cml
Council of Mortgage Lenders

CML RESEARCH

Shared ownership: Ugly sister or Cinderella?

The role of mortgage lenders in growing the shared ownership market

Anna Clarke, Andrew Heywood and Peter Williams

October 2016

www.cml.org.uk

Shared ownership: Ugly sister or Cinderella?

The role of mortgage lenders in growing the shared ownership market

About the authors

Cambridge Centre for Housing & Planning Research

Anna Clarke is a Senior Research Associate at the Cambridge Centre for Housing and Planning Research, a policy-focused research centre within Cambridge University. She has led a wide range of research projects in the field of housing and social policy for clients including the Department for Communities and Local Government, The Department for Work and Pensions, the Joseph Rowntree Foundation, Lloyds Banking Group and the National Housing Federation. She has led previous work on shared ownership for Thames Valley Housing Association and for Tower Homes and Metropolitan, and is currently working on projects on welfare reforms, the private rented sector and young people's housing options.

Peter Williams is Executive Director of the Intermediary Mortgage Lenders Association and a Departmental Fellow, Department of Land Economy, University of Cambridge. He is also Chair of URL, a planned 'for profit' housing association and a board member of Belmont Green trading as Vida, a new challenger mortgage lender. He was previously Director of the Cambridge Centre for Housing and Planning Research, Deputy Director General of the Council of Mortgage Lenders and Professor of Housing at the University of Wales, Cardiff.

Andrew Heywood specialises in research and analysis of housing and mortgage markets. He is editor of the journal Housing Finance International and a visiting fellow of the Land Economy Unit of the University of Cambridge. He is also a research fellow of the Smith Institute. His recent publications include: Local housing community living: prospects for scaling up and scaling out community-led housing, (Smith Institute 2016), Working together, thinking alike: what do councils and local enterprise partnerships expect from housing associations? (Smith Institute 2015) A tale of two regions: can low and middle-income earners afford to live in the South East (Moat homes 2014), Housing and planning: what makes the difference? (Smith Institute 2014) and Reselling shared ownership properties after improvements (CCHPR 2013). Andrew has written for Inside Housing and for Social Housing magazine among other journals.

Contents

Summary 6

Key findings 6

Conclusions 8

Recommendations 9

Overview 13

Aims and objectives 14

Methods 14

Policy context 15

The shared ownership model lease 15

The regulator's views of shared ownership 17

Recent changes to shared ownership 18

Other forms of support for home ownership and their impact on shared ownership 19

Data on shared ownership 25

How big is the sector? 25

How fast is the shared ownership sector growing? 25

Who are the purchasers of shared ownership who buy with a mortgage? 29

Mortgage arrears for shared ownership 32

Challenges and opportunities 34

Opportunities for lenders in the shared ownership market 34

Barriers to lending 35

A specialised sector? 37

Are there enough lenders involved in the sector? 38

Restrictions on shared ownership lending 39

Pricing 40

Opportunities for growth 42

Conclusions 46

Annex A: Firms lending on shared ownership 48

Annex B: Data availability and gaps 50

Annex C: Data used in the report 52

Glossary and acronyms 55

References 56

End Notes 57

Summary

Shared ownership forms an established part of the UK housing landscape and makes up a substantial and increasing proportion of new-build Affordable Housing. Mortgage lenders play a vital role in the sector both via commercial lending to fund the development of shared ownership homes and via retail mortgages for the purchase of those homes by individual shared owners. Our focus here is on the latter.

The Government has announced a strong drive towards increasing access to owner-occupation and appears to be targeting subsidy to this end via shared ownership and Starter Homes, rather than towards rented housing. It hopes that private developers will start to deliver shared ownership to compete with housing associations for developing and managing the properties. There may be a variety of challenges to expanding the sector – demand, affordability, finance and land – but mortgage finance may also play a part. Either existing lenders will have to treble their lending on shared ownership, or new lenders will have to enter the sector.

This report sets out the challenges and opportunities facing shared ownership, from the lender's perspective, drawing on available data, a survey of lenders, interviews with lenders and key stakeholders and a lenders' discussion group.

The aim is to improve mortgage lenders' understanding of shared ownership. This will help firms evaluate their appetite to support shared ownership in the light of the Government's aspirations for the tenure. The report draws conclusions from all this evidence and makes recommendations for government, regulators, lenders and other stakeholders to help improve mortgage lenders' interest in this important market.

Shared ownership involves a buyer purchasing a share of their home (typically between 25% and 75%) whilst a housing provider – usually a housing association – retains ownership of the remaining share. Rent is paid on the unsold share and buyers usually obtain mortgages to fund the purchase of the share they buy.

Key findings

Mortgage lenders and shared ownership

- Around 200,000 UK households currently live in shared ownership homes. Government plans would, if fulfilled, see the sector grow by up to 70% over the next five years.

- Mortgage lenders' support for the sector is essential as three quarters of purchasers buy with the use of mortgage finance.

- The rights and responsibilities of the buyer, housing association and lender over a shared ownership property are set out in its lease. The Homes and Communities Agency has issued a model lease used for shared ownership purchases, which contains clauses that are critical in ensuring lender support for the sector, including the Mortgagee Protection Clause that gives them first call on the proceeds of a sale in the event of repossession.

- Recently announced changes to eligibility for shared ownership are likely to increase demand, although competing first-time buyer products (in particular Equity Loans and Starter Homes, as currently proposed) may divert some of that demand to other products.

- Private developers are to be allowed to bid for government funding to develop shared ownership, but lenders are very cautious about lending to a less regulated and established sector.

Key data on shared ownership

- Shared ownership forms around 0.4% of the English housing stock; 1.3% of all mortgages currently held and around 0.7% of the total value of mortgages held

- Number of sales varies considerably across the UK, with the highest number in London.

- As the market has developed, the resales market has grown steadily in recent years and now forms around a third of all shared ownership sales.

- 75% of purchasers use mortgage finance. Of these, 96% of purchasers who buy with mortgage finance have at least one person in full time work, 36% are dual income households and 90% are first-time buyers.

- Average incomes of first-time buyer shared owners in 2015-16 were £45,000 in London and ranged from £24,000 to £34,000 in the rest of the country.

Opportunities and challenges for lenders

- Despite much scepticism over whether the Government's target is realistic, the evidence does suggest the shared ownership sector is likely to grow considerably in the next few years.

- Most of the 15-20 firms lending on shared ownership are small locally based building societies and three or four lenders undertake the large majority of lending.

- Social responsibility was the most significant reason cited for lenders' involvement in the shared ownership market. Many also saw it as part of their package for first-time buyers and as a profitable area of activity.

- Lenders not involved in the market reported that they had other priorities, that they considered it a higher risk form of lending, and that they were deterred by the complexities of having to liaise with a housing association in the event of a default. The small size of the sector (and, given likely market share, the actual volume of business), coupled with the complexities involved, also deterred new entrants.

- The evidence suggests that whilst there are a reasonable number of lenders involved in the sector relative to its size there is a shortage of products available for buyers with low deposits, and for borrowers buying on a site where there are a number of other shared ownership new-build properties and where lenders have therefore imposed concentration limits.

- Most existing lenders have a range of bespoke mortgage products for this market and charge slightly higher interest rates on shared ownership mortgages to reflect the more onerous nature of lending to this sector and perceptions of higher risk. A minority of lenders use their standard range of products and prices.

- The research did not find clear evidence of higher rates of arrears or repossessions in the sector compared with lending to other first-time buyers, and it would appear that overall repossession rates are similar.

- Most lenders are relaxed about increasing their involvement in shared ownership and would expect to do so if demand increases. However, new entrants may be needed to meet demand, especially if the proportion of shared ownership built on new sites increases, and it is unclear whether enough new lenders would enter the market to service an expansion of shared ownership development to 135,000 by 2020.

- There is a particular need for lenders who are prepared to lend to buyers with low deposits as some major lenders have recently increased restrictions on lending to such buyers.

Conclusions

The shared ownership sector forms a small part of the overall UK housing market, and this situation is likely to remain the case. This will be the case even in England where the sector is biggest and where the Government has clear growth plans. Nevertheless, it is an established part of the UK housing system and important as it is the only means of buying for some would-be home owners. Lenders generally recognise this role and are supportive of the sector in principle, with many feeling that it is in line with their social responsibilities to help would-be homeowners.

Lenders involved in the sector were enthusiastic about the recent reforms to shared ownership which relaxed buyer eligibility conditions, though the less involved lenders were less aware of what these reforms entailed and in some cases avoided lending for reasons which were historical or based on what may be an outdated view of shared ownership. Nevertheless, the intended expansion of shared ownership had not escaped notice, even if most are sceptical about the extent to which it will be achieved. Some other lenders were considering starting (or restarting) their lending to the sector. It is important that more lenders join the sector if mortgage finance for shared ownership is to keep pace with growing demand, especially on large sites, and where buyers have limited deposits.

If shared ownership is in any way to become a “fourth tenure” lenders require uniformity and consistency in the lease. Small-scale local schemes may not be worth their while to deal with, and securing the involvement of one supportive local lender runs risks of coming up against site concentration limits (as not all buyers can use the same lender), and risks in terms of resales should that lender change its policy in the future.

Overall this report has found the shared ownership sector to be working reasonably well for lenders, and the level of lender involvement not inappropriate for the current size of sector. Good working relationships have developed between many lenders and housing associations, meaning that any tensions over dealing with mortgage or rent arrears and the circumstances of when a lease can be ended are generally considered manageable.

The planed expansion of other first-time buyer support schemes – especially Starter Homes and equity loans – has raised concern across the shared ownership sector that demand for shared ownership could be hit. Land, funding and the financial resources of housing associations were seen as the most immediate likely barriers to growth, rather than mortgage availability, but if the sector does grow to target rates then mortgage finance could potentially become a limiting factor. Addressing the issues that reduce lenders’ enthusiasm for the sector is therefore important, especially if shared ownership is to continue to offer a route to home ownership for those with limited capital.

Recommendations

In order to improve mortgage lending to the shared ownership sector, the following recommendations are made, based on the findings of this research:

Recommendations for mortgage lenders

Examine actual evidence on shared owners and risks of arrears and default, rather than rely on outdated perceptions of the tenure.

Lenders not currently active in the shared ownership sector were more likely to express views that the sector was higher risk, despite the experience of those who were most involved suggesting otherwise.

Develop protocols for good working practice with housing associations

Guidance on such protocols already exists such as the guidance on Shared Ownership Arrears and Possessions produced jointly by the Council of Mortgage Lenders (CML), Building Society's Association (BSA), Homes and Communities Agency (HCA) and National Housing Federation (NHF). Protocols can help ensure smooth working relationships and good communication in the event of rent or mortgage arrears. Housing associations value a good working relationship with lenders with a long term commitment to the sector.

Recommendations for the CML

Ensure that detailed and up to date information about shared ownership is available on the CML website

This would include details of current schemes and also older schemes which may still determine the lease conditions for resales. Details of other first-time buyer support schemes would also be helpful, along with simple comparisons. Lenders looking to enter the sector would particularly benefit from a reliable source of information about the sector, and it may also be of use to brokers and solicitors.

Maintain a list of lenders who lend on shared ownership

This would need to be updated regularly.

Continue to collect data on shared ownership from the Regulated Mortgage Survey and publish the data as soon as possible.

Data on arrears and repossessions for shared ownership, with meaningful comparisons to other first-time buyer high loan-to-value (LTV) lending would be particularly useful for lenders and could help them make better informed decisions around interest rates and whether or not to lend. Improvements to the data collected could also be made (see Annex B for details).

Recommendations for central government

Develop a coherent housing strategy that sets out how the different schemes fit together

The current and proposed schemes supporting first-time buyers include Starter Homes and a variety of Help to Buy schemes. These potentially compete for land, funding and investment by housing providers, and it is unclear how the different schemes fit together in terms of the different market segments. This uncertainty reduces lenders' confidence in shared ownership as a product.

Keep the shared ownership brand, and promote it with a long term marketing plan

There is widespread concern that the constant rebranding and redesigning of shared ownership damages consumer and lender understanding of the sector. The public's understanding of the sector was also felt by stakeholders to be limited, with widespread misconceptions around eligibility for schemes and liability for repairs and maintenance.

Produce a detailed user guide on shared ownership for use by lenders, brokers and solicitors covering the overall scale and performance of the sector and the detailed legal issues relevant to each scheme

This would cover the full range of shared ownership products and other first-time buyer support schemes, and would include information relevant to older versions of the lease still in use for older properties. As increasing numbers of new-build shared ownership properties enter the market there is a risk that increasing numbers of lenders may restrict their lending to the growing proportion of the market that uses the more recent version of the lease, in use since 2010, posing difficulties for sellers of older properties. The user guide could also address common misconceptions and misplaced concerns about arrears and risks.

Produce good practice guidelines that private developers offering shared ownership can sign up to

This would help address lenders' concerns and ensure some consistency around issues if lenders are to lend on shared ownership managed by private developers. Further work with lenders may also be necessary to address their concerns about lending to an unregulated sector.

Improve access to data and the availability of data on shared ownership

There is a considerable volume of data collected by different agencies, but very little of it is published in a format that is easily accessible to lenders or others involved in the sector. Data collected by the Department for Communities and Local Government (DCLG) from the Continuous Recording of Sales and Lettings (CORE), and by the Scottish and Northern Ireland Governments, could be made more readily available, and equivalent data should be collected by the Welsh Government. The definitions used should be consistent across all sources. In addition, further attention should be given to closing gaps in the data provided, for example on the use of the Mortgagee Protection Clause, on the stock of shared ownership homes in existence and on the profile of staircasing by years after initial purchase.

