Building Societies Association

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SOCIETY matters

Housing for All

Realistic possibility or pipe dream?

contents

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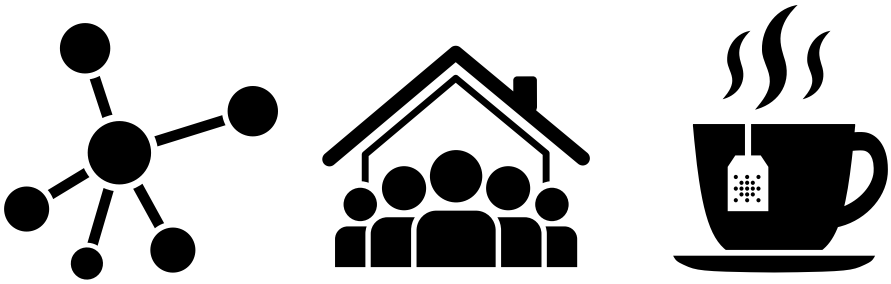
Hello and welcome to the summer edition of Society Matters



The summer sun might be pie in the sky, but there is lots of significant work going on across the building society sector to keep us busy...

It was fantastic to see such a broad range of speakers, exhibitors and attendees at the BSA Annual Conference, which took place in London in late May. One particular stand-out session for me was from Monzo Co-founder Jonas Templestein, who explored how challenger banks and Societies might work together to offer customers a wider range of competitive products. Thanks to Open Banking such collaborations are, on the face of it, easier than ever before to achieve. It's a very exciting time for fintech.

I also enjoyed John Glen's speech, in which he talked about 'holding the feet to the fire' of those financial service providers who are yet to sign up to the Women in Finance charter. The BSA was an early signatory of this important diversity initiative.

The BSA's latest report also launched at Conference. *Reinvigorating communities* explores the relationship between communities and Societies, and how they are developing in an increasingly digital world, particularly by reinvigorating ailing high streets. Head to P6 where report author Andrew Gall summarises its findings and what it means for our sector going forward.

Continuing the BSA's 150th anniversary themes, this edition centres on 'Housing for All'. We have articles from Cambridge Building Society, Generation Rent and a range

of MPs to cover as many facets as possible: Expect Modern Methods of Construction (MMC), mortgage digitisation, rental payments into property deposits and how all tenures – not exclusively homeownership – play a part in alleviating the housing crisis. It all begins on P8.

This edition is best enjoyed whilst basking in the sunshine with a cocktail in hand. And if you have no luck tracking down the illusive sun, a cup of tea indoors will do just fine. Have a fantastic summer!

Until next time,

AMY HARLAND
Society Matters Editor

Green and sustainable finance:
coming to a neighbourhood near you soon?

At the BSA's 150th Anniversary Conference in May, my remarks about climate change and sustainable finance attracted quite a lot of interest and attention. I started by saying that it doesn't really matter if you are a climate change campaigner or a sceptic. The fact is that our world is going through a period of quite rapid global warming, and we are seeing the natural consequences in shrinking ice caps, retreating glaciers, rising sea levels and changing weather patterns.

By ***ROBIN FIETH****,*
BSA Chief Executive

Today's environmental and climate change debate has been gathering momentum since at least the late 1960s. I remember watching documentaries at junior school about the thinning of the ozone layer caused by chlorofluorocarbons (CFCs), then widely used in refrigerants and aerosols. A man made issue that, thankfully, has proved substantially reversible by banning the use of CFCs and finding less damaging alternatives.

It should not be surprising to us that research by the American Chemical Society, found that data for the past 2,000 years show that atmospheric concentrations of carbon dioxide, methane and nitrous oxide, three important long-lived greenhouse gases, have increased substantially since 1750, coinciding with the early days of the industrial revolution.

These are just two examples of factors that led to the UN Framework Convention on Climate Change, one of the three conventions adopted at the Rio Earth Summit in 1992 and to date ratified by 195 countries. The Kyoto Protocol followed in 1997, introducing legally binding emission reduction targets. And the Paris Agreement came into force in 2016, having been ratified by at least 55 countries, between them accounting for at least 55% of global greenhouse emissions. The UK's Committee on Climate Change is now campaigning vigorously for the UK to end its contribution to global warming within 30 years by targeting to reduce greenhouse gas emissions to (net) zero by 2050.

In the finance world, a parallel debate is alive and kicking both internationally and here in the UK. The OECD Centre on Green Finance and Investment talks about investment in the green economy needing to take place on a far greater scale over coming decades if we are to achieve the UN Sustainable Development Goals and the ambitions of the Paris Agreement. The European Commission's Technical Expert Group on Sustainable Finance has defined sustainable finance as the provision of finance to investments taking into account environmental, social and governance considerations. The UN Environment Programme Finance Initiative is actively consulting on six Principles for Responsible Banking. The PRA has been consulting on climate change and has recently published a general insurance practitioner's aide for assessing financial impacts of physical climate change.

Among some of the more intriguing debates that I have witnessed in Europe are around the definitions of green ("good") and brown ("not good") lending. As an example, is nuclear power green (according to France who remain strong proponents of nuclear energy) or brown (according to Germany who have committed to eliminate reliance on nuclear)? There is increasing talk in political circles of applying green and brown factors to bank capital weightings, a form of directional lending if you like – along with the predictable debates among bankers about how green and brown factors actually relate to credit risk. More practically, we have had the announcement is the last few weeks that a group of global banks have struck a deal that will limit lending to shipping companies that fail to uphold tough new environmental standards to curb greenhouse gas emissions.

So how does this all play out in mortgage world? As I said in my conference speech, we are typically making twenty-five to forty year lending decisions. The current pace of climate change is such that it could be a material factor in the risk assessments on at least some of those.

