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FINANCIAL BARRIERS TO HOME OWNERSHIP

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Foreword

Angel Mas, president of Mortgage Insurance Europe at Genworth Financial

The barrier to home ownership appears to be widening, with increasing numbers of first time buyers excluded – a shocking 100,000 year on year between 2006 and 2009. The estimation in the paper that this is a situation that could take decades, not years, to recover raises real concerns that a whole generation may be excluded from getting a foot onto the housing ladder.

Alongside these worrying facts, it is clear from our research that home ownership remains an aspiration; and for many younger first time buyers, it still represents their best chance of wealth creation and saving for the future.

It is often wrongly assumed that the mortgage products which could help this group of borrowers – high loan-to-value (LTV) mortgages – are equivalent to 'sub-prime' products which helped to lead to the recent credit crisis. This is not necessarily the case. In fact, it should never be the case. The risks associated with high LTV lending are inherently different to other mortgages, but they can be mitigated effectively.

High LTV loans are cyclical. In the good times, lenders are happy to write as many high LTV loans as they can, effectively competing on risk, imprudently. But as the cycle turns the availability of loans, understandably, reduces. As borrowers have less personal stake in the game, the prospect of negative equity is increased and hence willingness to repay can become a risk if their income is compromised. This creates a pendulum effect in the market.

However, it's important – not only to borrowers themselves, but to the economy overall – that the flow of credit remains open to financially stable first time buyers, even in the bad times. The pendulum effect could be addressed through a new framework, one that promotes prudent lending, but also creates a level playing field – a 'carrot and stick' scenario.

Such arrangements already exist in Canada, for example, where the risk associated with high LTV mortgages over 80% must be transferred off the lender's balance sheet through Mortgage Indemnity Insurance. By accepting this risk, specialist insurers such as Genworth take an active role in setting and monitoring prudent lending criteria – i.e. the stick.

The benefit (or the carrot) for lenders consists of less onerous capital requirements for these types of loan – providing an incentive for lenders to accommodate this segment of borrowers.

Furthermore, if lending criteria for those insured loans are consistent across the industry, Mortgage Indemnity Insurance also serves as an additional seal of quality when those assets are sold on the secondary markets.

For borrowers, the result is greater availability of loans for those with good credit profiles; the strict lending criteria demanded by the insurer guarantees that loans are not mis-sold, and the interests of the lender, insurer and borrower are aligned towards keeping buyers in their homes and preventing repossession.

During the downturn, Canada was a great example of this system – now it's a proof point: defaults have remained below one per cent, banks have remained solvent, the flow of credit has remained open and the secondary market has remained liquid.

In the UK, there have been mentions of implementing LTV caps in recent months. This 'quick and dirty' approach actually runs the risk of choking housing market recovery by excluding those with a good credit history and who meet affordability criteria. An unintended consequence would be to encourage borrowers to seek unsecured lending to create their deposit. Or they would remain in the private rented sector, with the threat of rising rents fuelled by buy-to-let landlords who can access the properties at the bottom end of the market when genuine first time buyers can't.

We believe that ultimately, this strategy could delay the recovery, ironically at a time when house prices are more affordable. Socially, it's extremely unfair on those who cannot rely on parental support with a deposit.

There is a historic opportunity to create this new sustainable framework. It will take a fresh perspective in challenging times, and political courage, to make it work.

I would like to thank Professor Steve Wilcox of the University of York for reminding us of the very significant barriers faced by first time buyers, including wealth, societal and income pressures.

The Deposit Barrier to Home Ownership

By **Professor Steve Wilcox**, University of York

Executive Summary

The collapse in the availability of mortgages requiring only a small deposit is now the largest single barrier facing people aspiring to home ownership. This paper examines the extent and characteristics of this new market barrier, and indicates policy options that could help to restore the ability of first time buyers to become home owners without having to provide a substantial deposit.

