Community led housing and retail mortgage lending: building the partnership

Commissioned by:
The National Community Land Trust Network and CDS Co-operatives

Authored by:
Andrew Baddeley Chappell, Andrew Heywood and Peter Williams

Contents

1: Introduction

With the announcement of the £60 million per annum Community Housing Fund and with Community Land Trusts (CLT) predicting a large increase in the numbers of homes for sale over the coming years, the time is ripe for a study of the interaction between retail mortgage lenders and the community led housing sector. Perhaps surprisingly, this is a subject that has received little formal study so far but discussions within the community led sector indicate that there are issues to be resolved if the scale of future development is to be maximised and affordability improved.

This project was commissioned by the National CLT Network (NCLTN) in July 2017 and the main work was undertaken between 1st August and 16th November 2017.

The project was carried out by a team with professional experience of the mortgage lending industry and research expertise in the fields of housing finance, markets and supply. The team members were:

- Andrew Baddeley Chappell, former Head of Policy and Governance at Nationwide Building Society and now an independent consultant,
- Andrew Heywood, housing finance researcher and Editor of the journal *Housing Finance International,*
- Peter Williams, Departmental Fellow, Land Economy, University of Cambridge and until end of December 2017, Executive Director of the Intermediary Mortgage Lenders Association.

Scope and purpose

The context for this project is the ambition of the community led sector to scale up new-build, including new development for sale. This reflects a desire to make a stronger contribution to the development of new homes, including affordable homes. The sector is also keen promote key community led values including local community control and participation, a focus on meeting local needs and innovative and sustainable design. The availability of mortgage finance with a good choice of lender and mortgage products is clearly a key component in sustaining a developing sector.

This research was commissioned to examine the current availability of retail mortgage finance, the range of lenders willing to lend in this market and to develop an understanding of the homeownership schemes they will support. It also examines the awareness and understanding by lenders of the sector. In addition, the degree of choice of lender and mortgage products available to those who wish to purchase a home developed by the community led sector is assessed. In practice, this involves a focus on the activities of community land trusts and cohousing communities, which are the organisations that tend to develop homes for full or partial sale.

This was not just a research project. The work was also intended to increase understanding of retail mortgage lending across the community led movement. The intention was to raise awareness of issues that different types of homeownership schemes and sales conditions may raise for a mortgage lender who may be considering whether to recommend offering a loan to a potential homeowner. One key aim is to encourage CLTs, cohousing, cooperatives and others to anticipate potential problems before they reach a critical stage and to maximise the choices for potential borrowers. After all, the availability of mortgage finance is a key component of affordability.

The work with lenders is intended to raise lender awareness of the community led sector, to increase understanding of the various schemes that the sector uses and to help resolve lending issues that these schemes may raise. It also aims to foster a perception amongst mortgage lenders of community

led development as an activity worthy of support as a realisation of their public commitment to corporate social responsibility.

To these ends the outputs from the project include not only this report, but also the writing of two focussed and practical pieces of guidance for community led groups and for lenders that can be distributed widely and used easily.

Methodology

Desktop research

The project involved conducting desk-top research into community led development for homeownership and into the interface between retail mortgage lending and the community led sector. Existing research in this area is currently very limited and data is scarce. The team therefore also made significant use of the fieldwork which is described below:

Analysis of lender documentation

Our initial soundings suggested that those lenders already lending into the affordable housing sector were most likely to be lending for community led housing also. With that assumption, the relevant documentation on their websites for all lenders known to lend for shared ownership was therefore analysed to identify which homeownership schemes and variants different lenders would support. The analysis also included identifying references to community led development. The results were collated for comparison via a spreadsheet (see Appendix 1).

Interviews

Semi structured interviews by telephone were conducted with the following, between 1st August and 16th November 2017:

- 15 telephone interviews with retail mortgage lenders including both banks and building societies, including those supporting the affordable housing sector (shared ownership) as well as a number who were believed not to support this sector.
- 3 telephone interviews with CLT technical advisers with a strong knowledge of local development and sales practice. In addition, a lengthy face to face interview was carried out with representatives of the NCLTN.
- 3 telephone interviews with cohousing groups and one with the director of the UK Cohousing Network.
- In addition to the 15 lender interviews referred to above, three further detailed interviews were carried out with lenders familiar with capped staircasing in shared ownership and with Discounted Market Value (DMV) products. The aim was to further probe their attitudes to capped staircasing and to DMV. These interviews were conducted in February 2018 and this report and related guidance was modified to reflect the findings from that work.

Thanks

A project such as this requires willing cooperation from all stakeholders if it is to realise its aims. That cooperation has certainly been forthcoming. Thanks are due to Catherine Harrington and Tom Chance of the NCLTN for their unstinting willingness to discuss thorny issues, to clarify points of information and provide much needed data on development by CLTs. Anna Kear, director of the UK Cohousing Network was similarly helpful and insightful.

Thanks are also due to those CLT, cohousing and lender interviewees who gave up their time to be interviewed and who had clearly prepared themselves beforehand thus making these conversations that much more rewarding.

Despite the help received from others, responsibility for any errors and omissions rests squarely with the authors.

2. Community led organisations; developing affordable homes and promoting communities

The community led sector: aims and practice

"Community" is a much-used word in the housing sector. There is the newly named Ministry of Housing, Communities and Local Government (MHCLG) and its delivery partner the Homes England (HE). Add to that a plethora of "community" epithets ranging from "Community Build" to "Sustainable Communities" and it is clear the "community" space is crowded.

Against this background a definition of community led housing that delineates this sector and provides an overview of its activities is important. A definition provided by NCLTN reads as follows:

> "Community led housing is about local people playing a leading and lasting role in solving housing problems, creating genuinely affordable homes and strong communities in ways that are difficult to achieve through mainstream housing.
>
> It is a broad movement encompassing a range of approaches, including Community Land Trusts (CLTs), cooperatives, cohousing, self-help housing and group self-build, and can involve new build, regeneration or the use of existing buildings." (NCLTN, 2017b)

Community led housing is thus a generic term and does, in fact cover a variety of development and ownership models. The sector is young in the UK, with only cooperative housing existing in significant numbers before 2000. However, set in the context of an acute and continuing demand and supply imbalance, both government and communities have been looking to reduce reliance upon the speculative housebuilding industry and to widen the range of providers of new housing. Thus, we have seen government support for a range of new providers who though producing small numbers at present, are likely to grow in capacity and significance. Local authorities will also come back into the frame alongside housing associations who are now competing to be in the top 10 of organisations producing new homes.

Lenders have been used to lending to a rather narrow spectrum of new home providers. Indeed, many lenders don't lend on new homes, but in recent years more firms have engaged with new build and taken on specialist staff to support that. Going forward lenders are going to have to recognise that the lending landscape in terms of newly built homes is going to become more diverse both in terms of providers and products as this report goes on to show.

Although community led housing is now expanding fast and is characterised by a good deal of organisational and structural flexibility, four main sub-sectors operating as distinct approaches to the community led ethos can be identified:

- Community Land Trusts (CLTs),
- Cohousing,
- Cooperative housing including cooperative housing associations and;

- Self-help groups.

Of these groups those producing homes for sale are usually CLTs and Cohousing and these will be examined in more detail in subsequent sections. In the meantime, brief descriptions of cooperative and self-help groups are given below:

Cooperative housing

Cooperative housing is defined as housing that is "*developed by, with and usually for, a democratic community membership organisation; and is controlled (and in some cases owned) by a local democratic community membership organisation*" (Bliss & Lambert, 2014). It is in fact the largest of the sub-sectors within community led housing with c. 836 organisations across the UK with around 169,000 homes owned and managed; 91% of which are in England (Heywood, 2016). The sector includes cooperative housing associations, which own the majority of the stock as well as mutual groups. Most of this stock is social rented. Homes may be owned and managed by the members, or in some cases, Tenant Management Organisations. Certain management functions may be controlled by a tenant body while ownership rests with a housing association. The degree of control exercised by tenants can vary significantly.

Self-help groups

Self-help groups represent a type of activity rather than a specific organisational structure. Their focus is principally on renovation/refurbishment of empty homes of which there were c. 200,145 in England in 2016 (DCLG, 2017). Between 2012 and 2015 self-help groups received significant government funding in the form of the Empty Homes Community Grants Programme and were able to renovate almost 1300 homes. In 2017, the number of self-help groups in England was c. 170 and the number of homes under management (normally rented) increased to c. 2750 as reported by a Self-Help.org. representative (Self-Help.org, 2017).

Community Land Trusts

Definition and aims

The NCLTN defines CLTs as follows:

> "Community Land Trusts (CLTs) are a form of community led housing, set up and run by ordinary people to develop and manage homes as well as other assets important to that community, like community enterprises, food growing or workspaces. CLTs act as long-term stewards of housing, ensuring that it remains genuinely affordable, based on what people actually earn in their area, not just for now but for every future occupier." (NCLTN, 2017)

Community Land Trusts [CLTs] have been in existence in the USA since the late 1960s (National Community Land Trust Network (USA), 2015) but are relatively new in the UK. It is an expanding sector; of the 225 CLTs currently in existence over half were formed in the last two years. (NCLTN, 2017). Internationally, the CLT model has attracted interest and support in countries as diverse as Belgium and Australia (NCLTN, 2017) (Crabtree, et al., 2015).

Unusually, CLTs are defined in the Housing and Regeneration Act 2008 in terms of their aims and structure. The thrust of CLT activity is thus ensuring that the availability of genuinely affordable homes in a locality is improved. A CLT must be governed by individuals who do not directly benefit from its activities; this is an important feature in promoting confidence in the integrity of these organisations.