I suggested, though, that we should take our thinking way beyond that. There are real opportunities for us as lenders to contribute positively to global and national targets for carbon reduction, both by influencing the environmental standards of new build properties, and encouraging improvements for the much larger stock of existing homes. It was building societies that took the initial stand against developers charging egregious ground rents on new homes. Do we, for example, want to insist on higher environmental standards on new build going forward, effectively re-instating the zero carbon homes plan that the government scrapped in 2015? Do we want to insist on (and finance) improvements to existing housing stock insulation as condition of lending on older properties? Do we want actively to promote additional lending for installing solar, ground source, air source and other forms of sustainable energy generation? And while we are at it, what about rainwater capture?

> ***"Among some of the more intriguing debates that I have witnessed in Europe are around the definitions of green ("good") and brown ("not good") lending."***

All of these arguably could be in the interests of our borrowing members, not least in reducing the ongoing running costs of their homes, and in the longer term adding value to their homes as (we might at least expect) higher environmental standards increasing become a positive factor in house prices.

But more than that, by taking a lead in this space, I would suggest we are fulfilling an important part of our responsibility to our members and communities. We are appealing further to the younger generations, who already feel a stronger affinity towards mutuals and co-operative businesses. We are demonstrating truly what it is to be inter-generational purpose-led businesses.

One or two of the questions that were posed at our Conference, but that we didn't have time to answer, asked about whether the BSA would be co-ordinating members to consider climate change risks and opportunities, whether we could play a role in sharing sustainability best practice and whether, as a sector, we should be establishing our own Climate Risk Forum? Some of this we are doing already through the BSA's Operations Forum and Property Risk Panel. If members want us to do more, then absolutely!

Building societies have a very long tradition of real innovation in the mortgage market, actively seeking out and addressing the changing needs of society, whether that be reflecting trends in employment and working patterns, the needs of an ageing population with less certain retirement incomes, the desire of parents and grandparents to help the next generation onto the housing ladder, or the dream of designing and building your own home. Perhaps among the next opportunities is to lead the way in developing proper green mortgages fit for the 21st century, enabling more and more people to buy and adapt their homes to meet their own aspirations for a greener and more sustainable planet. What do you think?

Next steps:

You can follow Robin on Twitter ***@bsaceo***

Could healthy cultures unlock strategic value?

By **MICHAEL FOTIS**, Founder, Smart Money People

The culture of firms is increasingly on the radar of the FCA and wider society. And while culture in finance means many different things, it's increasingly described as the typical behaviours that characterise a firm. This can include how valued staff feel, and how much customers trust a firm with their data.

At this year's BSA conference I explored the theme of culture a little more, including previewing some of what we've been learning about the culture of building societies and how this contrasts with that of banks, based on the feedback we collect from customers across financial services on an ongoing basis.

Some of what we've found to date reinforces commonly held views about the sector. But it also offers a fresh take on what customers value most about building societies. Correlating this with some of the 'bread and butter' feedback we collect, be it from customers or brokers, makes for rather fascinating reading. Two things stand out most to me:

Firstly, how customers perceive the culture of financial firms is heavily influenced by the type of products they have with a firm. Savings and mortgage customers of large banks focus on the safety and strength of these firms, which is very different to the themes current account customers talk about, and poles apart to what the savings and mortgage customers of building societies focus on.

And secondly, while there is no escaping the importance of digital delivery, a segment of younger building society customers value a supportive, simple and informative service-led proposition a lot more than might be initially expected.

The panel part of our discussion at the BSA conference explored how firms can have more than one culture, which only adds to the challenge of measuring and assessing culture. Here are my top tips for mutual firms embarking on this journey:

1. Less is often more. In my experience, asking three to five questions may be all that's required to start measuring the culture of your firm.
2. Analysing free text can be painful, but it's often the source of the most valuable insight, particularly when open questions are used, as they allow customers, or indeed employees, to express their thoughts in their own words.
3. Embedding feedback requests into your processes will help to deliver a consistent stream of data.
4. Analysing your feedback with that of other firms, on a like-for-like basis, helps to uncover areas of strength or weaknesses a lot more easily.

I believe that the mutual sector has a lot to gain from the increased focus on culture. It shines a strong light on the purpose of firms, which should be good news for both building societies and customers at large.

Furthermore, the insight gathered from analysing culture, in combination with feedback metrics, could deliver a powerful new force that helps to fuel the kind of proposition innovation that leads building societies to further embed themselves in the social and economic fabric of the communities in which they serve.

> *"Some of what we've found to date reinforces commonly held views about the sector. But it also offers a fresh take on what customers value most about building societies."*

Perhaps healthy cultures will play a key part in keeping building societies thriving for another 150 years.

Next steps:

Learn more about Smart Money People by visiting **smp.reviews/research**

Reinvigorating

Concerns about the demise of

By *ANDREW GALL*, *BSA Chief Economist & report author*

Back in 1968 The Kinks recorded a concept album taking a nostalgic look at the passing of local customs and characteristics, declaring that *The Kinks Are The Village Green Preservation Society*. Concerns about the demise of communities are therefore nothing new. And the album's music and messages continue to resonate:

In the title song, lead singer and songwriter Ray Davies advocates *"Protecting the old ways from being abused, Preserving the new ways for me and for you."*

This gets to the important balancing act of reinvigorating communities, of building on local heritage to appeal to the future needs of people: a notion that came through strongly in the BSA's new report on how building societies are delivering their social purpose.

As one society said, it "continues to offer a sense of stability in an otherwise rapidly changing world," while another remarked that "We consider it a privilege to support those in our towns and cities who are actively working to improve the potential, history and culture of our region."

Uniting communities

There has been a resurgence of attention on how communities are changing. People are shopping online and communicating more on their mobiles, while public policy has steadily put more weight on individuals providing for themselves rather than being looked after by the State. As a result, high streets and town centres are adapting, the workplace is transforming, the way we interact with each other is changing, and where we can go for assistance differs.

The outcome of the EU Referendum has stimulated a renewed focus on places that risk being left behind, even if some of the trends pre-dated that vote by several years. But rather than focussing on potential divisions in society, the BSA's consumer survey findings suggest that people overwhelmingly want to do business with organisations that support the communities in which they operate, whichever way people voted in 2016.

