Housing Market & Housing Delivery

Minutes of the Roundtable with Mark Bogard of Family Building Society and the Building Societies Association

Monday, 7 November 2022,10:40pm, Virtual.

In attendance

Ben Everitt MP, Chair

APPG Secretariat

Mark Bogard (MB), Speaker

Aster Group

Karbon Homes

E3G

MCS Charitable Foundation

UK Parliament POST

Meeting Started at 10:40

Prior to the speaker joining, the Chair asked the guests what their main concerns were and what they wanted from the roundtable.

Comment: I would like to understand not only the downsizing element of what you are wanting to talk about but equally looking at what other housing options that we as providers in this sector offer, in terms of that security but with flexibility and equally looking at where there may be need for upsizing with the same amount of security and flexibility especially with the uncertainty through the rises in the private rented sector. The Shared Ownership product offers you the ability to access the market you ordinarily could not, security that your landlord will not kick you out of your home but equally the freedom to have that flexibility and to be able to make those decisions whether that be upsizing or downsizing.

Comment: I want to understand the appetite for the building society sector to support all the different types of tenure and affordable home ownership for older people and young people.

Comment: I am interested in how we create and maintain safe and healthy housing for everybody. I am also thinking about the private rented sector and the challenges but also opportunities there to create homes that are more affordable, less likely to experience fuel poverty and also how we can use policy to create a better standard for homes.

Comment: We are looking at the new housing market and the existing retrofit housing market across the board. We are looking at standards, decarbonising homes, heat and energy across the housing sector and how we can do that through mass scale retrofit but also new home building standards through the Future Homes Standard.

Comment: I am interested in the environmental incentives for mortgage providers for new homes and what can be used to incentivise people to retrofit. There is a feeling that the younger generations have been excluded in some respects from the benefit of having low deposit and higher percentage mortgages. There is an unfairness to what happened during the financial crisis.

> Chair: The institutional appetite to risk is where the action is here, we certainly have huge demand signals from guests attending here and also from politicians. A lot of this institutional aversion to risk comes from the financial beating the sector got post 2008/2010 that was a knee jerk reaction between politicians and policymakers. There is a relationship to rebuild before we get the policy right.

John Moss from the APPG Secretariat gave the guests some background on the speaker before he joined the call.

Mark Bogard, CEO of Family Building Society & Chairman of the Building Societies Association, joined the call.

MB: I wanted to talk about three things, the building society sector, the mortgage market and what has happened since the mini budget and some background thoughts on the housing market from a building society perspective.

Today there are 43 building societies in the UK, with approximately 25 million members, more than 42,000 employees and around 1,400 branches across the nation. Most building societies have a local or regional focus but some have a sector focus like the Teachers Building Society or the Ecology Building Society which focuses on people that want to build sustainable homes, at 'Family' we focus on intergenerational finance. People tend to focus on the borrowers but at the moment it is the worst time to be a saver in the last 40 years because, although interest rates have gone up, your real returns are more negative than they have been for 40 years.

Building societies tend to be better regarded than banks partly because we do not have shareholders so we can give slightly better mortgage deals and slightly better deposit deals. Savers earned £615mn with building societies, more than they would have with banks in 2021. As the Chair said earlier, the key is making use of the existing stock. There is always a focus on how many houses are built each year but it's never more than 1% of the existing stock. We see three really important constituents of that, one that begins family formation so needs more room, people that move for a job so need to live somewhere different from where they are currently and downsize and parents whose kids have left home. They all suffer from stamp duty and it gums up the housing market and a really good example of ungumming was a stamp duty holiday during lockdown which raised more money for the treasury following the tax cut and got people moving again and generated a great deal of economic activity and it plays to levelling up. The fact that the mini budget contained a reduced holiday rather than similar to during lockdown is worrying, once it goes below a certain level it doesn't produce any more money.

The thing that would be most important to the market would be a consistent housing policy. We have seen as many housing ministers as we have years, which is unhelpful. Most of the focus should be on the supply side not on the demand side. The money spent on Help to Buy would have been much better spent on building homes rather than allowing people to pay more for new or existing homes.

Q: Do you think there will be any risks or changes to the appetite for lenders to deal with shared ownerships properties and the help needed with staircasing?

> MB: It is unpredictable, interest rates are forecast to peak in around September 2023 and then start going down so there will be a combination of inflation which will drive people's incomes up and interest rates peaking then coming down. In the middle of next year a new consumer duty is coming in from the FCSA, they do not have an appetite for repossession, building societies will do everything they can to help in individual circumstances. Building societies are good at speaking to individual people and hearing their stories so I don't see any concern currently.
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> Comment: We saw in the early 2000s there was an increase in support for housing association customers, we will be constrained from cost of funds and the pressure put on us and we could see a reduction in the discretionary offers made this time around. I welcome the knowledge that building societies are keen to work with the customers.
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> MB: During lockdown when mortgage holidays were offered which were a solution to a short term problem not a long term solution to structural change in interest rates. Both banks and building societies coped with a significant number of mortgage holidays and societies were good at speaking to individuals. The key is speaking to the individuals.

