

AUGUST 2023

# SO TALKING POINTS: REVERSE STAIRCASING & MORTGAGE CHARTER



We recently organised a cross-organisational conversation that encompassed some of the big issues affecting Shared Ownership today and the housing market at large. Here's your essential breakdown of what was discussed.

## We brought together

Over 120 people from three of the sector's key stakeholders: Registered Providers, lenders and brokers. Attendees included...

- Kelly McCabe, owner and managing director, TMP The Mortgage People
- Amy Nettleton, assistant development director, Aster
- Paul McCarthy, Santander
- Derek Whitmarsh, Halifax
- James O'Reilly, Leeds Building Society
- Representatives from Registered Providers

## On the agenda

- Mortgage Charter
- Cost of living crisis
- Cross-sector communication
- Reverse staircasing
- Future predictions

## Executive summary

- The Government's Mortgage Charter might simply delay the financial problems of uninformed customers
- Cost of living is yet to have a big impact but that could change as peak maturity season approaches
- Cross sector-communication can reveal early warning signs of market volatility and provide time to prepare
- Reverse staircasing is obscure for now, but may not be tomorrow
- The coming years are unpredictable but likely to remain turbulent
- We can grow stronger by opening more cross-sector conversations

### Government charter

First on the agenda was the [Government's Mortgage Charter](#). Two of its features are designed to alleviate financial pressure on customers:

- A six-month interest-only period
- Term extensions

Customers can access either of these options through their lender or Registered Provider, but it's worth noting that they can do this only once and there may be barriers in place (particularly around rent arrears, etc.).

This is a situation where open dialogue between lender, provider and customer would clearly be advantageous to all.

### Lender policy requests

The Charter's other two points relate to lender policy requests. One is to make product transfer accessible six months before rate maturity. The other is to grant twelve months following a first missed payment before carrying out repossession.

These points are not revolutionary. As Paul McCarthy from Santander noted, "Most are likely to already feature in lenders' suites of tailored customer support."

### Little customer interest, so far...

Paul indicated how few customers have

shown interest in the charter: "Santander has 1.2m mortgages. In the first three weeks, we had around 2,000 changes to accounts. For comparison, upwards of 250,000 took up payment holidays when those were available."

### But interest is likely to grow

The slow uptake may stem more from lack of awareness than from overestimation of how many people are facing financial difficulty. So far, the charter has only been promoted in print adverts. As Kelly McCabe pointed out: "The message might not hit home with the public until it appears on screens – that is certainly where most Shared Owner demographics will see the message."

November and December – the two biggest months of the year for maturities – are drawing closer. As Paul pointed out: "New fixed rates now start with a five and most remortgagers will be used to theirs starting with ones and twos. That may trigger a lot more people to look at the charter."



**The uptake has been quite small; nothing in comparison to Covid's payment holidays**

### **Interest-free is proving more popular**

General interest in the Charter aside, the six-month interest-only period is proving by far the more popular of its two customer offerings. James O'Reilly suggested that is likely to be because: "Of the two, it's the one likely to have the biggest impact on repayments."

Kelly agreed, but noted that customers should proceed with caution: "After the interest-only term, the subsequent higher repayments might only be marginally more expensive than they would have been six months earlier, but they'll feel much higher than the 2% to 5% increase customers will choose the interest-only option to avoid."

### **The power of cross-sector communication**


The introduction of the Charter has highlighted uncertainty about who is responsible for informing customers about such developments.

Amy Nettleton pointed out that dispelling confusion is just a sample of what greater cross-sector communication can achieve: "It's important that RPs ask lenders what proportion of customers are accessing the charter's customer offerings. That will give us invaluable insights into the current situation and how it might evolve. Lenders can likewise gain valuable information by asking RPs how many customers are struggling to pay their rent."

### **Cost of living – the calm before the storm?**

The cost-of-living crisis shows little signs of abating but has so far caused few people to fall into mortgage arrears. No one knows when that might change, but James reasoned: "Some movement is probably coming. It's likely that a lot of people are digging deeper into their savings each month. Savings aren't inexhaustible."

The key to predicting and preparing for that possible shift is also cross-sector communication. A spike in missed SO rent payments would indicate that more customers are in serious financial difficulty, and that would suggest mortgage arrears could soon follow.



### **Lenders can gain valuable information by asking how many customers are struggling to pay their rent**

#### **New customers**

The behaviour of new customers has also changed little. As Kelly put it: "It's a case of que sera, sera. For customers, it's all about what the payment is as a whole." But she went on to add: "We are, however, still a long way from being clear of the woods."

### Reverse staircasing

Reverse staircasing – when an SO customer sells a property share back to their RP – is exceedingly rare, but has attracted attention as a potential solution for customers who become unable to afford rent and mortgage repayments.

The policy would, however, need a lot of attention. Kelly touched upon one of its many grey areas: “When a customer sells a share back, are they obliged to put any equity towards paying off their mortgage or can they release it as capital?”

Amy added: “Many questions remain, the biggest of which are ‘who does it benefit’ and ‘who should be considered eligible’. More cross-section conversation about reverse staircasing would be useful for all of us.”

### Looking ahead


To round off the meeting, Kelly asked the three lenders to envisage what they think might happen over the next couple of years.

Paul emphasized unpredictable economic influences: “The economy is subject to headwinds that are not all homegrown. In terms of mortgage rates, the information

available suggests that, for now, the base rate will hover around 5%.”

James offered a tentative base rate forecast: “The base rate is 80% likely to rise next month and peak at around 6% in early 2024. It then might start to creep back down. But if lenders make firm predictions, we’re likely to make astrologers look good.”

Derek highlighted the one likely eventuality: “We’re looking at the next two years and thinking, they’re going to be tough.”



**We’re looking at the next two years and thinking, they’re going to be tough**

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## GET INVOLVED

We'll be holding a series of 'talking points' discussions over the coming months.

### To join us, email:

**Kelly McCabe:** [kellym@tmpmortgages.co.uk](mailto:kellym@tmpmortgages.co.uk)

**Amy Nettleton:** [amy.nettleton@aster.co.uk](mailto:amy.nettleton@aster.co.uk)

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