It is by combining the old and the new that communities are being reinvigorated. While The Kinks sought to protect village greens, building societies are investing in parks and public places – as in the partnership between Leeds Building Society and Parkrun – or preserving the heritage that add to a town's character – such as Newcastle Building Society restoring a gilded kettle above its Durham branch. There are numerous examples of how building societies are investing in the social capital of their operating regions.

Several societies are investing directly in their communities with grants for items of capital expenditure at civic society organisations, and some are even applying innovative community-based approaches to building new houses themselves.

All are seeking to develop their employees, including via apprenticeships, and many work to develop the employability and workplace skills of young people in their localities.

Connecting partners

A key way of achieving results is through working in partnership with organisations and individuals that share an interest in the local community. Societies link up with schools, charities, local authorities, other regional businesses and community groups. All across the country building societies and credit unions are involving their own members and employees to partner with their communities in a wide range of ways, and they are making a real difference.

An important aspect that comes through from the examples in the report is the importance of sustaining and deepening relationships with partners and members of the community. Rather than one-off gestures, there is a greater focus on long-term, focussed relationships that bring mutual benefits. Both sides build an understanding of each other's needs, and leverage each other's skills, knowledge and enthusiasm.

Branching out

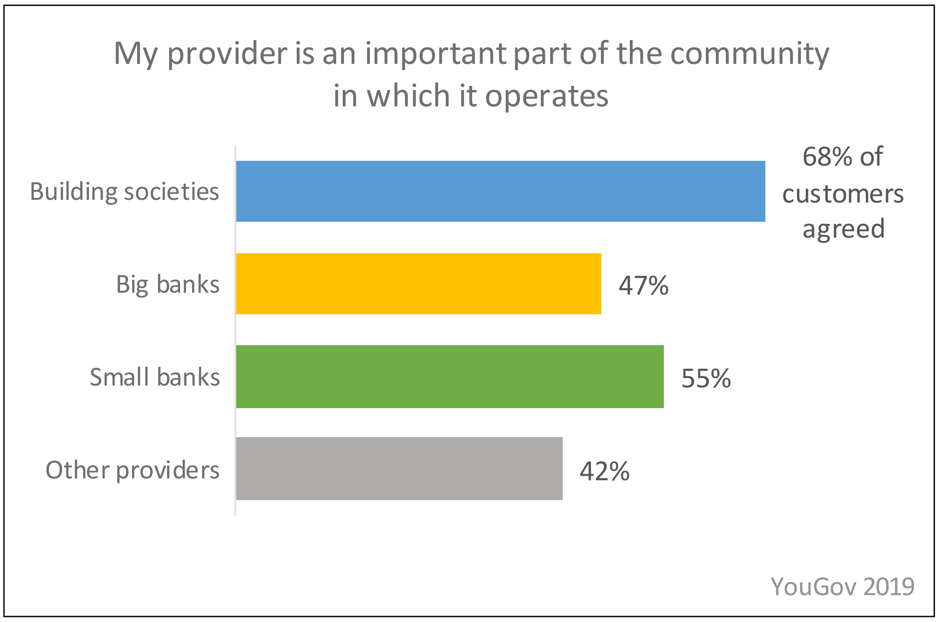
One fashion that building societies have dedicatedly not followed is that of closing branches. From 2010 to 2017, banks closed 37% of their branches, whereas building societies closed just 12% across their networks. Societies still have 1,450 branches across the UK, and over 250 agencies. Almost 9 in 10 building societies surveyed said that they will maintain or increase their branch network over the next 12 months. There is an acceptance, however, that the role of the branch must change to meet consumers' continuing requirements for face-to-face service for big financial decisions.

Continuing the theme of reinvigorating spaces, societies are modernising their branches. They are making them brighter and more appealing, designed to increase interactions, and with a greater focus on making them a hub in the community by providing areas for meeting and socialising, as well as community events. They are also integrating branches with digital services such as apps, online servicing and video conferencing.

Societies recognise their role in helping town centres to thrive, helping to make them a destination that people want to visit, and are again working with like-minded organisations to boost their impact.

Communities:

communities are nothing new.



Building a sense of community

Why is it that building societies find that communities and social purpose are integral to their business? The answer is in their origins and ownership model.

Building societies were originally formed generations ago by people getting together in their local communities to solve a problem: how to get people to the position where they owned their own home. By combining their efforts, these members achieved together what they couldn't easily as individuals. Today, societies still provide a safe place for people to save and to help members to secure a place they can call home.

As societies don't have to maximise profits for shareholders, they can take a broader view of their priorities, including the communities that matter to the members that own them. Engaging with members to participate in directing support can ensure that the society addresses the issues that matter to them. This could be supporting local causes, delivering financial education or reducing their environmental impact.

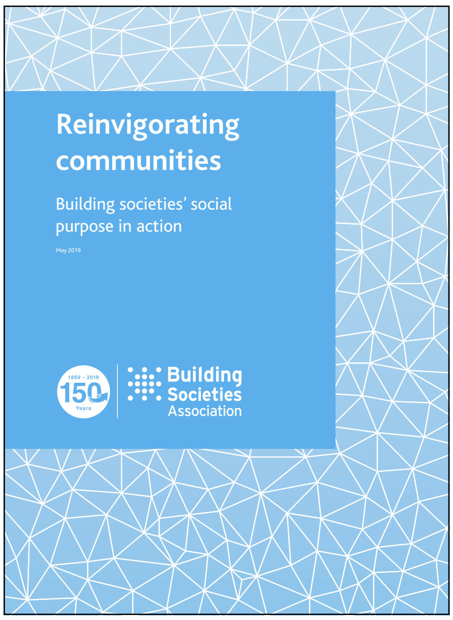
The differences in approach between banks and building societies are evident in the BSA's YouGov consumer survey: 68% of building society customers feel their society is an important part of the community, compared to 47% of customers of the big banks.

