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One Savings Bank Q3 Results

Thursday, 12 November 2020

Andy Golding Good morning, everybody, and thank you for joining us today for our brief, but hopefully reassuring, third quarter trading update. I'll start by giving a short introduction, and then April and I will handle any questions that you would like to pose to us.

I'm very pleased that OSB has had a strong third quarter, both operationally and financially, especially given the challenging environment we all face. We continue to support our borrowers and deliver very high levels of service. We continue to lend, albeit with that controlled risk appetite, and applications are strong across our Kent Reliance and Precise buy-to-let and residential brands.

With total applications at around 65% of pre-Covid levels, we remain cautious with criteria offered in our more cyclical market segments, such as development and asset finance and commercial property.

The net loan book was up 8% for the first nine months of 2020, excluding the structured asset sales that we did in January. Our loan book is performing well and there has been a slight improvement in arrears in the third quarter.

And the level of active payment holidays has reduced to only 3% of the loan book by value, as of the end of September, with, I am pleased to say, very low arrears levels for those borrowers due to resume payments.

We've made good progress with continuing the integration of the OSB and Charter Court businesses, and I'm pleased to report that the new holding company that we'd previously delayed because of the onset of Covid was approved by shareholders at a general meeting recently.

I'm also in a position to reiterate our guidance that we gave at interim results. We expect underlying net interest margin to be broadly flat to the first half of 2020, and underlying cost-to-income ratio to be marginally higher than in the first half.

We also anticipate double-digit underlying loan book growth for 2020, excluding the impact of those structural asset sales, although we must be cognisant of the potential impact of the latest lockdown on timings of completions and redemptions for the rest of the year.

I can also say that the board firmly aspires to return to dividend payment, and will assess the dividend for 2020 at the year-end, taking into account the macroeconomic situation at that time.

Overall, even though we are facing uncertainty stemming from numerous sources, Covid and the associated measures and restrictions, including extensions to the furlough scheme and payment deferrals, and of course the continued Brexit negotiations, we believe though that the group is well-positioned, with strong capital and strong liquidity positions, and a strong secured balance sheet and excellent risk management capabilities. That's all from me by way of introduction, and we'll now throw it open to Q&A, which April and I will happily try and answer for you.

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Operator Ladies and gentlemen, if you'd like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two. To register a question via the webcast, please use the Ask Question Below function.

When preparing to ask your question, please ensure your phone is unmuted locally. Our first question comes from James Invine from SG. Your line is now open, please go ahead.

James Invine Hi. Good morning, Andy. Good morning, April.

Andy Golding Morning, James.

James Invine I've got two, please. The first one is thanks for reiterating the guidance that you gave at H1. April, I think at that stage as well you mentioned that you thought the Q4 margin would be back in line with last year's margin, which was 266. I was just wondering if that is still your view, and I'm just asking that in the context of the Bloomberg consensus which seems to be in the 245, 250 area.

And then the second question is just on the split of the loan book. We can see through disclosures that Greater London is just over 40% of your loans, I was just wondering if you could give us a little bit more granularity as to how much of that is Zone 1, Zone 2, those sorts of areas? And I ask given that the rents in those areas are getting hit pretty hard at the moment. Thank you.

Andy Golding Yes, thanks, James. I'll let April… Sorry, April. I was going to say I'll let you do the one on guidance and then I'll talk about the loan book split.

April Talintyre Okay. So yes, on NIM I think we said that we entered this year in Q1 with a strong NIM, broadly flat to the prior year, if you exclude the one-off EIR gains that we actually booked last year. So taking that aside, broadly flat.

Q2 and Q3 I said were impacted by the delays on passing on the floor base rate cut to retail savers [unclear] liquidity that we were prudently running in those quarters, which we have been utilising, although that was a second-order impact.

And you're quite right, I expected Q4 to return to broadly the same levels and Q1, and that's still my expectation, now that we have done our back-book reprices on the easy-access savings books in both banks. So yes, I think things are panning out to date, as expected.

James Invine Great, thank you.

Andy Golding And then yes, on the loan book split, it's a good point, you're quite right, the Central London, Zone 1 and 2 stuff is clearly where the pressure points are in terms of some of the big chrome-and-glass-type developments that rely on pretty hefty rental payments.

