Shared Ownership Best Buys

JANUARY 2023

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Best Buys and Market Watch

Overview of the total number of Shared Ownership Mortgage products available to our customers as of 25th January 2023

Metro Market Watch:

Overview of the total number of Shared Ownership mortgage products available to our customers.

95% LTV – 86 products ↓1
90% LTV – 162 products ↑2
85% LTV – 200 products ↑7
80% LTV – 207 products ↑8
75% LTV – 237 products ↑8

Our Best Buys now show the difference in rates month on month. Helping to give you a clearer picture the impacts of rising interest rates.

Lender numbers and product numbers reflect a very healthy Shared Ownership mortgage market.

- **Total lenders in SO = 27**
- **Total SO lenders at 95% = 18**

2 Year Fixed Rates

	95%	90%	85%	80%	75%
Best Fixed at **Dec 2022**	6.02%	5.82%	5.69%	5.52%	5.37%
Current Best Fixed Rate	**5.65%**	**5.64%**	**5.57%**	**5.10%**	**5.10%**
Differential	**-0.37%**	**-0.18%**	**-0.12%**	**-0.42%**	**-0.27%**

3 Year Fixed Rates

	95%	90%	85%	80%	75%
Best Fixed at **Dec 2022**	6.29%	5.99%	5.55%	5.55%	5.29%
Current Best Fixed Rates	**5.45%**	**5.45%**	**5.04%**	**4.99%**	**4.79%**
Differential	**-0.84%**	**-0.54%**	**-0.51%**	**-0.56%**	**-0.50%**

5 Year Fixed Rates

	95%	90%	85%	80%	75%
Best Fixed at **Dec 2022**	5.29%	5.14%	5.20%	4.99%	4.84%
Current Best Fixed Rate	**5.25%**	**4.89%**	**4.69%**	**4.69%**	**4.59%**
Differential	**-0.04%**	**-0.25%**	**-0.51%**	**-0.30%**	**-0.25%**

Market Update January 2023

Talk about flying starts… **demand for Shared Ownership is phenomenal**. At Metro we'll likely hit circa 3600 assessments in January, massively exceeding our normal average of 2400 and attributed to increased footfall as opposed to increased sites.

We also see what I'd describe as a '**mini rate war' amongst the lenders**. Lenders cutting rates for two reasons. Firstly, the stabilization of swap rates and secondly, I suspect we're seeing some margin cuts i.e. lenders cutting their own margins to attract volume. Whilst Shared Ownership demand is super strong, lesser open market demand and remortgage demand is perhaps the trigger for lenders cutting margins – SO benefitting likewise.

We now see 95% 2yr fixed rates hanging around mid to late 5% - compared to around 3.5% in summer last year. In reality judging by swap rates, lenders views etc I can't see interest rates falling much more in 2023. Of course there may be some movement as lenders further cut their own margins to attract the volumes required.

Overall, my **confidence in Shared Ownership lending is 'Super High**'. We have high product numbers for all different deposit levels, high numbers of active lenders and the most crucially – hunger to lend in the Shared Ownership sector. I also expect more lenders to enter SO this year, some pre-planned and some because they'll hunt new niches to make up shortfall from reduced open Market volumes.

Most lenders predict price falls, which is hardly a secret and evidently already happening. Most predictions I've heard range from 4 > 8%. And with a shared viewpoint that the falls represent more of a reset against 2019 prices i.e. taking out the crazy covid years of over inflated growth.

We'll likely see some down valuations, it's unavoidable if prices are set by HA's in earlier months. Hence, up to date strong comparable evidence is the absolute key, that must be handed to the valuer at point of valuation – challenging later usually fails or is not permissible with some lenders. In other words, **sensibly and robustly priced units shouldn't fall foul of down values**.

