

# Good practice: briefing Mortgage to rent

An overview of mortgage rescue schemes available to homeowners facing financial difficulty

## Introduction

There has been a 90 per cent rise in the second quarter of 2007 for possession orders<sup>1</sup> made against homeowners, compared with the same period in 2004. At the same time, there has been a growth in private companies offering to buy properties from struggling homeowners and rent them back under what they call 'mortgage rescue schemes'. The rapid growth of this unregulated sector is a concern to Shelter. This briefing aims both to outline the risks associated with profit-making companies running mortgage rescue schemes, and to set out good practice guidelines for not-for-profit bodies interested in this area. It is aimed at local authorities and housing associations seeking to establish mortgage rescue schemes, and at housing advisors who are supporting homeowners at risk of repossession.

- Housing, with a value of £3.9 trillion, is the single greatest financial asset held by individuals in the UK, accounting for 60 per cent of national wealth.<sup>2</sup> For most, the system works well – they manage to maintain repayments on their homes and, although they may struggle at times, are never seriously threatened by repossession.

However, homeowners spending a high percentage of their income on mortgages are more vulnerable to arrears and repossession.

- The safety net available to homeowners has been reduced since 1995. The two main forms of help are Income Support for Mortgage Interest (ISMI), a means-tested benefit, and Mortgage Payment Protection Insurance (MPPI). However, MPPI does not generally cover shortfalls due to reduction in income as a result of relationship breakdown, and in 2006 only 20 per cent of homeowners had a current MPPI policy.<sup>3</sup> Shelter believes there should be a more effective safety net for homeowners at risk of repossession, and is concerned that the current systems do not cover every eventuality in the same way that Housing Benefit does for those renting their home.
- Over the past 12 months Shelter has seen an increase of nearly 40 per cent in clients with mortgage arrears and/or threatened with possession action, and during the same period, our mortgage advice web pages have had approximately 70,000 hits.

1 Ministry of Justice, *Statistics on mortgage and landlords possession actions in the county courts*, Q2 2007. A possession order entitles the lender to apply for a warrant to have the homeowner evicted. However, even where a warrant for possession is issued, the parties can still negotiate a compromise to eviction.

2 Office of National Statistics, 2007, [www.statistics.gov.uk/cci/nugget.asp?id=479](http://www.statistics.gov.uk/cci/nugget.asp?id=479)

3 Council of Mortgage Lenders, Table PP13: Mortgage payment protection insurance, policies in force, 2007

This Good practice: briefing is one of a series published by Shelter. Good practice: briefings dealing with other housing and homelessness issues can be downloaded from [www.shelter.org.uk/goodpracticebriefings](http://www.shelter.org.uk/goodpracticebriefings)

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## What are mortgage rescue schemes?

Mortgage rescue schemes can assist homeowners who face repossession by purchasing their home, allowing the household to remain while changing their tenure of occupation from ownership, to shared ownership or a tenancy. The most flexible schemes allow the household to sell only part of their home, if they prefer, and change their tenure to shared ownership, while some schemes can also make it possible for them to buy their property back when their financial situation improves.

Mortgage rescue or flexible tenure schemes can be an effective way to prevent homelessness, by giving the household some assistance at a time when they may be struggling to cover their mortgage and allowing individuals to remain in the property. They are not suitable if the financial difficulties are likely to be only temporary – in these situations, negotiating reduced payments with lenders for a few months may be more appropriate.

The benefits of these schemes include:

- households staying in their home, thus avoiding the trauma of repossession and homelessness
- allowing households to remain, which contributes to the sustainability of the community
- any equity can be released to pay off other debts
- lenders avoid having to pay the costs associated with going to court and repossessing a home.

Local authorities, housing associations, mortgage lenders or other private companies can run these schemes. However, mortgage rescue schemes in the not-for-profit sector operate on a very small scale, while the number of private sector schemes has grown rapidly.

Where local authorities and housing associations operate schemes, criteria are usually applied to determine a household's eligibility. For example, the household should:

- be facing a large reduction in income
- not have built up high levels of mortgage arrears
- need to stay in the area due to other commitments, such as schools and family support
- be able to make small monthly payments.

In addition to these criteria, some schemes will only offer a service if there is a shortage of social housing in the area and the property value does not exceed the maximum considered by the scheme.

However, the danger with eligibility criteria that are too restrictive is that households that do not qualify may turn to the private sector.

## Private schemes: the risks

Homeowners in financial difficulty can become a target for private companies, who offer them an opportunity to stay in their homes and find an apparently immediate solution to their financial problems.

The growth in the number of these profit-making organisations is of some concern, as they are not regulated. The Financial Services Authority (FSA) does not consider them to be offering a financial product, merely buying a property and renting it out. Their advertisements are not scrutinised for inaccurate or misleading information, and there are no checks as to whether the advice given to customers is in the customer's best interests or the most effective way of resolving their problems.