The mutual ownership of building societies and credit unions puts a focus on building meaningful relationships with current and future members and their communities, and an openness to collaborating with organisations with similar aims.

By helping those who need it, investing in their localities and even preserving village greens, building societies will help to develop a sense of belonging and reinvigorate communities, today and into the future.

Next steps:

Download the full report at ***bsa.org.uk/communities2019***



Welcome to the 'Housing for All' special

By ***PAUL BROADHEAD****, BSA Head of Mortgages & Housing*

This seven-page special touches on challenges and opportunities faced across the housing sector in a bid to achieve 'housing for all'.

Housing for all is one of the BSA's three 150th anniversary themes. It encompasses all tenures of home occupation including ownership, social and private rent: all crucial cogs in the housing market model, and all of which come with their own set of challenges. On P12, Dan Wilson Craw, director of Generation Rent, highlights the protections that he is fighting for, for the UK's renters.

Getting on the property ladder is tougher than it's ever been. Every quarter for more than a decade, aspiring homeowners have cited raising a deposit as one of the biggest barriers to homeownership. There are some fantastic Government schemes such as the Lifetime ISA (LISA) – first offered by Skipton Building Society - and the Help to Buy ISA. Both schemes are designed with first-time buyers in mind, but with the latter drawing to a close from November this year, those that wish to benefit need to move quickly.

The Cambridge Building Society is trialling one potential alternative with its Rent to Home scheme. The Society has purchased two flats in notoriously expensive Cambridge to privately rent out. After up to three years, 70% of those rent payments can be used by the tenant towards a housing deposit, provided they choose a mortgage with The Cambridge (P14). And when it comes to mortgage processing, Richard Hayes, Co-Founder of MoJo Mortgages, spies a brave new world. One where automation, robo-advisors and data-led decisions reign supreme to provide faster, harder working and a more transparent mortgage process. More of that on P9.

Diving into the policymakers' agenda, Clive Betts MP, Chair of the HCLG Select Committee takes us through the committee's work and signposts the Government's areas of focus in the coming months and years. Clive announces the publication of a report into modern methods of construction (MMC) and its viability in the wider housebuilding sector, to help bridge the gap between the shortfall of supply and the swell in demand (P10).

MMC is also central to Mark Farmer's article (P13). As Chair of the MHCLG Working Group – established following the BSA's 2015 report Laying the Foundations to MMC – Mark

> ***"Clive Betts MP announces the publication of a report into MMC and its viability in the wider housebuilding sector."***

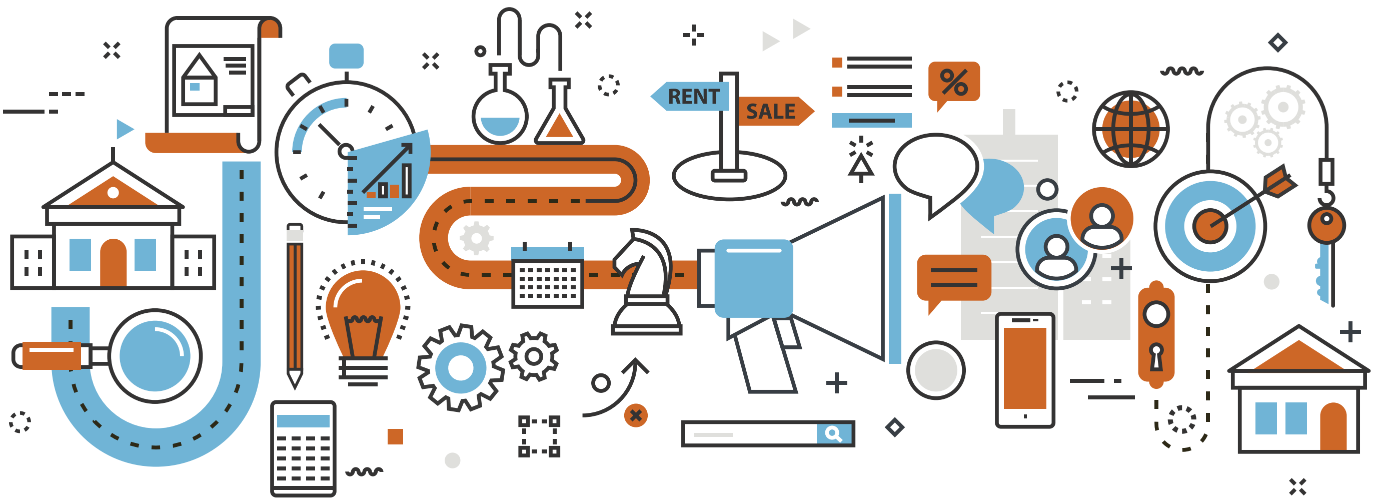
shares the latest group updates. Unifying the warranty and assurance market on MMC homes is particularly prominent on their agenda. It is hoped that this move will instil confidence in underwriters and lenders, and broaden the scope of appeal of MMC. The group has also published a Modern Methods of Construction Definition Framework (April 2019) to define, streamline and homogenise the language used amongst the entire housing industry when describing MMC.

Further along the property journey, when people are looking to sell their homes, many homeowners are finding themselves trapped by unfair and often overinflated leasehold ground rent fees – a fee that in some cases has been known to double every ten years. Eddie Hughes MP is making a stand to help the many thousands of people in this position by drafting a Private Members Bill. The bill proposes a legal obligation for freeholders to grant a quick and simple variation to leaseholders, where ground rents are capped at 0.1% of the property value. More on P11.

One thing's for certain, with so much promising innovation from right across the housing industry, *housing for all* has never been a closer reality.

Next steps:

Follow Paul on Twitter
@PBMortgageMan



Transforming mortgage lending:
is end-to-end automation the future?

The UK mortgage market is in a state of flux and the need for collaboration and innovation has never been greater. Customer behaviour has already begun to change as our industry plays catch up. Access, transparency, communication, timescales and choice are all things we need to evolve.

