

Subject: Sellers' Information Packs / Home Information Packs (HIP)

Note of key matters and issues raised:

Attendees:

APPG	Industry	Others
John Greenway MP (Chairman) Baroness Gardner of Parkes Malcolm Moss MP David Drew MP	Dominic Toller (LMS Holdings) Ray Boulger (John Charcol Independent Mortgages) Ian Giles (Kensington Mortgages)	David Worsfold (Incisive Media) Kamal Hussain (PwC) Paula John (Editor - Your Mortgage) Keren Holland (News Editor - Mortgage Solutions)

Each speaker presented their analysis of HIPs; key issues presented were:

Dominic Toller:

- LMS company profile - works with brokers, estate agencies and major lenders such as Abbey and Nationwide, using their unique technology and national network of hundreds of conveyancers and nearly a thousand surveyors to help manage 300,000 transactions annually.
- Their systems can now handle remortgaging from instruction to completion in just 3 days, and they expect to process Home Information Packs in around 5 days in volumes of 350,000 to 400,000 a year.
- There is massive industry investment currently going into HIPs; LMS alone has spent three years and more than £6 million on developing its systems and the industry wide commitment is probably around £50 to £100 million. All around the country new operations are being set up, premises built, logistics planned, systems created and tested, and staff recruited and trained. At the same time thousands of individuals are each spending between £2,000 and £8,000 on being trained as Home Inspectors.
- Trial runs of Pre Sale Packs are already underway, and at LMS are now on their second generation of mini-HIPs with much of the required documentation being prepared in advance of sale, with the exception of the Home Condition Report (HCR).
- The industry is also investing a great deal in educating those in the front line who will be making HIPs work. LMS are funding dedicated customer support teams and a communications programme to help estate agents, brokers and lenders to understand and plan for HIPs.
- The industry is (mostly) committed to making HIPs work. There appears to be some misrepresentation and attempted scaremongering in the press and media, which is causing resistance and frustration in the industry.
- Five 'misunderstandings' are currently doing the rounds:
 1. **HIPs will increase the cost of home selling and buying.** In reality all that HIPs will actually do is transfer current costs from the buying process to the selling process with no real difference in overall costs. There could be a reduction in some costs through the increased use of technology.
 2. **HIPs will discourage sellers from putting their properties on the market.** The new system could discourage time wasters, but it will be no barrier to genuine sellers because companies like LMS will provide flexible funding so sellers do not have to pay for their HIP until after their property is sold, as they already can do with estate agency and conveyancing fees.
 3. **HIPs will act against first time buyers.** The reality is that HIPs will actually make it easier and cheaper for first time buyers, as transactions will cost them less than today, they will have the information they need to make a decision up front and so they will have more confidence to buy.

4. **Buyers will not accept a Home Condition Report paid for by the seller** Provided consumers understand the independence and integrity of Home Inspectors, this should not be a problem - however, it will require Government education of the public.
 5. **There will not be enough Home Inspectors.** The reality is that the main assessment centres, together with corporate surveyors, are on target to deliver some 5,000 Home Inspectors by June next year. This will be enough to cope with initial demand, however it could easily be improved.
- Some of the concerns raised by HIPs are as follows:
 - Speculation about further delays, even a possible HIPs u-turn, needs to be dealt with very firmly with a far greater sense of certainty and Government commitment from now. In particular there are three areas where certainty and timing play crucial roles:
 1. Industry is still awaiting secondary legislation and finer details. This is not helpful as the industry still does not know the exact content requirement for a HIP.
 2. It is still not clear how Home Inspectors will be accredited, or how and where databases for their Home Condition Reports will be held, managed and accessed.
 3. Lenders may also have their fair share of hurdles to overcome if HIPs are going to succeed. They have only just finished the considerable IT work required on mortgage regulation and Basel 2, and now need to schedule work for HIPs. The current uncertainty means that lenders are not getting on with the job, and their lack of preparation could turn out to be one of the biggest stumbling blocks for HIPs.
 - The primary problem is that a Home Condition Report in a HIP will not include a valuation, so lenders will need to use either Automatic Valuation Models (AVMs), or Home Inspectors with valuation capability, or even separate valuations.
 - As lenders earn good fees from valuations it may require Government intervention to ensure AVMs or desktop valuations take place so the full benefits of HIPs are realized.
 - The industry is committed to implementing HIPs to the Government's timetable. However, the Government needs to gain the full involvement of all parties, including lenders, brokers and estate agents, and it must be prepared to invest in making HIPs happen - it cannot just rely on industry to do everything.