CLTs may develop housing products for homeownership, shared ownership or for rent, but in each case the underlying aim will be to ensure that homes are affordable in perpetuity. CLTs are essentially

a sub-sector of the broader affordable housing sector. The central aim of securing affordability determines the terms on which properties for homeownership are presented to buyers and thus to mortgage lenders.

New development by CLTs

According to the NCLTN, CLTs have completed 789 homes in England and Wales to date, of which 332 were for homeownership, including shared ownership and the remainder were for rental.

Out of 225 CLTs only nine are Registered Providers as housing associations are now referred to in England. According to the NCLTN, the advantages of registration include access to grant via Homes England, and easier access to funding from banks and building societies who currently fund the housing association (HA) sector. However, these advantages were usually outweighed by the onerous nature of the registration process, the subsequent administration necessary to comply with regulatory demands and the fee for registration. These conclusions were confirmed by the interviews with the CLT technical advisers.

Most CLTs are thus not themselves Registered Providers and because resources are usually limited, a common route for new development is via a partnership with a housing association. This provides access to skills and experience in the field of new development and in related planning issues and liaison with local authorities. Partnership with an association is also important in facilitating access to development finance via mainstream lenders, although there are a small group of funders, including the Ecology Building Society, Triodos Bank and Charity Bank who are committed to funding the community led sector including CLTs (Heywood, 2016). Although CLTs cannot currently directly access grant under the Affordable Homes Programme (AHP) unless they are Registered Providers, the Government announced a new annual £60 million Community Housing Fund, which can be accessed by community led groups, including CLTs in 150 local authority areas (DCLG, 2016). While this initiative has been widely welcomed by the sector, feedback suggests that the impact in terms of stimulating new development will depend on how it is implemented in practice.

In addition to drawing on the skills and experience of HAs, CLTs can also access some limited grant funding to fund advice and support. The grants are the Community led Buildings Pre-Feasibility Grant and Community led Buildings Project Support Grant, both of which have been available via Locality. (Locality, 2017) Some limited funding for CLTs is available from charitable and other sources.

CLT development; numbers

Because the CLT sector is young, most property that is sold or rented is new. Resales of homeownership products are rare according to CLT technical advisers. This means that new development provides probably the best indicator for mortgage lenders of the scale of demand for mortgage products from the CLT sector.

789 homes have been completed by CLTs so far over a decade of activity. While this is a relatively modest output, NCLTN and its local technical advisers are confident that the rate of new development is set to increase substantially as is evident in Table 1 below:

Table 1; England and Wales: New homes completed as at July 2017 and planned for completion by 2020

	Shared ownership	Discounted Market Value	Shared equity	Open market sale	Rental units	Total
Completed	103	86	68	75	457	789
Planned	115	231	50	155	3905	4456

Source: NCLTN

This expansion is in part a consequence of the introduction of the Community Housing Fund but also stems from the larger development projects planned by some groups. Interviews with NCLTN and technical advisers confirmed that the delivery of the Community Housing Fund along the lines originally anticipated would be crucial to delivering the planned pipeline.

155 properties are planned for open market sale. These are unlikely to pose specific issues for lenders. Of those which are developed as specific products with a view to boosting and perpetuating affordability, the most common (completed plus planned) are those sold under a Discounted Market Value (DMV) scheme. These are followed by shared ownership homes, which in turn significantly outnumber those to be sold under a shared equity arrangement. These arrangements will be discussed in more detail below.

Most properties developed are houses rather than flats. In addition, construction tends to be "traditional" (i.e. brick and block or timber frame) rather than via Modern Methods of Construction (MMC)

CLT development; a range of homeownership schemes

As Table 1 shows CLTs offer homes under a range of homeownership schemes that will, ultimately, find their way to lenders. These products have been designed (or in the case of shared ownership "tweaked") to meet the aim of securing the affordability of a property in perpetuity. As this may raise issues for lenders, the key characteristics of the various ownership schemes are set out below.

It should be noted that while these tenure options were studied as used by CLTs, they could equally be employed by other forms of Community Led Housing including cohousing and co-operatives.

Shared ownership

Shared ownership as a product is reasonably familiar to mortgage lenders and around 23 lenders currently support it. It is a leasehold contract which involves the buyer purchasing a percentage share in the property which may vary between 25% and 75%. The seller is normally a Registered Provider HA which retains the remainder of the equity on which a rent of around 3% pa. of the value of that equity share is charged.

Almost all CLTs who build for shared ownership offer it for sale via the most applicable Homes England model lease, not least because their HA development partners require its use (NCLTN/Adviser feedback, 2017) (HCA, 2017). However, CLTs will aim in many cases to cap the percentage share that the share owner may acquire via staircasing. While a variant of the Homes England model lease makes allowance for a cap on staircasing of 80% in protected areas[1], such a cap does represent a significant

[1] A Designated Protected Area is one where opportunities to build are scarce and likelihood of affordable homes being lost to the open market is high.

variant to both the substance and ethos of shared ownership, which is usually promoted by HAs as a stepping stone to full homeownership.

Given these constraints and to address the situation where a borrower has defaulted on the mortgage secured on the property and the lender needs to be able to sell the property quickly and at full value, it is very common for CLTs to offer a "mortgagee in possession" clause exempting a lender in possession from restrictions on selling the property after a specified period. This can be via a cascade arrangement whereby the restrictions progressively fall away over a period on months if there has been no sale. Some CLTs may also offer lenders a guaranteed buy-back commitment on the property.

Discounted Market Value (DMV)

DMV, also sometimes known as Resale Price Covenants[2] (RPC) look, according to NCLTN figures, to be the preferred model going forward. They directly address the issue of securing affordability on a permanent basis by ensuring that the price of a property will always be lower than for an equivalent property being sold on the open market.

As a model, it is simpler than either shared ownership or shared equity since it involves outright purchase. As the name implies, DMV involves selling a property at the initial sale for an amount discounted from Open Market Value (OMV) with that discount maintained over subsequent sales by a stated formula. Sales can be freehold or leasehold. DMV contracts typically fall into two types:

- A fixed percentage discount from OMV which can be determined at the time of sale. A property will thus always sell at 80% of OMV for example. This variant has the advantage of simplicity; since the property will normally be valued for sale in any case. In addition, it allows the buyer (or in the case of mortgage default by a buyer, a mortgagee in possession), to benefit from any uplift in value in the normal way. This is the DMV variant most commonly used by CLTs, in large part because it is believed to be more acceptable to lenders (NCLTN/Adviser feedback, 2017).
- A second variant, which is used less commonly than the above, involves discounting the initial price and then linking subsequent resale prices to movements in (local) incomes. This option, which has obvious advantages from an affordability standpoint, is popular with CLTs but is often avoided in practice because of fears by the CLT (or partner HA) that lenders could be alarmed by the additional uncertainty over the property value given as security for the loan as this will impact on of the resale price and possibility of a speedy sale. Lenders indicated that such loans could also be harder to process.

A third variant; linking the discount to a price linked to movements in a retail price index, appears to be very little used (if at all) and was not raised by CLT interviewees. This may be because a link to house prices or incomes, is seen as a more direct way to address the issue of affordability in perpetuity. In any case this option adds additional uncertainty into the question of the resale value as with the case of a price linked to incomes and may be harder for a lender to process.

As with shared equity and shared ownership, it is common to offer a mortgagee in possession clause on DMV contracts.

[2] The use of the term Resale Price Covenant is sometimes restricted to situations where the resale price is permanently discounted from OMV- the first variant discussed in this section.

Shared equity

Shared equity is less commonly offered by CLTs than shared ownership or discounted market value (DMV) and this pattern looks set to continue. This may in part reflect that lenders are in general less sympathetic to this arrangement, which is quite distinct from an equity loan as set out below. It may also be less popular with CLTs because it is relatively unfamiliar to HA partners and may be seen as more complex and bespoke in that it has not been standardised via a commonly used lease as with shared ownership and is more complicated than DMV.

Shared equity should not be confused with equity loan schemes such as the Help to Buy Equity Loan, although this is also commonly termed shared equity. With the latter the buyer purchases 100% of the equity in the property but uses an equity loan to do so. The equity loan is linked to the property value, so it changes over time. In the case of shared equity, a percentage of the equity is retained by the seller (in this case a CLT) under a leasehold arrangement. Shared equity thus resembles shared ownership in its basic structure, although no rent is payable on the retained share of the equity.

This similarity raises an important question as to whether this form of shared equity might be standardised within a broadened shared ownership model, perhaps even with a common shared equity/shared ownership lease. This possible option is further discussed later.

As with shared ownership, an additional condition imposed by CLTs when selling on a shared equity basis is a restriction preventing the eventual purchase of 100% of the equity. In one English region this was always the model used (NCLTN/Adviser feedback, 2017). This, from the perspective of a CLT, offers more direct control and/or influence over both the resale price of the property, over subsequent sales and over who can live in it.

As with shared ownership, the situation where a lender takes possession of a property to sell it following borrower default is addressed by a clause exempting a mortgagee in possession from restrictions on selling the whole property, or by offering a guaranteed buy-back in the event of default by a borrower and possession by the lender.

It is worth noting, that an equity loan can also be used to provide affordable housing. However, the loan is typically assumed to be repaid when a property is sold although this need not automatically be the case. The original Green Deal structure for example included a secured charge that passed with the property from one owner to the next.