We're not an inexpensive buy-to-let lender, we're a specialist buy-to-let lender. You would really struggle to get a loan through us to buy something in Central London that would hit the kind of rental yield required to give us the rental cover calculation that we would want against the interest payment.

And as a function of that, what you should read into our Greater London book is it's much more Greater London than it is Central. I was once in a meeting with a shareholder and I joked about you wouldn't find me lending to a buy-to-let landlord who wanted to buy something high up the Heron Tower, and the shareholder actually had a property in the Heron Tower that he was renting out, so was a bit aggrieved by that. But that's not our market.

Our market is two-bed flats in Chiswick and family homes in North, South, etc., London. That's our landlord's target market, because that's where they generate enough rental yield to make the kind of hurdles that we require. So we're pretty sanguine about our exposure to Central London. One or two, but at exceptionally low loan-to-value, and I think that's probably the way to look at it.

James Invine Perfect, thank you very much.

Operator Our next question comes from Benjamin Toms from RBC. Please, go ahead, your line is now open.

Benjamin Toms Norming, both. Thank you for taking my questions. I've got two please, if that's okay. Firstly on the dividend, you've made your stance quite clear in the release but can I just clarify on a specific element which isn't mentioned there? If the regulator makes an announcement similar to earlier this year, that larger UK banks can't pay dividends but remains silent on the smaller UK banks, would this in itself stop you from making a payment?

And the second question is more broad. Lloyds, on their call a couple of weeks ago, suggest stronger demand for mortgages has been driven by both reduction in stamp duty but also a structural change in retail behaviour, with Covid-19 leading to people caring more about having a nice house with space they can call their own.

I'm just interested on your thoughts on how that structural change, if true, could play out in the buy-to-let sector. Could the demand that this generates for residential mortgages cannibalise demand for buy-to-let mortgages in your view, with the potential for the population to move away from a renting mentality? Thank you very much.

Andy Golding Yes, thanks, Ben. I think both good questions. That last one a really interesting point, but let's just tackle the dividend piece first. We were not a lender, clearly, that was instructed last time not to make a dividend payment, but if we think back to the timing that we were all in, there was so much uncertainty.

We'd never seen a lockdown situation like it before, nobody really knew… I think I used the phrase, at the time when we put our full-year results out, nobody really knew if the world was going to hell in a handcart at that point, and how government would react with stimulus and how people generally would cope with it.

I think we're in a very different position from that now. It isn't my expectation, I don't think, that the PRA will dictate to the larger banks around dividend payment. I think it's a matter of the capital that any one bank has on board and the ability to distribute that capital accordingly and still maintain good buffers.

As we said in the release, we aspire to make a dividend payment, we think that's the right thing to do for shareholders. If some of the larger banks are told they can't, I don't think that is a reason for us not to. As we've said, what we'll do is we'll review our capital position and our capital plan against what we see as the macroeconomic forecast, going forward, and we'll use that as the basis for our dividend decision. So hopefully that covers that one.

Lloyds are right, there are some structural changes, but they're not just, in my opinion and from the knowledge that we're picking up from around the market, actually in the owner-occupied sector.

Yes, you're right, people are re-evaluating if they want to move out of smaller apartments, maybe, and get something with a patch of grass out the back, because when you're locked in your property for such a long period of time it gives people the obviously to do that re-evaluation, but that's actually fuelling movements around in the private-rented sector, as much, to a certain extent, as it's fuelling the resi market.

Obviously, the resi market has that additional stamp duty play, which is definitely providing some stimulus on the purchase market at the moment. I worry a bit about how some of the very mainstream residential lenders are coping with the service volumes, many have said they're struggling with it, and we know the conveyancing community and land registry and whatever have got their backs to the wall to a certain extent because volumes are high.

I hope, in some way, that the government find a way to extend the stamp duty moratorium, or at least do something on stamp duty post March, but we'll have to watch that carefully.

I think people will always need accommodation and not everybody can buy accommodation, we know that. The size of the deposit is actually even bigger now, as a requirement, than it was pre-Covid, so that does preclude a lot of people from getting into owner-occupied.

