TMP INDUSTRY INSIGHT
#2 IN A SERIES

The Mortgage People

Crunching the numbers behind TMP The Mortgage People's affordability assessments - and what they mean for the Shared Ownership sector.

DATA DIVE: THE IMPACT OF 10% SHARES

PROPOSAL

Proposition

Many in the sector are wary of the government's Shared Ownership deposit reduction, fearing that the imminent 10% minimum share will damage the future viability of sites – and Housing Associations – across the country.

Method

Our investigation involved taking a dataset of 200+ genuine assessments that we had judged to be unaffordable at 25%. We then simulated what would happen if these assessments were processed at a lower share – all the way down to the new 10% proposal. How many assessments would be unaffordable at 25% but affordable at 20%, 15% and so on?

We believe this is as close to 'real world' data as possible, and it provides us with an accurate and reliable set of results.

It's worth noting that over the same time period, 3,627 assessments were affordable at 25%+ (so the figures below represent just 6.6% of the total assessments we processed).

Comparative data

Share	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%
Pass	23%	20%	18%	14%	12%	10%	7%	6%	5%	5%	4%	4%	3%	2%	2%
Fail	77%	80%	82%	86%	88%	90%	93%	94%	95%	95%	96%	96%	97%	98%	98%

Total	241

Results analysis

- As we can see from the figures, 4% of those people whose assessments would have failed at 25% share would have passed at 20% share.
- Similarly, 10% of people whose assessments would have failed at 25% would have passed at a 15% share.
- In fact, over the entire dataset, **23%** of unaffordable assessments at 25% share would have needed to have been reduced all the way down to the new minimum of 10% share to become affordable. This is a critical point.
- Interestingly, 77% of people were always going to be unaffordable – whatever share was available to them.

Commentary and conclusion

There is understandable nervousness about the imminent 10% minimum shares. The assumption that a large majority of purchasers will only qualify for 10% shares seems to be fuelling that feeling, and HAs with sites that are only viable at, say, 40%, have been particularly concerned.

Our findings, however, should offer some real reassurance.

The data shows that only a tiny percentage of buyers will only be affordable at 10%. (And of course, it remains to be seen if they would be happy with a 10% share or if – as many in the industry suspect – that small a share wouldn't be seen as an attractive proposition.)

Furthermore, SO operates, in the main, on a first-come, first-served basis and it would be wrong to assume that the first people through the door on any development would be only viable at 10%.

Ultimately, our data shows that a) the issue isn't as big as many had feared and b) there may be solutions to the remaining sticking points. For example, we as a sector have been focussed on the headline 10%, while forgetting that there are increments between 10-25% that will work for many people. Homes England have been purposeful in not removing the need to maximise shares, and therefore the risk of a site-wide '10% share pandemic' is really very slim.

Maybe now is the time to consider assessing to the nearest 1% share, as opposed to 5%?

Focus on the percentage points

There's no reason why mortgages cannot be delivered in 1% share increments, and this is where potential losses can be minimised and *marginal gains* can be made. Currently, if a customer can't afford a 55% share, the system will typically revert to a 50% share. But what if a 54% share is affordable for them? That's 4% more on the purchase price that would otherwise have been lost.

We work with HAs that already work to the nearest percentage point, and we feel that more should adopt this approach. In fact, the rules and procedures laid out in the Capital Funding Guide encourage this: *"Providers must encourage purchasers to buy the maximum share they can afford and must sell shares flexibly in accordance with a purchaser's individual circumstances (e.g., not just to the nearest 10%)."*

Bottom line

We do expect that 10% shares will start to be seen in the mix, but we're hoping that we'll also start to see the end of 5% increments and a push towards the maximum possible percentage point share. And that should make a valuable impact.

> "Assumptions are being made that just aren't correct – there's actually cause for optimism"

Further talking points

- Will the new 10% share system cause issues as we switch from one model to another? There will be many properties with different share options and effectively this will be the 'old' and the 'new' way of doing things. Will customers assume that the old way is the least attractive (or even broken) way?
- It's worth remembering that we just don't *know* how attractive or how popular the 10% share will be yet. It might fall flat. It might not. But what we do know, from the data and our past experience is that a) it won't work for everybody on an affordability basis and b) not everyone wants a 10% share.