Additional sales restrictions imposed by CLTs

Homes sold by a CLT are always subject to additional restrictions as to who may buy a property, a characteristic they share with cohousing (see below). In the case of CLTs the restrictions are normally aimed at restricting the purchaser to members of the local community as defined. Restrictions typically limit potential buyers to those living and/or working within the local area of the CLT. Such restrictions may be made via S.106 agreements or embodied in covenants.

Focus on the local community is key to the aims of all CLTs and indeed is written into the legal definition of a CLT set out in the Housing and Regeneration Act 2008 (Legislation.gov.uk, 2017). The restriction of buyers to those with a local connection is thus seen by CLTs as fundamental to their strategies (NCLTN/Adviser feedback, 2017).

CLTs and HAs generally express an awareness that lenders may view such restrictions with suspicion. They are therefore normally included with a mortgagee in possession clause as described above. This

clause gives lenders unfettered rights to sell the property after an initial period has elapsed although the total amount a lender may recover may still be restricted.

CLTs and mortgage finance

Feedback from CLTs suggests that currently, mortgages are used on most CLT-developed homes for sale and this supposition is supported by previous research (NCLTN/Adviser feedback, 2017) (Heywood, 2016). However, although mortgage finance is available to support the current level of development, it is clear that it is provided by a very small group of lenders. Interviewees were only able to name a total of six lenders who were "most helpful". Lenders mentioned as helpful or willing to lend were:

- Ecology Building Society
- Halifax (part of Lloyds Banking Group)
- Leeds Building Society
- Nationwide Building Society
- Newbury Building Society
- Teachers Building Society

The fact that five out of six are building societies may be significant. It has been suggested that regional building societies find it hard to compete with the large banks on price, volume and efficiency, as well as brand awareness. They may, therefore, be more willing to seek out niche markets or at least undertake more manual due diligence on individual lending propositions. This matter is discussed further below.

Feedback from CLTs further suggested that while access to mortgage finance had not so far been a constraining factor on the level of new development by CLTs, it had influenced the shape of that development directly or indirectly. Advisers to CLTs believed that perceived difficulties in obtaining mortgage finance for certain products including DMV linked to incomes and caps on staircasing and equity purchase (shared ownership and shared equity) had influenced individual CLTs to avoid these conditions. It was also clear that HA partners frequently believed themselves to be aware of lender requirements and influenced CLTs to avoid products that the HA believed to be problematic (NCLTN/Adviser feedback, 2017).

Overall, access to mortgage finance is available on CLT development but is offered by a restricted group of lenders offering borrowers little choice of mortgage offer. In addition, CLTs are not always able to offer products that they would consider appropriate to maintain affordability in their local areas.

Cohousing

Cohousing is the smallest of the sub-sectors within the community led sector. A helpful definition of cohousing is offered by the UK Cohousing Network:

> "Cohousing communities are intentional communities, created and run by their residents. Each household has a self-contained, private home as well as shared community space. Residents come together to manage their community, share activities, and regularly eat together." (UK Co-Housing Network, 2017)

Above all, Cohousing entails the establishment of "intentional communities"- i.e. communities that people elect to join and into which they are accepted as members. Membership is normally a legally defined concept involving rights and obligations to the community. Cohousing communities are made

up of a mix of common and private facilities; members have their own self-contained dwelling but share a "common house" in which common activities take place including eating together regularly. Management is achieved through collective resident control and each member is expected to contribute work for the community.

Cohousing communities typically range in size from 20-40 households (Heywood, 2016).

According to the UK Cohousing Network, there are currently 18 established cohousing communities with residents living on-site in England and one in Scotland. There are a further 52 communities in the process of development or formation.

The UK Cohousing Network does not have up-to-date data on the number of homes owned and managed by cohousing communities or for planned development. However, in 2015 the network surveyed members as part of a research project and produced the following data (Table 2):

Table 2; Number of homes owned and/or managed by cohousing groups 2015

	New-build	Renovated
Home ownership	85	110
Mutual home ownership[3]	20	14
Shared ownership	2	6
Affordable rent	16	5
Private rent	8	0
TOTAL	131	135

Source: UK Cohousing Network survey, 2015; Heywood, 2016

It will be noted that not all cohousing homes are for sale and that not all are new-build. However, the design and build standards of cohousing properties are considered high and often innovative according to cohousing interviewees and a lender interviewee.

Unlike CLTs, cohousing is not a sub-sector of the affordable housing sector, although as the table above indicates, a very small proportion of homes developed are classed as affordable housing. The aim of the cohousing movement is to establish and sustain communities for their members rather than provide affordable homes for a wider community. Nevertheless, the UK Cohousing Network has identified a desire amongst grassroots members to render cohousing homes more affordable to those on lower incomes and hence there is a wish to make mortgage finance more widely available than at present.

Cohousing communities may be intentionally multi-generational and socially diverse. However, they are often established to serve particular interests. The OWCH community for instance, is composed of women over 50, while Cannock Mill is developing itself as a community for the over 40's.

Cohousing development: numbers

Continuous new development is not necessarily a driver for cohousing communities. The aim is to establish and sustain a community for members. This does not preclude further development, but it does not pre-suppose it. It should be noted that development typically has some of the characteristics of self/custom build in that the members will be closely involved in developing their own houses where these are new. Previous research has suggested that for some cohousing groups the effort of

[3] Where members of a community have equity shares in the properties rather than each member owning an individual property. Lilac is the cohousing community known for using this tenure. Since mutual homeownership homes are owned by the community rather than individual households retail mortgages are not required for those accessing this tenure.

directly managing development of their homes is such that for some there is no desire to repeat the experience. For this reason, development within this sector is likely to be incremental and often horizontal; i.e. by establishing new communities rather than via further development by existing groups (Heywood, 2016). Nevertheless, data collected in 2015 (Table 3) suggested that the movement did have plans for new development:

Table 3; Homes to be developed or renovated by 2018

	Planned new build homes	Planned renovated homes
Looking for land or earlier		10
Land identified	64	1
Land acquired	59	
Planning permission applied for	54	
Planning permission granted	48	4
Finance identified	30	
Finance agreed	46	26
TOTAL	291	41

Source: UK Cohousing Network survey, 2015; Heywood, 2016

The cohousing movement is thus small from the perspective of a bank or building society that is part of a sector processing an average of over 65,000 mortgaged housing purchases a month across the UK (CML, 2017).

Cohousing development; homeownership with a difference

Individual outright homeownership makes up the majority of cohousing development and in that sense, it may be simpler for external stakeholders such as lenders to understand than is the case with CLTs. In addition, it is rare for S.106 agreements to apply to these developments for homeownership which removes a further complication. Homes are normally purchased on a leasehold basis, with a 999-year lease being not uncommon. Nevertheless, there are ways in which cohousing communities vary the normal contractual characteristics of mainstream homeownership and these are dealt with below.

A growing number of cohousing groups are developing mixed tenure schemes. Where they develop non-standard forms of affordable housing, they will face the same opportunities and issues discussed in the section above in relation to CLTs.

Membership

As noted above for all cohousing communities becoming a member of the community, which involves applying and being accepted by the community is a pre-condition for purchasing a home. This means that if a member wishes to sell their home they must find a buyer willing to join the community and who is acceptable to the community. There is usually some relaxation of this rule where properties have proved difficult to sell after a period. The OWCH community has three conditions that home buyers must satisfy:

- They must the women,
- They must be over 50
- They must be members of OWCH

If a member of OWCH wishes to sell their property, the price must be agreed with OWCH who have six months in which to find an eligible buyer. If after six months the property is unsold then the owner is free to sell to anyone who meets the first two conditions- i.e. is a woman and over 50 (OWCH, 2017).

Common facilities

The common house and other facilities offered by cohousing communities are often reflected in the price charged for these properties. One cohousing interviewee stated that their prices were significantly above those for equivalent local properties because of what was offered. Feedback from interviewees suggests that cohousing is not a cheap option.

In addition to the facilities, cohousing members may also be subject to what amount to service charges for services provided by the community. While these are not unique to this sector they are an additional factor to be considered by lenders and others.

Other conditions

Cohousing groups may impose additional conditions on purchasers of their homes. For instance, Springhill requires purchasers to pay the community 0.5% of the purchase price. (Springhill Cohousing, 2017) On the Brink, has provisions in place to ensure that the community shares in windfall gains made by sellers due to house price inflation.

Such measures can usually be justified in the context of sustaining a functioning community, but they may be considered complicating factors by lenders, particularly if they apply to resales as well as the first sale.

Cohousing and mortgage finance

It is clear from interviews conducted that mortgage finance currently plays a relatively minor role in house purchase compared to the position in the mainstream housing market. One interviewee reported that some members raised finance to build their cohousing home by mortgaging their previous properties. Another interviewee believed that some members had mortgages but was unable to provide more detail. Feedback from the UK Cohousing Network and individual members suggests that cohousing residents tend to be older and to have significant housing equity at the time they join a community. Mortgages, where they do exist are probably of low loan-to-value (LTV). The position is further complicated by the fact that some lending will in effect be on a home yet to be completed, and this adds a further dimension to the type of retail mortgage finance that may be required, including stage payments. Whilst mortgage finance for those who are custom / self-building is less available and relatively more expensive, there is a ready supply for those with a sufficiently large deposit.