Useful data is collected on shared ownership sales and purchasers in England and Scotland from housing associations (via CORE and the Scottish equivalent, SCORE), but is not routinely published in a format accessible to mortgage lenders. No equivalent data appears to be collected in Wales. Attention needs to be given to the question of how to include data from private providers if and when they start developing and managing shared ownership.

See Annex B for further details.

Recommendation for local government

Avoid putting additional conditions on resales of shared ownership properties (for instance as a planning condition) that are likely to cause problems for lenders and hence difficulties for buyers in obtaining mortgages

A pre-emption period (during which a property can only be sold to specific categories of people, or must be sold via the housing provider) may cause delays in some sales but is not a major block for lenders. However, conditions that prevent staircasing to 100% do cause some lenders to decline mortgage applications.

Recommendations for housing associations and the NHF

Work closely together to avoid unnecessary expansion of the number of shared ownership products

Housing associations need to avoid producing an ever-larger plethora of new products and there may be a role for the NHF or the HCA in consolidating existing products and attempting to roll out standardised products. Ensuring that the model lease is used on any variants will help secure lender confidence. When properties are sold on with pre-2010 leases it would also be sensible at this stage to reissue the lease using the current version, to help standardise the types of lease on which buyers are seeking mortgages.

Sign up to protocols for good working practice with lenders

The research found that individual lenders had developed service level agreements with housing associations. These were seen as helping ensure smooth working relationships and good communication in the event of rent or mortgage arrears. Lenders were keen to see a more commercial and flexible approach from housing associations and one that was not unduly bureaucratic.

Consider whether there would be any acceptable alternatives to the current section in the lease which allows housing associations to terminate the lease on grounds of rent arrears

One of the biggest issues for lenders in considering whether to lend for shared ownership was the perceived risk that a housing association would terminate the lease on the grounds of rent arrears, which has the effect of removing the lender's security on their loan. One lender reported leaving the shared ownership market on this account. If this right is rarely used in practice the NHF and HCA should consider modifying the lease in the interests of promoting lender confidence.

Overview

Shared ownership involves a buyer purchasing a share of their home (typically between 25% and 75%) whilst a housing provider – usually a housing association – retains ownership of the remaining share. Rent is paid on the unsold share usually capped at 3% of its value and buyers usually obtain mortgages to fund the purchase of the share they buy. Buyers can purchase further shares in the future ('staircasing') until they own the property in full, usually with the aid of further mortgage borrowing.

Shared ownership has been in operation for over 35 years and now forms an established part of the UK housing landscape. It makes up a substantial and increasing proportion of new-build Affordable Housing (around a quarter in 2014-15), and is now set to be further expanded with a particular drive in England.

The role of mortgage lenders to the sector is critical – both via commercial lending to fund the development of shared ownership homes and via retail mortgages to fund the purchase of those homes by individual buyers. It is the latter role, in lending to households, that this report focuses on.

Despite its long history, the shared ownership sector still forms only a small part of the UK housing landscape, housing around 200,000 households. In England, 0.4% of households live in shared ownership properties, and they comprise around 1.3% of mortgages held. In financial terms, around £4bn is currently lent in the form of mortgages to householders buying homes under shared ownership. Households buying shared ownership homes are similar in profile to other first time buyers, with almost all households including someone in full time work.

The sector is, however, set for expansion. The Government in England has announced a strong drive towards increasing access to owner-occupation, and plans to target subsidy to this end via shared ownership and Starter Homes, rather than towards sub-market rented housing. The November 2015 Spending Review and Autumn Statement announced an ambitious plan to expand shared ownership by building 135,000 shared ownership homes by 2020. To put this in context, only 41,000 shared ownership homes were built during the period 2010-2015, so this represents more than a three-fold increase.

There could be a variety of challenges to expanding the sector in this way – demand, affordability, finance and land – but mortgage finance may also play a part. Either existing lenders will have to treble their lending on shared ownership, or new lenders will have to enter the sector. There is concern that in relation to the total number of mortgage lenders only a small number of lenders currently offer shared ownership mortgages, a factor which may limit competitive pressures in the sector and may also reflect wider concerns from lenders about the risks attached to shared ownership. The Government has also signalled that it wants private companies to play a greater role in providing shared ownership, and this could further complicate factors for lenders. At present, shared ownership is delivered via housing associations and local authorities and the existing protocols and legal arrangements are built on this arrangement, with lenders specifying that the provider must be a registered provider.

This report sets out the opportunities created by plans to expand shared ownership, from a lender's perspective, and also explores the challenges of the sector and possible barriers to growth. It makes recommendations for lenders, government, housing providers and the CML that could usefully improve the functioning of the sector, increase lenders' enthusiasm and help the sector to grow in the way envisaged by government.

Aims and objectives

The aim of the study is to improve mortgage lenders' understanding of shared ownership. This will help firms evaluate their appetite to support shared ownership in the light of the government's aspirations for the tenure. The report will also make recommendations for government, regulators, lenders and other stakeholders to help increase mortgage lenders' interest in the sector.

Methods

The study included a review of the existing literature and policy context, and employs the following methods:

Interviews with key stakeholders

In order to understand the range of issues affecting the size of the shared ownership sector and the appetite of lenders, and to identify any barriers to growth, ten key experts and stakeholders were interviewed during June and July 2016.[1]

In addition, interviews were conducted on an anonymous basis with a high street mortgage broker and with a potential investor in the shared ownership sector.

Data analysis

Data on the current supply of shared ownership and recent trends within the sector was explored drawing on CORE data, the Survey of English Housing, and data on shared ownership collected from 52 providers of shared ownership by the National Housing Group (NHG)[2]. This focused on the whole of the UK where possible, but where data is collected separately by the Scottish, Welsh or Northern Irish Governments the focus was on England only. This is because the large majority of shared ownership lending occurs in England and data collection for other parts of the UK is patchy.

Survey of lenders currently active in the market, facilitated by the CML

A web-based survey of all lenders who are members of the CML was conducted, in order to collect data not available elsewhere and also to find out about their appetite for increased lending to the shared ownership sector.

A total of 135 lenders were asked to complete the survey, of which 38 responded. Of these, 15 reported that they currently lend on shared ownership, and a further nine said they had done so in the past but did not currently.

Consultation with lenders

Nineteen of the lenders who responded to the survey left contact details for a telephone interview, and a total of 20 were interviewed, including some who volunteered for an interview having missed the survey deadline.[3]

A discussion group with lenders was also held in August 2016, facilitated by the CML.

Policy context

As already set out in the introduction, shared ownership has been in operation for over 35 years, though it forms only a very small proportion of the housing stock. The key market comprises those who aspire to own a home but cannot afford to buy outright, and shared ownership offers them the possibility of part-ownership, asset accumulation and secure housing. In some cases it offers a ladder into outright ownership, although rates of 'staircasing' (buying further shares until full ownership is reached) have not been as high as some have anticipated, with fewer than 5% of all existing shared owners staircasing each year (Cowan, et al., 2015; Clarke & Heywood, 2012), suggesting it is not a quick route into full ownership for most buyers.

Mortgage lenders overall became more conservative in their lending practice after the financial crisis of 2008 because of the need improve risk management and in response to tighter regulation by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). Overall lending reduced as a result, and high LTV lending was especially hit, though there has been some increase in the last two to three years (FCA, 2015). Shared owners have not been singled out in this market, but they were particularly likely to be hit by the requirement for larger deposits. There is some evidence from CORE that shared owners now pay a higher percentage deposit than typical first time buyers, whereas in the pre-2008 era they were typically offered much smaller deposits than other first-time buyers (Clarke, et al., 2007).

There have been some recent efforts to make shared ownership more affordable to those on low incomes, by extending the range of homes available to include those available second-hand on the open market. Under the *Local Authority Partnership Purchase scheme*, run by Capita, local authorities can buy open market homes in partnership with low to middle income households, who therefore have a greater choice of property.

The shared ownership model lease

At the heart of the shared ownership market is the 'model lease' which sets out the legal basis of the relationship between buyer, association and lender. This lease was developed originally by the Building Societies Association and the NHF. The model lease has been periodically revised to capture developments in the market and the current 2015 version[4] provides some uniformity to the sector, along with the joint CML/NHF/HCA guidance updated in 2012[5]. The importance of the lease in establishing uniformity in the sector and, thereby, giving lenders confidence in it was highlighted in a recent study (Cowan, et al., 2015).

The lease includes the Mortgagee Protection Clause (MPC) which helps protect the lender's interests in the event of a sale following repossession. If the sale price does not cover the value of the mortgage and the housing association's share, the lender is repaid first and the housing association only receives what is left.

However, in spite of recent moves to simplify eligibility rules, a number of factors can make the resale process more complex and therefore riskier. These may arise as a consequence of a condition of planning permission (Section 106 agreements) and can include limits on buyers' incomes, previous tenure, local connections or housing need. Clauses added in rural areas to prevent staircasing to 100% (in order to preserve the property in perpetuity for those unable to afford market housing) often include restricting resales to people with a local connection in the first instance. If a property cannot be sold on the open market, then its value as security for a loan is less certain.

One resale condition which has been reformed recently concerns the pre-emption clause in the model lease. This clause gave the housing association up to eight weeks to nominate a new purchaser for any current and former shared ownership properties for up to 21 years once the occupant had staircased to 100%. In practice most housing associations did not enforce the pre-emption rights for former shared ownership properties. The Government has recently reformed the model lease to remove the pre-emption clause for former shared ownership properties once the buyer has staircased to 100%. Those staircasing to 100% after April 2015 should have the pre-emption clause excluded from their freehold. However, for shared owners who have not staircased to 100%, the pre-emption clause remains in place.

The possibility of housing associations ending a lease because of rent arrears remains a concern for lenders. At present housing associations can apply for to gain possession of shared ownership homes under Ground 8 of Schedule 2 of the 1988 Housing Act, which gives them mandatory possession of a property with more than eight weeks' rent owing. This power is due to be removed for new Shared Ownership homes built with grant funding for all providers[6], though this will only, of course, affect new housing and not the existing shared ownership stock.

The issue of a lease being ended because of rent arrears on the unsold share was first brought to light in 2008[7], and has been highlighted again recently by Nationwide Building Society expressing particular concern about this issue if organisations other than social landlords are to enter the shared ownership market (Inside Housing, 31st May 2016). Currently lenders feel that the risk of losing their asset because a borrower has lost their lease due to rent arrears is largely theoretical. In practice, housing associations are keen to avoid such a situation and the resultant damage to the sector, so will ensure that lenders are given the opportunity to pay off rent arrears by increasing the size of the mortgage debt. However, lenders are concerned at the Government's stated interest in opening up the sector to other parties, about whom lenders may not feel as confident.

The importance of the relationship between lenders and social landlords has been emphasised by a recent study into shared ownership (Cowan, et al., 2015), which highlighted the role of lenders in helping buyers who fall into difficulties by agreeing to capitalise rent or service charge arrears, but which also cautioned landlords that this could increase the call on their assets from the MPC if the buyer falls into further difficulties. The study recommended that the pre-action protocol for possession claims is amended to include a clause requiring lenders to have pre-action contact with the housing association to avoid this situation[8].

As already noted, the size of the sector is a factor in deterring lender involvement (Cowan, et al., 2015; Heywood, 2016), as the number of transactions per year is insufficient to attract their interest or support the investment needed to build a real capability for working in this sector. Lenders also seek to avoid risk of over-exposure on lending on multiple properties on one site (Heywood, 2016). This is something that particularly affects shared ownership because of the relatively small number of lenders and the fact that most new shared ownership mortgages will be on new-build properties.

The regulator's views of shared ownership

An issue that has concerned some lenders is the PRA's treatment of shared ownership for capital requirement purposes. The Mortgagee Protection Clause in the shared ownership lease means that lenders have first claim on the full market value of the entire property, should a borrower default on their mortgage (HCA, 2011a). However, this reduction in risk is not reflected in the PRA's assessment of capital weighting which instead requires lenders to calculate the LTV ratio on just the buyer's share of the property, as that is the only part that formally stands as security for the loan. This is in spite of the fact that under the MPC the lender has access to the value of the share of the property retained by the landlord where the purchased share provides insufficient recompense in the event of a default by the borrower.

A letter from the Director of the Prudential Policy Division of the then Financial Services Authority (FSA) to the DCLG in 2010 discussed the degree to which the MPC provided additional protection for lenders and how this might be reflected in capital requirements[9].

This issue has been subject to ongoing debate between the CML, PRA and DCLG and the NHF, and was raised in the Orbit and the Chartered Institute for Housing (CIH) publication last year (Sinn & Davis, 2015). Although a higher capital weighting in itself does not prohibit lending it does make that lending more expensive and so less attractive to lenders (and not least at high LTV levels and this is reflected by CORE data showing that typical deposits for shared ownership were over 20% of the equity stake purchased during 2014-15).

What is clear is that although shared ownership is a long-running and by some standards a successful tenure, it is complex from a lender perspective and there are still some issues that may act as barriers to some lenders engaging further with the sector.

The PRA's view of shared ownership is reflected in the rules it applies to building societies[10], though it is currently consulting on further proposed changes to that rulebook. *The Building Societies Sourcebook* (FSA, 2013) set out some of the key issues that building societies need to consider when lending on shared ownership (clause 2.2.20), outlining many of the key areas of concern to lenders. In summary these comprise:

- Shared ownership can be more complex than other lending.
- The value of the asset can be affected by conditions placed upon resale – such as marketing the property only to those identified as a priority by the local authority.
- Administering lending on shared ownership is more resource-intensive because of the three separate parties involved (the buyer, the lender and the housing provider).
- Lenders need to ensure they comply with required procedures in order to be able to invoke their rights under the MPC to cover debts including from the landlord's share in the event of a default.
- If a borrower fails to pay rent on the unsold share, the landlord can end the lease. A social landlord must inform the lender in such instances to give it time to remedy the situation, but lenders need to decide how to handle such situations.
- Building societies are advised to set a cap on the proportion of their lending books for shared ownership, to mitigate these risks. Shared ownership is defined as non-prime lending and 100% lending and therefore attracts a higher capital weighting.

