 2017 and 2018, the number of 95% mortgages offered by lenders increased by 45%, and there are now 224 different products available, compared with 155 in 2017.[17]

4.3 Despite the improved availability of mortgages, 95% loan-to-value mortgages remain restricted, are less readily available on new-build property and are not usually available at interest rates as favourable as lower loan-to-value mortgages. Current regulations stipulate that individual lenders can only offer 15% of their mortgages at income multiples of 4.5 or greater. House prices are currently high compared to incomes (**Figure 15**), meaning that many buyers do not earn enough to be eligible for these products. Affordability is an issue for first-time buyers in particular.[18] Developer confidence has improved, but recent uncertainty in the property market could impact it. For these reasons, the Department considers that there is still a need for a Help to Buy scheme up to, and beyond, the current planned end date of March 2021.

4.4 The scheme has been extended beyond the original planned timescale, but the Department does not intend it to be permanent. The Department understands that developers plan their future activity three years in advance. It announced in October 2018 that the scheme would not continue beyond March 2023, giving developers and lenders four and a half years to plan their exit.

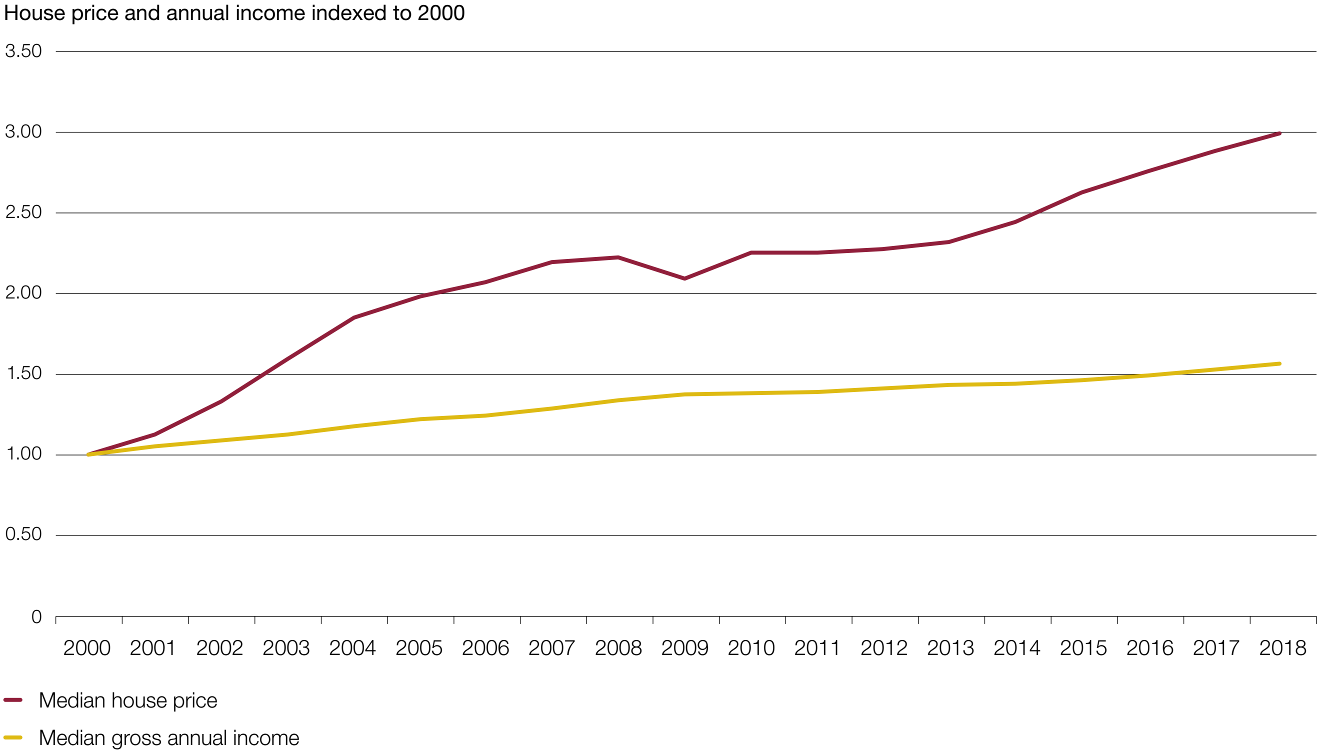
17 Available at: www.which.co.uk/news/2018/11/exclusive-first-time-buyers-offered-cheaper-mortgage-rates-despite-two-base-rate-hikes/