- In 2009, there were 28,000 mortgage advances to first time buyers who did not have more than a 10% deposit; down from 245,000 in 2006. This is a drop of almost 90%.
- An average 10% deposit for a UK first time buyer in 2010 is £18,600; in London, the average is £29,700.
- The numbers of first time buyers under 30 who were able to buy without outside assistance towards their deposit fell by 100,000 a year between 2006 and 2009.
- The number of younger buyers purchasing with assistance has remained constant, but as unassisted buyers have declined by 83% between 2006 and 2009, this group now makes up four in five of all younger buyers.
- Younger households have very limited savings, and limited realistic prospects of raising a substantial deposit without family or other assistance.
- Younger households continue to aspire to home ownership in the medium and long term; many regard private renting as 'throwing money away'.
- The 'deposit barrier' to home ownership is now cited as by far the most significant obstacle by households seeking to become home owners.
- The deposit barrier is socially uneven. It impacts most on households who are unable to get assistance with a deposit from parents or friends. It is a barrier to social mobility.
- A prudent regulatory regime for the housing market does not need to restrict access to households that do not have substantial deposits.
- Becoming a home owner is the most significant way for younger households to save, in the form of growing housing wealth. While the level of growth in house prices between 2000 and 2005 was atypically high, on average this was the only form of net saving by younger households.
- The existing evidence on household savings and inherited wealth also provides a strong caution about expectations that younger households will simply be able to save for a while as private tenants before making a slightly later progression to home owner status. Only a limited proportion of younger households will be able to make that deferred progression, and the average period of deferral is likely to be measured in terms of decades rather than years.

Introduction

For the last three decades, following the deregulation of the mortgage market, it has been readily possible for households to become first time buyers without first having to acquire a capital sum to provide a deposit.

Mortgages to cover 100% of the purchase price have been widely available, alongside mortgages with relatively high loan-to-value[1] (LTV) ratios, so that households with no savings, or only limited savings, could become home owners provided only that they had a sufficient income to cover the mortgage repayments.

Over those decades the primary discussions about the 'affordability' of home ownership, and the financial capacity for households to become home owners, have focused almost exclusively on the incomes households require to access the market.

However, the housing market has now changed fundamentally in the wake of the 'credit crunch'. High LTV mortgages have now virtually disappeared from the market; while some part of that is due to cyclical factors, they will remain scarce going forward as a consequence of both new Financial Services Authority (FSA) regulatory requirements and the continuing constraints on the overall availability of mortgage finances.

While the availability of a deposit in the past was clearly advantageous in terms of improving affordability, the absence of a deposit was not, in itself, an absolute barrier to home ownership. Now, without some innovation in policies or products, the 'wealth barrier' to accessing home ownership is set to become just as important as the income barrier has been in the past.

In this context, this paper sets out an estimate of the numbers of households that will be potentially excluded from home ownership as a consequence of this new financial and regulatory regime for mortgage finance.

This starts by simply setting out the proportion of households that have in recent years become first time buyers with mortgages with an LTV of 90% or over. These are the mortgages that in the future are set to remain in very short supply, and only to be available in relatively exceptional circumstances.

The paper then examines the issues around the levels of wealth potentially available to prospective first time buyers, including potential contributions from family members or friends.

It concludes with a discussion of some of the implications of this new regime, and some policy and product options that might ameliorate the new wealth barrier to home ownership.

- In 2006 there were 245,000 mortgage advances to first time buyers who did not have more than a 10% deposit.
- In 2009 there were only 28,000, down almost 90%.

First Time Buyer Deposits

Average loan advances for first time buyers, as a proportion of purchase prices, peaked at 90% in 1996, before falling for seven years. While they rose again in the years from 2003 to 2006, they only averaged 83% in 2006, before falling to historically low levels following the credit crunch.

Various factors are involved in this moving average over time, including affordability constraints, the gradual rise of inherited wealth, and the numbers of households returning to home ownership for a second time that are included as first time buyers, on the basis that their immediate previous residence was not another owner occupied dwelling.

A key point to note is that even in 2006 and 2007, at the peak of the pre-crunch housing market, average deposits as a percentage of value were higher than was the case throughout the whole of the 1980s, as shown in Figure 1.

