MUTUAL HOME OWNERSHIP SCHEME

Introduction

A Mutual Home Ownership Scheme (MHOS) is a new way of owning a stake in the housing market. It is designed to bring the bottom rung of the property ladder back within reach of households on modest incomes in areas where they are priced out of the housing market. It is designed to remain permanently affordable for future generations. Members of the society are the residents who live in the homes it provides. The society and not the individuals obtain the mortgage and so borrowing is cheaper.

How it works

Members of the MHOS are involved in the build and design of their homes, and democratically control the housing community in which they live. The cost of building the homes owned by the MHOS, is financed by a mortgage loan from a bank.

The cost of buying the land and building the homes owned by the MHOS and financed by the mortgage is divided into EQUITY SHARES. Each equity share, which has a face value of £1,000 on the date on which it is issued, is owned by a member and financed by the payments members make each month.

Instead of residents owning an individual property, the homes and land are owned by the MHOS. The MHOS is registered as a co-operative controlled by its members. Its members are the residents who live in the homes it provides. Each member or group of members has a lease which gives the right to occupy a specified house or flat owned by the MHOS.

The number of shares owned by each member depends on what they can afford and the build cost of their home. The more they earn the more equity shares they can afford to finance. As their income rises they can buy more equity shares. If their income falls, rather than lose their home, they can sell equity shares if there is a willing buyer or, in specified circumstances such as loss of employment or disability, convert to a standard rental tenancy.

Each member has a lease which gives them the right to democratically control the housing community they live in. Under the terms of the lease, members pay an equity share to the co-operative and retain equity in the scheme. After deductions for maintenance, insurance etc, these payments pay the mortgage. The payment that leaseholders pay each month and the number of equity shares they hold depends on how much they earn. Monthly payments are set at around 35% of net income.

As members leave, existing members can buy more equity shares, and as people's income levels change their equity share commitments can also change. If someone leaves sooner than three years then they will not be entitled to increases in the value of their equity shares. The company keeps a set percentage of any increase in equity to ensure the sustainability of the project.

To ensure sustainability of the project the value of the equity shares owned by a household must not differ more than + or – 10% of the build cost. If affordable payments (set at around 35% of net income) are above the amount required to finance equity shares of the value of the build cost + 10% the remainder will go into a contingency and future fund and are capped at 1.5% of the total share allocation.

The MHOS is controlled by its members who live in the homes it owns. They elect the Board of Directors which controls the day to day management of the MHOS within the remit set by members in general meeting.

If a member moves out and sells their shares before they have lived in the MHOS for three years they will only be able to sell them at their original value (or a lower value if their value, calculated in accordance with the valuation formula, has fallen).

For members who leave after three years the value of the equity shares will principally be driven by references to increases (or decreases) in national average earnings. Exiting members will get the value of their original shares plus interest at 75% of the increase (or decrease) in average income. The MHOS retains the other 25% of the increase (or decrease) to fund the replacement of kitchens, solar panels etc. as and when required.

Like any other person taking on a loan and repayment obligation the MHOS will need to carry out a credit check and personal financial assessment to ensure that potential members are able to repay the mortgage debt servicing obligations they are taking on. The MHOS also requires members to have advice from an independent financial advisor to ensure that they understand the financial obligations and risks they are taking on.

The initial lease is granted for a fixed term of 20 years. This gives members a legal interest in their home and the equity shares they own that can be registered with the Land Registry. Longer leases are not possible as a longer fixed term lease would mean members would be able to buy the home and the land it is built on outright (this is called leasehold enfranchisement). That would mean that it will go into the open market and not be affordable for future generations. This would defeat a key purpose of setting up this MHOS scheme which, as well as giving members an affordable investment in the housing market, is to ensure that the homes in it remain affordable for future generations.

The lease gives members the right to remain in their homes after the initial 20 year term for as long as they want to do so. The right of occupation granted by the lease is legally secure under the terms of the lease contract and cannot be ended other than through a breach of the lease by the member or by a failure of your MHOS to meet its obligations to pay its mortgage. Ultimately, if the Mutual Home Ownership Society fails to meet its financial obligations there is a risk that members may lose their home.

The finances of the MHOS are structured to maintain reserves to avoid any risk of repayment default. A financial intermediary, will provide the bank and any other long term investors with a 12 month interest guarantee as security against default.

Members can move between properties in the scheme as they become available and as their housing needs change as long as all the equity shares can be financed by incoming members.

Under the terms of the lease members are responsible for all internal and non-structural repairs including any heating appliances, kitchens, bathrooms and other services inside the home The MHOS will be responsible for structural repairs and for the maintenance of the exterior of the houses.

Members will need to pay a minimum deposit equal to 10% of the equity shares they can afford to finance through their monthly payments. It is important that members make a positive personal financial commitment to become a part of the MHOS.

It is affordable because:

- ‘rental’ charges are geared to 35% of net household income
- members secure a ‘foothold’ on the housing ladder at lower household incomes
- members can buy more shares as their income rises
- transaction costs on buying into and leaving are reduced because homes are not bought and sold
- the linkage - to average earnings - helps reduce risk and retain affordability
- it remains affordable from one generation of occupants to the next

It is sustainable because:

- the housing remains permanently affordable for the benefit of the local community
- the benefits are recycled from one generation of occupants to the next
- it is easier to finance environmentally sustainable housing
- it encourages active citizenship and community engagement on multiple levels