3. Retail mortgage lenders, affordable housing and the community led sector

This section draws on lender documentation and interviews plus other related research on shared ownership and equity loans. Our web search was based on 22 lenders who already lend on shared ownership. This was seen as a sensible starting point. However, as is evident from Appendix 2 which covers our analysis of lender loan documentation even the stance they take on shared ownership is quite varied in terms of using the model leases. 5 lenders would clearly lend on homes where the buyer can't staircase to 100%. A further 11 lenders would ask the broker to refer to the lender which may or may not result in consideration of the case. Only 2 of the 5 lenders impose no conditions when the borrower can't buy 100%. 5 lenders will lend to subsequent buyers who are local but do impose conditions.

Community led housing and retail mortgage lending: building the partnership

As is also evident from the table (Appendix 2), there are also variations around subsequent sales and the use of incomes to arrive at sale prices. The table shows that almost all lenders make no mention of community led housing on their websites and in terms of their lending policy. The general conclusion to be drawn from the survey of documentation is that CLTs and even more so Cohousing, are not on most lenders radar. However, to be positive they are on some.

We followed this up by interviews with 15 lenders ranging in size from very big to small. Some of these were known to have some exposure to the shared ownership or shared equity markets or both; in other words, we were speaking to a relatively well-informed segment of the lending industry. However, we also interviewed lenders who were believed not to be involved in these markets. The core findings from these interviews are given below.

Affordable housing products

The lenders interviewed varied considerably in terms of their approach across equity loans, shared ownership, discounted market value, Right to Buy and Starter Homes. Almost all lent on Right to Buy and all were waiting on the finalisation of Starter Homes rules to arrive at final policy. For the purposes of this study we can broadly ignore these two areas although the former has some relevance in that there is a discount and there may be resale requirements.

Of 7 lenders 4 had lent on DMV in varying ways -accepting the restrictions but possibly on a case by case basis. Some impose a time limit after which the property can be sold in the open market. One lender was exploring moving to a criteria-based lending scheme rather than via 'standardised 'products. 3 lenders allowed combinations of schemes, but it was clearly rare and on a case by case basis. At best three lenders took an active view of the affordable home ownership market, whereas 3 lenders were passive, and one simply did not have any involvement in this market at all. It was clear that shared ownership and equity loans were the favoured schemes but 1 mentioned DMV and 2 the Right to Buy.

In terms of preferred partners most lenders preferred to work with housing associations and one of these would not lend via private providers (for profit RPs). Although 4 out of the 7 had some form of documentation this was unlikely to mention CLTs or Cohousing. Most agreed this needed improving. All were supportive of standardisation and simplification in these markets. There was some concern that public websites might be slow to change whereas internal websites for staff might be quicker. Of course, that has limitations as well.

Effectively, all but one of the lenders interviewed agreed they did not really understand the concepts of community led housing in general and cohousing in particular. There was only a limited understanding of CLTs and only amongst some lenders. The picture was very mixed with respect to restrictions on who could buy (such as potential buyers with a local connection) and what they could buy in terms of housing equity. Roughly half the lenders were comfortable with restrictions ("no issue with discount being full and enduring") with varying caveats around buy back arrangements being in place (one in favour another not) and with lenders also placing some importance on valuer guidance about the market for properties with restrictions. However, the other 50% would not currently accept such restrictions.

The interviews then dug deeper into whether lenders were comfortable with the different ways of arriving at the discount to open market value, via simple valuation, via an income requirement or via the retail price index. In so far as lenders answered this question some had worked with discount to OMV, one was familiar with a link to incomes while another had done it once. None were familiar with the RPI link. If in doubt lenders will fall back on a case by case basis but as one noted, it is often easier

to say no. Shared resources – common areas- as in cohousing were also largely unknown. One or two lenders could work with the concept, but others had no idea about it or wouldn't do it. Again, saying no was an obvious option.

All lenders had a corporate social responsibility (CSR) stance and for the most part saw this as being engagement around the community rather than products. One or two had worked on the link between community and community led housing although in one of these cases it was via their linked Foundation. When asked to respond to a series of statements about CLTs, 3 lenders saw them as a valuable social service deserving support but only one saw this as a commercial area and even then "it required plenty of patience". The lack of scale was cited by a number of lenders. While there was recognition that engagement with the community was good for the 'brand' this didn't immediately translate into supporting CLTs

Lenders were also asked similar questions regarding cohousing. The merits of cohousing were recognised in terms of service to the community and as innovative responses to housing issues. But they were perceived as having limited appeal and requiring a lot of work. Putting scale and cost together one large lender questioned the merits of engaging with this. Again, brand benefits were recognised but if this was seen as weak via working with CLTs, it was even more the case for cohousing.

Almost all lenders argued for standardisation and for simplicity as necessary precursors to widespread lender engagement. Some lenders wanted dialogue and were willing to explore options. Others saw this more as an area for the trade bodies, the RICs and others. Lenders agreed they needed to understand CLTs and particularly cohousing rather better. However, above all else they wanted simplicity and consistency; common standards, proper engagements and dialogue between lenders and these types of bodies.

Lenders wanted to lend but believed these sectors had made it difficult, especially for larger lenders. One small lender had obviously spent time and effort to engage and this firm had the most developed approach in terms of covering the variations. It is significant that detailed discussions with lenders suggested that for larger lenders refusal to lend on products such as shared ownership with capped staircasing or DMV was not usually for prudential reasons but because their systems were geared to standardised "vanilla" products and that lending on these non-standard products took time and resources that they were not willing to deploy given the small numbers.

Lenders and shared ownership

CLTs and cohousing should take comfort from the progress made over the last decade with lenders and lending on shared ownership. Although there were a small number of lenders with a long-standing commitment to this tenure, many others were reluctant to undertake such business. There were a number of reasons for this including low market volumes, limited performance data, complexity (3 parties to the transaction –buyer, provider and lender) and lack of understanding of the arrangements, a view that arrears and possessions were higher and a negative stance by regulators. This then fed into restrictions on how to treat such loans in terms of 'capital weighting', the amount of money lenders must set aside to cover the risk of default and losses.

However, over the last decade there have been significant improvements in this area. A model lease was agreed/updated, and lenders embraced the fact that the providers were regulated bodies. Data collection was much improved and there was sustained engagement between lenders and the shared ownership providers. Most recently, the sector was championed by the Legal and General Mortgage Club – a network for mortgage brokers. The upshot of all of that is that there are now around 23

lenders to this market, competition has increased and pricing and terms have improved. There is still more to do - not least on the valuation of improvements and the management of shared ownership portfolios by associations plus proper recording by lenders of shared ownership lending. Nevertheless, clear progress has been made and continues to be made.

Lenders vary in their views of shared ownership –some see it as little different than a mainstream product, others take the view that it is a specialist market. Some lenders have specific shared ownership products, others simply give access to mainstream products. What lenders wanted and largely now get from associations is standardisation – use of the model leases and a reduction in site specific terms and complexities –and this has helped build lender confidence and acceptance of shared ownership as a 'mainstream' product.

4. Lenders and CLT homeownership products

In this section we explore in more detail how the objectives for community led housing inform the type of mortgage products that are available currently and might be required in the future. It examines the current products and their fit with those requirements. It also identifies areas where progress might be made.

Given the differing nature and lack of overlap between CLTs and cohousing these two aspects of community led housing are considered separately.

Community Land Trusts

The NCLTN states that CLTs act as long-term stewards of housing, ensuring that it remains genuinely affordable, based on what people actually earn in their area, not just for now but for every future occupier. The general expectation is that as a minimum there will some mechanism to ensure that the property remains at a discount compared to similar properties in the area. Any restriction on price has implications for mortgage lenders.

Retaining a discount may not be sufficient to maintain affordability where house prices rise faster than incomes. CLTs have therefore looked to link property prices to incomes. This approach adds further complexity to the process.

As noted earlier lender awareness of CLTs is extremely low, even from building societies that specialise in the affordable housing sector. Most see the community led sector as "far below the radar". Without even a basic understanding of what the sector does, and without apparent pressure on them to provide products to serve the sector, many lender interviews have been more of an introduction to the sector rather than a survey of what the lender does. This is consistent with the desktop analysis of lender documentation which identified only the Ecology Building Society and Parity Trust as making any reference to CLTs in their documentation.

Affordable housing and CLTs

The good news for the sector is that the mortgage market has a long history of lending on different schemes and that the mortgage sector itself is diverse and competitive. Many smaller providers (often local building societies) have made a virtue of their manual systems and processes to concentrate on specialist markets including affordable housing.

As a result, the mainstream affordable housing market appears to be adequately served for the most standard affordable housing products; equity loan, shared ownership and right to buy. An established market results in structures and processes which could be piggybacked by community led groups. Cohousing cannot be categorised in this way as it is simply largely unknown.

Care is required as schemes that appear similar in outcome can have significant differences in terms of the structure of the mortgage arrangements. They impact on the approach to valuation of the property and the way in which the customer's loan to value is determined. As a further complication, additional lender restrictions often apply when the property is newly built.

A challenge is that most of these affordable housing products were originally designed (even if not always actually used) as gateway products into full home ownership. They therefore anticipate the ultimate sale of the property into the open market at full value. Clearly, property sales into the open market are one way in which investment into affordable housing can be returned and reinvested. However, this is at odds with the aim of CLTs that properties are affordable in perpetuity. One lender when interviewed stated that a reason they would not lend on shared ownership when staircasing was capped was because they saw shared ownership as a gateway product to full ownership even if it was not always exercised. If this lender is not alone in rejecting capped staircasing based on such reasoning it may be that they could be persuaded to review their position, particularly if Homes England were to sanction a version of the standard lease which incorporated capped staircasing.