Average loan-to-value ratios for first time buyers

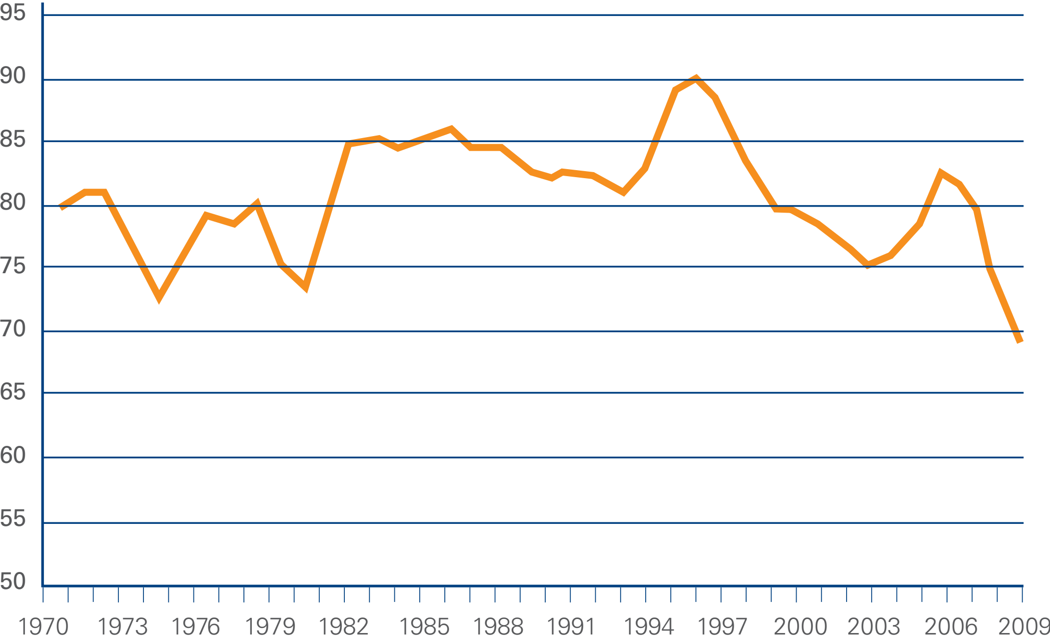

Figure 1

Source: Regulated Mortgage Survey (and predecessor surveys)

Nonetheless, for a substantial proportion of first time buyers, access to a mortgage with a high LTV ratio was a critical factor in their being able to enter the housing market.

The distribution of deposits as a proportion of purchase price for first time buyers, for the years 2005 to 2009, is set out in Table 1. The key point to note is just how important mortgage advances with LTVs in excess of 90% were during these years. They represented over half of all mortgage advances to first time buyers in the years from 2005 to 2007, before falling to 44% in 2008. Strikingly, they plummeted to just 14% in 2009 as the market responded to the credit crunch.

Table 1

The distribution of mortgage advances as a proportion of purchase price for first time buyers - percentages

	Below 50%	50-74%	75-79%	80-84%	85-89%	90-94%	95-99%	100% or over
2005	6.1	12.0	4.6	5.9	12.9	24.4	26.7	7.4
2006	6.4	11.3	4.0	5.2	11.9	30.6	22.7	7.9
2007	7.3	11.0	4.0	5.8	11.9	27.0	23.0	10.0
2008	10.1	17.5	6.9	8.1	13.4	24.2	12.8	7.0
2009	11.9	27.9	16.7	10.2	19.3	12.4	0.6	1.0

Source: Regulated Mortgage Survey

This translates into very substantial numbers. A total of 218,000 first time buyers managed to become first time buyers in 2005 with LTVs of 90% or more. This rose to 245,000 in 2006 before easing back to 214,000 in 2007, and then falling more sharply to 85,000 in 2008 and just 28,000 in 2009.

Since the credit crunch, high LTV mortgages have become very scarce, and even 90% advances are only available at a significant premium. While 90% LTV mortgages and above comprised three fifths of all mortgage products on the market at the beginning of 2008, the great majority of those products were withdrawn from the market during the course of the year. Since the beginning of 2009 they have comprised less than one in ten of the mortgage products on offer.

Latest FSA data for the first quarter of 2010 also shows that mortgage advances with a 90% LTV and above now represents less than 2% of all new mortgage business. This is a further decline in the proportion of high LTV mortgage advances compared to 2009.

The fall in numbers and proportions of mortgage advances to first time buyers with an LTV of 95% or above has been even more dramatic. In the years from 2005 to 2007 these represented around a third of all advances to first time buyers, but in 2008 this fell to a fifth, before dropping to under 2% in 2009. Again the numbers involved are substantial. Some 118,000 first time buyers were able to enter the market in 2007 with LTV advances of 95% or above, against 38,000 in 2008 and just 3,000 in 2009.

In the process of the withdrawal of high LTV mortgages from the market, the Bank of England discontinued the data series showing the average interest rates for 95% LTV mortgages as they had virtually disappeared. It now shows series for 75% and 90% LTV mortgages. In April 2010 the average rate for 90% mortgages was 6.61%, compared to just 3.83% for a 75% mortgage.