*By **RICHARD HAYES**, Co-founder and CEO, Mojo Mortgages*

I say, "let's do it together".

There is no doubt that the delivery of APIs and intermediary access to execution only will allow digital businesses to revolutionise customer experience, and the regulator appears to be backing such a revolution.

However, all this progress means the focus on positive customer outcomes is at an all-time high. The control that the customer desires in performing their research, making informed and well-educated decisions; in conjunction with the need to meet their heightened expectations around time to Offer, means more than just digital experience needs to change.

Our ability to guard against customer detriment must also evolve. The need for better use of data within the mortgage process has never been more pressing. Spending habits, use of revolving credit, instability in income and late payment fees are just a few examples of the data points we now have at our fingertips. Digital KYC and AML checks are other evolving processes under consideration as we look to complete more thorough assessments of our customer's circumstances on the path to high quality, consistent advice and the most appropriate customer outcomes.

With all this access to new types of data, the level of transparency within our sector will only increase, and we will be in great position to support each other as we strive towards creating a better customer and colleague experience.

> *"The need for better use of data within the mortgage process has never been more pressing."*

Mojo Mortgages is a mission-driven business, acutely focused on creating a better mortgage experience for everyone. This mission has forced us to think of new ways to evolve customer and colleague experience, while lenders work tirelessly to move away from legacy systems and create more agile environments in which to operate.
The use of robotic automation and sophisticated workflows has allowed us to achieve this to a certain extent, while the influx of customer data now being processed has opened up opportunities for artificial intelligence to play its part.

Undoubtedly these advancements will in time, allow for far more automation and the genuine ability to offer robo-advice where appropriate. If these innovations enable our industry to create better customer experiences, more positive outcomes and greater transparency, then it will become far more difficult for the naysayers to continue to challenge the increased use of technology throughout the entire mortgage process.

We are most excited about the impact tech can have right at the start of that journey. How we can support customers in a far more dynamic and personal way as they start their very first home buying journey.

As well as deposits and house prices, the knowledge gap that currently exists is undoubtedly having a massive impact on a homebuyers' ability to fulfil their dream of owning their own home. We are really excited about supporting more customers in becoming 'Mortgage Ready'.

Next steps:

For more information please visit ***mojomortgages.com***

The latest in housing from the HCLG Select Committee

By **CLIVE BETTS MP**, Chair of the Housing, Communities and Local Government (HCLG) Select Committee

Right at the start of this Parliament, the Housing, Communities and Local Government Committee (HCLG) made scrutiny of the housing system one of its two key strategic priorities which would underpin its work...

The Government itself has acknowledged that the housing market is broken. Fundamentally, the UK needs to do much more to provide high quality, affordable, housing and to achieve this will require comprehensive planning that tackles the many strands that comprise housing policy. Our Committee has worked hard to understand the real impact of current housing policy on those it is meant to support, and promote change so that we can move towards a better system in the future. In this article I will set out the key issues we have focused on, and outline some of our future work.

The Grenfell tragedy provided a stark illustration of the terrible consequences of failures in housing policy, and yet the process of learning lessons has been far too slow. For two years, Grenfell-style cladding has remained on private blocks of residential flats while negotiations continued over who was to foot the bill for removing it. Residents have been left in flats that they cannot sell or mortgage and where they feel unsafe, while facing the threat of a huge bill to rectify a problem that was not of their making.

We have consistently called for the Government to take action since our report into building regulations and fire safety last summer. We are pleased that they have finally announced a £200m fund so that action can be taken in the private sector to complement existing funding for public sector remediation. However, much more work needs to be done to ensure a comprehensive safety regime for all high-rise residential buildings and we will maintain our scrutiny in this area.

"Our Committee has worked hard to understand the real impact of current housing policy on those it is meant to support."

Our inquiry into the leasehold system also uncovered an area in vital need of reform. In too many cases homebuyers were seen as nothing more than a steady income stream for property developers and leaseholders, subject to opaque and needless charges. Issues with high and escalating ground rents were a particular concern. They provide no inherent value, yet can have such serious consequences for re-selling or re-mortgaging a property. We are pleased that the Competitions and Marketing Authority has decided to investigate claims of mis-selling detailed in our report. Homebuyers need to be protected from wrongdoing and this is a welcome first step.

Aside from looking at how homeowners can be better protected, we have also investigated what work will need to take place to get homebuilding to a sustainable level in the future. Our inquiry into modern methods of construction looked at what more can be done to incorporate innovative methods, including off-site manufacturing, to boost housing production. We have recently finished hearing evidence and will shortly announce our findings in a report.

We must equally ensure that housing policy addresses the great demand on all forms of housing. Last year we published a comprehensive report on the private rented sector, in particular looking at whether councils had adequate powers to tackle 'rogue landlords'. This year we will be looking to address the stark reality that the current supply of social and affordable housing is not keeping pace with ever increasing demand. We recently announced an inquiry to understand what will need to be done, not simply in terms of funding, but also policy to support local authorities and housing associations in addressing demand and providing solution that target local issues.