This guidance reflects concerns shared across the building society sector, and the definition of shared ownership as non-prime causes particular difficulties for those looking to expand their portfolios (Cowan, et al., 2015).

The PRA's current consultation has retained the *Sourcebook* wording on shared ownership[11] and the final version will be issued later this year. At present the PRA sets out a maximum 5% limit on total loan book exposure on shared ownership, though this can be exceeded with permission. Overall, lending on shared ownership comprises under one percent of all mortgage lending, but the small number of lenders involved may mean that it is significantly higher for some lenders.

In addition to the PRA's role as bank regulator, shared ownership is also regulated by the HCA as the housing association regulator, and there are interactions between the two bodies – principally in lending terms around the model lease including the MPC.

Recent changes to shared ownership

There are several key changes that have recently been made to shared ownership:

- The upper income limits have been relaxed. This is likely to have most impact in the higher-priced areas of the country, such as London, and very little impact in lower-priced areas such as the North West where households on the current income limits can already afford outright ownership (Heywood, 2016).

- The rights of local authorities and housing associations to prioritise certain groups for shared ownership have been removed and eligibility restrictions relaxed (with the exception of military personnel). Any households with incomes of under £80,000 (or £90,000 in London) are now eligible for shared ownership.

- Sales are also permitted to existing shared owners, allowing mobility within the sector, something which has long been known to be a problem (Clarke & Heywood, 2012).

- Rules around the sizes of homes that buyers can purchase have also been relaxed. Previously buyers were only able to purchase homes with up to one spare bedroom, but there is now no limit to the size of home they can buy so long as they can afford the price and rent.

- Under the new funding round, private developers, as well as housing associations, will be able to bid for grant funding to develop shared ownership.

These changes are expected to cause an increase in demand for shared ownership.

Other forms of support for home ownership and their impact on shared ownership

The following schemes are also currently running, or planned, which will help households to access home ownership and which potentially cut across the shared ownership market in England:

The Starter Homes Initiative

The 2016 Housing and Planning Act introduced a duty on local authorities to promote the supply of Starter Homes – built for first-time buyers aged at least 23 but under 40 who receive a 20% discount when buying the property. The Government has set a target of 200,000 to be built by 2020 and £2.3bn was made available to fund some of the discounts with the expectation that the rest would be delivered through the planning system. It was proposed originally that buyers could sell at full market value after five years. The Act as finally passed extended the time period before a property could be sold without having to repay some of the discount to eight years, though there is ongoing consultation on this element. Many local authorities wanted to have a choice as to whether to offer Starter Homes in their area but amendments to allow this proposed in the Lords were overruled, with the exception of a concession for rural exception sites.

Help to Buy Mortgage Guarantee

Under this scheme the Government underwrites loan risk for high-value loans (80-95%). No actual subsidy is involved and the buyer still pays the full mortgage and owns their entire property and lenders pay a fee to use the scheme. The guarantee is available on any home up to £600,000 in value and buyers are eligible as long as they can afford the purchase borrowing no more than 4.5 times their income, own no other property and do not let their home out. The mortgage guarantee is not available on shared ownership purchases and the scheme is due to end at the end of December 2016. The Bank of England recently published an evaluation of the scheme[12].

Help to Buy and Lifetime ISAs

Help to Buy ISAs allow buyers to save into an ISA which the Government will then top up by 25% towards their first house purchase, up to a maximum of £3000. However, only a year after announcing this, the Government then announced a new Lifetime ISA to be launched in April 2017, which operates along similar lines but can be used for either house purchase or retirement. Would-be first-time buyers can have both types of ISA but can only access a bonus for house buying from one of them. Properties are purchased on the open market and must be worth no more than £250,000 (or £450,000 in London), and purchasers can use their ISA to buy a shared ownership home.

Help to Buy Equity Loan

The Help to Buy equity loan was launched in April 2013, though is essentially a rebranding of the previous HomeBuy Direct and FirstBuy schemes. Under the current Help to Buy equity loan the Government lends the buyer up to 20% of the cost of a new-build home (or 40% in London). The buyer needs at least a 5% cash deposit and can get a mortgage for the remaining 75%. No fees are payable on the loan for the first five years, but are payable at 1.75% of the original loan, rising by RPI plus 1% each year. When the buyer sells the home, they must pay back the share that the Government contributed – in proportion to the home's selling price. The scheme runs till 2021.

Developers may also run schemes where they retain a share of the ownership, making it easier for buyers to afford. Savills estimate that at least £1 billion worth of loans have been allocated to shared equity schemes in England between 2008 and 2014 (Savills, Spring 2014). The DCLG recently published an evaluation of the Help to Buy Scheme[13].

The Right to Buy

The Right to Buy has been available to local authority tenants since the 1980s, though since 2012 the discounts have been increased, making the scheme more generous than it had been for many years. The Right to Buy is currently being piloted for housing association tenants, with a view to this being rolled out, though probably on a controlled basis because the government has agreed to fully fund replacement homes. The impact on shared ownership demand is likely to be fairly limited because only a small number of buyers are currently moving from social housing, but this group is likely to find the Right to Buy more financially attractive.

Rent to Buy

These newly built homes will be available to tenants at around 20% below market rent (similar rates to Affordable Rents) for five years and aimed at tenants who are saving to buy their own home. The Government aims to deliver 10,000 by 2020/21. Buyers can purchase outright within five years, or on shared ownership terms.

Applicants are eligible if they earn less than £60,000 (£64,300 in London) and do not own another home. The scheme operates through housing associations who may also prioritise certain groups.

Potential competition between schemes

There are several key issues that arise from the array of different schemes available:

- They may compete for funding and land – housing associations have limited resources and may not prioritise shared ownership if other schemes appear more attractive. In particular, the Government has proposed that 20% of all larger developments are Starter Homes, which would potentially squeeze shared ownership development under S106[14].

- They may compete for buyers. Those able to afford Starter Homes or equity loans will pay no rent on the 20% discounts (or 40% in London), making that scheme potentially more attractive than shared ownership. It has been suggested that in order to compete effectively with these schemes, shared ownership may need to focus on low initial shares (Savills, April 2016).

- They add further complexity to an already complex field of different products. Shared ownership products become further complicated by “legacy products” – no longer being built but still coming up for resale, with their accompanying lease and resale restrictions still in place. It is this last issue that causes most concern to lenders.

The position of shared ownership could be further undermined if, as has been suggested, the government allows Starter Home purchasers to access Help to Buy equity loans.

The table below sets out the most likely impact on demand from buyers resulting from each of these schemes:

Table 1:
The impact of competitor products on buyer demand for shared ownership

Scheme	Likely impact on demand for shared ownership	Group affected	Proportion of shared ownership purchasers likely to find other scheme more attractive	Level of impact
Starter Homes	Negative – a 20% discount is much more attractive than shared ownership purchase of 75% where rent is payable on the unsold share, and its value is held by the housing provider.	Aged under 40, able to afford 80% market value.	Up to 10%. 72% of shared ownership purchasers are aged under 40, but only 10% of them purchase over 50% shares (CORE).	Significant impact on purchases of higher share values. Limited overall though could be much greater if Help to Buy equity loans are allowed on Starter Homes.
Mortgage guarantee	Minimal – largely targeting a different client group.	Those who can afford outright purchase but lack large deposits.	Up to 5% (large majority of buyers cannot afford even close to outright purchase).	Low.
Equity loans	Negative – no fees are payable on the unsold share for 5 years, making it more attractive than shared ownership.	Able to afford 80% market value, or 60% in London. Under 40s are likely to find Starter Homes a better deal.	Up to 5% (only 10% of shared ownership purchasers currently purchase over 50% shares; 72% are aged under 40 (CORE), and therefore likely to find Starter Homes a better deal).	Significant impact on purchases of higher share values. Limited overall.
Right to Buy extension	Negative – for eligible HA tenants the Right to Buy is a much more attractive scheme offering substantial discounts.	Housing association tenants, especially longstanding ones in cheaper parts of the country.	Up to 8.5% (8.5% of shared ownership purchasers are social tenants (CORE), some of whom will be LA tenants).	Low – because small numbers of purchasers are eligible.
Help to Buy ISAs	Positive – ISAs can be used for shared ownership purchase, as well as full ownership.	Buyers who save for a number of years before buying.	N/A – can be used on shared ownership too so not a competitor product.	Minimal – available on shared ownership and outright purchase but capped at £3000 subsidy.

Rent to Buy	Positive – Rent to Buy purchasers can buy along shared ownership lines.	Tenants who are unable to afford outright purchase after 5 years.	Up to 30% increase (Government target of 10,000 households 2015-18. If half of these sought shared ownership at the end of their five-year period this would add around 3000 shared ownership buyers a year – compared with around 10,000 shared ownership sales per year currently).	Could be substantial if Rent to Buy is popular and house prices rise over next five years leaving tenants unable to buy in full.

Source: Various sources and own analysis

Taken together, the Starter Homes Initiative, Help to Buy mortgage guarantee and Help to Buy equity loans are all likely to have a similar impact in diverting those who are closest to being able to afford outright purchase away from shared ownership. Starter Homes in particular are a much more attractive product in financial terms, as there is no rent payable, and the buyer will own 100% of the equity with no payback requirement after just eight years.

The impact of these three products on shared ownership does not, however, appear to be very extensive, because available data suggests that the large majority of current shared ownership purchasers are not close to being able to purchase at market value. Most currently purchase shares which are well under 50%. The schemes will also compete with each other for the same client group of would-be homeowners who can nearly afford to buy in full; their impacts on shared ownership cannot therefore be “added up” as it is the same subset of better-off purchasers who may be diverted into one of the other schemes. If the Government allows equity loans to be used on Starter Homes, the impact on demand for shared ownership could be substantial, since the deposit required on a Starter Home could actually be lower than that required for a 40% initial shared ownership purchase, while mortgage payments would be based on a 60% share of the open market value (outside London, where it could be only 40% if current rules for equity loans were to apply). The charges on an equity loan are also lower than the rent on shared ownership, making it more attractive to buyers.

The extension of the Right to Buy to housing association tenants, meanwhile, targets a somewhat different group of buyers. The discounts offered depend on the length of tenancy and market value of the home but in many cases will be substantially more attractive than shared ownership. The impact, however, is limited to housing association tenants eligible for the Right to Buy and will not therefore affect the demand for shared ownership from the 90%+ of buyers who move from other tenures. In addition, the Right to Buy is yet to be rolled out to all housing association tenants, and the Government may decide to ration access to it because it has to raise the funds to fully compensate housing associations for any sales.

The Rent to Buy scheme may attract some households who would otherwise look to shared ownership, though this is likely to be only those not yet in a position to purchase. In the longer term the Rent to Buy scheme may increase demand for shared ownership from tenants who cannot afford to buy in full at the end of their five-year tenancy and therefore look to shared ownership instead to enable them to stay in their home.

This analysis suggests that shared ownership appears well placed to compete with these other schemes in terms of buyers, as long as it retains a focus on those who are some distance from being able to purchase in full. If housing providers attempt to stretch grants further by selling larger shares, they may however struggle to find buyers who might instead find Starter Homes in particular a more attractive option.

Data on shared ownership

Data on shared ownership is collated and published by several organisations and in different ways across different parts of the UK. The main sources and key gaps are listed in Annex B.

How big is the sector?

The Statistical Data Return (SDR) 2014/15 suggests that for 2014/15 there were 161,245 shared ownership properties owned by registered providers in England. The Northern Irish Government has published data on their shared ownership scheme (known as Co-ownership) showing that 7,559 homes are currently owned in this way in Northern Ireland. The latest available data for Scotland and Wales appears to be from the 2011 census which suggests that in 2011 there were 25,705 shared ownership dwellings in Scotland and 4,476 in Wales. Overall these figures would suggest that **around 200,000 UK households** currently live in shared ownership.

Looking more specifically at the mortgage market, data from the English Housing Survey (EHS) can show the proportion of all households who live in a shared ownership property. By pooling data from three years together it is possible to create a more robust sample:

Table 2:
Tenure of households in England

Tenure	Proportion of all households	Proportion of mortgage holders
Buying with mortgage	31.7%	98.7%
Shared ownership with mortgage	0.4%	1.3%
Own outright	32.3%	
Shared ownership, no mortgage	0.2%	
Social tenant	17.1%	
Private tenant	18.3%	
Total	**100%**	

Source: English Housing Survey 2011-2014, household weighting, own analysis

Those with mortgages comprise an estimated 1.3% of mortgages held (in numerical terms,). In financial terms, analysis of the EHS data suggests that the shared ownership market in the period 2011-14 involved mortgages worth a total of around £4 billion, around **0.7 percent of all mortgage lending** in England. This suggests that the shared ownership mortgage sector is a relatively small part of the market currently and may be considered niche.

The size of the sector varies considerably between regions with the highest number of sales in London (2,900 in 2013-14) and very low numbers in the North East and Yorkshire and the Humber. The total number of sales of shared ownership fell between 2007/8 and 2009/10, in line with the overall housing market situation, but has risen substantially since then (see Annex C, Table 1).