In a market downturn when there are higher risks of falling property values, it is logical that the financial sector should be far more cautious about the risks associated with the high LTV mortgage market, and price those still available accordingly.

Rational cyclical market caution is now set to be reinforced by new regulatory requirements to be introduced by the FSA. Under proposals now out for consultation the FSA does not propose an outright ban on high LTV mortgages; but the regulatory framework it proposes, and in particular the higher capital provisions lenders would have to make against any high LTV advances, will be a clear constraining factor limiting the return of these products even when the market recovers.

While the FSA itself may be restructured, the regulatory framework it sets for the mortgage market is likely to persist, and in the medium term this is also likely to be reinforced by continuing constraints on the overall availability of mortgage finance, coupled with an anticipated period of relatively modest economic and housing market growth.

Raising deposits

Even with the availability of relatively high LTV mortgages before the credit crunch, the overwhelming majority of first time buyers had to provide some level of deposit. In 2007 only 10% of all mortgage advances to first time buyers were for 100% (or more) of the purchase price. With the sharp rise in house prices over the past decade, the level of deposit required even with a 90% or 95% advance rose sharply.

For the UK as a whole a deposit of over £9,000 was required, even with a 95% advance, to purchase a home at the average first time buyer price in the second quarter of 2010. Some £18,600 was required with a 90% advance. In London and to a lesser extent the south east of England, the deposit requirements were far higher. Almost £30,000 is now required in London as an average first time buyer deposit with a 90% advance (Table 2).

- In 2010, 10% of the average UK property price is £18,600.
- In London it is almost £30,000.

Table 2

Deposits required with 90% and 95% Mortgage Advances in 2010.

Region & Country	90% LTV	95% LTV	First Time Buyer Prices
United Kingdom	18,623	9,311	186,228
North East	11,649	5,824	116,489
North West	12,923	6,466	129,324
Yorkshire and the Humber	12,964	6,482	129,644
East Midlands	13,281	6,640	132,809
West Midlands	14,121	7,061	141,210
East	18,311	9,156	183,112
London	29,662	14,831	296,617
South East	20,915	10,457	209,148
South West	17,550	8,775	175,504
England	19,440	9,720	194,402
Wales	12,580	6,290	125,795
Scotland	12,934	6,467	129,341
Northern Ireland	12,345	6,172	123,448

Source: Prices from Regulated Mortgage Survey; 2nd Quarter 2010

First time buyers raise the funds for deposits in a number of ways, of which saving from income over time is the most important, but not the only source. The latest survey evidence available show that three fifths of all first time buyers who purchased in the three years up to 2007 had some savings; about a third either had received a gift or loan from members of their family or friends, or had the benefit of some inheritance or other windfall (Table 3).

Table 3

Sources of contributions towards deposits for first time buyers. Percentages of first time buyers who purchased in the last three years.

	1995	1998	2001	2004	2007
Savings	69	69	68	68	60
Gift/loan family/friends	22	22	24	22	29
Inheritance	6	6	6	8	6
Windfall	1	2	1	1	0
None	9	7	11	13	15

Source: Survey of English Housing **Note:** Multiple sources may be indicated in the survey

More recent analysis by the Council of Mortgage Lenders has estimated that some four in five of the younger first time buyers (aged under 30) in the post credit crunch market in 2009 received parental help with deposits. This compares with an estimate of just two in five younger first time buyers receiving parental help in 2006, and less than one in ten before house prices began their sharp rise in the late 1990s[2].

While the average age of first time buyers (31) has not fallen since the credit crunch, a much wider gap has developed between the ages of those assisted to purchase, and those not receiving assistance. By April 2009 the average age for unassisted first time buyers had risen to 36, having risen sharply from 33 in October 2007. Consequently by 2009 there was a six year difference between the average age of assisted and unassisted purchasers, who had an average age of 30.

- In 2006 the average age of an unassisted first time buyer was 31.
- In 2009, it was 36.

Assisted purchasers can not only make fuller use of mortgages requiring a more substantial deposit, but they can also afford to buy with lower incomes (Table 4). In the second quarter of 2008 assisted purchasers, on average, were able to provide a 25% deposit, compared to a 5% deposit for unassisted purchasers. The average income of assisted purchasers was £29,420, while it was £36,490 for unassisted purchasers.