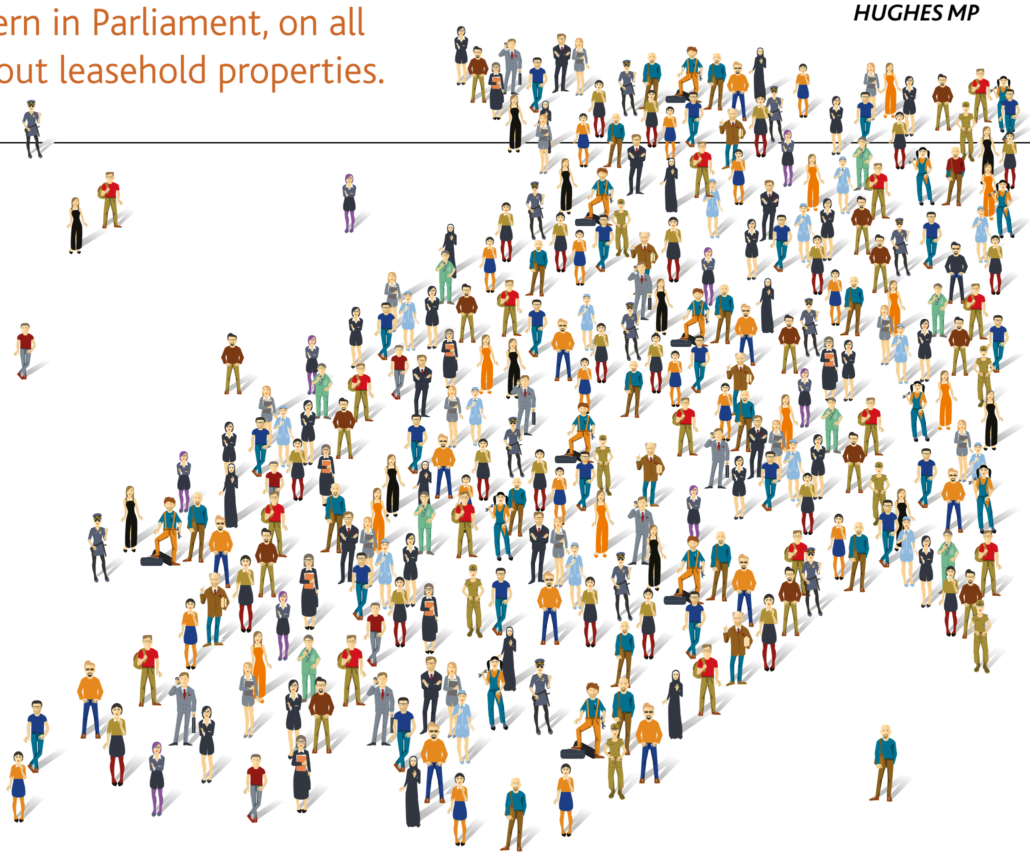
Next steps:

*The committee's work is strengthened by stakeholder participation. Submissions into all inquiries are encouraged. Learn more at **parliament.uk/clg***

Combating the leasehold ground rent scandal

By ***EDDIE HUGHES MP***

There is growing concern in Parliament, on all sides of the House, about leasehold properties.



Recently the HCLG Select Committee held an inquiry into leasehold reform and published a number of very sensible suggestions: looking at 'commonhold' ownership models and getting the Competition and Markets Authority to investigate mis-selling in the leasehold sector are but some of the recommendations.

However, one problem needs addressing urgently and that is the 'leasehold ground rent scandal'. In many cases, developers have created leases with ground rent clauses that have since fallen out of favour with lenders. In some cases the ground rent doubles every ten years, in other cases it increases just once, and there are reports of lenders refusing to lend on what they deem as unreasonable clauses. The result is an unsaleable property and in many cases, the developer is long gone, having sold the freehold on to investment companies.

The result is that some freeholders are remote, uninterested in helping out their leaseholders or those that do are charging unfair fees and legal costs for what should be a very simple solution. However, there is currently no onus on the freeholder to help sort the problem out, except out of good will.

It cannot be right that in 2019 we have leasehold properties unable to be sold because of ground rent clauses. Behind each problem is a person; families, couples and small investors. They do not deserve to be forgotten about and left high and dry, trapped indefinitely with their property.

> ***"I am currently putting together a Private Member's Bill that would create a legal obligation for freeholders to grant a simple lease variation to leaseholders, with ground rents capped at 0.1% of the property value."***

So what can be done?

In the case of apartments, currently, the law allows 50% of leaseholders to get together to buy the freehold. Quite a task and a long and expensive process if you just want to sell your property. Leaseholders could try and extend the lease but again there is an elongated process with expenses running into the thousands of pounds.

There's also the possibility the leaseholder negotiates a 'variation of lease' with the freeholder. This is also costly and there is no onus on the freeholder to do a deal. It is, however, probably the simplest solution but with prohibitive expenses and no obligation on freeholders to engage, we have a postcode lottery of failures and successes.

Systems and institutions are supposed to serve the public and I hope we can all agree that we can't have people unable to sell their properties. Drastic and immediate action is required.

That's why I am currently putting together a Private Member's Bill that would create a legal obligation for freeholders to grant a quick and simple lease variation to leaseholders, in such a position with their ground rent, with ground rents capped at 0.1% of the property value. I'm also considering including an obligation for the original developer to foot the legal bills for the leaseholder in such a situation. Afterall, why should families have to find huge sums just to solve a problem, not of their making?

I believe there is a wide cross-party consensus in Parliament on this issue and the time is fast approaching when Parliament will need to intervene and change the law to restore fairness in this sector.

In the meantime, let's hope freeholders and developers step up and take the initiative.

Next steps:

Follow Eddie on Twitter
@EddieHughes4WN

GENERATION RENT
The national voice of private renters

Rights for renters:

The all-too-common challenges for private tenants

By **DAN WILSON CRAW**, Director, Generation Rent

There has been one story in the past two decades: falling owner occupation. Since 2002 high house prices have blocked young people from buying their own home, trapping them in the private rented sector instead.

Since changes to tax treatment of landlords were announced in 2015, first time buyer rates have risen and the growth of renting has stopped. But we are left with a cohort of people who have been renting for a decade or more, unable to save and now cannot buy. The English Housing Survey finds that 66% of private renters have no savings.

This means renting will be a long term tenure – both for those who can save but do so for longer, and those who cannot save and face renting for life.

Currently the sector is set up assuming that renters are only there for the short term and that they find it easy to move – students, and young professionals on the cusp of buying. Under Section 21 of the Housing Act 1988, landlords can take back their property without grounds, allowing them to sell or move back in easily. But this takes an especially hard toll on the families and older tenants who now make up a significant section of the renter population and want to put down roots and give their kids a stable upbringing.