18 Comptroller and Auditor General, *Housing in England Overview*, Session 2016-17, HC 917, National Audit Office, January 2017.

Figure 15

Annual household income and property prices in England, 2000 to 2018

House prices have risen at a quicker rate than household incomes each year



Note

1 House prices and incomes are indexed to the year 2000.

Source: National Audit Office analysis of Office for National Statistics data set on house price to workplace-based earnings ratio data

New scheme from April 2021 to March 2023

Key changes to the new scheme

4.5 The government has allocated £7.2 billion for the new Help to Buy: Equity Loan scheme to run between April 2021 and March 2023. It is introducing two main changes to the eligibility criteria for the new scheme:

- Only those buying a property for the first time will be eligible to apply for a loan. The Department has not yet clarified its definition of a first-time buyer under the new scheme, nor how it will check eligibility.
- There will be regional caps on the maximum price for a property that can be purchased under the scheme. The upper limit will remain at £600,000 in London, but elsewhere the maximum property price will be capped at one and a half times the average first-time buyer property price for the region (**Figure 16**).

Impact of the changes

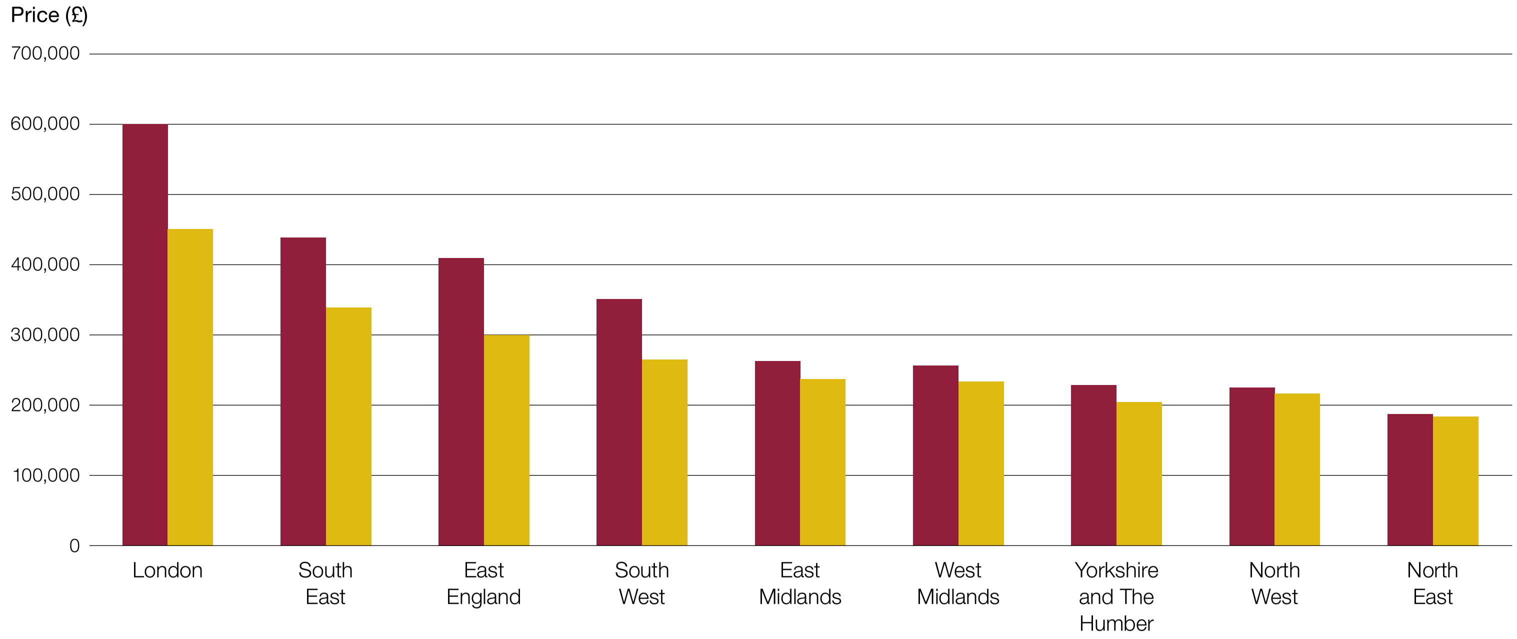
4.6 The Department expects that the changes to the eligibility criteria will improve the scheme's targeting at those first-time buyers in greatest need of support. The Department chose not to introduce an income cap or means-testing for the scheme. The Department expects the regional caps will limit the scheme to those buying cheaper properties, who are likely to be on lower incomes.