Table 4

Characteristics of assisted and unassisted first time buyers 2nd Quarter 2008.

	Loan amount	Value of property	Income	Deposit	Loan to value	Income multiple	Initial gross interest rate
Assisted	£100,999	£146,000	£29,240	£35,000	75.3	3.56	5.79
Unassisted	£118,750	£125,000	£36,480	£7,500	94.9	3.37	6.12

Source: CML analysis, Family help for first time buyers continues to grow, CML news & views, November 2008

Note: Analysis excludes right to buy purchasers

Assisted purchasers were also, by virtue of their larger deposits, able to secure mortgage advances with higher income multiples (an average of 3.56 compared to 3.37), and also mortgages with lower initial gross interest rates (5.79% compared to 6.12%). Moreover, as discussed on page 7, by 2010 the gap between the interest rates on 75% and 90% LTV mortgages had substantially widened.

If a far higher proportion of first time buyers are currently receiving parental assistance, this is in the context of a much reduced flow of first time buyers. This is partly a function of the overall market downturn, but is also characterised by a disproportionate reduction in the numbers of unassisted purchasers in the post credit crunch years.

Between 2006 and 2009 there was no significant change in the number of assisted younger first time buyers; this was over 80,000 in both years. Over the same period, the numbers of unassisted younger first time buyers fell by over 100,000 a year – to just over 20,000 (Table 5).

Table 5

The decline in younger unassisted first time buyers.

Numbers of first time buyers aged under 30.

	2006	2009
Assisted	80,200	80,700
Unassisted	120,900	20,200
Total	211,100	100,900

Source: Based on CML estimates of the percentage of assisted first time buyers under the age of 30

The CML estimates, however, relate solely to households under 30. Overall, the number of first time buyers with mortgages with LTVs of 90% or more fell by some 218,000 between 2006 and 2009, while there was a small increase in the numbers of advances to households with lower LTVs (of some 15,000). Younger households accounted for around 125,000 of the reduction in mortgages with a 90% or more LTV, with the balance relating to older households.

The CML has not estimated the proportion of older buyers that were assisted to purchase over the years. In part this is a more complex analysis, not least due to the far higher proportions of older 'first time buyers' that have previously been home owners, albeit that at the time of this purchase they are resident in other forms of tenure.

In overall terms it has been estimated that in any year these 'returning' home owners represent around 20% of all first time buyers[3], but these are predominantly older first time buyers. Only 2% of younger first time buyers are 'returners', compared to just over a third of those over 30 years old.

While many – but by no means all – of the 'returners' will have retained assets from their previous period as a home owner, those with assets are less likely to require a high LTV mortgage. However, even if all the 'returners' are disregarded, this still leaves a reduction of some 50,000 older first time buyers able to purchase with a high LTV mortgage between 2006 and 2009. A substantial proportion of these are likely to be those excluded from the market due to their inability to secure a high LTV mortgage.

These figures indicate that the overall reduction in the numbers of unassisted households of all ages able to enter the market is higher than simply the 100,000 a year decline for first time buyers under 30. In addition, the households unable to access the market every year due to deposit constraints will grow cumulatively over time into an ever larger body of households excluded from home ownership.

While over time some of these households will be able to save for a deposit, there are constraints on how far that is realistic, and this is discussed further below.

Renting and Buying

In effect, the decline in the availability of high LTV mortgages is substantially reducing the ability of younger working households that do not have access to parental help to become first time buyers. As a result, it is requiring them to remain in the private rented sector for many more years than their contemporaries who have access to parental help.

With the growth in the private rented sector over the last decade, there has been a decline in the proportion of all households below retirement age living in the owner occupied sector. That decline has been most marked for younger households. Just over a half of those aged under 25 now reside in the private rented sector; this drops to just over a third of those aged from 25 to 29, and a fifth of those aged 30 to 34 (Table 6).

Table 6

The distribution of households by tenure and age percentages.

	Home owners	Private renters	Social renters
Aged 20 - 24			
1997	26	45	29
2002	28	42	30
2007	18	52	30
Aged 29 - 30			
1997	55	23	22
2002	51	28	21
2007	47	35	19
Aged 30 - 34			
1997	66	15	20
2002	67	16	17
2007	60	23	17

Source: Survey of English Housing

The growth of the private rented sector has had both 'push' and 'pull' impacts on the housing options of young households. On the one hand, it has contributed to the upward pressures on house prices, and thus exacerbated the price constraints for first time buyers. A report from the (now abolished) National Housing and Planning Advisory Unit, for example, estimated that buy-to-let investments increased house prices by 7% in the years to 2007[4].