Data from the Scottish Government shows that there were just 156 shared ownership dwellings built in Scotland in 2015/16, a fraction of the number of open market shared equity purchases. There are shared ownership schemes run by local authorities in Wales but there appears to be no data collected centrally on the scale of these. Meanwhile, in Northern Ireland 1140 households purchased under the Co-ownership scheme in 2014/15. This suggests that the large majority of shared ownership sales are in England, with the largest numbers in London and the South East.

How fast is the shared ownership sector growing?

Data from DCLG (Live Table 1010) show that shared ownership provision has averaged around 11,000 per year over this period, and in the four-year period 2011-2015 the total shared ownership output was just over 40,000.

There is also data collected by DCLG from housing providers which identifies the number of shared ownership units they have developed, and how many they have sold during the last year:

Table 3:
Shared ownership development in England 2011-15

		2011-12	2012-13	2013-14	2014-15
Development	Total shared ownership units built or acquired during the year	11,702	8,107	7,426	10,245
Pipeline	Shared ownership units not yet sold - Ready for sale 6 months or less	3,082	1,982	1,961	2,888
	Shared ownership units not yet sold -– Ready for sale more than 6 months	1,162	1,204	644	741
Sales	First tranche shared ownership sales	6,947	8,070	7,231	7,734

Source: Statistical Data Return (SDR), DCLG

This data suggests a total of just over 37,000 shared ownership dwellings were built or acquired by housing associations.

The NHG collects data from shared ownership providers, which includes their delivery plans:

Table 4:
Shared ownership stock, sales and pipeline

		Number
Current shared ownership stock (March 2016)		97,501
2015-16 output	Sales of new-build shared ownership	4,416
	Resales of shared ownership	2,292
2015-16 loss of shared ownership	Staircasing to 100% at point of resale	756
	Other staircasing to 100%	1,234
Partial staircasing		633
Future plans	Shared ownership built but not yet sold, under construction and in contract for future development	24,598
	Delivery ambitions per year over next 3 years	13,015

Source: National Housing Group 2016

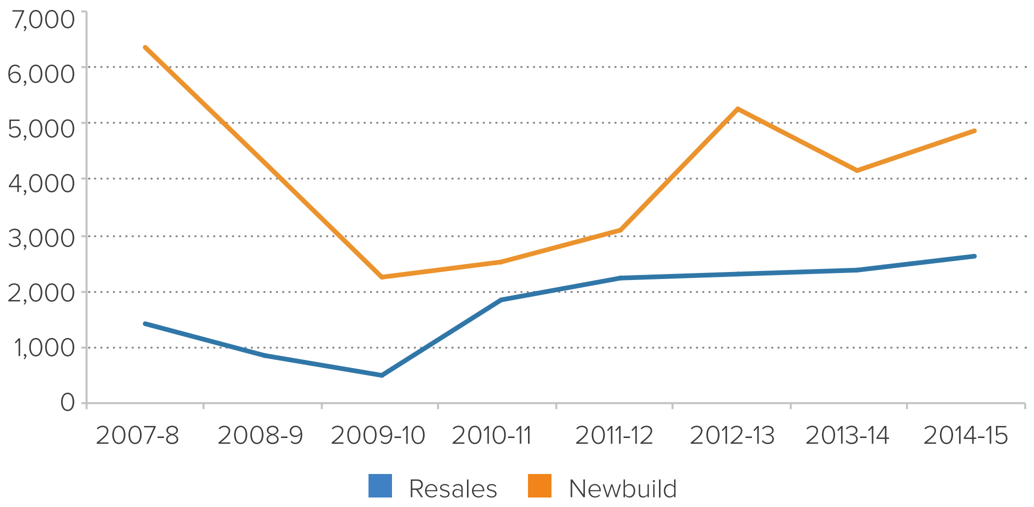
Housing associations providing data to the NHG own between them nearly 100,000 shared ownership units and built 4,416 in the last year. Compared with the figures for the total size of the sector above, this suggests that the NHG is successfully collecting data from the majority of the shared ownership sector in England.

Comparing the figures for sales and staircasing suggests that the shared ownership sector is growing by at least 2,426 units per year in net terms.

The data on future plans shown here suggest that housing associations are keen to grow the shared ownership sector in line with government ambitions and plan to produce three times as many units per year over the coming three years as they did in 2015/16.

Not all shared ownership sales require a mortgage. CORE data suggest that 79% of new buyers in 2014/15 had a mortgage. The number that this represents has fluctuated quite a bit over recent years (Chart 1).

Chart 1:
Sales of new-build and resales of shared ownership purchases with a mortgage in England 2007-15



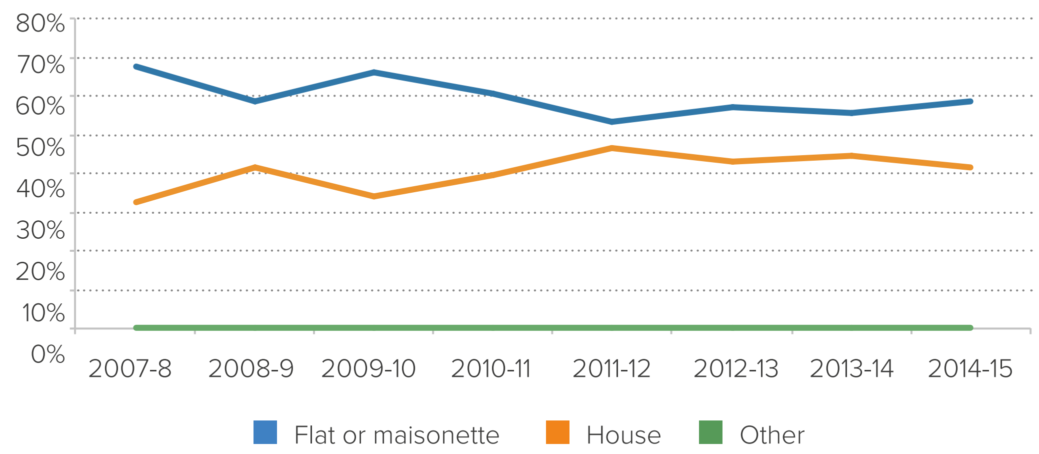
Source: CORE, For full data see annex C

New-build sales fell sharply between 2007/8 and 2009/10, before increasing again. Resales fell too in the 2007/8-2009/10 period, but less sharply, and rose substantially between 2009/10 and 2011/12. Resales of existing shared ownership homes comprised 35% of all shared ownership purchases with a mortgage in 2014/15.

Whilst this gives a useful picture of changes to the sector, CORE data does not have universal coverage because some local authorities do not complete it, and because it covers only England. The latest 2015/16 data is not yet available from CORE.

There has been a change in the types of properties purchased over recent years (Chart 2).

Chart 2:
Types of shared ownership properties purchased with mortgages in England 2007-15



Source: CORE 2007/8-2014/15. 'Other' comprises 'bungalow', 'bedsit' and 'other' property types. For full data see Annex C

Who are the purchasers of shared ownership who buy with a mortgage?

CORE data also show the extent to which buyers purchased with the use of a mortgage:

Table 5:
Shared ownership sales in England 2007-15

Size of mortgage	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total 2007-15
£1 to £30,000	240	300	500	600	470	640	520	430	**3,710**
£30,001-£60,000	2,400	1,980	1,530	2,200	2,610	3,190	2,400	2,390	**18,700**
£60,001-£90,000	3,560	2,210	590	1,240	1,690	2,540	2,280	2,660	**16,750**
£90,001-£120,000	1,150	530	110	270	420	860	900	1,380	**5,600**
£120,001-£150,000	300	120	10	50	90	240	270	530	**1,600**
£150,001-£180,000	100	20	10	10	20	60	110	240	**570**
Over £180,000	30	0	0	0	10	30	50	100	**220**
Total with mortgage	**7,530**	**4,850**	**2,240**	**3,770**	**4,830**	**6,910**	**6,010**	**7,300**	**43,450**
No mortgage	660	660	560	670	920	1,780	1,660	1,960	**8,870**
Total sales	**8,200**	**5,510**	**2,800**	**4,440**	**5,750**	**8,690**	**7,670**	**9,260**	**52,320**

Source: CORE 2007-15 (recoding of 'no mortgage' undertaken by DCLG, July 2016, to correct incorrect data published for years 2007/8-2013/14). Figures rounded to nearest 10.

The data here show a growth in the proportion of cash purchasers after 2011, suggesting that obtaining mortgage finance may have become harder in recent years. The number purchasing with a mortgage has, however, also increased overall in the last five years, returning to levels last seen in 2007/8 before the financial crash.

There has also been a big growth in the number of buyers with larger mortgages in the last four years, reflecting growth in house prices and the relaxation of eligibility income limits.

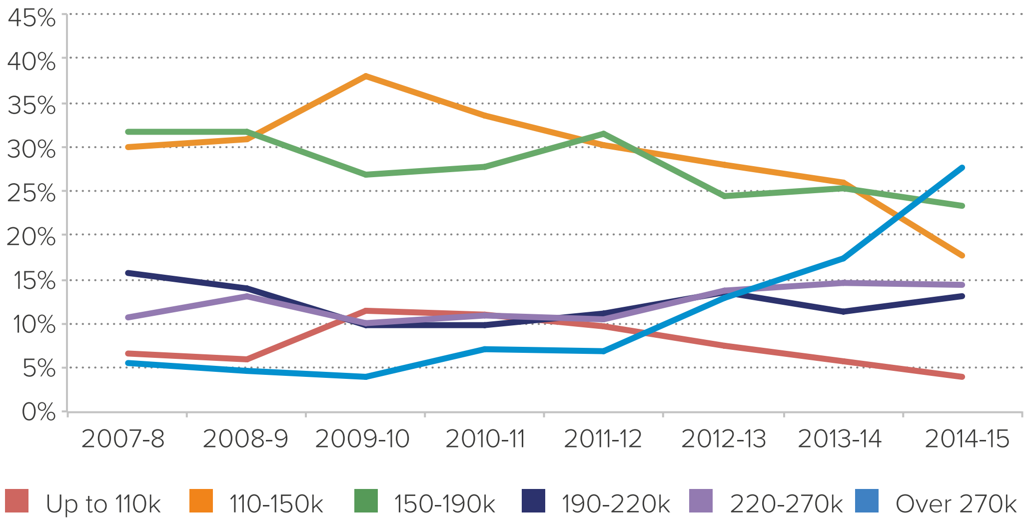
Data from CORE can also be used to look at the profile of those purchasing shared ownership homes with a mortgage. Almost all (96%+) households have had at least one person in full-time employment every year since 2007, with a further 2% in part-time work.

Around 90% had not previously owned a property and this too has changed little over the period 2007-15.

There was an increase in the proportion of couple households (from 34% in 2007/8 to 45% in 2014/15), and in those whose mortgage was based on two incomes (from 31% of households where this information was known in 2007/8 to 36% in 2014/15).

The market value of shared ownership homes purchased with mortgages increased over the period. In 2007/8 68% of homes were valued at under £190,000, but by 2014/15 this had fallen to 45% (Chart 3).

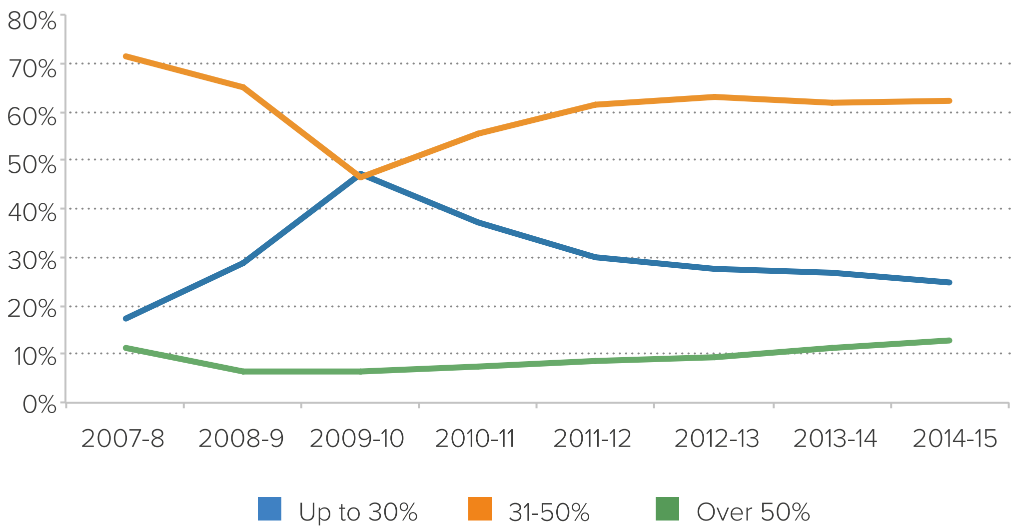
Chart 3:
Market value of shared ownership properties purchased with mortgages in England 2007-15



Source: CORE 2007/8-2014/15

Purchasers' incomes rose slightly during this period from a median of £28,119 in 2007/8 to £32,000 in 2014/15. The net result of these two factors has been some sharp changes in the initial equity stakes purchased. During the period 2007-2009/10 it became more common to purchase smaller shares (Chart 4). However, after 2009/10 this was reversed, with now only around a quarter of purchasers purchasing initial stakes of 30% or less. It remains uncommon for shared owners to purchase more than 50% when they first purchase.