The threat of a no-fault eviction enables the worst landlords to bully tenants into not complaining. Renters have rights to fair treatment and safe homes but can't exercise these if the upshot is that they lose their homes. This is one of the reasons why private rented homes are so much poorer quality than other tenures – 1 in 7 is considered unsafe. The government has given councils more powers to penalise landlords found to be letting out squalid homes – something that building societies should be aware of when making lending decisions. But tenants need the confidence to complain in the first place.

So we've campaigned for the abolition of Section 21 and, following last year's consultation on longer tenancies, the government announced in April that it would adopt this reform. We are now waiting for a further consultation to work out the details. But with cross-party consensus on the need to reform renting, it is essential that Westminster now pushes ahead with it.

> *"We hope more building societies will play a role in building homes where renters need them."*

Even with a better legal framework for renters, the cost of rent will remain a huge problem. There are 1.15m households on the waiting list for social housing, many of whom have precarious incomes or complex needs. Investment in social housing will not only help those 1.15m households directly, but also suppress rents in the wider market, benefiting those people who continue to rent in the private sector. With more cash left over at the end of each month, more renters will be able to put money aside.

We hope more building societies will play a role in building homes where renters need them. The outcome will be an economy that allows everyone to enjoy financial resilience and a good quality of life regardless of how they put a roof over their heads.

Next steps:

Keep up to date with Generation Rent on Twitter ***@genrentuk***

Cracking the modern methods of construction (MMC) conundrum

At the beginning of 2018, I agreed terms of reference with the then Housing Minister, Alok Sharma, to chair a cross industry working group that was tasked with delivering on a commitment made in the Housing White Paper to help build confidence in the use of Modern Methods of Construction (MMC) across industry, specifically amongst mortgage lenders, insurers and valuers.

By ***MARK FARMER****, CEO of Cast Consultancy & Chair of MHCLG MMC Working Group*

The BSA, UK Finance, Association of British Insurers and the RICS, as well as a selection of organisations operating within these segments have all been involved. BSA member interests have been ably represented by Charlie Blagbrough, mortgage policy manager alongside Nationwide Building Society.

Recent strategic announcements related to modular housing by the likes of Top Hat, Goldman Sachs, Urban Splash, Sekisui House, Homes England and Places for People all show that we appear to be entering an unprecedented period of homebuilding modernisation spurred on by increasing failure in traditional delivery. However, it is also clear that many still see risk in change itself. The working group has therefore been looking at better unifying the warranty and assurance market and how it robustly approaches MMC accreditation to give confidence to those underwriting lending or insurance in the UK new build housing market.

One of the areas of concern has been a sense that different warranty providers and assurers have been asking for different things from manufacturers and there is confusion as to what is right or wrong and what true implications are for longevity and repairability. Good, collaborative progress has been made in this highly complex area and I am hoping to report separately on our outputs later this year.

We have also been looking at evidence capture and market education. The recently completed Gateshead Innovation Village, the AIMCH Innovate UK funded project into MMC and various Homes England R&D initiatives now offer a step change in sharing knowledge and data from MMC all stemming from members of the working group.

> *"The working group has been looking at better unifying the warranty and assurance market, and how it robustly approaches MMC accreditation, to give confidence to underwriters…"*

In early April 2019, the government published the first formal output from the working group which is the new Modern Methods of Construction Definition Framework.

The term 'MMC' is used extensively by policy makers and industry but has no real formal reference points. In a world where data is becoming more and more important, the formal structuring of information is the beginning of a much bigger journey towards the creation of big datasets from which technology enabled analysis can drive much more powerful informed decision making. This includes for BSA members who are underwriting financial risk through securitisation and want to know what MMC really means, categorise how and where it is being used as part of a loan book, record any issues and manage risk.

At its heart it sets out 7 new categories starting with structural building systems or elements (the highest deemed risk of failure) through to non-structural assemblies and elements, construction material innovation that reduces site labour and finally process innovation that reduces site labour.

The framework has two more dimensions of categorisation. Firstly, building height and primary structural materials used. These are of interest in capturing building performance or underwriting risk issues or exposure.

The RICS will be incorporating it as part of its new guidance to residential valuation practitioners. Hopefully all of these measures when developed and joined up will mean that we can better underwriting financial risk and promote what should ultimately be better quality, more assured ways of building homes if we accredit them responsibly and routinely capture evidence and data.

Next steps:

You can read the MMC definition framework as set out by the working group at ***https://bit.ly/2J262yn***

By **TRACY SIMPSON**, *Head of Lending at The Cambridge Building Society*

Rental payments into mortgage deposits: Cambridge's Rent to Home scheme

Cambridge is renowned for being a bubble of activity; residentially, academically and financially. It is also famous for being one of the most expensive cities in the country when it comes to house prices, alongside places like London and Oxford.

In Cambridge, the average house price currently sits at over £400,000, with market rent sitting at an average of £825 per month for a 2-bed flat. For a first-time buyer, and even those buying their second or third homes, this could be a very daunting prospect, and getting a deposit together without help from the Bank of Mum and Dad can seem almost unachievable.

At The Cambridge we've made a commitment to 'Making the Difference' and finding innovative ways to help people in our local community have a home. 'Making the Difference' launched in September last year with the first initiative being a 98% LTV mortgage. This 'First Step' mortgage is specifically designed for first-time buyers with a small deposit to give them a step up onto the property ladder.

But we wanted to go further. We wanted to support those who can prove they can pay a monthly living cost through rent or other financial commitments, but who struggle to save for a deposit. This is where 'Rent to Home' originated.

What is Rent to Home and how does it work?

Rent to Home launched exclusively to Cambridge Building Society members at our AGM in April, and is the latest initiative under the 'Making the Difference' project. It will see two refurbished flats owned by The Cambridge let to tenants who have applied to the scheme.

Through Rent to Home the tenants will be able to rent one of the flats at market rate for a maximum of three years. During this time, if they are ready to buy their first home and choose a mortgage from The Cambridge, they will get 70% of the rent paid over the course of the tenancy returned to them, to use towards a deposit on their first home.

