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| BSA written submission to Housing, Communities and Local Government inquiry on Modern Methods of Construction  29 January 2019 |
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# Introduction

1. The Building Societies Association (BSA) represents all 43 UK building societies, as well as 4 credit unions. Building societies have total assets of over £400 billion and, together with their subsidiaries, hold residential mortgages of over £315 billion, 23% of the total outstanding in the UK. They hold almost £280 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 37% of all cash ISA balances. They employ approximately 42,500 full and part-time staff and operate through approximately 1,470 branches.
2. In 2016 the BSA published a report on expanding Modern Methods of Construction (MMC) titled [Laying the Foundations for MMC](https://www.bsa.org.uk/BSA/files/20/20cee386-9dc6-4e0e-9ae9-504e3bbe4171.pdf), which investigated some of the opportunities and potential barriers to mortgage lending for homes built using MMC.
3. Our main recommendation was that this was an area for the Government to lead the way and bring the different parts of the market together and explore the challenges faced by house builders, warranty providers, valuers and lenders.
4. Since then, Government has acted on this and the BSA has been involved in the Government’s technical working group on MMC, which has been led by Mark Farmer, author of the influential report on UK construction [Modernise or Die](http://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2016/10/Farmer-Review.pdf).
5. Many of the solutions that have started to be developed in that group, such as formalising a definition of MMC and setting up a warranty acceptance protocol, have the potential to overcome some of the barriers in our original report.
6. The process has been slower than originally anticipated, but that underlines some of the complexities involved and likewise how important it is that it produces a viable solution.
7. Given the BSA’s members expertise in mortgage finance, we have focussed our responses to the following questions in the enquiry:

* **What are the primary risks to increasing the use of MMC?**
* **How can challenges related to access to finance (for both homebuyers and developers) be overcome?**

**Question 1 - What are the primary risks to increasing the use of MMC?**

1. Building societies have historically supported homes built using non-standard constructions as a result of involvement in the self-build and custom build housing market, where use of a variety of construction methods is common. However, the process works on a relatively small scale, allowing lenders to individually assess a property, use local knowledge of the area, speak to the developer and monitor the project as it progresses.
2. Because of societies' knowledge and experience in self-build, assessing the risks of non-standard construction, many have been receptive to accepting MMC as suitable security.
3. However, that does not mean MMC is universally accepted within lending policies. In terms of the potential challenges that MMC poses for lenders, currently there are a number of unknown quantities for lenders as they, along with the homeowner, take the long-term risk.
4. The report identified the following challenges:
   * Building societies are often providing funding on a by exception basis for self and custom-build, flagging the property as requiring more in depth analysis. We have seen lenders visit sites to gain a deeper understanding of a project and talk directly with developers. However, this approach does not work at scale, in particular for larger lenders.
   * Some of the new construction methods used are so new there can be little or no historical data about how they will age and the likely lifespan they will have.
   * The introduction of new materials and multiple innovative construction techniques creates uncertainty about the performance of the property and how desirable these buildings will be to consumers in the long term.
   * The valuation industry is an essential part of the housing market and using comparable evidence is key element of a property valuation. This information is rarely obtainable for MMC properties at the moment.
   * There is also an increased risk if there are few lenders operating in a market

**How can challenges related to access to finance (for both homebuyers and developers) be overcome?**

1. In our 2016 report, we came up with 10 recommendations, with the main one that this is an opportunity for the Government to lead the way and bring the various parts of the market together.
2. We also called for standard terminology, with the offsite industry collaborating to standardise systems, property information for lenders and valuers, and work done to ensure that that warranty cover and building insurance is available.
3. Lastly, we argued that improving the image of MMC with the general public is vital. Media articles still refer to prefab homes, with images of homes built in the 1970s and 1980s.
4. Since the BSA's report was published, MHCLG has put together a cross-industry technical group on MMC, chaired by Mark Farmer, which is working to remedy many of the areas we identified and the BSA (and it members) has played an active part.
5. The building society sector is working hard to overcome potential barriers to ensure that future demand can be met. Since our 2016 report was published, the BSA has convened:

* A visit to Legal & General’s housing factory in Leeds
* Tours round the self and custom build town Almere in Netherlands and the self and custom-build village Graven Hill in Bicester, England.

1. We are looking to arrange more in the future. These educational trips have aimed to broaden the understanding of building societies about some of the new materials used to build homes, the approaches taken by other countries and the steps taken to mitigate risks. In the example of Graven Hill, many of our members had already provided funding to some of the innovative construction types used on site. However, as stated previously, many of these will have been on a by exception basis, or relatively small scale.
2. In order for societies and other lenders to meet the demand for mortgages, an industry wide approach needs to be taken. MHCLG has facilitated this approach via its industry technical group and for MMC to truly grow in the UK, it is vital that it succeeds.

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|  | www.bsa.org.uk  The Building Societies Association (BSA) is the voice of the UK’s building societies and also  represents a number of credit unions.  We fulfil two key roles. We provide our members with information to help them run their  businesses. We also represent their interests to audiences including the Financial Conduct  Authority, Prudential Regulation Authority and other regulators, the Government and  Parliament, the Bank of England, the media and other opinion formers,  and the general public.  Our members have total assets of over £400 billion, and account for 23%  of the UK mortgage market and 19% of the UK savings market. |