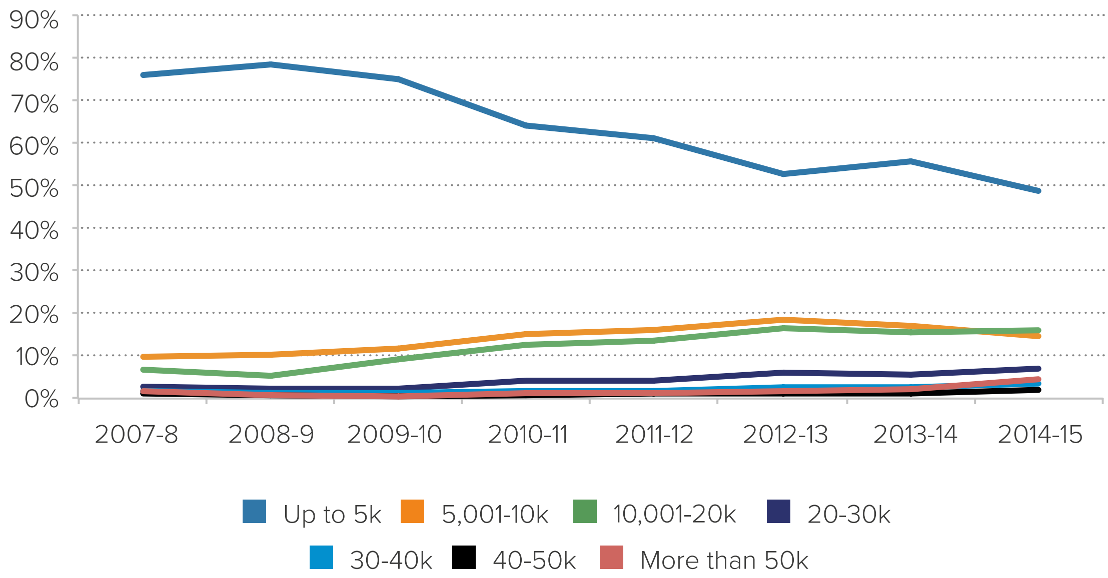
Chart 4:
Initial equity stakes purchased of shared ownership properties purchased with mortgages in England 2007-15



Source: CORE 2007/8-2014/15. See annex C for full data

Tightening of lending criteria over the last few years is also reflected in the size of deposits required. In the period 2007-10 more than three quarters of those purchasing shared ownership homes with a mortgage had a deposit of less than £5,000, but this fell to less than half by 2014/15 (Chart 5).

Chart 5:
Deposits used for purchase of shared ownership properties with mortgages in England 2007-15



Source: CORE 2007/8-2014-15. See Annex C for full data.

The CML's Regulated Mortgage Survey also gives some up-to-date, UK-wide data on the profile of first-time buyers of shared ownership homes and the properties they buy:

Table 6:
Value of shared ownership homes bought with mortgages, amount borrowed and buyers incomes

	Value of property	Amount borrowed	Mean gross income
East Midlands	£136,000	£52,000	£27,000
East of England	£204,000	£74,000	£33,000
Greater London	£348,000	£107,000	£45,000
North East	£80,000	£52,000	£26,000
North West	£144,000	£59,000	£27,000
Northern Ireland	£116,000	£54,000	£24,000
Scotland	£102,000	£38,000	£26,000
South East	£222,000	£79,000	£34,000
South West	£185,000	£68,000	£29,000
Wales	£143,000	£67,000	£26,000
West Midlands	£155,000	£60,000	£29,000
Yorkshire and The Humber	£131,000	£60,000	£28,000
UK	**£164,000**	**£64,000**	**£36,000**

Source: CML's Regulated Mortgage Survey July-December 2015

This data shows the way in which the profile of buyers differs between regions, with buyers in London purchasing considerably more expensive properties, with bigger loans and on higher incomes. The UK-wide figures are heavily skewed by the large proportion of lending that occurs in London.

Mortgage arrears for shared ownership

Data is not collected routinely on mortgage arrears for shared owners who purchase with a mortgage. The English Housing Survey does however collect data, and by pooling three years' worth of data it is possible to look at some indicators of difficulties in paying mortgages. A comparison has been made here with first-time buyers, because most shared owner purchasers are first-time buyers.

Table 7:
Profile of shared owners and other first-time buyers in England

	Shared owners	First-time buyers with mortgage
Median length of ownership	9 years	11 years
Average deposit	£19,473	£26,493
Deposit: as a % of loan	27%	13%
Average property value	£175,181	£189,496
Average current mortgage - original amount	£63,706	£96,069
Average length of mortgage	25 years	25 years
Amount outstanding on main mortgage/loan	£56,438	£88,821

Source: English Housing Survey 2011-2014, household weighting, own analysis

As can be seen, the profile of shared owners and other first-time buyers differs in relation to the size of the deposit they are able to put down, and the size of the mortgage.

Table 8:
Difficulties repaying mortgages of shared owners and other first-time buyers in England

<table>
<tr><th colspan="2">Indicator</th><th>Shared owners</th><th>First-time buyers with mortgage</th></tr>
<tr><td rowspan="4">Current mortgage repayment situation</td><td>Up to date with payments</td><td>96%</td><td>98%</td></tr>
<tr><td>Less than 3 months behind</td><td>4%</td><td>1%</td></tr>
<tr><td>3 months to 6 months behind</td><td>1%</td><td>1%</td></tr>
<tr><td>Over 6 months behind</td><td>0%</td><td>0%</td></tr>
<tr><td rowspan="3">Any difficulties keeping up with mortgage payments in the last 12 months</td><td>Have had no difficulty in keeping up</td><td>88%</td><td>87%</td></tr>
<tr><td>Have found it rather difficult to keep up</td><td>10%</td><td>10%</td></tr>
<tr><td>Found it very difficult to keep up</td><td>2%</td><td>3%</td></tr>
</table>

Source: English Housing Survey 2011-2014, household weighting, own analysis

The data here suggests that shared owners and other first-time buyers are similarly likely to encounter difficulties in repaying their mortgages. The figures for repossessions are too small to be valid with the relatively small sample size of shared owners.

Recent data from the National Housing Group, suggests that 15% of shared owners were in rent arrears in April 2016, and that 108 homes were repossessed during 2015/16 – which equates to 0.12% of the shared ownership stock in England[14].

Data provided for this project by the CML suggests that the repossession rate for all mortgagees was 0.08% in 2015, though this was unusually low compared to rates for the previous eight years, which ranged from 0.17% to 0.43%. Given the substantial year-on-year variation and the fact that shared ownership repossession has only been identified for one year, it is hard to draw firm conclusions here.

Challenges and opportunities

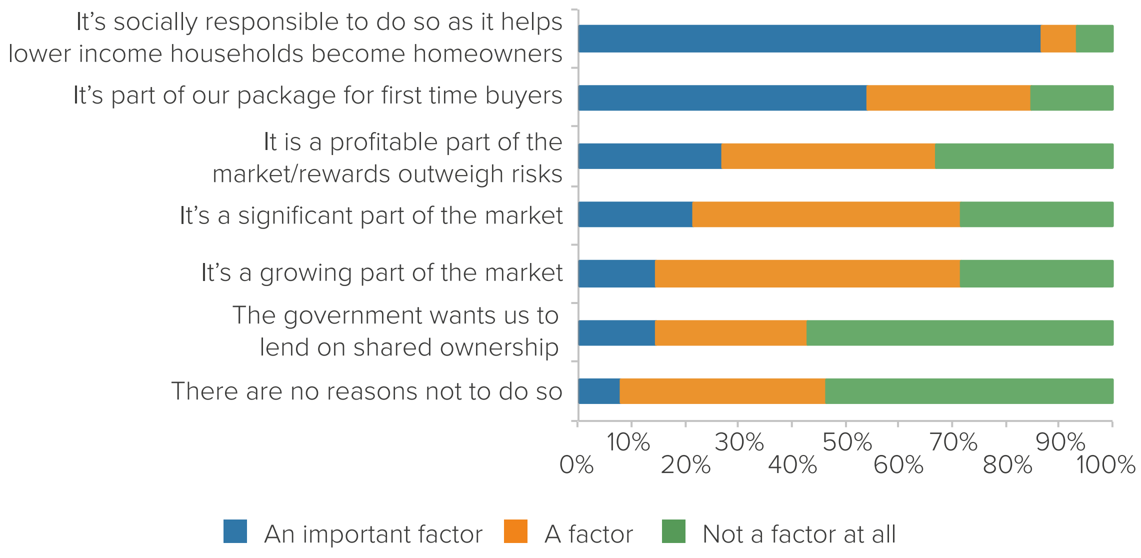
The research sought to explore the opportunities for lenders in lending on shared ownership, and also the challenges and barriers to expansion of the sector.

This drew on a web-based survey of all lenders who are members of the CML. A total of 135 lenders were asked to complete the survey, of which 38 responded. Of these, 15 reported that they currently lend on shared ownership, and a further nine said they had done so in the past but did not currently. In addition, individual interviews were undertaken with 20 lenders, and a group discussion was facilitated by the CML.

Opportunities for lenders in the shared ownership market

Lenders surveyed who did lend on shared ownership were asked to grade the importance of different reasons for lending to the sector (Chart 6).

Chart 6:
Reasons for lending on shared ownership, by how important a factor they are



Source: Lenders Survey June 2016. Base = those currently lending on shared ownership.
See annex C for full details

As can be seen, the most significant reason for lending was the social responsibility of lending for shared ownership purchases in order to help lower income households to become homeowners. It was also considered a key part of many lenders' packages of products designed to suit first-time buyers. Lenders interviewed provided more detail on how shared ownership fitted in with their business and social agendas:

"We see it as part of the affordable solution which we have a part to play in – social responsibility."

"We feel it is important to give these youngsters a foot on the ladder."

"As a mutual, one of the fundamental reasons for being here is to offer mortgages to our local community."

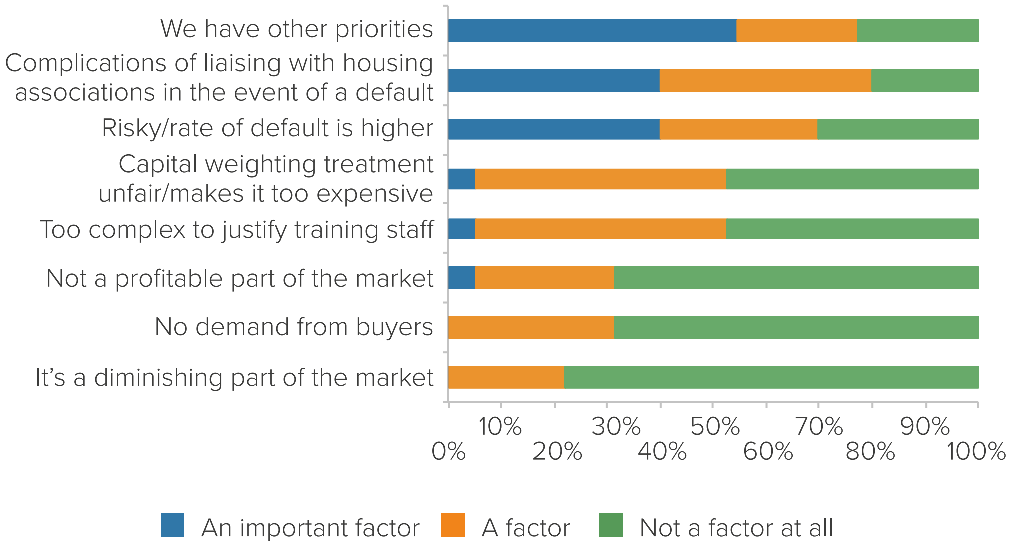
Other reasons for offering shared ownership highlighted by lenders in the survey and in interviews included a close working relationship with housing associations (providing funds to them and seeing lending on shared ownership as a key aspect of this relationship), and the fact that shared ownership homes were generally of good quality and in desirable locations. A few stated that they'd become involved in the sector a long time ago and that having started to lend on shared ownership they saw no reason to stop.

The interviews explored reasons for starting and continuing to lend to shared ownership. It was clear that the model lease was a critical feature of shared ownership for all lenders, and the Mortgagee Protection Clause in particular gave them a good deal of security in their lending.

Barriers to lending

Lenders surveyed who did not currently lend on shared ownership were asked to rate possible reasons why not (Chart 7).

Chart 7:
Reasons for not lending on shared ownership, by how important a factor they are



Source: Lenders Survey June 2016. Base = those not currently lending on shared ownership

The most common reason given as an important factor was that they had other priorities. The complications of liaising with housing associations in the event of a default and higher risk/rate of default for shared ownership were also important factors for many.

Lenders were also given the opportunity to provide more details about their reasons for not lending on shared ownership. Several highlighted the difficulties associated with the many different shared ownership schemes, all of which formed only a very small part of the market:

"Multiple schemes each with their own rules makes it impossible to maintain visibility of all of them without incurring significant expense."

"Provision of advice requires understanding of details of local authority scheme - means the advice and training is more complicated - each of them are potentially different and low volumes."

Lenders emphasised the difficulties created by constant redesigning and rebranding of the shared ownership model, and contrasted it with the approach taken to the Right to Buy scheme, which has remained much more consistent over a similar timescale and is much better understood by lenders and the public alike.

Two lenders mentioned concerns over the resale process and two others felt that there was insufficient flexibility in terms of opportunities to reprice or that they ran the risk of having to pay the rent to preserve the security on their lending.

Three lenders stated that shared ownership purchasers were not their target client group and two others stated that their mortgage lending services were in the early stages of development and may extend to shared ownership in the future.

The nine lenders who had lent on shared ownership in the past but no longer did so were asked explicitly why they had stopped. The key issues raised related to the risk to their security resulting from a default:

"Previous lending identified some key issues with communicating with a housing association that was in a remote location and whose interests were not aligned to that of the firm. This resulted in protracted dialogue and greater than anticipated losses on defaulted cases. Also, there was a move in the market towards 100% lending with the customers putting in no deposit, which we believe is important for the applicant to have an equity stake."

"The risk of the security being removed by the housing association and the associated customer detriment where they have built up equity in the property."