The growth of buy-to-let landlords has provided an increased supply of market rented housing, and over the last decade it has typically become cheaper to rent than to buy an equivalent sized dwelling[5], as the costs of house purchase rose more rapidly than private rents[6].

Private renting has the advantage of short term flexibility for households. It has low transaction costs, and typically involves modest deposits of one month's rent. While this may suit younger households in the short term, CML survey evidence shows that the overwhelming majority still aspire to home ownership in the medium term (Table 7). The private rented sector, with the very limited security it offers, is not seen as a long term household choice in the UK. Headline figures from the 2010 CML survey show that there has been very little change in aspirations since 2007.

Table 7

Households preferring home ownership: percentages

	Under 25	25-34	35-54
In two years' time	%	%	%
1991	60	83	87
1999	59	77	84
2003	37	76	83
2007	50	75	83
In ten years' time			
1991	90	91	89
1999	86	89	86
2003	76	87	87
2007	84	86	86

Genworth research carried out by OnePoll amongst 2,000 first time buyers revealed that:

- The main reason people want to buy in the UK is because they do not want to waste money on rent (42%).
- The second most cited reason is that owning your own home brings a sense of financial security (22%).

Source: Improving attitudes to home-ownership, CML Housing Finance, March 2007

The research shows that there is a substantial mismatch between aspiration and outcomes. Half of those aged 20 to 24 would prefer to be home owners within two years time; in practice, by 2007 less than one in five had succeeded in becoming home owners. The trend continues with a slightly older group; three quarters of those aged 25-34 would prefer to be home owners within two years' time, but in practice by 2007 just 54% had succeeded in becoming home owners.

There is no evidence to suggest any difference in aspirations towards home ownership between assisted and unassisted first time buyers. The deposit barrier to home ownership is thus set to require households, especially those without access to parental or family help with a deposit, to remain in the private rented sector for much longer than they would wish.

There is a view that younger households should be content to be private tenants while they save for a deposit; but this value judgement takes no account of the evidence on realistic household savings patterns, or the limited impact of schemes designed to encourage households to save for deposits.

The capacity of private tenants to save for a deposit is also likely to be squeezed by more recent moves in private rents back towards parity with the costs of house purchase, as demand has risen and housing supply has stalled[7].

Wealth, Savings and Inheritance

The re-emergence of a deposit barrier for entry to home ownership raises questions about the extent and distributions of younger households' own wealth. It is also crucial to look at the potential scope for future growth in inheritances and parental support for would-be first time buyers.

A recent report shows that levels of wealth are clearly associated with age, and that younger households have very limited financial wealth. Indeed, the mean position for those aged under 29 is of net debt, rather than net financial wealth, while those aged 30 to 34 have average net financial wealth of only some £3,000[8].

It should be stressed that while this data, published this year, actually dates from 2005, and thus does not yet fully reflect the impact of student loans on the overall net financial position of younger households. Even so it shows only just over one in ten of those aged 25 to 29 have net financial wealth in excess of £11,700, while only a quarter of have more than £1,100. Similarly it shows only just over one in ten of those aged 30 to 34 have net financial wealth in excess of £16,300, while only a quarter of have more than £3,600.

The same report also shows that, on average, younger households do not save money. Data for 2000 to 2005 shows that those aged under 25 have a negative median savings rate, while for those aged 25 to 34 the median savings rate is zero. These figures exclude savings in the form of housing equity for those that have succeeded in becoming home owners. If housing equity is included the savings rate for those aged under 25 is zero, while for those aged 25 to 29 it increases to just over 20%, and for those aged 30 to 34 it rises to just over 35%.

Genworth research carried out by OnePoll amongst 2,000 first time buyers revealed that:

- One third of prospective buyers have been saving for a deposit for one to two years (34%).
- One in ten have been saving for five to six years (11%).

This research shows that considerable caution is needed in considering the extent to which younger households can realistically be expected to save towards a deposit for home ownership while residing in the private rented sector, particularly considering the rising burden of student loans.

The same point has also been forcefully made in a recent report from Oxford Economics. This makes projections, based on savings rate data from the Expenditure and Food Survey, suggesting that if younger households were required to save for a 20% deposit it would take them an average of forty years to reach that target[9]. It follows from this that even to save for a 10% deposit would involve a period of decades, not just a few years.

