



Evaluation of the Mortgage Rescue Scheme and
Homeowners Mortgage Support
Executive summary for interim report



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S. Wilcox, A. Wallace, G. Bramley, J. Morgan, F. Sosenko
and J. Ford

The Centre for Housing Policy, University of York
School of the Built Environment, Heriot Watt University

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Department for Communities and Local Government

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000
Website: www.communities.gov.uk

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Executive summary

The Mortgage Rescue Scheme and Homeowners Mortgage Support were introduced to prevent mortgage repossessions and help homeowners remain in their home. The Centre for Housing Policy and Heriot-Watt University were commissioned by CLG to evaluate the early effectiveness of these initiatives during their first year of operation. This note outlines the key findings of the research, including implications for policy, and considers the schemes' impacts as part of wider public and private measures to prevent possessions.

There was wide support from both partners and borrowers for the Mortgage Rescue Scheme (MRS). It provides relief and security for borrowers facing homelessness and has aided market confidence. Between January 2009 and March 2010, 629 borrowers accepted an offer through the scheme. Over 20,000 households with mortgage difficulties have received free advice and assistance from their local authority. There was a widespread aspiration from partners for MRS to become a permanent feature of homeless prevention.

MRS was designed and implemented rapidly in response to the economic downturn in 2008. Consequently there have been some significant delays arising from operational weaknesses amongst some delivery partners. In addition, the complexity of cases arising from negative equity and multiple charges secured on the property have contributed to protracted negotiations with a range of lenders about outstanding debts. However, the introduction of new processes such as syndication have increased capacity to deliver, and obstacles to implementation were being overcome with support, training and specialist staff being made available to delivery partners. It is too early to determine the longer term outcomes of the new tenure arrangements created by MRS, but there were some concerns emerging regarding the sustainability of new MRS tenancies and the limited number of shared equity loans.

The value-for-money assessment of MRS compared the monetised costs and benefits to Government and providers, and showed a net cash cost of £45,000 per household helped by MRS, excluding set up costs. However, a resource assessment (which treats capital provision differently) shows that the provision of MRS has small costs overall, at £6,000 per household helped. The shared equity option is much cheaper for Government. This small or moderate net cost to Government and providers suggests MRS provision is not imprudent, and would remain beneficial at a lower grant rate.

Support for Homeowners Mortgage Support (HMS) remains muted amongst lenders and advisors as it is seen as administratively burdensome, narrow in its applicability and potentially debt-inducing. Some lenders offer comparable forbearance schemes, which can be more advantageous to borrowers and more widely available. Between April 2009 and March 2010, 32 borrowers were entered on to HMS arrangements by

their lender, compared to over 30,000 borrowers who were entered on to lenders' own concessionary forbearance arrangements.

However, most partners consider HMS, alongside other Government measures, to have significantly influenced the extent of lenders' own forbearance policies. Thus HMS has indirectly benefited many more borrowers than have been entered on the scheme. Partners wish to retain HMS until the threats to arrears and possessions from rising interest rates and unemployment have abated, although support for the scheme's long term continuation is weak.

The value-for-money assessment of HMS shows a modest financial net saving to Government in cash terms, but a moderate financial net saving of around £19,000 per household in resource terms excluding set-up costs. The analysis does not take account of wider social costs for households from repossessions or wider economic and housing market benefits as they were not readily quantifiable.

There is a case for continuing both schemes until the housing market has recovered. In the longer term there is unlikely to be a role for HMS. MRS could continue to play a useful role as part of wider homelessness prevention strategies, provided delivery obstacles are overcome and support provided to mitigate risks to the sustainability of new tenure arrangements. It should, however, be possible for MRS to operate with lower grant rates in the future.

Background

The onset of the economic downturn in 2008 escalated the already rising number of homeowners with mortgage arrears, exposing them to the risk of possession. The social and economic risks of possession are well documented and yet the downturn highlighted the existing weaknesses in the safety net provisions for UK homeowners. The Government, lenders and other agencies moved to address the rapid increase in the numbers of households in arrears and possessions. Communities and Local Government (CLG) introduced two schemes to support homeowners in mortgage arrears:

- a *Mortgage Rescue Scheme* (MRS), which provides a structured exit from homeownership for vulnerable households who would otherwise have been entitled to homelessness assistance and
- the *Homeowners Mortgage Support* (HMS) that provides support to lenders to encourage greater levels of forbearance for up to two years for borrowers unable to access other support

It was anticipated at the outset that MRS could be taken up by up to 6,000 borrowers and a lender led assessment estimated that HMS could directly support up to 42,000 borrowers. In addition, there were improvements to the state safety net, enhancements made to Support for Mortgage Interest (SMI), and a Pre-Action

Protocol for Mortgage Arrears Claims in the county courts was introduced by the Civil Justice Council, which required lenders to demonstrate that possession was the last resort. The Bank of England's reduction in bank base rates also led to substantially reduced mortgage costs for many borrowers.