"Difficulties of gaining possession on default."

Lenders interviewed who were not involved in the sector generally indicated either that they had other priorities or that the sector was too small to justify the investment needed to enter it:

"We would only do a handful of cases each year so it is not worth the hassle."

"There are bigger ticket items […] which offer bigger bangs for our buck […] We feel it fits what we stand for but that has never been enough."

"There's little support for it given likely market share and need for disproportionate investment in relation to likely return."

Some were considering entering the sector, but considered it quite marginal as to whether it would be worth their while to do so.

A specialised sector?

Lenders interviewed and at the discussion group raised many of the issues already known about, which affected their appetite for lending on shared ownership. The most significant issue was the small size of the sector and the diversity of first-time buyer support schemes available (including different varieties of shared ownership and non-standard pre-2010 leases), which made the lending process as well as the post-sales process more onerous:

"You need to be able to understand how shared ownership works. You need specialised staff."

The extent to which specialised staff were required appeared to be partly related to the extent to which firms obtained their shared ownership business through brokers. Those who used intermediaries generally felt that they did not need a huge amount of expertise among their own staff as they could rely instead on the intermediaries. However, several did mention the need for underwriters who understood the risks involved in shared ownership. Others noted that having built up expertise over many years and developed protocols and guidance they no longer needed specialist frontline staff.

The variety of shared ownership schemes that had been used over many years posed further difficulties, because of the long-term nature of shared ownership and the growing resales market. This was partly the result of successive governments rebranding and redesigning shared ownership, but also the result of individual housing associations and local authorities designing their own schemes. Lenders understood the potential merits of schemes that sought to make staircasing easier or make shared ownership affordable to greater numbers of buyers, but felt that the investment needed to understand such schemes was disproportionate to the return.

Lenders highlighted the role of the housing provider and the need for good communication with them. One lender described protocols that they had developed for use with housing associations, which ensured that both communicated well and kept the other informed of any problems with arrears on either the rent or mortgage account. It was felt that this sort of practice helped remove any risk of shared owners being served notice by the housing provider without the lender having realised there was a problem.

Several lenders also reported difficulties in situations where brokers or solicitors were unfamiliar with shared ownership, leading to delays and complications in purchases. Nevertheless, the length of time over which shared ownership has been operating had given established lenders time to build up confidence in the sector and feel that it was not so very different to lending on any form of leasehold. For them it was not a specialised sector any longer because they had built up the required knowledge and understanding.

Are there enough lenders involved in the sector?

No clear and up-to-date list of lenders offering shared ownership mortgages exists, which is a problem in itself for prospective buyers. The Moneyfacts website (in early April, 2016) listed 18 lenders, four of which are banks and 14 building societies[16], though Legal and General Mortgage Club who are actively working on the shared ownership market recently reported an overlapping but significantly different list of 15 lenders[17]. Our survey found a total of 15 (out of 37 respondents) who said that they currently offered shared ownership lending, including several who were not listed by other sources. A list of lenders who appear on various lists as lending on shared ownership is attached as Annex A.

The survey of lenders first asked whether they currently lent on shared ownership, and if not whether they had done so in the (recent) past:

Table 9:
Current and past lending policy on shared ownership

Lending on shared ownership		**Number of lenders**
Lends on shared ownership currently		15
Does not lend currently but retains shared ownership mortgages on their books	Lent on shared ownership within the last 5 years	4
	Lent on shared ownership longer than 5 years ago	5
Does not lend on shared ownership and has no shared ownership mortgages on their books		13
Total responses		**37**

Source: Lenders Survey June 2016

"A lot of lenders pay lip service and say they are in the market but rule themselves out by the criteria they have set – usually higher deposits. In practice we get finance from less than 10 lenders. It is not enough, ... We need more higher LTV lending because of the clientele in this market."

The 15 lenders who currently lend on shared ownership were asked about the number of mortgages that they had issued in the last year. Between them they had issued over 10,000 mortgages, with three major lenders dominating.

One issue of concern to several stakeholders was the number of lenders involved in the shared ownership market, and whether this was sufficient to offer real competition. Some felt that the number of lenders was about right given the size of the sector. It was suggested that comparison with the mainstream market was misleading given the huge disparity in the size of the markets. However, other stakeholders tended to believe that competition and the number of lenders could be improved, and were more likely than lenders to be sceptical that the lending market could adequately service a substantial upturn in shared ownership development.

A mortgage broker interviewed for the research noted that the lenders who were in theory lending to shared ownership were not necessarily available in practice:

Restrictions on shared ownership lending

Lenders responding to the survey who lent on shared ownership were asked what their maximum LTV would normally be for shared ownership purchase and also for other first-time buyers. The responses were mixed:

- Six offered lower maximum LTVs for shared ownership purchasers than for other first-time buyers.
- Two offered higher maximum LTVs for shared ownership purchasers than for other first-time buyers.
- Four offered the same maximum LTV for shared ownership purchasers and other first-time buyers.
- One only lent on shared ownership, and two did not answer the question.

Although not very different, it was clear from the interviews with lenders and stakeholders that shared ownership purchasers differed from other mortgage applicants in that they generally lacked a large deposit and were therefore seeking large LTVs. The LTV for a shared ownership purchase compares the size of the loan to the size of the equity being purchased (not the market value of the entire property), despite the MPC giving lenders access to the entire property value in the event of a forced sale. It is also clear from the data on purchasers that the large majority of shared ownership purchasers had only very small deposits (see Chart 5). This, in conjunction with the much smaller number of lenders in the sector, is likely to mean that most purchasers find their choice of mortgage product is quite limited.

Mortgage finance is also complicated for many shared ownership purchasers because they typically buy a new-build property. New-build properties also create “site concentration” issues for lenders, where they wish to spread risk by avoiding lending to more than a certain proportion of the dwellings on any one site. Maximum proportions mentioned ranged from 25% to 50%, meaning that four or more lenders could have to be involved in each new site. One stakeholder raised concerns that the government’s ambitions to increase construction of shared ownership, alongside reducing investment in social rented housing, could increase the proportion of new-build properties that are shared ownership and hence increase the likelihood of site concentration issues arising.

The issues of high LTV and issues around lending on new-build properties also appear to interact because some lenders imposed lower maximum LTVs on new-build properties out of concerns that they may be overpriced or more vulnerable to market fluctuations, thereby further limiting mortgage finance for many prospective shared ownership purchasers.

Lenders themselves were divided over whether they felt there were sufficient numbers of lenders active in the market; most thought that the number was sufficient to meet current demand, but that new lenders would have to enter the sector if it were to grow to any significant extent. They were generally positive about the willingness of new lenders to enter the sector, feeling that if the demand for shared ownership mortgages grew, then lender appetite would grow with it.

Other issues raised which potentially reduced the availability of mortgage finance included the regional focus of some smaller building societies, additional restrictions placed on self-employed people, and those seeking portable mortgages to move home.

It was, however, generally recognised that the consequence of having a relatively small number of lenders was that the sector was not always as competitive as it might be and especially at a local level. At the same time stakeholders and lenders interviewed were all of the view that mortgage finance was not, currently at least, a significant factor in determining the growth of the shared ownership sector.

Pricing

Lenders interviewed were asked whether they lent at the same interest rates for shared ownership as for other first-time buyer lending. Some reported that they offered the same rates on shared ownership as to other first-time buyers (albeit at the higher rates generally offered on high LTVs), but most reported that their rates were slightly higher, to cover the additional work involved and/or the perceived risks attached.
The table below shows the overall profile of those lending to the market. As this information has been collected from a variety of sources, including the lender survey where anonymity was offered, all the information has been anonymised.

Table 10:
Lending practice of main firms lending to the shared ownership market

	Coverage	Size	Interest rates – compared with normal FTB rates	Maximum LTV
1	**UK-wide**	**Large**	**Same**	**85%**
2	**UK-wide**	**Large**	**Higher**	**75%**
3	**UK-wide**	**Large**	**Higher**	**85%**
4	**UK-wide**	**Large**	**Higher**	**75%**
5	**UK-wide**	**Large**	**n/a**	**95%**
6	Locally based – restricted	Medium	Same	95%
7	UK-wide	Medium	Higher	90%
8	Locally based	Small	Higher	90%
9	Locally based – restricted	Small	Higher	100%
10	Locally based – restricted	Small	Same	85%
11	Locally based – restricted	Small	Higher	95%
12	Locally based	Small	Higher	90-95%
13	UK-wide	Small	Higher	100%
14	Locally based	Small	Higher	90%
15	Locally based	Very small	Higher	n/a
16	Locally based – restricted	Very small	Higher	n/a
17	Locally based – restricted	Very small	Higher	90%

Source: : Lender survey; lender interviews and online research undertaken in August 2016. Large = 2000 or more shared ownership mortgages per year; medium = 500-2000; small = 100-400; very small = under 100. 'Locally based' = based in one location but no apparent restrictions on lending to other localities. 'Locally based – restricted' = based in one location and only lends in specific localities. Data was not available for all small lenders. The LTVs reported here relate to the ratio of the loan to the value of the share sold, not the total value of the property.

As can be seen, the shared ownership market is dominated by a small number of UK-wide lenders with a variety of – mostly locally based – building societies and other small lenders whose lending is very small scale. The choice of lenders for those who can put up a deposit of 25% (of the share purchased) is reasonable, but for those whose deposit is only 10% or less the choice is very limited and depends on which local lenders are active in their area. This is likely to pose a particular problem for buyers in parts of the country such as the North East, Yorkshire and the Humber and Scotland where the shared ownership sector is less well developed locally – as shown in chart 5, almost half of shared ownership purchasers in 2014/15 had deposits of under £5000, which is likely to mean they are looking for lenders willing to lend on at least 90% LTV.

Most offer slightly higher interest rates on shared ownership purchases. Online research would suggest this is typically 0-0.5% on the rates that would be offered to first-time buyers on similar LTVs.

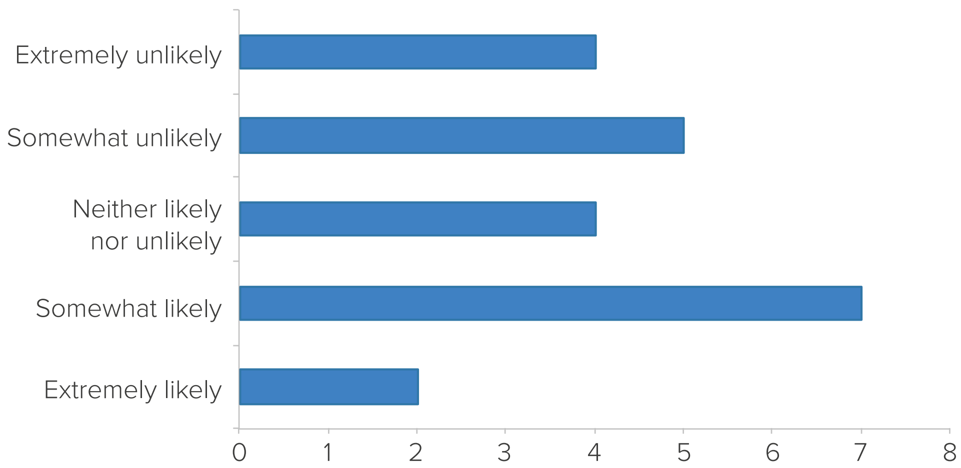
Opportunities for growth

It was clear from all lenders interviewed, as well as the large majority of stakeholders, that the 135,000 target for more shared ownership new-build over the next five years was generally seen as ambitious, and "probably unrealistic". The main constraints were felt to be land supply, funding and the development plans of housing associations (and possibly private developers), which may instead focus other products such as Starter Homes. The impact of the recent vote to leave the EU was also raised by several interviewees as likely to reduce overall housebuilding and suppress demand for ownership (including shared ownership) over the coming years.

Nevertheless, there was a strong consensus that the sector was growing and is likely to continue to do so, and that the mortgage-lending sector would have to expand to meet this demand.

Lenders in the survey who did not currently lend on shared ownership were asked how likely they were to do so within the next five years.

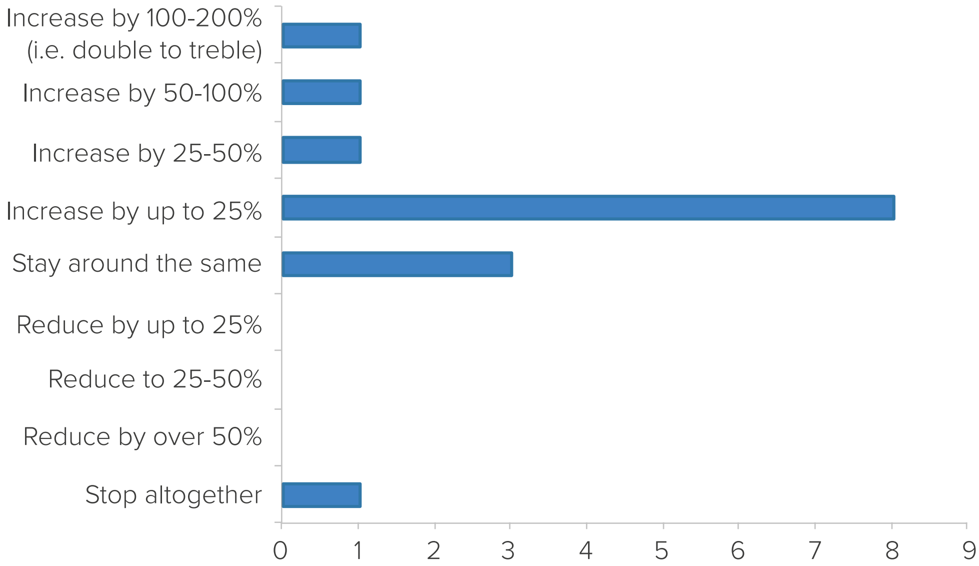
Chart 8:
The likelihood of lenders starting to lend on shared ownership in the next five years



Source: Lenders Survey June 2016. Base = those not currently lending on shared ownership

Meanwhile, those who already lent were asked whether they expected their lending to increase or decrease over the next five years (Chart 9).