4.7 The Department expects that the exclusion of existing homeowners from the new scheme will reduce demand by around 20%. Under the current scheme, over a quarter of sales made in 2018 would not have been eligible for the scheme if the proposed regional price caps had been in place.

Figure 16

Average purchase price for first-time buyers using the scheme in 2018 and price caps for 2021 to 2023

The average prices paid by first-time buyers using the scheme in 2018 were close to the proposed price caps in some regions



	London	South East	East England	South West	East Midlands	West Midlands	Yorkshire and The Humber	North West	North East
Price cap, 2021–2023 (£)	600,000	437,600	407,400	349,000	261,900	255,600	228,100	224,400	186,100
Average first-time buyer price paid, 2018 (£)	449,443	338,395	299,682	263,301	235,470	233,135	201,971	215,351	182,445

Source: National Audit Office analysis of data from Homes England, and Autumn Budget announcement, 2018

The regional caps

4.8 The impact of the cap will be different in each region. For all regions, the proposed cap is currently higher than the average price paid by first-time buyers for a property bought with the scheme's support in 2018. Based on current house price inflation, in nearly a third of local authority areas most properties with three or more bedrooms will be above the cap.[19] Developers may therefore build more smaller properties that can be priced below the cap.

4.9 Representatives of the sector told us of some potential issues with the regional caps:

- House prices, and therefore affordability, vary across regions. Some regions contain local areas where properties are significantly more expensive than the average for the region. By setting the cap at one and a half times the average first-time buyer price, buyers looking for help in local areas where property prices are higher, and where affordability pressures are greatest, may be unable to find a suitable property priced below the cap and therefore will be excluded from the scheme.
- Near the boundaries between regions, different price caps may apply to areas, including towns or cities, in close proximity. Developers may decide to focus building in areas that fall within the region with the higher cap, where they can sell more properties with the support of the scheme. However, these may not be the areas where new housing is most needed.

Designing the new scheme

4.10 The Department is still designing and developing the new scheme and can make further changes to rules and eligibility. The Department could use the new scheme to address concerns it has about other behaviours by developers. For example, the Department recently responded to public concern about developers selling new houses as leasehold and then charging high, and rapidly increasing, ground rent. In October 2018, it launched a consultation on plans to end the practice, which it regards as unjust. In 2017, nearly 17% of detached properties sold with the support of the scheme were sold on leasehold terms. This dropped to 6% in 2018. The Department could prohibit the sale of detached properties as leasehold under the new scheme.

Post-2023

4.11 The Department intends that developers and lenders will have sufficient time to consider alternative ways to maintain demand for new-build housing and to boost supply. This may include developing their own measures to support home ownership, and to help buyers raise deposits and access finance. Housing sector representatives we spoke to suggested that the Department may still need to support the new-build sector if it is to meet its objective of supporting 300,000 new homes per year from the mid 2020s.