If you look at the jaws of how homeownership versus the private-rented sector have changed over the last decade, it's been a massive widening. First-time buyers are getting older and older because of the size of the deposit and the house price versus wages debate, and people are using the private-rented sector to provide that flexibility of accommodation, and I don't think there's been enough of a structural change to change that, coupled with the fact we just don't build enough houses for everybody to buy one.

And actually, the building industry is a little bit further behind than it was pre-Covid, because of a big period of lockdown. So I'm sure it will make changes both in the PRS and in the owner-occupied sector, but I don't see the jaws crossing back the other way any time soon.

Benjamin Toms Thank you very much.

Andy Golding Thanks, Ben.

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Operator Our next question comes from Gary Greenwood from Sure Capital. Please go ahead, your line is now open.

Gary Greenwood Morning. I've got two questions, if I can. The first is on your modelling assumptions for bad debt. I think you said that you've not materially changed those.

I think to recall you had quite a big fall in house prices in 2020, which obviously doesn't look like it's coming through, so just in terms of thinking about modelling assumptions, provision releases or not, do you just roll forward that assumption on house prices into next year? How does that work and how do you think about the balance on retaining provisions versus releases?

And then secondly, just on the deposit repricing, I just wanted you to confirm whether or not you'd completed the deposit repricing exercise that you were going through. Thank you.

Andy Golding Gary, I'll tackle the deposit repricing one quickly, because that is a quick one. Yes, we have, we have completed that all the way through, so we're up to date. We think the market is pretty much up to date. We talked at the interim point around the pressure coming from NS&I in terms of the rates they were paying to gather deposits, so we weren't out trying to compete with them in the instant access market, we were rather choosing one and two-year bond funds at that point.

But we all know that NS&I have done what typically they've demonstrated in the past, which is their rates this month are all coming back down to a pretty derisory amount again.

And we've got to be careful, and I think other deposit-takers have to be careful, not to be too far up the best-buy table, because you'll attract a run of cash coming back out of NS&I that we don't need to fund our plans. But the short answer is yes, we've completed that pass on exercise now. On the modelling one, obviously I'll hand over to April for that.

April Talintyre Thank you, Andy. Good morning. Yes, you picked up correctly we really didn't see any significant movement in the economic outlook when we came to review various economic forecasts in September versus June, and we didn't really see the need to make any other model adjustments or staging criteria adjustments either.

But it's been a bit of a rollercoaster I think, with good news followed by bad news followed by good news. So what we're doing is really awaiting the next suite of outlook, which incorporates the government's stimulus and the, potentially very positive, news about a vaccine. And possibly Brexit as well, which is in our downside case, are Hard Brexit, but not in our base case.

So there are a number of drivers there that we'll have to see how they play out as we head into the closing stages of next month. But what the economists have generally been doing, as you've alluded to, is kick the can down the road. And that's in fact what they did for us at the end of the third quarter, which is they weren't backing off from the worst impacts of the pandemic on the economy, but they were just assuming it happened later.

Gary Greenwood Just to be clear, April, what flexibility do you have in terms of deciding those provisions? How much of it is mechanically driven by the models, and how much of it is your subjective overlay?

So if your models were saying you need to release a provision, which is I know what Lloyds saw during the third quarter, and offset that with a subjective overlay, are you in the same sort of situation whereby if that was the case and you felt like you wanted to remain cautious, you could do? Or are you mechanically forced to release provisions as and when?

April Talintyre You always have the… First of all, one of the biggest inputs of course is where you decide to put your economic scenarios, and we don't just slavishly follow what we're given by one economist. We're always looking much more broadly than that. So there's quite a bit of judgement and comparison across different sources before we set those.

Yes, then an answer comes out of the model, but we'd never rule out a post-model adjustment. I think the situation at Q3 was very, very modest in that sense, a very, very minor release suggested, which we didn't take. Nothing like the kind of numbers you saw coming out of some of the larger banks.

Gary Greenwood That's great, thank you very much.

Operator Our next question comes from Aman Rakkar from Barclays. Please go ahead, your line is now open.

Aman Rakkar Morning, Andy. Morning, April.