In this context, researchers from the Centre for Housing Policy and Heriot-Watt University undertook an interim evaluation into the operation and effectiveness of MRS and HMS during its first year. The research was conducted between November 2009 and April 2010 and comprised: extensive in-depth interviews with 42 existing and former mortgage borrowers, and 36 partners (including lenders, advisors, local authorities, housing associations and the CLG Fast Track team responsible for MRS); analysis of administrative and secondary data; and a value-for-money assessment.

Mortgage Rescue Scheme

MRS provides a supported exit route out of homeownership for households who would, if repossessed, be in priority need for homelessness assistance. The scheme allows vulnerable households that include dependent children or members with ill-health or disabilities, at the lower end of the housing market (and who therefore cannot trade down), to avoid the economic and social costs associated with losing their home. The central role of money advice to MRS is welcomed and has meant that scope for further forbearance by the lender is examined prior to any application. There is some evidence that this has helped borrowers negotiate more favourable repayment terms and thus retain ownership. If the repayments are considered unsustainable then a housing association may purchase and rent back the property to the borrower on a three-year assured shorthold tenancy at 80 per cent of the market rent. There is rarely significant equity in the property, but if sufficient sums exist, the housing association can alternatively offer a shared equity loan to reduce the monthly mortgage payments, for which the borrower pays a small monthly charge.

Between January 2009 and March 2010, 629 applications for MRS led to completion, with 613 becoming housing association tenants. There was much less demand for the shared equity option with only 16 households being accepted. The momentum behind the scheme is increasing following a slow start.

MRS provided former borrowers with a profound sense of relief from the anxieties associated with potential homelessness, offering them a 'lifesaver', 'hope' and a 'light at the end of the tunnel'. It is too early to establish the sustainability of these new arrangements, but there is emerging evidence of payment problems amongst a small minority of MRS households. There are some concerns about continued indebtedness of these households with some agencies supplying debt management, benefits advice and intensive housing management in order to avoid arrears problems emerging.

The (necessarily) rapid implementation and lack of sufficient guidance in the early stages in some quarters led to acute operational delays, as some local authorities and housing associations struggled to establish effective processes to deliver the scheme rapidly. A network of syndicated housing associations was introduced from September 2009 to increase the capacity to deliver MRS. In addition, a centralised Fast Track team was introduced in September 2009 to streamline the delivery of cases referred directly from lenders and to provide specialist support to local authorities and housing associations. Both local authorities and housing associations initially faced substantial learning challenges but report that they have gained greater confidence in their ability to deliver MRS, with mechanisms now refined and increasingly embedded. However, the effectiveness of MRS delivery remains uneven across local areas.

The complexity of cases involving negative equity and multiple charges secured on some properties was an important source of delays, as the negotiations between first and second charge lenders, housing associations and borrowers to resolve the repayment of overhanging debt were often protracted. Local authorities are often asked to consider paying sums from the Repossession Prevention Fund and the Fast Track team and specialist HCA staff were also asked to mediate resolutions, all of which took time. Lenders viewed delays as frustrating, but, as MRS was financially preferable to possession, they were generally content to wait. However, the prolonged delivery of MRS increased anxieties for borrowers. Partners acknowledge that CLG moved swiftly to address structural problems with the scheme's design and effective working relationships were being forged after a slow start. However, wide disparities remained between the performances of various agencies and there was some support, particularly from lenders, for the administration of MRS to be conducted through the centralised Fast Track team alone. However, the scheme monitoring data could not reveal whether the Fast Track team delivered MRS more quickly than the mainstream local authority route.

There was widespread support from borrowers and stakeholders for MRS to continue as a permanent component of homeless prevention strategies; particularly as the loss of household income from relationship breakdown and ill-health are present throughout the economic cycle. However, effective operational systems and the sustainability of the new tenure arrangements must be secured.

A value-for-money assessment was undertaken for MRS and HMS, comparing the costs to Government of providing the schemes against the benefits in terms of costs saved had the schemes not been introduced. The assessment rests on a range of key assumptions underpinned by the available evidence. Sensitivity analyses indicate that the central findings are robust.

The initial set-up costs for both schemes were relatively high given the limited number of cases accepted; however these are deadweight costs that remain whether or not the schemes continue. The focus is therefore on the marginal operational costs of the schemes going forward.

Two different analyses were undertaken. The first focused on the cash public expenditure costs, while the second focused on the economic 'resource' costs. The key difference between the two is the way they treat public sector capital provision. The analysis shows a long term net unit cost for MRS to Government, on a cash basis, of some £45,000 per household (as a 30 year net present value). However on a resource basis the analysis shows no net additions to costs when compared to the costs arising from the alternative scenarios.

The value-for-money analyses do not take account of wider social costs for households (including impacts on health and education) arising from repossession as, while evidence shows them to be significant, they are not so readily quantifiable. Nor do the analyses take account of the wider economic and housing market benefits arising from the containment of repossessions in the downturn, to which these schemes have made a modest contribution.

There are clearly net costs associated with MRS but these need to be seen in the context of the objectives of the scheme, and the wider benefits that cannot be so readily quantified. It should also be possible to reduce future grant levels for MRS.