It would be easy to assume the current climate has encouraged lenders to tighten criteria/scoring. However, looking at our data of conversion rates through the mortgage stages., there is no evidence to suggest any tightening has impacted Shared Ownership Buyers. Clearly affordability is more challenging, our fail rate has increased, however our **pass rate has remained the same**. Attributing the consistent pass rate to average income levels of SO buyers being higher than 12 months ago i.e. likely fall out from failed open market purchase attempts.

Overall, demand super high, lending and products for SO very strong and appetite from lenders [For SO] is probably the keenest I've seen, ever!

Ask Emilia…

Emilia Hunt - Sales Director at Metro Finance, the largest shared ownership mortgage provider.
Metro Finance helps around 2400 shared ownership buyers per month. Emilia has been part of Metro Finance for over 10 years.

Down-valuations, what are the possible options and outcomes for your buyers?

It would be naïve to think going into 2023 that we are not going to hit a problem with down-valuations and we need to prepare ourselves for it.

However does a down-valuation mean the end of the line for the customer buying that property? The simple answer is no, there are many different ways we can still have the client proceeding.

Navigating down-valuations can often be a little mind-boggling, particularly on shared ownership – and you may sometimes wonder how an offer has come out even though the property has down-valued! Here are the normal options for buyers:

1.The customer increases their deposit - how does this work?

Lets use an example

- ❑ Property is valued at £200,000, and your customer is buying a 50% share at £100000
- ❑ They were originally putting in a 5% deposit at £5000
- ❑ The property has down valued to £190000
- ❑ The £190000 is now what the lender considers the value of the property, 50% share being £95000
- ❑ The lender will only lend up to 95% of the £95000 i.e. £90250
- ❑ £100000 (purchase price) minus £90250 = £9750. So if the customer increases their deposit from the original £5000 to £9750 they can still proceed.

The drawback is:

A. the customer has to increase the deposit

B. they remain on the same product with the lender, even though their deposit is now equivalent to 10%.

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2. The share is dropped to make the deposit stretch further

Using the same example as overleaf but the customer cannot increase their deposit by £4750

- If you drop the share to 25%, the lender would view the value as £47500, and would lend a maximum of £45125 (95%)
- The actual purchase price of a 25% share, of a £200000 property is £50000
- £50000 - £45125 = £4875 i.e. the customer would not need to put in any more money and could still proceed with the purchase. (some client money used as lender deposit, some topping up difference between actual and lender price)

The drawback is that the customer was previously buying a 50% share, and now only buying a 25% share, so although their mortgage costs would be lower, their rent would be higher and their equity stake obviously lower.

3. Move to a different lender

The buyer could move to a different mortgage lender. We would consider who has valued the property, and therefore which lender would be most suitable. Lenders tend to have panels of valuers, and valuations are somewhat of an opinion. So it may be that one valuer doesn't agree with the price, whereas another valuer has no issues.

- By moving lenders, the customer may still be able to obtain a competitive rate, without putting in extra money – which many customers may not have access to.

The drawback – it's a new mortgage application, which for many customers is daunting and adds on further timescales to the application whilst the lender assesses.

4. Match the valuation price

This isn't a common outcome which we have, because every Housing Association has their own RIC's valuation to justify the sale price and therefore want to maintain that price. But if you do match the price, the case should be able to go to offer as both valuations match.

I haven't added challenge the valuation because I rarely see this as a positive outcome, I believe only twice in my career and both of those were exceptional circumstances. It can often cause delays, without positive results. As I've mentioned before valuations can be subjective, and without compelling evidence that there has been a mistake (sorry comparables won't match up to this) you haven't really got a chance of over-turning.

But don't panic – there's plenty to consider and you can trust we will always explore all the options for you. If you're in this situation always feel free to ask as well – we're here to support you.

The other key here is that the buyer must understand that they are buying the property for more than the lender has valued it, and are happy to proceed on this basis.

So its important they understand all their options and what it means for them.

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Rated Excellent
Trustpilot

Thank you

- ✓ Any questions just ask
- ✓ Help with assessments just ask
- ✓ Help with SO lending just ask

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