19 Average purchase price for a property bought using the equity loan in 2018. Where a local authority did not have a sale for a relevant property in 2018, figures from 2017 were used.

Appendix One

Our audit approach

1 This report assesses whether the Help to Buy: Equity Loan scheme has been value for money to date, and whether it is likely to be so in the future. We examined:

a The impact of the Help to Buy: Equity Loan scheme, and whether it has supported additional demand and supply in the housing market.

b The Ministry of Housing, Communities & Local Government's (the Department's) management of its investment, and whether the scheme is likely to deliver a return for the taxpayer.

c The Department's plans for the future of the scheme.

2 Our audit approach is summarised in **Figure 17** overleaf, and our evidence base is set out in Appendix Two.

Figure 17
Our audit approach

The objective of government

Increase home ownership and housing supply, to deliver the homes the country needs.

How this will be achieved

Through the Help to Buy: Equity Loan scheme. Buyers of new build properties worth up to £600,000 can take out an equity loan of up to 20% of the sale price (40% in London). The loan is interest free for the first five years.

Our evaluative criteria

Impact of the scheme

The Ministry of Housing, Communities & Local Government (the Department) and Homes England can demonstrate that the scheme has achieved the objectives set out in 2013 (supporting home ownership and increasing supply of new homes).

The Department understands who has benefitted from the scheme and other consequences of its investment.

Return on investment

Borrowers are repaying their loans and fees when they are due (including the Department having a complete record of money owed).

The Department has a robust valuation of the Help to Buy: Equity Loan scheme, and a good understanding of the likely return on investment.

The Department and Homes England have a good understanding of the main risks to the investment, and a plan is in place to mitigate them.

Planning for the future of the scheme

The Department has a clear plan for the Help to Buy: Equity Loan scheme beyond the current end date of March 2021, based on robust evaluation of the effectiveness of the scheme to date.

The Department has a clear plan for how to end the scheme without disruption to the housing market.

Our evidence

(see Appendix Two for details)

As part of our fieldwork we:

- analysed data from Homes England and from the Department;
- interviewed central government representatives and other key stakeholders; and
- analysed key central government documents including the two independent evaluations of the Help to Buy: Equity Loan scheme.

Our conclusions

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.

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.

Appendix Two

Our evidence base

1 We completed our review of the Help to Buy: Equity Loan scheme following our analysis of the evidence we collected between November 2018 and April 2019. Our audit approach is outlined in Appendix One.

2 **We reviewed and carried out extensive analysis related to the Help to Buy: Equity Loan scheme and housing in general.** This analysis looked at house building and sales, profile of buyers, and the loan book and repayments. The primary sources of these data were from Homes England and the Ministry of Housing, Communities & Local Government (the Department). We also analysed housing data from wider stakeholders, which included UK Finance mortgage data, Land Registry, and housing developers' annual reports. Where Land Registry data are used, a six-month gap is applied to account for the delay to this dataset, particularly with new-build sales.

3 **We carried out regression analysis to assess unintended consequences of the scheme.** The analysis looked at the suggestion that properties sold with the scheme command a premium, and the suggestion that the scheme has an effect on new-build prices (see Appendix Three). These data were sourced from Land Registry, Energy Certification, and Homes England Help to Buy transactions.

4 **We conducted semi-structured interviews with central government representatives from the Department and Homes England.** This was to help us to understand the processes, unintended consequences, and how the scheme is managed and monitored.

5 **We visited and interviewed representatives from Target, the agency administering the Help to Buy loans on behalf of Homes England, and Orbit, one of the agencies administering applications to the scheme.** These two visits included a walkthrough of processes undertaken as part of an application to the scheme.