Conversely, the data strongly makes the point that becoming a home owner is the most significant way for younger households to save, in the form of growing housing wealth. While the level of growth in house prices between 2000 and 2005 was atypically high, on average this was the only form of net saving by younger households.

Another recent report shows that the likelihood of households inheriting wealth will only increase modestly in the coming decades. This is despite the very substantial rise in the value of the housing wealth of older home owner households over the last fifteen years[10].

This estimates the value of un-mortgaged equity held by older home owners (aged 60 and over) at £1,000 billion in 2006, and if house prices were to continue to rise in line with inflation over the period this is projected to rise to £1,400 billion in real terms by 2026. If house prices increased in line with earnings over the same period, the value is projected to rise to £2,300 billion.

Despite these very substantial sums the report also shows how slowly housing equity filters through to younger households in the form of inheritances. In part, this is because of improving life expectancy slowing down the point of inheritance transfers. Taking this into account, inheritances are expected to grow from £16 billion in 2006 to between £19-30 billion in 2026.

If this will gradually become a more important factor, this does not represent a radical transformation, given that over the last two decades inheritances have only contributed towards 6% of first time buyer deposits (Table 3).

There is similar caution to expectations of growth in future levels of parental assistance towards first time buyer deposits. Clearly, in the short term the economic and housing market constraints do not create a positive impetus for parents considering the release of housing equity, or other funds, to assist with deposits. As noted above, while the proportion of first time buyers who are assisted with their deposits has risen sharply in the last few years, this has been because of an even shaper fall in the proportions of unassisted first time buyers able to access the market. It has not involved any significant change in the numbers of first time buyers being assisted in each year.

There are also medium and longer term pressures on the housing assets held by older households, both in terms of supplementing retirement incomes and providing for the costs of care; this is particularly true given the increasing likelihood of households living beyond the age of 75. Those factors have not been considered in the estimates of growth in inheritances outlined above.

Household Preferences

As already seen in Table 7, the regular CML surveys have confirmed that, despite the rise in short term private renting, younger households continue to aspire to home ownership, in both the medium and longer term.

A new household survey undertaken in July 2010 has also confirmed that the lack of mortgages available to first time buyers with small deposits is now seen as the largest single barrier to becoming a home owner[11]. Two thirds of the sample of households aspiring to home ownership cited this as a major barrier. Moreover, almost a half also cited the difficulties involved in trying to save for a deposit, given low interest rates and the current economic situation.

The survey also found that just over two fifths of the households primarily wanted to buy because they did not want to 'throw money away' on private renting. This was by far the most frequent reason cited by households for wanting to become home owners.

Conclusions

The credit crunch has seen a re-emergence of a deposit barrier to entry to home ownership, operating alongside the income based affordability barrier. The deposit barrier is set to become institutionalised going forward by the new regulatory regime being proposed by the FSA[12].

While the concern of the FSA to ensure that risk is managed prudently in the mortgage markets is entirely proper given the experience of recent years, it will have far reaching implications for the wider economy as well as just the housing market. It also represents a major development in housing policy.

The deposit barrier acts as a constraint on first time buyers entering the market. This can currently be said to have reduced the potential demand by younger first time buyers alone by an order of 100,000 in 2009, thus substantially exacerbating the housing market downturn.

It is also evident that the excluded first time buyers are predominantly those unable to access assistance from their family with deposits, and that they are continuing to occupy dwellings in the private rented sector as a necessity rather than as a long term choice.

The existing evidence on household savings and inherited wealth also provide a strong caution about expectations that younger households will simply be able to save for a while as private tenants before making a slightly later progression to home owners. Only a limited proportion of younger households will be able to make that deferred progression, and as seen above the average period of deferral is likely to be measured in terms of decades rather than years.

Policy Issues and Options

Over the decades governments have sought to encourage and support younger households to become home owners, and the new government has clearly indicated that in principle it continues to support those aspirations.

There are a number of steps that the government can take towards supporting those aspirations. In the first instance it needs to engage with the relevant regulatory bodies so that a framework emerges that properly meets the prudential requirements of the FSA, but that does not unnecessarily inhibit the return of 90-100% mortgages that are subject to appropriate standards of household risk assessment.