Chart 9:
Expected change in shared ownership lending over the next five years



Source: Lenders Survey June 2016. Base = those currently lending on shared ownership or who have done so within the last five years.

Most expected modest increases in their lending over the next five years. The lender who said they would stop altogether was in fact one who had already ceased lending on shared ownership within the last five years. None of those currently active planned to reduce their involvement in shared ownership.

All lenders, whether or not they currently lent on shared ownership, were asked which factors would affect their decision over whether to grow this part of their business.

The biggest issue raised was whether or not the Government did succeed in developing the number of shared ownership homes it has committed to building. Lenders raised concerns that this policy may be at odds with building Starter Homes, and that the level of government investment needed was uncertain.

Several lenders also raised concerns around private developers rather than housing associations running shared ownership. One lender felt that this could offer increased opportunities for shared ownership, but several were concerned about getting involved in this part of the market because it was felt private developers may act inappropriately, or not adhere to the same standards or operate within the same legal framework as housing associations. It could therefore increase risks for lenders.

Other factors mentioned as likely to affect lending on shared ownership included the state of the economy, affordability, the stability of products available, competition from other lenders, the firm's ability to raise capital and possible changes to the shared ownership lease in terms of treatment of defaults and the capital treatment of loans.

In their interviews, however, lenders were mostly relaxed about the pace at which their shared ownership lending might grow, suggesting that the expected levels of growth given in the survey may be based more on their own expectations of demand, rather than any limits they themselves were imposing. They were not putting in big efforts to grow that part of their business but expected to increase their lending as required to meet increases in demand.

"We are happy with our share and would seek to match market growth."

"If our share increased, we would not be unhappy."

"We [seek to expand] passively; we do not chase shared ownership. We do not have a ring-fenced team."

None of the lenders interviewed who were currently involved in the sector had any plans to stop lending on shared ownership, or to limit the extent to which that part of their business grew. The limits imposed on building societies by the regulator did not appear to be a significant barrier at present.

Private developers

One possible area of growth in the shared ownership sector could come from private developers adopting the role traditionally played by housing associations in developing and managing shared ownership. There was a diversity of views as to the extent to which they were likely to enter the sector. Some key stakeholders were sceptical that developers would be interested in becoming landlords and dealing with the regulations associated with shared ownership (especially on rent levels) and the long term involvement that it entailed. Some commented that the business model and funding mechanisms adopted by developers were not compatible with developing and holding shared ownership stock on a long-term basis. Those who were looking to be long-term landlords were more likely, it was felt, to invest in build-to-rent instead – a less regulated product where returns could be higher.

Others, however, felt that the sector could be attractive to private developers. There was some known developer interest so far, though several interviewees mentioned the same company, which was felt to be unusual in the degree of its existing involvement in the housing association sector and in effect functioning very much as a housing association already, albeit technically not a registered provider.

On the question of whether lenders would be happy to lend on shared ownership managed by a private developer, lenders were extremely cautious. Whilst none had ruled it out currently, all expressed reservations and none had yet decided whether they would lend to this new sector.

Lenders' main reservations were around their lack of trust in an unknown sector. Housing associations are quite heavily regulated and have been involved in managing shared ownership for many years, meaning that areas of potential difficulty, such as a landlord's right to gain possession for rent arrears, did not in reality pose much of a risk because of the lenders' good working relationship with the sector. Housing associations' social missions were also felt to be a strong factor in reducing the risk of repossessions, as they would not want to see their shared owners made homeless or face the reputational damage that would result from this:

"It feels like the housing associations are institutions people can establish a long term relationship with."

"There might be issues with lenders because of the ability of landlords to terminate the Lease because of rent arrears; there will be less trust of developers."

"We are worried about the hard commercial stance and appetite to extract value. New providers would be unfamiliar with conventions and structures, for instance on arrears."

The regulatory environment in which housing associations operate also gave lenders confidence and reduced the amount of individual checking they felt it necessary to undertake in lending:

"We do not want to have to check each developer individually. We need to know they are capable and properly governed."

"It would require significant due diligence."

There were also some concerns expressed around whether private developers would remain in the sector for the long term, and whether they might be at greater risk of insolvency.

The research did pick up limited anecdotal evidence of interest amongst investors in acquiring portfolios of retained shared ownership shares from developers and/or housing associations and holding such portfolios over the long term. However, at this stage the potential for such acquisitions, in terms of the legalities of the lease and housing associations' appetite to sell, is unclear, as are the consequences for lenders already lending on the buyers' shares in properties such as this.

Conclusions

On the basis of the evidence collected and examined for this report, some conclusions can be drawn around the opportunities and challenges from shared ownership, with a focus on the implications for mortgage lenders.

The shared ownership sector forms a small part of the overall UK housing market, and this situation is likely to remain the case. This will be the case even in England where the sector is big and where the Government has clear growth plans.

Nevertheless, it is an established part of the UK housing system and important as it is the only means of buying for some would-be home owners. Lenders generally recognise this role and are supportive of the sector in principle, with many feeling that it is in line with their social responsibilities of helping would-be homeowners. It was widely felt that shared ownership was a well-tested and sensible product, despite some continuing areas of concern.

Lenders involved in the sector were enthusiastic about the recent reforms to shared ownership including the relaxing of eligibility conditions, though the less involved lenders were not as aware of what these reforms entailed and in some cases avoided lending for reasons which were historical or based on what may be an outdated view of shared ownership. Nevertheless, the intended expansion of shared ownership had not escaped lenders' notice, even if most are sceptical about the extent to which it will be achieved. Some lenders were considering starting (or restarting) their lending to the sector. It is important that more lenders join the sector if mortgage finance for shared ownership is to keep pace with growing demand, especially on large sites, and where buyers have limited deposits.

A shortage of lenders prepared to lend to those seeking high LTVs, coupled with the relaxation of income limits, could also create a situation where shared ownership buyers are increasingly likely to be those higher up the income scale, who are attracted by new-build properties or the opportunity to live in a nicer area or a bigger house, rather than those otherwise unable to afford to purchase a home of their own, which was the original target group for shared ownership.

Lenders with considerable experience of the shared ownership sector felt that the PRA's views on the risks associated with shared ownership were unduly negative and cast a considerable shadow over lending to this market. It was not clear whether the PRA fully understood shared ownership despite its regular engagement with lenders in connection with this tenure, and failed to fully recognise the significance of the Mortgagee Protection Clause. The PRA stance resulted in lenders taking the message that their regulator was not entirely comfortable with lending to this market.

Private developers entering the sector could potentially help the Government to meet its targets, but this research suggests that mortgage lenders have substantial concerns about lending on properties owned by developers, and further work would be needed to ensure the availability of mortgage finance for such a market.

It was clear that If shared ownership is in any way to become a meaningful “fourth tenure” then lenders require uniformity and consistency in the lease. Small-scale local schemes were not be worth their while to deal with, and securing the involvement of one supportive local lender opens up site concentration issues (as not all buyers can use the same lender), and risks in terms of resales should that lender change its policy in the future.

Overall this report has found the shared ownership sector to be working reasonably well for lenders, and the level of lender involvement was not inappropriate for the current size of sector. Good working relationships have developed between those lenders and housing associations, meaning that potential tensions over dealing with mortgage or rent arrears are generally considered manageable.

The expansion of other first-time buyer support schemes – especially Starter Homes and equity loans – has caused concern across the shared ownership sector that demand for shared ownership could be hit. Land, funding and the financial resources of housing associations were seen as the most immediate likely barriers to growth, rather than mortgage availability, but if the sector does grow to target rates then mortgage finance could potentially become a limiting factor. Addressing the issues that reduce lenders’ enthusiasm for the sector is therefore important, especially if shared ownership is to continue to offer a route to home ownership for those with limited capital and moderate incomes.

Annex A:
Firms lending on shared ownership

The following table shows a list of lenders believed to be currently lending on shared ownership. There is some disagreement between sources (shown in red), possibly reflecting lenders' changing policies towards shared ownership lending.

Table 11:
Lenders currently lending on shared ownership

Lender	Survey responses		Lists of shared ownership lenders	
	Currently lend?	Past lending?	Moneyfacts	L&G
Barclays Bank PLC	Yes	-	Yes	Yes
Cambridge Building Society	Yes	-	Yes	Yes
Newbury Building Society	Yes	-	Yes	Yes
Nationwide Building Society	Yes	-	Yes	Yes
OneSavings Bank	Yes	-	Yes	Yes
TSB	Yes	-	Yes	Yes
Dudley Building Society	Yes	-	Yes	No
Ipswich Building Society	Yes	-	Yes	No
Buckinghamshire Building Society	Yes	-	No	Yes
Parity Trust	Yes	-	No	No
Tipton & Coseley Building Society	No	Yes	No	Yes
The Co-operative Bank	No	Yes	No	No
Darlington Building Society	No	Yes	No	No
Hinckley and Rugby Building Society	No	Yes	No	No
Market Harborough Building Society	No	Yes	No	No
West Bromwich Building Society	No	Yes	No	No
Atom Bank	No	No	No	No
Coventry Building Society	No	No	No	No
Nedbank Private Wealth Limited	No	No	No	No
Pepper Homeloans	No	No	No	No

Royal Bank of Scotland	No	No	No	No
Skipton Building Society	No	No	No	No
Yorkshire Building Society	No	No	No	No
Virgin Money	No	No	No	No
Anon x 5	Yes	-		
Anon x 2	No	Yes		
Anon x 5	No	No		
Anon x 2	No	Don't know		
Not completed survey:				
Hanley Economic Building Society			Yes	Yes
Leeds Building Society			Yes	Yes
Lloyds Bank/Halifax			Yes	Yes
Mansfield Building Society			Yes	Yes
Melton Mowbray Building Society			Yes	Yes
Cumberland Building Society			Yes	No
Ecology Building Society			Yes	No
Holmesdale Building Society			Yes	No
Penrith Building Society			Yes	No
Ulster Bank			Yes	No
Bath Building Society			No	Yes
Teachers Building Society			No	Yes

Annex B: Data availability and gaps

Table 12: Data sources on shared ownership

Data	Who has data	Published?	Geographical remit
Number of existing shared ownership dwellings	DCLG (SDR)	Yes	England
	Northern Irish Government	Yes	Northern Ireland
	Census (self-reported)	Yes	UK (separately)
Number built and sold each year	DCLG	Yes	England
	Scottish Government	Yes	Scotland
	Northern Irish Government	Yes	Northern Ireland
Pipeline (shared ownership properties in development)	DCLG	Yes	England
	Scottish Government	Yes	Scotland
Buyer incomes	DCLG (CORE)	No – dataset available to approved researchers	England
	Scottish Government (SCORE)	No – can undertake own analysis	Scotland
	CML (RMS)	Not currently	UK
Market value	CML (RMS)	Not currently	UK
	DCLG (CORE)	No – dataset available to approved researchers	England
	Scottish Government (SCORE)	No – can undertake own analysis	Scotland
Shares purchased	DCLG (CORE), to 100% only	No – dataset available to approved researchers	England
	Scottish Government (SCORE)	No – can undertake own analysis	Scotland

Staircasing activity	DCLG (CORE), to 100% only	No – dataset available to approved researchers	England
	Scottish Government (SCORE)	No – can undertake own analysis	Scotland
	National Housing Group	Headline figures only full and partial	UK
Rent arrears	National Housing Group	Headline figures only	UK
Mortgage arrears	Individual lenders	No	UK
	English Housing Survey (self-reported arrears)	No – dataset available to approved researchers, around 2-year delay from collection	England
Repossession rates	National Housing Group	Headline figures only	UK
	CML (RMS)	Not currently	UK

Table 13:
Data not readily available

Data	Who could collect?	Geographical remit
Number of shared ownership properties built and sold each year	Welsh Government	Wales
Pipeline (shared ownership properties in development)	Welsh Government	Wales
	Northern Ireland Housing Executive	Northern Ireland
Buyer incomes	Welsh Government	Wales
	Northern Irish Government	Northern Ireland
Market value	Welsh Government	Wales
	Northern Ireland Housing Executive	Northern Ireland
Shares purchased	Welsh Government	Wales
	Northern Ireland Housing Executive	Northern Ireland
	CML (RMS)	UK
Mortgage arrears	CML (RMS)	UK
Staircasing by length of ownership	DCLG, Scottish, Welsh and NI Governments (to be collected from housing providers)	UK
Staircasing with mortgage finance (distinguished from other types of remortaging)	CML (RMS)	UK

Annex C: Data used in the report

Table 14: Shared ownership sales by region (England)

	Year								Total
	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	
North East	40	37	25	38	72	111	79	56	**458**
Yorkshire & the Humber	302	189	107	197	267	314	197	231	**1,804**
East Midlands	653	434	311	439	458	682	660	728	**4,365**
East of England	722	743	358	586	731	1,000	891	1,195	**6,226**
London	2,358	1,392	928	1,276	1,540	2,844	2,318	2,900	**15,556**
South East	2,143	1,468	776	1,383	1,532	2,090	1,999	2,221	**13,612**
South West	893	652	287	461	701	1,113	1,035	1,199	**6,341**
West Midlands	771	593	321	465	553	671	610	744	**4,728**
North West	521	286	191	198	370	511	405	422	**2,904**