To maintain affordability in perpetuity, the solution adopted is often to impose covenants within the lease to limit the value of the property or the share of the property that can be acquired. Covenants generally are not welcomed by mortgage lenders, who prefer the option to sell in the open market in the relatively unlikely case of mortgage default. Furthermore, lenders struggle to deal with combinations of schemes and covenants including variations designed to meet local needs. There are ways to satisfy both lender and CLT if both give a little.

There has been a long ongoing discussion around whether lending into the affordable housing sector carries increased credit risk for lenders. There is no definitive view, as data is not collected routinely, but a generally accepted view is that the profile is broadly aligned to that of first time buyers and that the structures generally provide added lender protection in the case of default (see Table 4 below).

Table 4; Difficulties repaying mortgages of shared equity and other first-time buyers in England

Indicator		Shared owners	First Time Buyers with mortgage
Current mortgage repayment situation	Up to date with payments	96%	98%
	Less than 3 months behind	4%	1%
	3 to 6 months behind	1%	1%
	Over 6 months behind	0%	0%
Any difficulties keeping up with mortgage payments in the last 12 months96%	Have no difficulty in keeping up	88%	87%
	Have found it rather difficult to keep up	10%	10%
	Have found it very difficult to keep up	2%	3%

Sources; CML (2017) *Shared ownership; Ugly Sister or Cinderella*; English Housing Survey 2011-2014, household weighting, own analysis.

As noted earlier, affordable home ownership as offered by CLTs has historically been focussed on three main components; shared ownership, shared equity, and DMV. All three can produce a broadly equivalent affordable home ownership structure. This combines a customer deposit, a mortgage and an affordable element. In general, there are two main challenges to these schemes:

(1) These schemes are less beneficial with regards to the interest rate payable on the mortgage compared to purchasing with an equity loan (such as Help to Buy Equity Loan). This is because an equity loan is treated by the lender in a similar way to a deposit by the customer and so reduces the loan to value and hence the mortgage rate payable.
(2) Unlike with an equity loan, the deposit requirements are often impacted by the new build criteria of lenders. This means that whilst the deposit for a second-hand property may be minimised by the scheme the deposit required, particularly in the case of a new build flat, can be much larger.

Shared ownership

Shared ownership offers a natural fit with CLTs given that it is used for similar purposes of providing affordable home ownership by housing associations. As the name implies the purchaser buys a share of the property, and they are typically charged a reduced rent on the element that they do not own. Whilst they own only a portion of the property they are responsible for all repairs and maintenance. When the property is sold it will typically be the same share and hence affordability relative to local house prices will be retained.

Shared ownership is not without flaws. The rent typically at 3% of the retained share, can be more than the mortgage rate. There is a legal risk that the lender could lose their security if any rent is not paid and managing arrears of mortgage and rent can be complex. This means that lenders are cautious as to who they work with and as noted earlier often restrict their support to properties owned by housing associations. Lenders also benefit from a mortgagee in possession clause that allows them the ultimate option of selling into the open market to recover their outstanding debt (subject to detailed restrictions, and typically with an association buy back option).

The lending treatment varies as we can see from Table 5 below. The customer is likely to pay a higher rate of interest on their loan and requires a higher deposit if buying a new build (especially a flat). For an existing property the deposit required will often be the same although the interest rate charged by the lender will be higher.

Table 5; Differential lending treatment by type of product

Example LTV of 50%, OMV of £100k	Shared ownership New build	Shared Ownership existing property	Equity Loan
Min Deposit required	£12,500	£2,500	£2,500**
LTV for mortgage	75%	95%	47.5%
Value for LTV	£50,000	£50,000	£100,000
Typical mortgage rate*	1.9%	4.5%	1.8%

*Rates are for a 2-year fixed rate as at Q4 2017.
** For Help to Buy Equity Loan the deposit must be 5% of the property value.
Source; Authors own assessment based on market information

Whilst the community led sector should encourage lenders to do more; ensuring that as a minimum they are given equal treatment with shared ownership should be the first stage. The most immediate need is to ensure that lenders who support shared ownership when offered by housing associations extend their lending to CLTs that use the standard lease.

Shared ownership with staircasing cap or resale price covenant.

To prevent a shared ownership property from becoming "lost" to the open market then a staircasing cap can be implemented. It could be that no staircasing is allowed, and if no rent is then charged then the effect is to create a permanent discount to the market (in effect the same outcome for the customer as an equity share or discounted market value approach).

Whilst the outcome for the customer may be the same, a shared ownership approach appears currently acceptable to the most lenders (even though the form is more complex that other schemes and it could be argued offers less protection to the lender).

The HE standard lease for Designated Protected Areas allows staircasing to be limited to 80% of the open market value. A Designated Protected Area is one where opportunities to build are scarce and likelihood of affordable homes being lost to the open market is high.

By adjusting the 80% value and removing any reference to "Designated Protected Area" CLTs are able to adopt an HE standard lease to apply to a specific CLT property and effect a specified maximum LTV without making any other change to the lease. These changes allow the CLT to provide shared ownership properties with a staircasing cap appropriate to their area. In practice this may mean no staircasing is permitted (if the leasehold share is already at the maximum amount). Some lenders in the shared ownership market are happy to accept this form of lease but many are not. One lender who supported capped staircasing suggested that were Homes England to produce a variant of their standard lease for use by CLTs that specifically allowed capped staircasing outside of Designated Protected Areas then other lenders might be encouraged to support capped staircasing.

The alternative approach is to use the standard HCA lease and combine it with a retail price covenant. The challenge this creates is how to approach the valuation of a property when these two separate approaches overlap. This is a complex issue if the price cap is not linked to the open market value, and whilst some lenders will consider combinations of schemes they should ideally be avoided.

Shared equity

As noted above shared equity is a further option. Furthermore, the market now uses shared equity for equity loans. This has become so widespread that it is highly unlikely any lender asked about the product would consider shared equity in any form other than an equity loan.

A shared equity arrangement can deliver the same outcome as a shared ownership or a discounted market value approach. CLTs appear to be providing properties on this basis. It is uncertain the extent to which lenders fully understand the difference with an equity loan, and therefore how key elements of the mortgage such as loan to value and hence mortgage rate are calculated. Shared equity has the benefit of being simpler than shared ownership and when compared to DMV preserving the option of achieving the value locked up in the equity share or using it as security. There is a case for more lenders accepting this approach, but it would benefit from standardisation as a form but also where appropriate with shared ownership. The name confusion with equity loan will however make it harder for this structure to get the level of awareness it deserves.

Discounted Market Value (DMV)

DMV or resale price covenants are terms that set the initial price and then restrict the price at which the property can be resold.

Despite its inherently simple structure (using standard wording), few lenders accept this approach. After carrying out the interviews with lenders it is not immediately clear why this is the case. Certainly, there is a general unfamiliarity with the concept as well as limited understanding of the increased complexity DMV brings with regards the valuation.

However, as noted above, the approach to valuation results in a similar outcome for the purchaser as shared ownership and shared equity. The borrower does not however benefit from the arrangement in the same way as for an equity loan and the customer may need a large deposit when purchasing a new property.

Table 6; Comparing DMV and Equity Loan

Example LTV of 50%, OMV of £100k	DMV New build	DMV Existing Property	Equity Loan
Min Deposit required	£12,500	£2,500	£2,500**
LTV for mortgage	75%	95%	47.5%
Value for LTV	£50,000	£50,000	£100,000
Typical mortgage rate*	1.9%	4.5%	1.8%

*Rates are for a 2-year fixed rate as at Q4 2017.

** For Help to Buy Equity Loan the deposit must be 5% of the property value.

Typically, the discounted market value is set at a fixed percentage of the open market value of the property, making it straightforward for lenders to calculate.

With house prices rising faster than incomes, CLTs have looked to link the cost of property to average wages in the area instead. This works best where the discount is large, local employment robust, and demand strong (London being the obvious example). Challenges with this approach are that it reduces the moving-on options for the buyer and dis-incentivises ongoing personal investment in the property. Whist this approach effectively eliminates the need for a valuation it is more complex than a normal purchase and it creates challenges for lenders processes and systems both pre- and post-house purchase. Whilst these problems are not insurmountable they are likely to be only accepted by lenders with a strong drive to support this sector, or a specific scheme.

Detailed follow-up with three lenders familiar with DMV indicated that their attitude to the two main variants were not identical. These lenders did not see DMV where the initial and resale price is discounted by a percentage of OMV as posing prudential risks. They were clear that a property selling at a discount would be an attractive proposition on the market and that LTVs could be adjusted to take account of the discounted price. Two lenders were prepared to lend on this variant without a mortgagee in possession clause although one tried to obtain this safeguard where possible. It would appear that the reasons for not lending on this variant of DMV may be process driven. On small lender, heavily supportive of DMV indicated that for them it did not create systems issues, since the same small underwriting team handles all mortgage applications. However, they did believe that this could create systems issues for larger lenders who were trying to achieve an “automated” throughput of standardised products. DMV contracts were often not standardised and the DMV provisions themselves were to be found in the deeds rather than in a lease, making them harder to spot. It may be that CLTs could work with lenders to overcome these issues. However, it is also clear that for larger

lenders a key consideration will be the volume of business that might result from a modification to their systems. The community led sector will have to demonstrate that transaction volumes are likely to be high enough to justify the time and expense.