Andy Golding Good morning.

April Talintyre Morning.

Aman Rakkar Just a couple of questions on… I note the commentary around applications running at 65% of pre-Covid levels. When I look at some of the high-frequency buy-to-let application data that we track, I know it's at a system level but it looks like we're not far off that system level running at pre-Covid levels.

Although within that I know purchasing is an up and remortgaging is probably down 25%, but you're running at 65% of pre-Covid levels, which suggests to me you are operating quite definitively in this market right now. So one thing I was interested in, to what extent are you in control of originations running at 65% of pre-Covid level versus some kind of different demand?

I'll squeeze another one in there, sorry to cut across you there, Andy. And on net interest margin, I guess really encouraging to see that you think 265 for Q4. I think you briefly historically intimated about that TFSME being one of the levers you could pull in Q4. What would be really interesting is could you give us understanding of the quantum of TFSM, the looking to draw, when you're looking to draw it, how much of that benefit is going to come through in Q4 and support the 265.

I guess what I'm really getting at here is when we're thinking about next year and the puts and takes on NIM, is there a funding cost opportunity to realise here that can support you. And if you're able to highlight any downward pressure that we should be thinking about, that would be really helpful.

Andy Golding Thanks, Aman. I'll talk about our volumes and then April, I'm sure, will talk about NIM and TFSME impact. Remember the 65% that we're at, at pre-Covid level, is at a group level, so that is the total originations that we were doing pre-Covid, which included development finance, asset finance, commercial real estate, bridging finance, etc.

And those are the lines where we have really tightened our criteria hard, and I make no apologies for that. Now is not the time to be pumping money out the door with a fair degree of uncertainty, when fundamentally it's liquidity in UK housing stock that drives the repayment vehicle on those loans. So that's where we're really constraining overall volume.

What we said in the release was in our core Kent Reliance and Precise Mortgages buy-to-let and residential brands, application volumes are very strong. We have kerbed criteria and put pricing up a touch across buy-to-let and residential. Actually buy-to-let in Kent and Precise is running at nigh-on pre-Covid levels, and residential is as well. This is application volume in total across the group.

And we've always liked the credit and buy-to-let because of the optionality that we have as a lender in the event of a problem with the landlord. Our cost of funds is much cheaper than theirs.

We can rent a property out as the receiver of rent in the event of a problem and obviously still make the piece wash its face. And in the residential market, we're enjoying volume in that at very, very sensible loan-to-values and good margins, as a function of just that increased demand, particularly in the purchase market that you mentioned.

So I think you have to look at it in the round, because you're right, if you look at the totality of the system at the moment, buy-to-let would suggest it's pretty much back up at pre-Covid levels. It is, and we're not really adrift from that in our core brands either. It's the other areas where we're really constraining the leash.

And I said I make no apologies for that. We're building a pipeline. We're happy with the level of pipeline that we're going to be building and taking into next year. We're happy with the returns and the risk-adjusted returns that we're making on that pipeline. And because of the adjustments we've made on funding costs, etc., the back book is a very big animal that spins off a significantly strong return on equity. So I think our cautious approach is absolutely right at the moment, given the degrees of uncertainty that still exist in the market. April, do you want to talk about NIM and TFSME?

Andy Golding Yes. I think what we would like to do with TFSME is actually draw down as late as possible, in order for the four years to last us as long as possible. If we have tranches of the original TFS, in small tranches that are getting close to maturing, we'll draw down sooner, but I think our plan is to back-end that to get the maximum benefit.

And I guess what you probably saw we said previously was that our first thought was we could use it to refinance all of TFS and also the amounts of indexed long-term repo that we have from the Bank of England, as it's a more favourable rate slightly than that.

I think what we've seen is now opportunities for net new lending, which means that within our incumbrance constraints, we should be able to fund some of the net new lending this year and the first quarter of next year, albeit probably not drawing down until next year in anger.

But the way we would normally think about it is we tend to… what we have to manage within our incumbrance limit of 30%, and therefore it's only a portion of that net new lending that we can actually fund in this way. The bulk of our lending is always funded with retail savings.