Comment: I echo the sentiment of being able to talk to the building societies directly, it's a great way for us to understand what you need, as lenders, from us and what we need from you in the ability to see the product work and what our customers are doing. From a staircasing point of view, it's a massive income stream for housing associations. What we need to start doing as a sector now is to look at those secondary market elements as potential lagging factors to what the market will do rather than as a success metric. One of the issues many of us are facing now is the introduction of a new shared ownership model, with very little lender appetite, which makes it very difficult for us to be able to credibly market and sell products when we know we do not have lenders available and the only option for shared ownership would be unsecured finance. This highlights the unintended consequences of policy when the sector isn't engaged properly. It damages consumer and lender confidence and equally providers in their ability to continue to be able to commit to the amount of delivery they wish to. Our sector is at the forefront of being able to understand buyer behaviour as they should pay their rent and mortgage before anything else, so we should be able to see in the next few weeks if customers are struggling. We are seeing people use shared ownership to downsize, especially older people that don't want to move into a care facility and they are using the shared ownership product and enjoying the freedom from that. It gives many people security and a different option than the insecure private rented sector. We need to refocus on what housing delivery in its different guises gives us, how it works and how it works with the different products in that and the ability to move between products, we will need to see more flexibility around that for sure.

Chair: Mark, what sort of constraints do you see on the flexibility as mentioned? What opportunities do we have to give consumers that ability to flex within the products in the sector.

MB: Talking to the smaller building societies about individual opportunities is what they are there for. One of the bigger impacts since the mini budget is on the buy to let mortgage market there has been a structural decline in the amount of money that a landlord can borrow against a buy to let property. Unless interest rates come down quite quickly, you will start to see a structural change with some of the other aspects of the buy to let market and you will see how it impacts some of the other concerns previously mentioned. Regarding people getting into mortgage trouble, the outcome of that depends on if the housing market is going up or down.

The Chair moved the focus of the discussion from the financial elements onto climate related aspects such as retrofitting and decarbonisation.

Comment: When we think about heat and energy and the wider issues that are obviously far more visible and optical now than they have been in the past; energy security, the cost of gas and these sorts of things, it’s really important that we think about the stock itself and who ultimately will foot the bill for making sure our housing sector is resilient and is providing people the opportunity to face the challenges of fuel poverty, spiralling inflation and these issues that are presenting real problems to people. The electrification of heat is, from a policy perspective, one way the government could help change people’s lives. The big issues to face there would be the affordability of people doing it themselves, skills and supply chain, we need to invest more into rolling this technology across the country, done properly and consumer awareness and advice, people need to know the options they have and how they do it. Who is going to foot the bill in an increasingly privatised sector and what kind of policy commitments can we expect from the government and future governments?

Comment: It is critical we deal with the existing housing stock but we also have the Future Homes Standard coming up in 2025 which will dictate how new homes are built. If we are producing those new homes with heat pumps you are producing really good quality homes that are well insulated and cheap to run, which will reduce stresses on people with mortgages. When it comes to retrofitting there's a huge opportunity in green mortgages and not connecting new homes to the gas network by 2025 sends a clear message to the market that the future is heat pumps. This will benefit people and the wider climate issue. We need a good Future Homes Standard going forward for new builds and a retrofitting policy to look at products like properly linked finance, insulation measures and more information and advice. The government needs to inform people about the technology to heat homes and save on energy bills, as far as housing is concerned we need to look at new and old.

MB: I have heard from my colleagues about issues regarding the difficulty of procuring a relatively small number of heat pumps. So, the reality and the rhetoric might be quite different and I am not sure how deliverable your suggestions are.

Comment: Supply chain issues around the world exist at the moment and it also depends on what type of heat pump they were ordering. Valent, who also manufacture boilers, are opening their new factory on 21st November just outside Derby to increase the production within the UK to meet the demand. Mitsubishi has a factory in Scotland so you will see homegrown heat pumps being manufactured and developed in the UK to meet that demand. With reskilling, there are new apprenticeship schemes being introduced next year and retraining programmes for heat and installing engineers, 2,300 heat pumps were installed last month, there is a huge amount of supply within the UK. The long term electrification of heat is the only way to reach climate objectives and also achieve savings for consumers.

Comment: It would be nice for the government to focus on supply side reform rather than demand side support but it appears that is politically challenging to put into place. One of the problems with the new housing delivery sector in particular is slow to adopt new technology and new methodologies and heat pumps are one example of that and I do believe the Future Homes Standard is a turning point. One can see installing heat pumps being the only way to achieve the Future Homes Standard. Bear in mind they have an economic advantage to the occupier and an environmental advantage to society shouldn't the finance sector be considering incentivising through the mortgage product more rapid introduction of these kinds of measures, maybe even bringing the Future Homes Standard forward so we see it sooner rather than later. and also using financial products to potentially incentivise retrofitting. Should you have been taking more risk in terms of your mortgage book so that more young people could have got on the housing ladder?

MB: The Bank of England and the PRA are absolutely clear that in their prudential management of lending firms they are not seeking to implement government policy around climate change. That is not for them to do by imposing on us the way we manage our capital against the mortgage books. Their job is to make sure we do not go bust. A number of building societies see a significant opportunity in lending money to people to do some of the things you described. In terms of how it is paid for and by whom, people will need to be beaten with carrots rather than sticks to make this happen and the balance of how that's done when the government finances are so stretched will be hard. The mortgage market is a 1% world, our margin is 1% and that leaves very little room to incentivise. Where the carrot will come from is unclear but it is certainly something the building society sector is looking at.

On your second point about risk, our primary obligation is to our depositors and banking crises always happen for the same reason which is that you lend people money that you don't get back. The bad debts that hammered the financial system in 2007 resulted from the sort of risks youre talking about. 'High loan to income' at 'high loan to value' are the things that go wrong so my answer would be no.

The Chair asked the speaker for some closing words and thanked him for his time.

MB: Interest rates going up will be tough, housing really matters to people every night when they go to bed and every morning when they wake up. A joined up housing policy which deals with some of the issues we have described would be absolutely brilliant. I know, chair, you said it is easier to focus on the demand side short term, but it would be brilliant if people could come together and plan for the long term, and if we didn't have 20 housing ministers in 20 years. This is too important.

Meeting ends at 12:00