

Introduction

Recent Changes in the Council of Mortgage Lenders (CML) approach to these types of warranties has resulted in a number of new initiatives being launched and recognised by the CML. The details below are intended as a very brief guide to the options available in the insurance market and some of the issues surrounding alternatives to the traditional NHBC/Zurich Warranties.

History

Many years ago the NHBC established itself as the market leader in the provision of new housing warranties. Recognition by the CML enabled purchasers' funders (and legal teams) to accept the warranty as a mechanism to release mortgage funds. Without such protection, mortgagees are not normally prepared to release funds.

NHBC and Zurich have in excess of a 95% market share and the ability of the insurance market to launch alternatives was hindered by the need for CML approval. However, recent years have seen the CML more willing to approve alternative warranties in an attempt to increase competition.

Council of Mortgage Lenders Handbook

The CML is the trade association for mortgage lenders in the UK, and its members undertake around 98% of UK residential mortgage lending.

The Lenders' Handbook provides instructions for conveyancers acting on behalf of lenders in residential conveyancing transactions. The Lenders' Handbook is divided into two parts. Part 1 sets out the main instructions. Part 2 details each lender's specific requirements relating to the main instructions.

It is not mandatory for lenders to use the Lenders' Handbook.

Lenders' requirements regarding newly built and newly converted properties are set out in the Lenders' Handbook. If a property is newly built/converted and is to be occupied for the first time, conveyancers must ensure that the property was built/converted under a new home warranty scheme or the CML Professional Consultant's Certificate

Part 1 - Part 1 (Section 6.6.1) of the handbook recognises the following:

- the National House-Building Council (NHBC) Buildmark scheme; or
- the Zurich Municipal Newbuild scheme; or
- Zurich Municipal Rebuild scheme; or
- the Housing Association Property Mutual (HAPM) scheme; or
- the Premier Guarantee for Private Housing and Completed Housing; or
- any other new home warranty schemes.

Part 2 - Part 2 sets out the individual lenders acceptance criteria for lending purposes.

NHBC/Zurich Warranties

These two market leaders are known and accepted by almost all private housing lenders and solicitors. Therefore, when developing private housing, if possible, obtain an NHBC or Zurich Warranty. Whilst there is a degree of dissatisfaction within the construction industry with those particular warranties, they are still immediately recognised and most widely accepted by lenders.

However, it is not always possible to obtain NHBC or Zurich Warranties.

Alternative Warranties

Although the CML have included within Part 1 an acceptance of “any other new home warranty scheme” there is still some reluctance with some lenders to accept alternative schemes. Therefore, any consideration of an alternative warranty should be referred to Part 2 of the handbook for a clearer guide to the individual lenders approach.

Even when this is done, bear in mind that the handbook is a guideline only and individual circumstances may impact on the lenders final decision.

Costs

Each development is priced individually and it is therefore difficult to give a definitive guide to pricing structure. Generally, the alternative warranties will have a significant minimum premium and inspection cost. This will normally be around £2,500 minimum premium plus insurance premium tax for the insurance and around £2,500 plus VAT for the inspection procedure. However, different underwriters apply different criteria.

Where costs exceed minimum premiums the comparison between facilities such as NHBC and the alternatives will vary depending upon the individual development details.

Conclusion

At present the picture is mixed. Where possible obtain NHBC or Zurich Warranties. Where not possible, there is no choice but to consider the alternative warranties available, but, understand that not all lenders will accept the alternative warranties.

If possible, obtain the lenders name prior to purchasing the warranty in order that the acceptance can be checked prior to purchase. This also gives the opportunity to discuss acceptance criteria direct with the lender.

If not possible, then be aware of the potential for lenders to refuse acceptance of the warranty. In these circumstances, some lenders have moved to eventually accept the warranties but others have not. Until the warranties have achieved some market presence and lenders have some experience of dealing with them, it is unlikely that we can be any more certain of their general acceptance.

How Rowlands & Hames can assist you

Rowlands & Hames have access to a number of suppliers of such warranties, including Zurich and other ‘new’ suppliers.

Please contact Rowlands & Hames to discuss your requirements by telephoning 01253 594211, via email to mail@rowlands-hames.co.uk or via our website at www.rowlands-hames.co.uk.

Please contact Rowlands & Hames for further information.

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