So it's certainly, I think, more of a driver for Q1 in next year, probably Q2, Q3, Q4 more, and it is on the margin beneficial to NIM, because of the greatest proportion of our funding will come from this draw, but keeping, unfortunately, as always, our incumbrance restrictions.

Aman Rakkar Thanks for that, can…?

April Talintyre But we continue to do try and manage that incumbrance. You saw us do a couple of largely internal securitisation trades in the Canterbury programme. That was in order to transition mortgages into AAA notes that we could then place with the Bank of England for more favourable haircuts. So we continue to do things like that to manage within our incumbrance limits as best as we can.

Aman Rakkar Perfect, Andy just to return….

April Talintyre And…

Aman Rakkar Sorry, go for it.

April Talintyre [Overtalking] about any potential drag. I think right now things are looking good in the retail savings market, and with NS&I out of the picture and slashing their bank book rates so soon after gathering in the funds, I think there's an element of having to make certain we don't become overly liquid. And that's a very positive situation now.

When you see the Chancellor announce further extensions to the furlough, it may well be NS&I will be back in the game at some stage, Q4, Q1, and we may see a temporary disruption of the savings market again by them.

There's been a lot of lobbying by the industry, not least the building society associations, to the UK Treasury, to say that they need to understand the impact they're having on smaller deposit-takers by pricing aggressively in the way that they did.

Andy Golding Aman, sorry, you were going to come back?

Aman Rakkar Sorry, April, it doesn't sound like there's too much downward pressure that you'd be calling out next year, on the NIM?

April Talintyre No, I think the old change in the mix of the asset side of the balance sheet had run its course, as we explained at the half-year last year. Unless there's increased competition on either side of the balance sheet that we're not currently seeing, then I think there's largely potential positive impact, as you called out yourself, on TFSME. But we have to watch and see what happens with the economy and what happens to the competitive landscape on both sides of the balance sheet. But what we are seeing today is positive.

Aman Rakkar Perfect. Andy, I'm just going to sneak that question in on volume. So thanks for that colour on application experience. Just when we think about the sustainability of the volume outlook then, if the purchaser part of the market perhaps loses steam in and around the stamp duty exemption, because refinancing's running below pre-Covid levels, presumably that normalisation in refinancing is positive for your outlook next year, even if the purchasing part of the market starts to tail off? Do you think that's a fair comment?

Andy Golding Yes, I do. The balance sheet is a game of two halves. It's about what you lose off the back of the truck versus what you pump back onto the front of the truck. We've always been very strong in the refi market, particularly in the professional buy-to-let segment, because clearly we help portfolio landlords convert their portfolios from Mr Smith into Mr Smith ltd, and that gravy train is still moving ahead and we're still doing a degree of that.

And we are still seeing quite a bit of refinance business coming through on the portfolio side of the equation, and I think that will continue as products continue to expire in the market and landlords need to find a new home for their debt.

But you're right, we also focus particularly in the OSB side of the balance sheet, where there are less securitised assets. We focus very hard on that Choices retention programme, to make sure that we minimise the amount that we're losing off the back of the bus.

So you've got two levers to pull, basically. You've got what you want to put on at the front end, in terms of risk-reward dynamic, versus how hard you work to not lose it off the back of the truck again. So I think that's a fair comment, yes.

Aman Rakkar Thank you.

Operator Our next question comes from the line of Ian Gordon from Investec. Please go ahead, your line is now open.

Ian Gordon Yes, morning. Just a quick follow-up, really, on Gary's question on the impairment piece. Two points, really. Clearly, the Q3 charge is a rounding error, and just to confirm the amount of any charge taken will just be some reserving against your new lending on very conservative LTVs?

And then secondly, I hear what you say about no change to your economic scenarios at this stage, and you described a roll-forward concept, but would you acknowledge that that leaves your economics scenarios as considerably more conservative than any other UK lender? Thanks.

Andy Golding April?

April Talintyre Thanks, Andy. Yes, we've said in the announcement that there's no significant movement in the provision in Q3, and I think when we looked at how we were positioned at the interim, of course we'd had the benefit again of the PRAs running another exercise where they collate economic scenarios and weighting across the coverage, ratios [unclear] absolute amounts across the banking sector, we'd had the benefit of being able to see that for Q3 as well.