Beyond that, it needs to reconsider the instruments of housing policy currently being applied to support entry to home ownership. The most widespread current instrument is shared ownership and its variants. However, this is structured to deal primarily with the income or affordability barrier to home ownership, rather than the deposit/wealth barrier.

The re-emergence of a deposit barrier requires a different instrument, and there are a number of options to be considered. Historically, mortgage guarantees were offered by local authorities to building societies to back the provision of 100% mortgages, both to key workers and other local authority nominees.

Private sector based insurance guarantees for high LTV mortgages are another option going forward. There are forms of Mortgage Indemnity Guarantee that provide cover to both borrowers and lenders. The cover for lenders avoids the risk to lenders of default, which is a proper concern for the regulatory regime, and can also replace the requirement for lenders to set aside increased capital cover.

Finally, the deposit barrier represents a new barrier to social mobility, with the sons and daughters of tenant households disadvantaged in the housing market compared to the sons and daughters of home owner parents, who are able to help them overcome the deposit barrier.

If this is to be addressed, the government needs to reconsider the policies advocated elsewhere, both to enable social sector tenant households to share in the equity growth of their homes, or to benefit from equity grants to enable them to move into the home owner sector, and thus release a vacancy in the social sector for another household[13].

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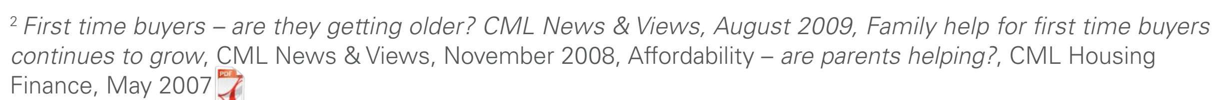
Note: Unless otherwise stated the data in the tables are the product of original analyses of the specified datasets that have been undertaken specifically for this report.

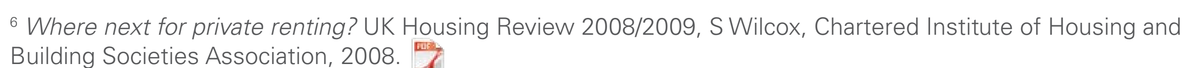
[1] For the purposes of this report, we will class high loan - to - value mortgages as those lending 90% or more of the purchase price.

[2] *First time buyers – are they getting older? CML News & Views, August 2009, Family help for first time buyers continues to grow*, CML News & Views, November 2008, Affordability – *are parents helping?*, CML Housing Finance, May 2007 

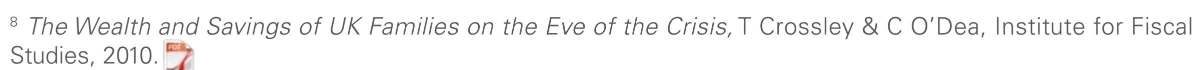
[3] *Recent trends in numbers of first time buyers: A review of recent evidence*, A Holmans, CML Research, 2008.

[4] *Buy-to-let mortgage lending and the impact on UK house prices*, National Housing and Planning Advisory Unit, 2008.

[5] *Can't supply, Can't buy,* S Wilcox, Hometrack, 2008

[6] *Where next for private renting?* UK Housing Review 2008/2009, S Wilcox, Chartered Institute of Housing and Building Societies Association, 2008. 

[7] *Lack of high LTV finance – implications for the housing market*, R Donnell, Hometrack, Estates Gazette, 6th February 2010.

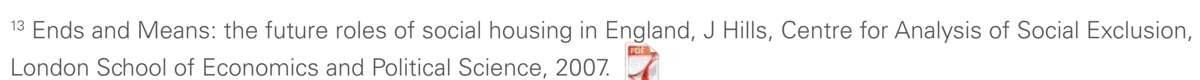
[8] *The Wealth and Savings of UK Families on the Eve of the Crisis,* T Crossley & C O'Dea, Institute for Fiscal Studies, 2010. 

[9] *Analysis of the likely age of a first time buyer,* Oxford Economics, 2010.

[10] *Prospects for UK housing wealth and inheritance*, A Holmans, Council of Mortgage Lenders, 2008.

[11] OnePoll Survey of 2,000 prospective first time buyers in 2010.

[12] *Mortgage Market Review: Responsible Lending*, Financial Services Authority, 2010.

[13] Ends and Means: the future roles of social housing in England, J Hills, Centre for Analysis of Social Exclusion, London School of Economics and Political Science, 2007. 

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