When it comes to DMV tied to local incomes, all lenders did see additional prudential and conduct issues that could not be ignored. There were concerns that wages could fall and that buyers could become trapped in homes, valued below the price paid. The lenders questioned all required the safeguard of a mortgage in possession clause or guaranteed buy back by the seller. Even so, one lender was concerned that DMV tied to local incomes might not work outside buoyant housing and expensive markets such as London. This variant of DMV is also inherently more complex from a lender perspective and cuts across automated systems.

Overall, it would seem that DMV is likely to remain more acceptable to smaller lenders because they may be in a position to offer more flexibility. Nevertheless, At least one larger lender has agreed to lend on DMV tied to local incomes although only on a case by case basis. Standardisation of DMV and making it more visible to lenders could possibly contribute to a change of heart amongst some lenders whose flexible (manual) underwriting makes the additional time and resources required less significant. At present, almost all DMV lending is in relation to a price discounted as a percentage from OMV. DMV tied to local incomes is rare and likely to remain less popular with lenders.

New build lending restrictions

Access to shared ownership is heavily restricted in many cases by lender new build policies that often limit loan to value to 75% or flats and 85% on houses (although the position is gradually improving). Lenders also have site exposure limits that means that a CLT needs to be certain that at least 5 lenders will lend on their site (unless very small).

As per Table 6 above, a customer buying a home using shared ownership or DMV may need to put down a deposit of 25% of their share or the discounted value if the property is new but only 5% if it is an existing dwelling.

The discrimination against new build reflects the fact that such properties in some areas have performed worse than the market generally in particular at times of market downturn. There are many reasons for this, but problems are less likely in CLTs as they have different drivers to a commercial developer. A CLT has less interest in optimising its sale price as this would only restrict those able to buy, or in the use of a rapidly escalating ground rent.

In part to offset this deposit challenge the Government introduced Help to Buy Equity Loan, however this scheme is not generally available to CLTs and hence they remain impacted by lender caution but lack access to the main solution to address this issue.

The trend from lenders is generally to reduce deposit levels on new build, and some do not apply new build limits in shared ownership cases. An alternative approach could also to value on a second-hand basis and apply LTV limits for second hand properties. Housing Associations as well as CLTs are impacted by this and it is an area that would benefit from more investigation.

Cohousing

We could identify no lender awareness of the cohousing market, in any of the organisations that we contacted. This lack of awareness is unsurprising as our own discussions with the sector also identified a very limited demand for mortgages and even then, that demand was largely for use of existing mortgages on existing properties to provide working capital to part fund the cohousing build.

This largely reflects the dynamic of the groups contacted and hence may not be representative of the sector as a whole or its wider ambitions. In conversations with lenders the key constraints identified related to the leasehold restrictions on house buyer and the treatment of the central capital and ongoing costs of the 'common house' (see below).

The above notwithstanding, the National Cohousing Network has identified a desire amongst its members, reflected in recent conference decisions, to make cohousing more affordable to younger potential members, those on lower incomes and those who have not been able to accumulate sufficient equity for outright and normally cash purchase.

Common house costs

The common house model with the attendant provision of services has the general effect of making cohousing more expensive than a standard property (although by providing efficient extra visitor space for the development it may still be a cost-efficient option). Cohousing representatives indicated that would-be members were willing to pay an enhanced price for a cohousing home, although feedback from others indicated the demand could be variable. Those who do move into the community clearly value this arrangement, but it is less likely that a mortgage valuer will. It is prudent therefore to assume that the valuer will value only the property itself but that the ongoing costs of operating and maintaining the common house will need to be factored into a borrower's affordability calculation.

This will have a limited impact where the buyer has significant equity, but it may impact a buyer with a limited deposit or a limited income. For example:

If a cohousing community of 15 properties with the common house adding 10% of cost onto each individual, then if a standard property without a common house or shared facilities/services costs £200,000 then a cohousing house with these extras would cost an extra £20,000. A buyer of a standard existing property at £200,000 would be able to purchase it with a deposit of £10,000 (5%)and a mortgage of £190,000. However; to purchase the home including a share in the common house and other facilities assuming that that for a mortgage the value was £200k rather than the £220,000 price tag, then:

- A buyer who could not borrow more would see their deposit needed increase to £30,000 or
- A buyer who could borrow more would see their deposit increase to £11,000 and their mortgage to £209,000.

The additional ongoing shared costs of the common house may also reduce the amount that can be borrowed.

Leasehold terms and Resale restrictions

Restrictions on sale within the lease may also impact a lender's willingness to lend. It is normal for such restrictions to include the necessity for a purchaser to become a member of the cohousing group and additional restrictions, relating for instance to age or gender, may apply. The greatest risk is that the valuer will determine that the restrictions are such that there is not a market of suitable size and activity to be confident a buyer can be found. In the absence of such a market a valuer will not return a value and a lender will not lend.

It is sometimes possible to reduce the risk to the lender by offering a guaranteed buy back option or the opportunity for the lender to sell into the open market after a certain time. Such clauses may have limited value to a lender if the cohousing group has limited resources to buy back and if by its nature it is difficult to separate the house from the wider housing group to sell it. However, we

understand from the interviews that groups have offered a relaxation of restrictions after a period of no sale.

Cohousing groups also need care in constructing their charging arrangements for the common house. Use of ground rent clauses are under increasing scrutiny due to poor practice by builders, although service charges that are explainable and supported by costings and with appropriate scrutiny are accepted.

5. Engaging lenders: opportunities for partnership

As already detailed in the report the major challenge for the community led sector is the lack of lender awareness. This low knowledge base makes it harder to make the wider case for working together.

The survey is also highlights that with a few exceptions most lenders see limited commercial opportunity in the community led housing sector, and this paper sets out the challenges that lenders face in providing products for the market.

Despite these challenges, the good news is that many lenders respond positively to the concept of community led housing. This applies to both the activity of CLTs and cohousing. Many have commented that the interviews have been helpful in widening their awareness of the sector.

This is not to say that converting this interest into activity will be easy. The easiest route to greater lender support is to mirror closely existing lender practices. Where lenders need to change activity then in most cases, for the community led market, it is the social responsibility angle that may make lenders reconsider.

Many lenders do recognise their social responsibility in the mortgage market. Large lenders recognise a wider corporate responsibility, whilst many smaller lenders are building societies with a long tradition of local market support. For some there is also the added matter of serving their own customers.

Despite support for the sector, lenders generally have good reasons against participation.

- Larger lenders note the low scale of activity and the challenges of delivering an appropriate level of customer experience across all channels.
- Other lenders of all sizes note a strategic decision to focus on core lending and core markets.
- Smaller lenders lack the knowledge and resources to develop propositions given the pull of everyday requirements.

So how then can the community led sector seek to increase lender support for the sector.

Mutually beneficial publicity

This report for lenders is a good start to the process of communicating and engaging with lenders. The sector cannot communicate too often or to too many people – both lenders and intermediaries. However, it is easy for hard-pressed members of the community led sector to forget to devote enough time to communication. Hence if the social message can be reinforced with a political message then that would help at least support the information being reviewed. The lessons of shared ownership would be to seek to get the help of the trade media and the broker network in raising the profile and to attend and speak regularly at lender events to keep driving the message home.

Understanding lender approaches and standardising literature

A more complex community led market is further hindered by an inconsistency of language and information, with most lenders reporting that their own information could be improved. Lenders are open to a standard presentation of data but will not deliver this without some external push.

Standardising, terminology, presentation and data on the community led housing sector would provide a wider benefit and increased awareness of the sector but it is a timely task and needs a template as a start point.

Establishing a specialist brokerage service

The National CLT network has considered establishing its own specialist broking service to support the sector. Brokers play an important role in the market and where products are "non-standard" act as a valuable interface between customers and markets and lenders that support competition but also act as a focal point for those considering lending in the market. Specialist affordable housing brokers exists and for example in the self- build market brokers have played an important role in building scale.

The question is not one of whether a specialist broker will help but more whether the market has the scale to maintain and operate such a service. More work is required here and it is understood that the NCLTN is already making its own enquiries as to the feasibility of this proposal.

Information for lenders

Given the relatively low volume of CLT linked mortgage applications operational staff within brokers and lenders may be less familiar with how to process a mortgage application. When Nationwide agreed to support London CLT, the latter developed a standard "certificate" for the CLT to provide to the customer. The "certificate" recognised that the property was eligible to be the subject of a mortgage application in the normal way. It also helped provide practical help to enable Nationwide to process the case, by in effect alerting those processing the mortgage to its different but acceptable structure.

Trade bodies

While liaison between lender trade bodies and representatives of the community led sector is no panacea, it is important. Such engagement may simply be a way of building and re-enforcing awareness of the sector and of receiving relevant information about lender policies and activity. Engagement can go beyond this and be used to enter negotiations around difficult issues that may inhibit lenders, such as caps on staircasing for shared ownership. To be effective, such liaison should be continuous as far as possible; it is no good expecting results from a one-off meeting. Even then one should not expect too much too soon; in the context of crowded agendas and very limited understanding amongst lenders, the pre-occupations of a very small sector can get pushed to the back of the queue for consideration. Perseverance is the key alongside understanding where the 'other' side is coming from.

It should not be forgotten in this connection that the building society movement has values such as mutuality, localism and assisting communities embodied in its tradition. The Building Societies Association (BSA) may prove more fertile ground when approached in the context of promoting values that are already held by their members.

Site promotion and association

Lenders should be encouraged to be associated with the development of sites in terms of publicity and communications. This could range from lenders adding their own marketing material to those

lenders being specifically referenced within the site documentation and literature. Lenders should be invited to key stages of the build and when their first customers move in. Moving in is the highlight of any lending activity but it is rarely experienced by lenders, so any invitations will be well received (even if lenders are unable to attend).