Privately run schemes often purchase homes below the market rate, and homeowners can lose as much as 20 per cent of the true value. A further danger of these schemes is that they grant assured shorthold tenancy agreements to the former owner, whereas assured tenancies are generally used by the social housing sector. Assured tenancies offer substantial security of tenure and the landlord needs to prove that a term of the tenancy agreement has been broken, under the relevant legislative provisions, for there to be grounds to evict a tenant. However, with an assured shorthold tenancy, the landlord can seek eviction on the expiry of the fixed term (which is usually for six or 12 months) merely by serving the correct notice, which may leave the household homeless and with no chance of ever regaining the home they once owned. Shelter has seen a number of clients who have lost out financially, and risked future homelessness, by selling their homes to mortgage rescue companies.

## Advising home owners

Before advocating mortgage rescue schemes, advisers working with households experiencing mortgage difficulties should consider other solutions. Specialist debt advisers can make a full financial assessment and work with the household to set out a plan for clearing their debts, while ensuring they are still able to cover their living expenses.

Most lenders regard repossession as the last available option and are keen to discuss proposals

for clearing arrears. Some lenders will consider an interest only mortgage or a payment break if the difficulties are likely to remain short-term. Otherwise, they may consider delaying repossession if the home is to be sold.

If a mortgage rescue scheme seems to be the only suitable solution, an established estate agency can give a reliable estimate of the property's worth.

## Local schemes

Mortgage rescue schemes operate most effectively when offered by local authorities or housing associations as part of their home ownership services. Some housing associations operate schemes to buy properties from those in difficulties, and either rent them back, or set up a shared ownership arrangement. They are generally willing to guarantee tenants the right to live in their homes for as long as they wish by offering assured tenancies, together with the right to buy back their homes, or increase their ownership share at the market price at any time they should want to.

## Schemes run by housing associations and local authorities

There are a number of schemes which involve housing associations working in partnership with their local authority. For example, Herefordshire Council, in partnership with Elgar Housing Association, operate a shared ownership scheme where the household in difficulty can sell a share of their home and pay a subsidised rent on that share which can then qualify for Housing Benefit. The occupier retains responsibility for maintenance and management of the property and can re-purchase shares in the property, known as staircasing, at the current market value if their financial situation improves. Eastleigh Borough Council, in partnership with Eastleigh Housing Association, also operates a mortgage rescue scheme. The numbers assisted by these schemes are very low as both have only limited funds available. The scheme operated by Eastleigh Borough Council helped just five households between September 2000 and May 2003. Eligibility for these schemes require there to be a lack of available social housing in the area; good reasons why the household need to remain in the area, including schools and family support; and the case to have reached repossession stage.

## Flexible tenure model

The Joseph Rowntree Foundation Housing Trust has developed a model of flexible tenure within their housing stock. This has been in operation through their housing schemes for over 20 years. It has allowed 117 households to staircase up, and the receipts from this have been used to allow 84 households to staircase down.<sup>4</sup> This shows that it is possible for schemes to be, at least in part, self-funding and that flexible tenure is the best way of operating mortgage rescue. The JRF report, *How flexible tenure can prevent mortgage repossessions*, details how flexible tenure was a recommendation of the inquiry into low cost home ownership undertaken by the Housing Corporation in 2002.

## National scheme in Scotland

Since 2003, Communities Scotland has co-ordinated a national mortgage rescue scheme. This was built upon the experience of local schemes that had been in operation since 2001. Despite the scheme being national it is still relatively small-scale with funds totalling only £9 million.

The scheme offers all the good practice of the schemes detailed above – with the exception of shared ownership – and additionally ensures that all applicants have received financial advice prior to being referred to the scheme, to maximise the number of households that can remain in their homes without changing their tenure. The assisting landlords receive a subsidy to assist with the purchase and there is also a repairs subsidy to bring the property up to an acceptable standard.

## Conclusion

Mortgage rescue schemes are not a new development, and have been in operation in some areas of England since the early 1990s and in Scotland since 2001. These initiatives are not very widespread within the social housing sector, but the number of private companies setting up services is increasing rapidly.

Homeowners should be advised to explore all other solutions before considering mortgage rescue schemes. Shelter has some concerns about those being operated by private profit-making companies – often in areas where there may be significant financial gain in buying up properties at risk of repossession.

4 Joseph Rowntree Foundation, *How flexible tenure can prevent mortgage repossessions*, 2007.

## Recommendations

If this sector continues to grow and develop, consideration should be given to the establishment of a national government initiative in England. This would ensure that schemes are regulated, better co-ordinated and act in the best interests of the homeowners. Additionally, privately run schemes should be regulated by the Financial Services Authority. The following minimum standards should be adopted by providers, so that households at risk of homelessness do not lose out financially, and can maintain some stability.

- All households who have mortgage arrears should be encouraged to seek debt advice.
- Good quality financial advice should be provided prior to acceptance onto a mortgage rescue scheme.
- Mortgage providers should liaise with lenders to find alternative solutions to possession and mortgage rescue schemes.
- Applications should be processed quickly, to avoid the build up of further arrears.
- Mortgage rescue schemes should allow homeowners to maintain ownership of part of the property.
- The household should have the option to staircase up and down as their financial circumstances change.
- Mortgage rescue schemes should provide assured tenancies at affordable rents.
- Reputable mortgage rescue schemes, operated by local authorities/housing associations, should be widely promoted.

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