And I think we continue to believe and see that we're in the pack for unemployment, but with a slightly, perhaps, slower recovery than some. And we're not an outlier on HPI. We are amongst the more conservative but we're certainly not the most conservative.

And I think we don't want to be an outlier, that's not our aspiration, we don't want to be overly prudent or overly optimistic. It's about finding the right balance. And we looked long and hard at a range of different economic outlooks. We understand which ones include government stimulus and which ones don't, and we looked across that.

We also used Moody's to give us the starting point, and we had a lot of discussions with them. And the kind of discussions we're having right now is as you would anticipate, which is is it your view that this is kicking the can down the road, or do you see a more positive outlook?

And it has been a rollercoaster for them, and I'm sure it will be as we go into December as well, as I mentioned earlier, with negative news and then positive news. So I think we really need to see how the next month or two unfolds, but we certainly aren't in the business of being an outlier, and nor would we wish to be so at the end of the year.

Ian Gordon Thanks very much.

April Talintyre Not that we slavishly follow everybody else, as you can see from our risk appetite at the moment. We form our own view of the board

Operator Our next question comes from John Cronin from Goodbody. Please go ahead, your line is now open.

John Cronin Hi, Andy. Hi, April. And thanks for taking my questions. I'm going to flog this impairments one to death a little bit here, to follow on from Gary and Ian. I take your point, April, in terms of waiting to see how the next month or two unfolds, which you clearly have to do anyway, but as it stands today, it certainly appears that there's a pretty decent upside to the 2021 and 2022 economic assumptions you've set out in your scenarios.

What I'm trying to understand, I guess, is assuming things are at year-end as they stand today on the vaccine front and whatever else, what would inhibit you from write-back provisions?

I am cognisant that your coverage levels, on a very simple high-level analysis, were lighter relative to peer banks coming into this, so could there be a buffer of safety that you decide to just retain, going forward, despite what the models tell you? I suppose if I just put the question very explicitly, would you be very hesitant to push through write-backs if the change in economic assumptions supported it?

My second question is on the securitisation point. I've been doing some granular analysis on the Paragon and OSB securitisations data, and something interesting has emerged in the context of the quite historical buy-to-let loan portfolios, and there seems to be, in the absence of a huge amount of data at this point, a higher propensity for those customers to remain on payment holidays.

Now, I appreciate that the analysis requires a bit of an apples versus oranges comparison, because we're working with different dates across the various securitisation vehicles, but I'm interested in your take on is that something that you're seeing, and is that potentially something that could be a positive point from an asset quality perspective of OneSavings Bank, given [overtalking] relatively fresher portfolio, i.e. the properties are relatively newer, relative to the wider competitor universe?

And then thirdly, on MREL again, I'm not sure how much you can say on this. The Bank of England is due to say something in, probably, December, I'm guessing. If they were to do something, A, what do you think this would be, if there was to be a revisit of the requirement, and, B, if I could push you to say how likely or not you think they may make an adjustment, how likely or not they would be to actually make an adjustment? So they are my questions. Thank you.

Andy Golding Thanks, John. If I talk about the compare and contrast on Paragon securitisation data and ours, and then I'm sure April will…

April Talintyre I'll do the others.

Andy Golding Try and do the complex one on impairment again. And then MREL. It's interesting because we've done some analysis, of course, as well in terms of looking at it. I think you've got to remember that Paragon is a business of two halves.

There is a very old, long-standing, low-yielding, low-interest-rate back book, that actually is hampering their ability to deliver return on equity, but equally it's not going away because the borrowers, the interest charge that they're getting on those tracker mortgages is very low.

And then Paragon have obviously got a front book, which I think has been written in a similar economic environment to broadly similar criteria to the way that we would do it. I'm sure Paragon know what they're doing in terms of underwriting. We absolutely know what we're doing in terms of underwriting. And I think the front book elements are much more comparable.

Other than that, there's not a lot I can add, other than to say both businesses have got their own LPA receiver of rent portfolios, and I think our experience on our own tenant profile has been very similar, which is very minimal requests for tenant forbearance, if you like. In which case, you have to assume that difference in behaviour are just coming from different vintages and different seasonality of portfolio. April, do you want to touch on the other two?