Case studies

Community Land Trusts are a good news story and case studies are the key to media stories. Thought should be given to presenting and promoting case studies – including naming lenders as one of the best ways to raise the profile at a local and national level.

Local relationships should be cultivated

A limited number of lenders, notably the Ecology Building Society will lend on a national scale, but a number of smaller building societies are most willing to be flexible where there is a valued development in their locality. Those planning a development should at an early stage look to engage with their local building society.

Towards ratings and awards?

It is possible that lender interest in the sector could be stimulated by a simple rating system operated by the national bodies. This would introduce a competitive element and allow those lenders receiving favourable ratings to include them in their publicity material and in evidencing their activity in the field of corporate social responsibility. In addition, the rating system would be of use to community led groups themselves in offering a convenient overview of likely avenues to pursue in the search for retail mortgage finance.

As suggested such a rating system would have to be administered by NCLTN and would of course require frequent updating as well as having a mechanism for dealing with lender disputes about the ratings. NCLTN would have to consider whether they have the resources to undertake this since it would involve at least, periodic re-analysis of lender documentation and liaison with lenders themselves including advising them of their individual rating.

The following simple 3 stage scale rating provides one example of a rating that could be of use to both lenders and community led groups:

Rating	Definition
3*	Active supporter of the market with some flexibility of approach designed to reflect the nature of individual schemes, explicit policies and accessible support.
2*	Passive support through existing products, referenced in external customer and broker literature.
1*	Passive support through existing products, which may be stated in internal policies.
No Rank	No reference to cohousing and no indication of support.

A 1* performance should be achievable for all lenders that are generally active in the appropriate market. This would require no change of approach but formal policies being adopted and referenced in internal lender documentation. The sector should provide standard wording to lenders that they can use internally to ensure that firms at least have some internal reference.

Lenders' scores could be listed on the websites and supported by an annual press release plus even an award ceremony which should seek to show progress, reward high scores and improvers whilst sending a message to those at the bottom that they could do more. Separate scores may be

appropriate for CLTs and Cohousing. A related initiative, drawing on the work undertaken to support a rating system could be for community led sector to develop a simple suite of awards covering lenders and intermediaries and award these each year to recognise activity in the sector. Ideally the NCLTN would seek to ensure that the main awards (best intermediary and best lender to the community led sector) were part of a set of wider industry awards. CLTs should look to leverage the social responsibility aspect in getting the award onto the agenda.

6. Conclusions and recommendations; communicating a diverse sector

The community led sector is highly diverse, with only CLTs and Cohousing developing significant numbers of homes for sale. Even within these two sub-sectors there is a broad range of home ownership approaches offered and variations on these. This a challenge for any mortgage lender to understand and given the sector has historically developed around 100 homes a year for sale, lenders could consider that the effort required to accommodate this market is not worthwhile.

It is clear the most lenders are unaware of the existence of the community led sector and therefore lack any understanding of its roles. Most lenders do not and have not knowingly lent into the sector. Of the minority of lenders who have engaged, the number that have a sound understanding of its aims and objectives and how these relate to the design of its homeownership models is tiny.

It is clear that the sector finds buyers for the homes that are produced by CLTs and cohousing and that these buyers in turn find retail mortgage finance when they require it. However, it is also clear that issues around the availability of mortgages shape the nature of development and may curtail it in some cases. CLTs are cautious about offering unusual variants on DMV for instance, and HA partners may influence a CLT to avoid placing a cap on staircasing for shared ownership. On the cohousing side, the need to draw on housing equity to fund development has meant that members tend to be older, and probably more affluent than mainstream house buyers. Customer choice of lender and of mortgages needs improving. Choice can be limited for even an established sector such as mainstream affordable housing, but for those wishes to buy a home from a CLT or cohousing it can be very poor.

The sector is committed to expansion and that commitment is to be welcomed. As already noted, the community led sector exists within a broader housing market characterised by chronic long-term under supply, high and rising prices that threaten affordability, limited innovation in design and a lack of diversity amongst developers. Against a national policy context where the Government is committed to challenging development aspirations and is keen to promote a diversity of developers there are real opportunities for the community led sector.

If the sector is to grasp these opportunities, then an increased level of lender engagement with the sector is required. This report has explored the interface between retail mortgage lenders and the community led sector. Our conclusion is that promoting greater lender engagement is no easy task. For large lenders who are systems driven and in competition to capture mainstream market share, a tiny market using a diverse and varied stable of homeownership models may simply be a bridge too far. However, amongst, the smaller lenders, including building societies, which have social purpose written into their constitutions, the position is more hopeful.

Smaller, locally-based and focussed lenders with discretion in the area of manual underwriting, may be persuaded to take a more positive and informed interest in the community led sector, particularly where it can be seen to promote a lender's interest in positive publicity and corporate social responsibility. There will probably never be a situation where the majority of lenders are actively engaged with the community led sector but only a modest increase in lender numbers and level of

commitment would reap dividends in terms of mortgage choice and diversity of homeownership models supported.

There are broadly two areas where we recommend action must be concentrated:

- Refine and rationalise the homeownership models used by the sector with the aim of making them more lender-friendly and easier to communicate.
- Raising lender awareness and the awareness of community led groups about lenders. and building partnerships with lenders to mutually gain positive publicity and to promote corporate social responsibility

We develop our thinking with 12 detailed recommendations below. These are grouped under headings that reflect the three areas in the previous section on Lenders and CLT homeownership products. The recommendations are deliberately succinct since they are a basis for further discussion, but do indicate who should be involved in action to implement them

Refining and rationalising community led homeownership models

NCLTN, individual CLTs and the Cohousing movement need to look carefully at the range of models used and at variants of those models. The aim is not to stultify innovation but to avoid needless proliferation and complexity, while ensuring that models are as lender-friendly as possible consistent with promoting affordability, locality and community.

Community Land Trusts

This review has identified areas where activity would help build awareness and growth of the sector. Our recommendations are as follows;

1: NCLTN should promote the use of an amended version of the HE standard lease for Protected Areas.

References to Protected Area status should be removed and the maximum cap on staircasing be set at any level rather than just 80%. This would be a straightforward route to expand the number of lenders willing to lend. Where no rent is charged this can effectively replicate the effect to the purchaser of the DMV or equity loan approach**.** NCTLN should promote this with the HE and other bodies and with its own membership.

Action: NCLTN, HE, NHF, UK Finance.

2: NCLTN should encourage members to adopt a single term for Discounted Market Value and seek to avoid using alternative terms.

Action: NCLTN, individual CLTs.

3: CLTs should focus on DMV resale linked to open market value. We recommend the continued use of a mortgagee in possession clause.

Whilst the logic for linking price to average prices or earnings is understandable, it is not straightforward for lenders and “breaks” many of the standard processes such as instructions to valuers and solicitors, and importantly makes ongoing management of the loan complex for the lender. A single focus would be helpful

Action: NCLTN, individual CLTs

4: CLTs should work to improve the lending limits on new build homes. At present high deposits add to the problems CLT customers face.

CLTs should be aware that deposits required from some lenders on all standard schemes may be larger for new build properties than for existing properties, and without access to the Help to Buy Equity Loan, this places CLTs as well as housing associations at a disadvantage against the market. Various options to resolve the matter exist including lenders raising new build lending limits, lenders operating separate limits for affordable housing (as is the case with a small number of lenders) or lenders treating properties as if they were second hand for valuation purposes. More working is required here.

Action: NCLTN

5: NCLTN should seek to keep an updated record of which lenders support shared ownership, discounted market value and equity share arrangements for CLTs.

Action: NCLTN.

6: NCLTN should encourage lenders who currently only lend to registered providers to extend their scope to include CLTs.

In practice it is likely this is already happening on an informal and occasional basis.

Action: NCLTN, UK Finance, individual lenders.

Cohousing

Cohousing has some difficult choices to make. If there is a commitment to promoting affordability for those on lower incomes or with less housing equity and to using retail mortgage finance for this purpose, then homeownership conditions will have to more closely resemble those recognised as viable by lenders. This could mean removing or moderating certain provisions such as the insistence on membership as an eligibility condition for buyers. However, such changes may have an impact on the key aim of cohousing of promoting stable intentional communities. Nevertheless, there are some changes that could be made without prejudicing fundamental values and aims:

7: Cohousing groups should be encouraged to offer a mortgagee in possession clause exempting lenders from unusual conditions as standard when planning to develop homes for sale.

Such a clause would be very rarely used and might encourage some lenders to participate in this market. A guaranteed buy-back for lenders in the event of borrower default would be an option where the group can afford to honour it.

Action: National Cohousing Network, Cohousing groups.

Raising awareness and building partnerships

Given the low level of lender awareness and understanding of community led activity, there is much to be gained by campaigning to raise lender awareness, in advance of and parallel to any attempts to build partnership between lenders and the community led sector. CLTs are effectively a sub-sector of the affordable housing sector.

The situation with cohousing is more complicated. cohousing homes are not necessarily going to be attractive to more lenders than at present unless some mitigation of the impact on lenders of some features (such as membership conditions) is offered simultaneously. Any attempt to raise awareness

in respect of cohousing should therefore be accompanied by reassurance, for example that mortgagee in possession clauses would be provided. It is important to reassure lenders rather than confirm that cohousing is a very small sector that may involve them in difficulties and heightened risk.