Homeowners Mortgage Support

HMS incentivises lenders to offer greater forbearance for longer periods to borrowers who have a temporary income shock and who have no entitlement to SMI. The scheme allows for borrowers to be entered onto concessionary forbearance arrangements of a minimum of 30 per cent of the interest only mortgage payment for a maximum of two years. Should a borrower not recover their position and the case end in possession, if the lender is unable to recover the full debt and deferred interest from the sale of the property, then the Government guarantees the lender 80 per cent of its deferred interest losses.

There was limited lender and advice sector input into the preliminary scheme design, although partners worked extensively with Government to develop the operational details of HMS. Nevertheless, lenders and advisors viewed the final eligibility criteria of HMS as too narrow to be effective. They were unconvinced about the 'onerous' level of documentation and monitoring of borrowers required by the scheme, although the monitoring requirements have been reduced from March 2010. There were also concerns regarding the potential for borrowers to incur greater debt as under HMS interest can be deferred for a maximum of two years. For these reasons, and the wide availability of alternative forms of lender forbearance (often more advantageous to the borrower), by March 2010, only 32 borrowers had been entered on the scheme. In contrast, a CLG survey of HMS lenders¹ found that in September

¹ "HMS lenders" in this context include those who have agreed to offer the Government-backed scheme (HMS) and those committed to offer similarly extended forbearance without taking up the Government guarantee.

2009, over 33,000 borrowers were benefiting from extended forbearance, with over 6,000 of those deferring interest on terms equivalent to Homeowners Mortgage Support.

The direct impact of HMS on the pool of borrowers in arrears is therefore negligible. Furthermore, borrowers, on both HMS and lenders' comparable schemes, did not understand the discretionary nature of the initiative and disliked the fact that lenders could choose whether to participate or to enter a borrower on to the scheme. Borrowers expressed a preference for transparency regarding entitlement to support and some found reassurance in HMS being a Government sponsored scheme. Nevertheless, lenders frequently reported that the publicity surrounding the scheme had generated borrower contact and provided additional opportunities to negotiate forbearance.

A degree of synchronicity between business and social policy objectives has been evident, enabling closer relationships to develop between lenders, advice services and the Government. Lenders and advisors supported the view that HMS had a significant influence on the development of lender forbearance during this downturn. Taking these views into account, the scheme can be said to have had a greater, but more indirect, impact than the very small number of cases accepted suggests; albeit one that cannot be disaggregated from those of other public and private measures designed to prevent possessions.

There was some support for the continuation of HMS; at least until the threats to mortgage arrears and possessions arising from rising interest rates and unemployment has abated. However, support for the scheme's long term continuation was weak.

The value-for-money assessment of costs for HMS are more conjectural and are based on an assumption that 50 per cent of the households assisted are able to recover financially at the end of the two year period, reflecting the scheme's focus on households experiencing a temporary loss of income. The results are sensitive to assumptions on movements in house prices, as they impact on the level of equity available from the dwellings to cover the costs of deferred interest in those cases that do not recover. However assuming no change in prices over two years the analysis shows a modest net saving to Government from HMS on a cash basis, and a substantial net saving (£19,000 per household as a 30 year net present value) on a resource basis. As such, this assessment provides no rationale for terminating HMS despite its modest scale of operation.

Conclusions and recommendations

This interim evaluation concerned the first years' operation of MRS and HMS and focused upon scheme design and the processes involved in delivery. Some early indications of outcomes for individuals and the wider market have been identified, but it is not yet possible to determine the long term effectiveness of either scheme in preventing possessions and, in the case of MRS, helping former borrowers avoid the dislocation arising from homelessness. Neither scheme has been operational nor had the delivery mechanisms embedded for a sufficient period of time, and the extent of monitoring data is as yet not sufficient to carry out a full evaluation.

To date, the direct impact of MRS and HMS on preventing possessions has been relatively modest in comparison to greater lender forbearance, low interest rates, and the SMI enhancements. However, the schemes contributed towards the maintenance of market confidence at a time when the magnitude and duration of the recession were unclear. There was wide support from partners and borrowers for MRS. Though there have been significant delays, capacity and obstacles to deliver were being overcome. Support for HMS remains muted, though most partners consider it, alongside other Government measures, to have significantly influenced the extent of lender forbearance. The permanence of present lender forbearance arrangements as the market shifts is also uncertain.

There is a case for retaining both MRS and HMS at least until housing market and economic recovery has been achieved, and the threats from any 'long tail' of debt and unemployment arising from the recession have been contained. Future rising interest rates represent a threat to borrowers currently maintaining payments or arrears arrangements and as economic recovery takes hold there will be pressures on lenders to conclude long-term arrears cases.

The longer term role for the schemes should be reassessed in the context of a more comprehensive review of the safety net for homeowners. While this is unlikely to include anything like HMS in its current form there is a stronger case for continuing with MRS, and incorporating it into homelessness prevention strategies to mitigate the adverse consequences of possession.

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