Source: CORE

Table 15: Shared ownership sales by whether newbuild or resales (England)

	Year							
	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Resales	1,402	849	494	1,857	2,224	2,295	2,368	2,610
Newbuild	6,353	4,288	2,249	2,518	3,077	5,256	4,162	4,877

Source: CORE

Table 16: Shared ownership sales by property type (England)

	Year							
	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Flat or maisonette	5,210	2,981	1,806	2,625	2,794	4,269	3,586	4,352
House	2,476	2,110	919	1,717	2,464	3,230	2,903	3,093
Other	19	2	5	8	7	11	10	22

Source: CORE

Table 17:
Market value of shared ownership homes sold (England)

	Year							
	2007-8	**2008-9**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Up to 110k	504	302	318	484	511	573	367	291
110-150k	2,317	1,582	1,045	1,471	1,604	2,104	1,687	1,315
150-190k	2,463	1,633	736	1,208	1,669	1,833	1,652	1,737
190-220k	1,229	717	266	426	592	1,027	737	986
220-270k	824	671	272	473	558	1,047	959	1,090
Over 270k	418	232	106	313	368	967	1,128	2,069

Source: CORE

Table 18:
Initial equity stake purchased (England)

	Year							
	2007-8	**2008-9**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Up to 30%	1,331	1,479	1,301	1,632	1,596	2,076	1,749	1,861
31-50%	5,532	3,336	1,269	2,420	3,255	4,764	4,034	4,651
Over 50%	888	322	173	321	450	711	746	974

Source: CORE

Table 19:
Size of deposits used for shared ownership purchases (England)

	Year							
	2007-8	**2008-9**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Up to 5K	5,891	5,892	5,893	5,894	5,895	5,896	5,897	5,898
5,001 -10K	732	782	914	1,402	1,553	2,106	1,803	1,790
10,001 -20K	533	391	705	1,171	1,324	1,850	1,638	1,984
20-30k	218	163	177	399	421	666	624	889
30-40k	115	82	93	152	166	310	273	436
40-50k	87	58	31	75	102	152	148	279
More than 50k	114	59	29	87	92	161	238	557
Missing	65	88	29	0	112	78	0	321

Source: CORE

Table 20:
What are the main reasons why your firm lends on shared ownership?

	An important factor	A factor	Not a factor at all	Missing	Total
There are no reasons not to do so	1	5	7	2	14
The government wants us to lend on shared ownership	2	4	8	1	15
It's a growing part of the market	2	8	4	1	15
It's a significant part of the market	3	7	4	1	15
It is a profitable part of the market/ rewards outweigh risks	4	6	5	0	16
It's part of our package for first time buyers	7	4	2	2	14
It's socially responsible to do so as it helps lower income households become homeowners	13	1	1	0	16

Source: Lenders Survey June 2016. Base = those currently lending on shared ownership

Table 21:
What are the main reasons why your firm does not currently lend on shared ownership?

	An important factor	A factor	Not a factor at all	Missing	Total
It’s a diminishing part of the market	0	4	14	4	18
No demand from buyers	0	6	13	3	19
Not a profitable part of the market	1	5	13	3	19
Too complex to justify training staff	1	9	9	3	19
Capital weighting treatment unfair/ makes it too expensive	1	9	9	3	19
Risky/rate of default is higher	8	6	6	2	20
Complications of liaising with housing associations in the event of a default	8	8	4	2	20
We have other priorities	12	5	5	0	22

Source: Lenders Survey June 2016. Base = those not currently lending on shared ownership.

Glossary and acronyms

BSA	Building Societies Association
CIH	Chartered Institute of Housing
CML	Council of Mortgage Lenders
CORE	COntinuous REcording of Lettings and Sales in Social Housing in England Information about new social housing lettings, sales, tenants and buyers across England including both Registered Providers and Local Authorities and collected by the DCLG.
DCLG	Department for Communities and Local Government
EHS	English Housing Survey
FCA	Financial Conduct Authority
FSA	Financial Services Authority
HCA	Homes and Communities Agency
LTV	Loan to Value
MPC	Mortgagee Protection Clause The clause in the shared ownership lease means that lenders have first claim on the full market value of the entire property, should a borrower default on their mortgage (HCA, 2011a).
NHF	National Housing Federation
NHG	National Housing Group A newly-formed group of 52 of the largest providers of shared ownership in England.
PRA	Prudential Regulation Authority
Pre-action protocol	The Ministry of Justice pre-action protocol is designed to ensure that a lender and a borrower act fairly and reasonably with each other in resolving any matter concerning mortgage arrears; it aims to encourage greater pre-action contact between the lender and the borrower in order to seek agreement and to help enable efficient use of the court's time and resources.
RMS	Regulated Mortgage Survey A monthly survey undertaken by the CML of all members
SCORE	Scottish Continuous Recording System Information about new social housing lettings, sales, tenants and buyers across Scotland including both Registered Providers and Local Authorities and collected by the Scottish Government.
SDR	Statistical Data Return An annual online survey completed by all English private Registered Providers of social housing and published by the HCA.
Staircasing	The process by which shared owners can purchase additional shares of their home from the housing provider. Full staircasing takes them to full ownership so they cease to be shared owners; partial staircasing increases the share owned, but the housing provider still owns some proportion.

References

Capita, 2015. *local Authority Mortgage Scheme,* http://www.capitaassetservices.com/products-and-services/public-sector/public-sector-advisory-services/local-authority-mortgage-scheme-lams.cshtml: Capita.

Clarke, A. & Heywood, A., 2012. *Understanding the secondhand market for shared ownership properties,* s.l.: Cambridge Centre for Housing and Planning Research.

Clarke, A., Monk, S. & Ni Luanaigh, A., 2007. *Low cost home ownership affordability study,* s.l.: Tower Homes and MHO.

CLG and HCA, 2011. 2011-15 *Affordable Homes Programme,* London: Communities and Local Government and the Homes and Communities Agency.

CML, 2009. *Guidance for handling arrears and possession sales of shared ownership properties,* London: CML.

Cowan, D., Wallace, A. & Carr, H., 2015. *Exploring experiences of shared ownership housing: reconciling owning and renting,* s.l.: Universities of Bristol and Kent, Leverhume Trust and Centre for Housing Policy.

Cromarty, H., July 2016. *Starter Homes for First Time Buyers (England)*, s.l.: House of Commons Library.

FCA, 2015. *mortgage lending statistics,* http://www.fca.org.uk/firms/systems-reporting/mortgage-lending-stats: FCA.

FSA, 2012. *Gross lending by loan-to-value and income multiple,* http://www.cml.org.uk/cml/statistics: CML.

FSA, 2013. *Building Societies Sourcebook,* s.l.: Financial Services Authority.

HCA, 2010. *Intermediate market review 2011-12*, London: HCA.

HCA, 2011. *2011-15 Affordable Homes Programme,* London: Homes and Communities Agency and Department for Communities and Local Government.

HCA, 2011a. *Model leases for housing association use from September 2011*, http://www.homesandcommunities.co.uk/cfg?page_id=6169&page=162: HCA.

HCA, 2011c. *Capital Funding Guide*, http://cognition.homesandcommunities.co.uk/cfg?page_id=5525&page=67: HCA.

HCA, 2015. *Model leases for use by Registered Providers from April 2015*, http://cfg.homesandcommunities.co.uk/cfg?page_id=7749&page=151: HCA.

Heywood, A., 2011. *the end of the affair; implications of declining homeownership,* https://smithinstitutethinktank.files.wordpress.com/2014/11/the-end-of-the-affair-implications-of-declining-home-ownership.pdf: Smith Institute.

Heywood, A., 2016. *From the margins to the mainstream: A study of the prospects for shared home ownership in the North West,* s.l.: The Smith Institute.

Home Ownership Taskforce, 2003. *A home of my own,* London: Housing Corporation.

Homebuy , 2012. *Am I eligable?*, http://www.homebuy.co.uk/eligibility.aspx?AspxAutoDetectCookieSupport=1: Homebuy UK Government.

Inside Housing, 31st May 2016. *Lender: Shared ownership must change to expand*, s.l.: Inside Housing.

Metropolitan, 2015. *Beyond bricks and mortar*, s.l.: Metropolitan.

Moneyfacts, 2016. *Compare the best mortgage deals,* http://moneyfacts.co.uk/mortgages/best-mortgage-deals/: Moneyfacts.

National Audit Office, 2005. *A foot on the ladder*, London: NAO.

Pieda, 1996. *An analysis of housing association shared ownership in Scotland*, Edinburgh: Scottish Homes.

Savills, April 2016. *Spotlight Shared Ownership*, London: Savills World Research.

Savills, Spring 2014. *Altnernative Residential Investments*, s.l.: Savills.

Shelter, 2012. *A better deal: Towards more stable private renting*, London: Shelter.

Sinn, C. & Davis, S., 2015. *Shared Ownership 2.0 Towards a fourth mainstream tenure*, s.l.: Chartered Institute of Housing and Orbit.

Endnotes

[1] These were: The Building Societies Association, The Department for Communities and Local Government, The Homes and Communities Agency, The Home Builders Federation, The Greater London Assembly, London and Quadrant, The National Housing Federation, The National Housing Group, Savills and Sherwins.

[2] The National Housing Group is a new body for sales and marketing professionals within the affordable housing sector. Its membership is largely drawn from the most active associations in this sector in England.

[3] These comprised: Atom, Bank of Ireland, Barclays, Buckinghamshire Building Society, Cambridge Building Society, Cooperative Bank, Danske Bank, Darlington Building Society, Ipswich Building Society, Leeds Building Society, Lloyds Banking Group, Market Harborough Building Society, Nationwide Building Society, Newbury Building Society, One Savings Bank, Parity Trust, Skipton Building Society, Stafford Railway Building Society, Tipton & Coseley Building Society, TSB and Virgin Money.

[4] http://cfg.homesandcommunities.co.uk/cfg?page=63&page_id=5532

[5] www.cml.org.uk/policy/guidance/all/shared-ownership-joint-guidance-for-england/

[6] www.gov.uk/government/uploads/system/uploads/attachment_data/file/543661/SOAHP_16-21_-_Heads_of_Terms_-_Registered_Provider.pdf

[7] The Midland Heart housing association case in 2008 involved a mandatory possession order ('Ground 8) being granted to Midland Heart on a property where the tenant owed substantial rent arrears. Although the shared owner in this case did not have a mortgage, the case nevertheless drew attention to the risks attached to lending on a leasehold arrangement where action can be taken for rent arrears, and the risks potentially posed to lenders lending against a leasehold which can be lost as a result of rent arrears on the unsold share (Cowan, et al., 2015; Heywood, 2016).

[8] There are also issues related to commercial lending to shared ownership including exposure limits set for the scale of shared ownership in any funded development. These limits -15-20%- reflect the impact of the last downturn on the sale of shared ownership units, uncertainties regarding staircasing and the remaining scale of an association's holding given such purchases. As landlord portfolios

[9] The letter reported that "Regrettably, we have reached the conclusion that the MPC as currently constructed does not provide a security with the degree of legal certainty which the Directive requires in order to provide full and complete security for a residential mortgage exposure under the standardised approach. The critical requirements which the Directive imposes [and which], we are not satisfied that the MPC meets, are that there is a properly filed mortgage or charge which secures the loan and that the legal arrangements relation to the mortgage or charge [...] have been fulfilled. The protection offered to the lender by the MPC in its current form [...] does not provide a security with the required legal certainty. These requirements are explicitly stated by the Directive and as a result the FSA is obliged to implement them as a minimum standard and may not substitute a lesser or alternative standard."

[10] This is set out in the PRA's Supervisory Statement (SS20/15) published in April 2015, which is a reformatted version of the guidance formerly contained in the Building Societies Sourcebook (BSOCS) published by the FSA. SS20/15 was published as part of Policy Statement 7/15, 'The PRA Rulebook: Part 2.1 which was the second in a series of publications over two years redrafting the Handbook inherited from the FSA to create the PRA Rulebook.

[11] see www.bankofengland.co.uk/pra/Documents/publications/cp/2016/cp1216.pdf, p.23)

[12] www.bankofengland.co.uk/financialstability/Documents/fpc/letters/governorletter160922.pdf

[13] See www.gov.uk/government/uploads/system/uploads/attachment_data/file/499701/Evaluation_of_Help_to_Buy_Equity_Loan_FINAL.pdf

[14] See www.gov.uk/government/uploads/system/uploads/attachment_data/file/510478/Starter_homes_regulations_technical_consultation.pdf

[15] These figures exclude the small number of associations who were unable to provide figures for rent arrears or repossessions, so are based on a stock size of 81,973 (for rent arrears) and 93,816 (for repossessions). No figures were collected for mortgage arrears.

[16] http://moneyfacts.co.uk/guides/mortgages/what-is-a-shared-ownership-mortgage/. These comprised five banks: Lloyds Bank/Halifax, TSB, Ulster Bank, Woolwich/Barclays and One Savings Bank/Kent Reliance; and the Cambridge, Cumberland, Dudley, Ecology, Hanley Economic, Holmesdale, Ipswich, , Leeds, Mansfield, Melton Mowbray, Nationwide, Newbury and Penrith building societies.

[17] Legal and General Shared Ownership Forum, 2nd March 2016, slide 30 of presentation pack

Council of Mortgage Lenders

The Council of Mortgage Lenders

The Council of Mortgage Lenders (CML) is the trade association representing the mortgage industry. Its members comprise banks, building societies, insurance companies and other specialist residential mortgage lenders, which together represent around 98% of the UK mortgage assets.

Council of Mortgage Lenders
North West Wing
Bush House
Aldwych
London WC2B 4PJ

Tel: 0845 373 6771

www.cml.org.uk