Ray Boulger:

- John Charcol company profile - one of the leading independent mortgage brokers in the UK, offering mortgages from over 100 lenders; award winning reputation within the market and with over 30 years experience in the field.
- Not in agreement with most of Dominic Toller's findings and stressed the need for full and active Government involvement including a thorough Cost Benefit Analysis. HIPs will have a negative reaction in the industry unless a proper framework is in place by 1st June 2007.
- An estimated extra cost of around £700 to £1,000 for a HIP will be incurred by sellers.
- There will be few initial savings in the cost of a mortgage valuation as most lenders will require an up to date visual inspection. In time, there may be some cost savings if lenders become confident enough about the robustness of Automated Valuation Models (AVM) for low loan-to-value mortgages although inevitably the risk of fraud is increased if a visual examination is not carried out by the valuer (who may not be the same person as the Home Inspector).
- The Housing Minister's repeated claims that lenders will not need a valuation are just plain wrong. It would be irresponsible lending not to have a valuation. The FSA requires one, as do the rating agencies. Most borrowers will also want to see a valuation as the HP, for good reasons, does not include one.
- The Housing Minister has repeatedly claimed that £1m per day (£350m p.a.) is wasted because of problems which arise between a sale being agreed and completion. Not all of this waste is due to problems on the survey/valuation or legal issues. Some is purely because people change their mind.

- Based on the most recent ODPM figures around 500,000 residential properties per year will be marketed but fail to find a buyer. At an average cost of, say, £800 per HIP (£400m p.a.) will be wasted by sellers, more than the £350m p.a. the Minister claims HIPs will save. This problem will be worse in a slow market.
- 2 weeks to provide a complete HIP will not be realistic for many leasehold properties because of delays by freeholders, letting agents etc. responding to enquiries.
- If HIPs are launched before enough Home Inspectors are certified delays in obtaining Home Condition Reports will rapidly escalate.
- The current conveyancing process has been significantly improved by the Land Registry adopting E-Trading. If Local Authorities followed suit, this would deliver significant benefits with or without a HIP.
- It is unclear whether HIP will speed up the process as the two weeks allowed to prepare a HIP must be included in the total time taken to sell a property. For properties which currently sell quickly the time to exchange will sometimes be longer.
- UK model is very different to Denmark. In Denmark, HIP is well established and it works in Denmark because Estate Agents are heavily regulated.
- Government must push towards regulating Estate Agents in order for HIPs to be effective. There are potential conflicts in Estate Agents lying to or misleading sellers/buyers. Recent example of Foxton Estate Agent on the BBC Whistleblower programme was quoted.
- It is still unclear whether a robust Central Database will be in place by June 2007.
- Roll-out date of 1st June 2007 is unrealistic and government might want to review the date.
- There needs to be further government intervention in making sure appropriate Cost Benefit Analysis is done on HIP to establish the impact on all the different areas/participants of the industry and whether it is cost effective overall for the consumer.

Ian Giles:

- Kensington Mortgages company profile - a leading provider of mortgages, established in 1995, deals in mortgages through intermediaries and financial advisors; has lent more than £10 billion to over 100,000 customers).
- Lenders are generally in support of HIPs but have some reservation in the areas mentioned by both Dominic and Ray (above).
- Lenders are looking towards a smooth running and transition towards HIPs without disturbing the market. There is an expectation that there will be pre-HIP bubble that can affect or distort the market.
- Additional cost of HIPs will be passed onto customers regardless of their financial position. Costs will be transferred from buyers to sellers. So, in essence, buyers without a property to sell (First Time Buyers) will benefit the most sellers without a property to buy (pensioners and those having to sell to go into rental accommodation because of financial troubles) will lose the most.
- HIP will bring some complication towards arrears, repossession, people with poor credit records, distressed, "unexpected" sale/sellers, pensioners etc. The Government needs to take into consideration all types of sellers and buyers.
- Draft copy of a HIP was shown and it contained over 100 pages. This raises further questions whether general public is geared up to digesting this lengthy information pack and whether it is sufficient to be relied upon. There is a need for a clear guidance on what should the HIP pack contain.
- There are fears in the industry that Estate Agents will take over the provision of HIPs and thus control the entry point into the mortgage industry. The Estate Agents need to be regulated or there will be scope for HIP/Sale/Mortgage packager to be manipulated and may cause distortion within the mortgage distribution chain.

- The industry (lenders) is aware that introduction of HIPs are inevitable, however, there are no strategies to integrate HIP because of a lack of technical specifications for credit risk and IT departments to use to guide their thinking.
- Pilot roll-out of HIPs will take place in a selected area of the UK market in June and analysis/results of the findings will be published in November. That may be too late for lenders to hit the 1st June 2007 deadline.
- Baroness Gardner or Parkes pointed out about the undertakings given when the bill went through the House of Lords that there will be a full pilot with time to assess the results before HIPs are rolled out nationwide.
- David Drew MP had concerns about the impact of HIPs in flood prone areas where sellers will now be forced to disclose any problems they have had obtaining insurance

Key messages:

- Significant investment in HIPs to date.
- Greater Government involvement is needed to explain and drive the project.
- Thorough and well thought out Cost Benefit Analysis on HIPs is required.
- Regulation of Estate Agents is necessary.
- Lessons to be learned from Danish market.
- Consistency and a structured approach towards HIPs from the industry is required.
- Timescale and deadline needs to be reviewed, in particular the June 2007 HIP deadline.
- The impact of HIPs to both key stakeholders and non-stakeholders (such as distressed sellers/borrowers) needs to be analysed.

Kamal Hussain
29 March 2006