April Talintyre Yes. I think we have to not only look at the outlook at the end of the year, but also the degree of continued uncertainty. And that will be a discussion that we will have at audit committee. And I believe our chair is listening in, so I'll be careful with what we're trying to [unclear] at this stage. But I think it's about the uncertainty as well as the consensus, if you like, of outlook.

And we will have to make a decision and review that at the end of the year. There's a tremendous amount of uncertainty still. Then, I think banks will have to think long and hard before they release any significant provisions. And it's not just a question for us, I think it's a question for the whole industry.

And then on your last point on MREL, I do hope we do get the promised consultation by the end of the year. Time is clearly running out. I've certainly not heard anything that that's been delayed. I remain sceptical that there will be a huge change in thresholds based on sheer size. Remember, we don't have transactional accounts, so the key thing for us is the threshold at which it sets in.

And really, you have to think about the size of the deposit book, and whether or not that could be absorbed by FSTS without having tremendous knock-on impact on the industry, with everybody having to pay interest to the Treasury for the loans that the scheme would need.

My hope is there may be some positive news on calibration. What I don't know is whether that will be part of this year's announcement, or whether that will trickle through into next year. So I'm a little bit sceptical. I hope I'm proved wrong, but I think it's always best to be conservative and then be surprised on the upside.

For us, of course, the timing is helpful because we've only just started the clock ticking, and therefore over the next year, any insight we get from the Bank of England we can incorporate into our issuance programme. So timing-wise, I think it works for us.

John Cronin Thank you. Can I just head back, Andy, on the securitisation point? I'm not really trying to do a compare and contrast versus Paragon. I suppose the point that it seemed to be fleshing out for me could be that the newer properties…

And I appreciate it's a complex analysis because you've a lot of people who've just been incorporating over the years, but on balance it does tend to suggest at first glance to me that the newer properties means they're probably in a better state of repair, just because they're newer and buyers might be more likely to work hard to continue to support the repayments. Some may give up on the older properties.

It's a very simple view, there are [overtalking] factors, but would that be a reasonable conclusion, and would that be [overtalking] One Savings Bank, in a relative context, if so?

Andy Golding I don't know in exactly the way you've described it, and I think I'd be speculating if I answered in that way, what I would say though is there has been an increasing, certainly over the number of years that OSB has been in the growth mode in the buy-to-let market, professionalisation of the market, and an increase in standards around what a tenant expects and what a landlord can let.

So moving to better, energy-efficient property, moving through all the issues of you've got to have your electrical safety, your gas safety, you've got to have smoke alarms tested and all that sort of stuff. And I think modern-day landlords are just in the mode of making sure that if there's an issue it's fixed, and I think that's very beneficial for the tenant, and making sure that there's enough preventative maintenance to ensure that there isn't.

There are some old-school landlords that have old properties that they've had the same tenant in for donkey's years, and probably there might be a degree of neglect, but to a certain extent that's speculation, because that wouldn't be our core market anyway.

I just think the sector is increasingly professionalising, and I think that's a good thing because it protects everybody. It keeps the landlord's asset intact, and it looks after the tenant of course, both of which are in our interests as the lender.

John Cronin Okay, thank you.

Andy Golding Thanks, John.

Operator Our next question comes from Edward Firth from KBW. Please go ahead, your line is now open.

Edward Firth Morning, everybody. Can I ask you about…? there's been some various speculation about these long-term government-supported mortgages. I think Boris Johnson mentioned it a month ago or so. Have you had any insight, or any discussions about, how those might work, how they might be structured? Any thoughts about how that might impact on the buy-to-let market? Thanks very much.

Andy Golding Thanks, Ed, a good question. As with lots of these things, the devil will be in the detail, and the detail unfortunately isn't there yet. We've had senior people involved in the discussions that UK Finance have been having with regulators and government around something of that nature. I'm not sure I think it would be beneficial for the buy-to-let market.