Awareness raising should be conducted at both a local and national level and involve the relevant trade bodies, the trade press and, if appropriate, the non-specialist media.

Raising awareness, shades into building partnerships designed to inform, elicit commitment and negotiate resolution of difficult issues in a positive way. A number of suggestions for different approaches have been given in the previous section of the report and we recommend the following;

8: NCLTN, and where appropriate, cohousing should use the lender trade press and national/regional media to inform lenders, brokers and others about the community led sector and, more importantly the homeownership models offered.

Action: NCLTN, UK Cohousing Network.

9: NCLTN and UK Cohousing Network should engage with lender trade bodies using them as a conduit to inform their membership but also to negotiate solutions to key issues raised.

This engagement should be continuous rather than occasional**.**

Action: NCLTN, UK Cohousing Network, UK Finance, Building Societies Association.

10: NCLTN and UK Cohousing Network should provide standard template letters and documentation on request.

To assist individual members to approach local lenders and gain their support, the sector should use standardised templates, terminology and use Standard Information Certificates to help lenders process cases. A specialist broker service might give further momentum to this

Action: NCLTN, UK Cohousing Network, Individual member organisations**.**

11: NCLTN should consider the merits of a simple rating system by which lenders can advertise their support to the sector and the sector can be assisted in assessing which lenders to approach first.

In a related move NCLTN should consider the merits of an award scheme for lenders involving publicity and a ceremony.

Action: NCLTN.

12: Lenders who act in a socially responsible way should be recognised.

Awards should be developed and awarded, lenders promoted on sites, case studies developed, and local relationships cultivated.

Action: NCLTN, CLTs, UK Cohousing Network, Cohousing communities.

References

CCH, 2014. *New cooperative and community led homes,* http://www.cch.coop/newcoophomes/: CCH.

CCMH/CCH, 2010. *Building Cooperative and mutual homes,* http://www.cch.coop/docs/bcmh/cch-bcmh-proposal.pdf: CCH.

Chatterton, P., 2013. *Towards an agenda for low-carbon cities:the lessons form LILAC, the UK's first ecological affordable cohousing community,* http://eprints.whiterose.ac.uk/74549/6/chattertonP1.pdf: University of Leeds.

CML, 2017. *Market commentary August 2017,* https://www.cml.org.uk/news/news-and-views/market-commentary-august-2017/: UK Finance.

Crabtree, L. et al., 2015. *Community Land Trusts and indigenous communities: from strategies to outcomes,* http://www.ahuri.edu.au/publications/download/ahuri_72010_fr: AHURI.

DCLG, 2016. *£60 million boost for communities affected by second homeownership,* https://www.gov.uk/government/news/60-million-boost-for-communities-affected-by-second-homeownership: DCLG.

DCLG, 2017. *Live tables on dwelling stock,* https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants: DCLG.

Development Trusts Association, 2010. *To have and to hold,* http://locality.org.uk/wp-content/uploads/To-have-and-to-hold-210910-for-web-FINAL.pdf: Development Trusts Association.

Ecology Building Society, 2017. *Lending for community led housing,* http://www.communitylandtrusts.org.uk/_filecache/3a1/496/358-lending-for-community led-housing_022017.pdf: Ecology BS.

Field, M., 2004. *Thinking About Cohousing: The Creation of Intentional Neighbourhoods,* London: Diggers and Dreamers.

HCA, 2017. *Capital Funding Guide,* https://www.gov.uk/guidance/capital-funding-guide/1-help-to-buy-shared-ownership: HCA.

Heywood, A., 2016. *Local housing, community living: prospects for scaling up and scaling out community led housing,* https://smithinstitutethinktank.files.wordpress.com/2016/01/local-housing-community-living.pdf: Smith Institute.

Lancaster Cohousing, 2017. *Homes currently available for sale or rent,* http://www.lancastercohousing.org.uk/Join/Index/18IDP2iEcaRanqFOL6FNq5rS-wPJ-wr8VGvhc1g9owbY: Lancaster Cohousing.

LB Barnet, 2015. *Discounted Market Sale,* https://www.barnet.gov.uk/citizen-home/housing-and-community/low-cost-home-ownership/discount-market-sale.html: LB Barnet.

Legislation.gov.uk, 2017. *Housing and Regeneration Act 2008,* http://www.legislation.gov.uk/ukpga/2008/17/section/79: Legislation.go.uk.

Lietaert, M., 2007. *The Growth of cohousing in Europe,* http://www.cohousing.org/node/1537: Cohousing.

Lilac, 2017. *LILAC: Low impact living affordable community,* http://www.lilac.coop/affordable/: Lilac.

Locality, 2017. *Funding options,* https://mycommunity.org.uk/funding-options/community led-housing/: Locaility.

Moore, T., 2014. *Affordable homes for local communities: The effects and prospects of community land trusts,* http://www.communitylandtrusts.org.uk/_filecache/aa4/f12/173-affordable-homes-for-local-communities-the-effects-and-prospects-of-clts-in-england-tom-moore-2014.pdf: St Andrews Centre for Housing Research.

Moore, T., 2014. *Affordable homes for local communities: the effects and prospects of community land trusts in England,* http://www.wessexca.co.uk/sites/default/files/documents/page/Affordable%20homes%20for%20local%20communities%20The%20effects%20and%20prospects%20of%20community%20land%20trusts%20in%20England.pdf: University of st. Andrews.

Moore, T. & Nortchcott, R., 2010. *Delivering Homes and Assets with Communities; the Cornwall Community Land Trust project,* http://www.communitylandtrusts.org.uk/_filecache/9e3/058/126-developing-homes-and-assets-with-communities-the-cornwall-clt-project.pdf: Community Finance Solutions.

Mullins, D; Muir, J; Acheson, N, 2013. *Third Sector Housing Partnerships in Northern Ireland,* http://www.nihe.gov.uk/third_sector_housing_partnerships_final_report.pdf: NIHE.

Mullins, D. & Sacranie, H., 2015. *BUILDING A LEGACBuliding a legacy: the impavt of the Empty Homes Community Grant Programme in the North East and Yorkshire and HumbersideYORKSHIRE AND HUMBERSIDE,* Birmingham: Homes and Communities Research Group, University of Birmingham.

National CLT Network, 2016. *£60m for community led housing, including CLTs, announced in Budget 2016,* http://www.communitylandtrusts.org.uk/article/2016/3/16/60m-for-community led-housing-including-clts-announced-in-budget-2016: NCLTN.

National Community Land Trust Network (USA), 2015. *ational Community Land Trust Network,* http://cltnetwork.org/: NCLTN.

NCLTN/Adviser feedback, 2017. s.l.: s.n.

NCLTN, 2015. *CLT Legal Toolkit,* http://www.communitylandtrusts.org.uk/upload/public/Toolkits/Legal%20toolkit/Introduction%20to%20Legal%20Formats.pdf: CCLTN.

NCLTN, 2017. *About CLTs,* http://www.communitylandtrusts.org.uk/what-is-a-clt/about-clts: NCLTN.

NCLTN, 2017b. *What is community led housing?,* http://www.communitylandtrusts.org.uk/news-and-events/community led-housing-conference/what-is-community led-housing: NCLTN.

On the Brink, 2017. *On the Brink,* https://onthebrink.community/: On the Brink.

OWCH, 2017. *Structure,* http://www.owch.org.uk/structure: OWCH.

Self-Help.org, 2017. *Self.Help.org,* http://self-help-housing.org/: Self.Help.org.

Self-Help-Housing.org, 2015. *The Empty homes Grant Programme 2012-15- Introduction,* London: Self-Help-Housing.org.

Springhill Cohousing, 2017. *properties for sale or rent,* http://www.therightplace.net/coco/public/properties.html: Springhill Cohoussing.

UK Co-Housing Network, 2017b. *Co housing; clusters of homes with shared resources,* https://cohousing.org.uk/wp-content/uploads/2017/03/uk-cohousing-leaflet.pdf: UK Co-Housing Network.

UK Co-Housing Network, 2017. *UK Co-Housing,* https://cohousing.org.uk/: UK Co-Housing Network.

Wales Cooperative Centre, 2013. *Research into the potential demand for cooperative housing in Wales,* www.walescooperative.org: Wales cooperative centre.

Wilson, W., 2015. *The Self-build and Custom Housebuilding Act 2015,* http://www.arch-housing.org.uk/media/74591/hoc__self_build.pdf: House of Commons Library.

Appendix 1: Definition of CLTs

CLTs are defined in the Housing and Regeneration Act 2008 S. 79, SS. 1-5:

(3) In those conditions "local community" means the individuals who live or work, or want to live or work, in a specified area.

(4) Condition 1 is that the body is established for the express purpose of furthering the social, economic and environmental interests of a local community by acquiring and managing land and other assets in order—

> (a) to provide a benefit to the local community, and
>
> (b) to ensure that the assets are not sold or developed except in a manner which the trust's members think benefits the local community.

(5) Condition 2 is that the body is established under arrangements which are expressly designed to ensure that—

> (a) any profits from its activities will be used to benefit the local community (otherwise than by being paid directly to members),
>
> (b) individuals who live or work in the specified area have the opportunity to become members of the trust (whether or not others can also become members), and
>
> (c) the members of the trust control it (Legislation.gov.uk, 2017).

Appendix 2: Survey of Lender Websites

(The spreadsheet sent to NCLTN previously with the analysis of lender documentation will not fit here in a readable form We suggest that if NCLTN intends to make this analysis publicly available on their website then a link to that web page is included here.)