6 **We also interviewed representatives from key stakeholders in the housing sector.** This helped us to understand the impact of the scheme and how effectively it is being managed. They included:

- Home Builders Federation;
- Housing Finance Institute and Housing Accelerators Forum;
- Federation of Master Builders;
- UK Finance; and
- authors of the Help to Buy evaluations.

7 **We reviewed the two independent evaluations of the Help to Buy scheme commissioned by the Department.** We assessed the robustness of the evaluations and the methods used. We also interviewed the authors of the evaluations to better understand the choice of methodologies and analysis.

8 **We reviewed government policy documents and guidance.** This review included policy documents, progress reports and board papers. This also included a review of the business cases supporting the budget announcements of the scheme.

9 **We carried out a desk-based review of existing literature, academic research and media reports.** We used this review to develop our understanding of the Help to Buy scheme and wider housing context. The literature review was conducted by internet search, supplemented by information provided or recommended by stakeholders interviewed.

10 **We drew on past National Audit Office work on housing and the planning system.**

Appendix Three

Regression analysis

Rationale

1 From our literature review, we identified suggestions that a ‘Help to Buy premium’ exists – an additional cost to buyers when using the scheme. This was reported as appearing through both a purchase price premium and as additional incentives for buyers who did not use the scheme. Our literature review also identified suggestions that Help to Buy has supported and increased new build house prices through increased demand.

Data sources

2 For our first regression analysis which looked at the ‘Help to Buy premium’, we matched Land Registry price-paid data for new build transactions with Energy Certification data, as a way to control for property characteristics, such as the size of a property. We further matched this with Homes England Help to Buy transaction data to identify property transactions that used the scheme. This process resulted in a proportion of data being lost through difficulties in data matching; however, it allowed us to control for a number of housing and location characteristics. The initial dataset totalled over 536,000 properties, which represented all new-build sales between 2013 and 2018. Following data matching and removal of postcodes without Help to Buy properties, the dataset totalled over 146,000 properties.[20]

3 For our second regression analysis looking at the impact on new-build house prices, we calculated the proportion of Help to Buy sales to new-build sales within each postcode district (for example, AL1, BS2) for each year from Homes England transaction data. These data were matched with Land Registry and Energy Certification datasets for both new-and existing-house sale transactions, as a way to control for a number of housing and location characteristics. This dataset consisted of nearly 4 million transactions.

20 Further refining of the dataset removed any postcode where a Help to Buy property was known to have not matched. This process also excluded any further properties within the postcode. This dataset consisted of over 61,000 properties and showed the same effect of less than 1%.

Model choice

4 The dependent variable in both regressions was the natural log of house price, tested to be the most suitable functional form to capture the non-linear relationship. The variable of interest in regression one was a dummy variable for properties purchased with Help to Buy. This allowed us to identify an effect on the purchase price with and without the scheme, with controls in place for characteristics such as size, property type, postcode and time.

5 The variable of interest in our second regression was an interaction term for a new-build property and the annual proportion of Help to Buy properties to new-build sales within that postcode district. This allowed us to analyse the change of the new build premium given the proportion of Help to Buy to new-build sales.

6 The models used in both regressions were fixed-effects models, as a method for controlling the effects of a large number of postcodes and postcode districts. This allowed a comparison of similar properties within the same location and often on the same street, particularly with the 'Help to Buy premium' regression where the full postcode was used.

Further work

7 We could not establish an effect between a greater proportion of Help to Buy properties within a postcode district and the price of new-build properties. However, this analysis looked at the effect on a local scale and is not likely to represent the wider national effect; the scheme has enabled a wider number of people to purchase a new-build regardless of location within England. We could not identify and use a counterfactual – similar areas where Help to Buy could be utilised and where it could not – in this analysis, but that would be better suited to establish this effect.

8 These are large datasets with large data ranges, and are likely to suffer from omitted variable bias, such as the behaviour of homebuyers using the scheme. Our models suffer from heteroskedasticity (i.e. unequal dispersion of data points), which has been controlled for as far as possible with the programme controls. The regressions expand on previously reported analysis.

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