I think it's very much more targeted at people who want to become first-time buyers, and rather than a help-to-buy scheme, it might well be a help-to-borrow type mechanism, where effectively we could lend somebody at 95% loan to value but there would be a government guarantee on the segment above 80, for example. Again, detail not yet fleshed out.

I think that would help do some things around the residential market. If you're going back pre-financial crisis, you could get 100% first-time buyer mortgage from lots of lenders on the high street, including prime lenders like building societies and whatever.

The days of the 100% mortgage, or even the 95% mortgage, at an economic price, disappeared pretty much in 2009, and it's never really returned. I do think there's a place for it. I think some borrowers who are going to struggle to get to together a sizeable deposit may well be able to enter the property ladder if there is a government guarantee product. So I think it could be useful generally for keeping activity going in the housing market, but, as I said, devil is always in the detail, and the detail's not clear yet.

Edward Firth And is it your impression, or your thought, that the reason we haven't gone back to these 95%, 100% mortgages, is that regulatory pressure or your own… well, not your personal choice in terms of OneSavings but the sector as a whole's choice?

Andy Golding Yes, it's also the capital requirement at 60%. Look on the high street. 50%, 60% loan to value residential repayment mortgages. They're allocating dilly capital against those loans, broadly. If they start to go back into offering a 95% mortgage, they're diverting a lot of capital, and in order for them to compete hard on those loans, they have to charge a price that probably doesn't generate a significant return on that capital.

And even under standardised approach for lenders that are on that, the segment above 80% LTV starts to attract a much higher risk weight, and it just makes it uneconomic versus what you could charge the borrower. Because there's no point putting a 95% mortgage into the market if the pay rate's 7% and the borrower can't afford to make the repayments anyway.

So if you just think about how the regulations have changed on the mortgage market since the financial crisis, we've got much stricter affordability, both actually on buy-to-let loans and on residential loans. Banks have got a different position in terms of the capital weightings, and banks are therefore choosing the risk and reward dynamic where they can make the returns that they're looking for.

So I don't see 100% mortgages coming back any time soon, but if there are some schemes that help some more first-time buyers, a bit like Help to Buy has done, I think that's a good thing, structurally, for the housing market.

Edward Firth Just one follow-up, doesn't it worry you though, in terms of the sustainability of margins, that all the signs are, at this stage, that either because of political help or because you're much better lenders that you used to be, that credit this time is going to come in way better than worst expectation.

And yet none of that benefit seems to be passed on to the customers. All the asset customers are paying exactly the same as they were before, arguably they're paying more. And I wonder does it worry you how that dynamic plays out, that the taxpayer has effectively given huge support to the sector, and the sector said, thanks very much, and just continued to charge exactly the same?

Andy Golding No, I wouldn't say it… I'm not sure I think the taxpayer has given massive support to the sector. I think the Bank of England has given support with things like the TFSME, and previously the TFS scheme, but you do have to lend into the real economy to be able to use that as a genuine funding tool. It's not a state aid measure or anything like that, where the taxpayer is stumping it up. It is a funding transaction with the Bank of England.

And the Funding for Lending scheme and the TFS, post the financial crisis, did what it was designed to do, which was to give banks access to funding at a price that enabled them to lend into the real economy without massively upping the pay rates on the borrowing. And actually the cost of borrowing came down as a function of those funding schemes.

The cost of mainstream borrowing is probably marginally higher now than it was pre-Covid. Some of that is the factory is full, we need to control the input measure. I used to work at a large lender years ago, responsible for running most of their sales force, and when the factory was full, my sales guys had crappy pricing. And when the factory wasn't full, they had fantastic pricing. And that was just the way a large bank managed its volume dynamic.

So the market has always been competitive. We dance in the gaps that the big banks don't play in, and that's why we've managed to make the kind of returns, and continue making the kind of returns, that we do.

Edward Firth Okay, thanks very much indeed.

Andy Golding Thanks, Ed. I think that's all the questions, Katie, isn't it?

Operator That's all the questions we have for now, yes.

Andy Golding Well, on that basis, we've kept you for 48 minutes for a very brief release, but I'm very pleased that a number of familiar friends and faces managed to dial into the call. Thank you very much for your time. And keep safe and keep well, everybody, and we'll speak to you soon.