"To put this into context, if applicants are paying £825 per month in rent, and they stay for the maximum term of 3 years, we will return £20,790 for them to use as a deposit."

To put this into context, if applicants are paying market rate rent (£825 per month) and they stay for the maximum term of 3 years, we will return £20,790 back to them to use as a deposit for their new home.

We're putting our money where our mouth is

The struggles of first-time buyers is very topical, and it is a group of people that building societies have traditionally always helped.

Our aim is to help support people living in our local community to buy a home and truly make a difference. This is why we believe Rent to Home is ground breaking. We are actively responding to the challenges faced by home buyers, and through initiatives like Rent to Home, we are making home ownership dreams a reality. The feedback we've received has been really positive, with members commenting on how this initiative reflects our mutual roots.

The future of Rent to Home

We hope to expand the initiative in future after taking learnings and feedback from our current applicants. Through Rent to Home we have a way to offer local people in Cambridge an opportunity to own their own home. This is just the start.

Next steps:

Learn more about the scheme and other Cambridge initiatives at ***cambridgebs.co.uk***

Saving the savings market

After several years in the doldrums, the deposit account sector has once again come to prominence. The end of the government's Funding for Lending Scheme (FLS) in early 2018 has ushered in a welcome rise in interest as competition intensifies between providers.

By ***NICK LAWLER****, Head of Business Development, DPR*

A key factor in attracting customers is obviously the amount of interest being offered with a number of new-entrant and challenger banks paying savings rates that have put some of the more traditional rivals in the shade. The historically low interest rate environment has seen savers become accustomed to shopping around to secure the best deals to make their money work harder. Customers are also happy to spread their money across different providers for different products such as fixed-term bonds, instant access accounts, ISAs, child savings, and corporate accounts.

In order to win and retain customers, while financial incentives and higher interest rates remain key motivations, customers are demanding a better online experience and more personalised approach.

A recent report by Flagstone into the nation's savings preferences supports this view. Andrew Thatcher, Co-Founder and Co-Managing Partner of Flagstone, said: "Customers are increasingly driven less by price and more by convenience, they are also strongly put-off by complicated or convoluted application processes despite having significantly more to gain."

When opening new accounts or transferring maturing deposits, customers expect a personalised origination and servicing solution via a frictionless journey. Increasing use of technology providing an automated application process can benefit both client and provider. This digital onboarding can define the ongoing relationship the customer has with a deposit taker. As well as offering a better initial experience for a customer it in turn can build loyalty, locking in profitability, client retention and future referrals.

This digital approach will also bring benefits for financial institutions and their staff at branch level. By employing a more digital approach, savings providers can improve levels of productivity, efficiency and accuracy as well as speeding up drawn-out processes, at the same time reducing overheads and enhancing the impact of the communication that are held with their customers.

There will clearly be a reduction in paper applications and the amount of additional paper documents this method invariably produces. The increasingly automated pathway will create a straight through processing system, that not only reduces mistakes but also generates ongoing time and computing efficiencies. By enabling providers access to information across multiple points, transaction times will speed up as the demands on rekeying data are eliminated.

> *"As well as offering a better initial experience for a customer it in turn can build loyalty, locking in profitability, client retention and future referrals."*

This increased productivity will allow staff the opportunity to not only find information easier but to deal with customer queries more quickly. This is an important point. The time saved by these numerous factors can be spent building and nurturing customer relationships. The more detailed the understanding of a client, the more likely the provider is to identify and offer the products that can best meet their respective needs. For example, by reducing manual processes and introducing automated maturity options, levels of customer retention can be increased.

Savers will continue to spread their savings across several providers and accounts to boost returns. A well-designed customer journey can ensure that new clients are quickly comfortable with the provider and satisfied with the vitally important first contact. This journey can also assist deposit providers that need to carefully consider all these points if they are to succeed in growing deposit volumes in the market.

Next steps:

For more information please visit ***dpr.co.uk***

Dates for your diary

The BSA events programme is regularly updated –
Full listings at **bsa.org.uk/events**

Critical thinking, judgement & decision making

4 September 2019, London

In this fast paced workshop, you will explore the part that individual character and judgement play in decision making and the human skills that are needed to make better decisions to drive your society and career forward.

This workshop will be of value to those in leadership and managerial positions, plus specialists who often work in a team/project environment. Delegates will typically be in higher or intermediate managerial roles or have been identified as part of a talent development population.

Timings: *10.30-16.00*

Cost: *BSA members/ assocites only: £550 (VAT exempt)*

Register: *For more information and registration please visit:* ***bsa.org.uk/decisions***

Lending in later life

17 September 2019, London

This one-day course is designed to upskill Mortgage Advisers to understand the wider implications and possibilities for customers looking to raise money in later life.

With people over 65 currently holding £1.5 trillion in housing wealth, and with mortgage borrowing in this age group projected to double by 2030, lending in later life has the potential to be a huge growth area for building societies in the years to come.

Timings: *09.30-16.00*

Cost: *BSA members/associates only: £450 per delegate (VAT exempt) Cost includes course documentation, lunch and refreshments*

Register: *For more information and registration please visit* ***bsa.org.uk/laterlife***

An introduction to treasury management

25 September 2019, London

The objective of this one-day course is to introduce participants to treasury management. It provides an overview of treasury operations within financial services, more specifically within building societies and within the regulatory environment.

Following this, there is an in-depth study of treasury operations, focussing on liquidity, wholesale funding, credit risk and financial risk.

Timings: *09.00-16.00*

Cost: *BSA members/associates: £490 per delegate (VAT exempt) Non-members: £590 per delegate (VAT exempt) The cost includes course documentation, lunch and refreshments*

Register: *For information and registration please visit* ***bsa.org.uk/treasuryintro***

BSA Annual Conference 2019 highlights

23 & 24 May 2019, London