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Evaluation of the Mortgage Rescue Scheme and Homeowners Mortgage Support

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
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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 lenders[1] 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.

Chapter 1

Introduction

1.1 This report provides the interim findings from an evaluation of the Mortgage Rescue Scheme and Homeowners Mortgage Support commissioned by Communities and Local Government (CLG). These findings focus on the scheme design, implementation and early indications of any outcomes. Researchers from the Centre for Housing Policy, at the University of York, and the School of the Built Environment, at Heriot-Watt University in Edinburgh have conducted the evaluation.

1.2 The Mortgage Rescue Scheme (MRS) is a publicly funded scheme that allows vulnerable mortgage borrowers facing repossession to avoid homelessness and its social and economic costs by arranging for a housing association to either purchase their home and rent it back to them as a social housing tenant (Mortgage to Rent), or to provide an equity loan to the borrower to make their mortgage costs more sustainable (Mortgage to Shared Equity).

1.3 The Homeowners Mortgage Support (HMS) scheme provides a Government guarantee to lenders to incentivise them to provide greater forbearance for longer periods for borrowers facing a temporary income shock. It allows borrowers to enter into an interest only mortgage and pay a minimum of 30 per cent of the interest for a period up to two years. If the borrower is unable to recover their position and the case ends in possession and the lender is unable to recover the whole mortgage debt from the sale of the house, then the Government will reimburse the lender with 80 per cent of the losses arising from the deferred interest.

1.4 Both schemes, MRS and HMS, were introduced as part of the Government's response to the deepening economic recession and housing market downturn, particularly evident from 2008 onwards, with the intention to prevent repossessions and the adverse consequences for individual borrowers, and to augment market confidence. The schemes were introduced in early 2009 and the intention was for them to run for two years. Although new entrants to the schemes will be considered up to 2011, the Government will honour claims made by lenders against the HMS guarantee until 2017.

1.5 This interim report presents the findings from the early stages of scheme implementation. The objectives of this interim phase have been to:

- provide an understanding of the role and impact of the schemes in relation to the wider Government preventing repossessions programme and in relation to the changing macro-economic environment

- provide an assessment of the effectiveness and impacts of the schemes to inform improvements and decisions on their future and
- provide an assessment of the effectiveness of the schemes in achieving their objectives and impacts on social and economic outcomes (including an assessment of the overall benefits and value for money) and
- identify and provide proposals for filling any evidence and monitoring gaps needed to undertake a full evaluation

1.6 The emphasis for this initial evaluation has been the take-up of the two schemes and the operational processes involved in their delivery, in order to contextualise the early outcomes and consider the future of the schemes. Furthermore, an initial assessment of the value-for-money of the two schemes has been undertaken.

1.7 To meet these aims the evaluation has employed a multi-methods approach that included a substantial component of qualitative in-depth interviews, analysis of scheme monitoring and secondary data and a value-for-money assessment.

1.8 The report outlines the research aims and methods in Chapter 2. This is followed by an appraisal of the changing markets that prompted these policy responses in Chapter 3. The report goes on to examine the establishment of the Mortgage Rescue Scheme (Chapter 4), the implementation of the scheme (Chapter 5) and its outcomes (Chapter 6). Chapter 7 considers the inception, delivery and outcomes of the Homeowners Mortgage Support and Chapter 8 provides the value-for-money assessment. Chapter 9 concludes the report by discussing the strengths and weaknesses of the schemes in the context of the changing market conditions and the policy and operational implications of these findings.

Chapter 2

Research aims and methods

Introduction

2.1 This chapter provides an overview of the research aims and the methods employed to achieve these objectives.

Objectives of the research

2.2 The research had two broad purposes:

- to provide an initial appraisal of the operation of the two schemes and their role in preventing possessions in the current period in order to inform policy discussions about their value for money and suitability to continue and
- to evaluate the interventions against their policy ambitions and determine their overall effectiveness, including considering the direct and indirect impacts of the MRS and HMS in the light of the impact of other interventions (by lenders, Government and other parties) during this period

2.3 The overall project was established to be completed in two phases. The original brief stated that the specific objectives of the evaluation were to:

- provide an understanding of the role and impact of the schemes in relation to the wider Government preventing repossessions programme and in relation to the changing macro-economic environment
- identify and provide proposals for filling any evidence and monitoring gaps in the information needed to undertake a full evaluation
- provide an assessment of the effectiveness and impacts of the schemes to inform improvements and decisions on their future and
- provide an assessment of the effectiveness of the schemes in achieving their objectives and impacts on social and economic outcomes (including an assessment of the overall benefits and value for money)

2.4 This report presents the results of Phase One of the evaluation. The original specification provided a list of policy questions that both phases of the evaluation were to address, and these are reproduced in Appendix A.

Research methods

2.5 To address the evaluation objectives and policy questions both qualitative and quantitative data were considered. There were three distinct components to the research:

1. analysis of administrative scheme data relating to both the MRS and HMS and analysis of appropriate secondary datasets
2. a substantial programme of qualitative in-depth interviews with key parties to the policy and operation of the MRS and HMS and
3. a preliminary value for money analysis of both schemes and consideration of their overall impact

1. Analysis of administrative scheme data and secondary datasets

2.6 Four administrative datasets were analysed for the project; three in relation to MRS, and one in respect of HMS. With respect to MRS, both the local authorities and the Fast Track team provided monthly monitoring returns on progress with cases. The HCA also provided data on completed MRS cases.

2.7 The local authority monthly returns provided considerable details on the characteristics of households approaching them for advice or assistance with mortgage arrears, including the cases selected for an MRS housing options interview, and those referred to a housing association with a view to completing an MRS transaction. However the data was collected in the form of aggregate returns from local authorities rather than individual case returns, and this limited the scope for tracking progress with individual cases.

2.8 The MRS Fast Track team management database was more limited, and simply focused on case numbers and outcomes. It was, however, based on individual cases so that their progress over time could be tracked.

2.9 The Homes and Communities Agency (HCA) data related to completed MRS cases, and provided data on both the households' financial position, in terms of levels of incomes and primary and secondary mortgage debt and other unsecured debts, and property information including house price value, the MRS rent, and the levels of grant provided to each housing association.

2.10 The HMS dataset provided limited information on the cases that progressed under the scheme, including property values, incomes, monthly mortgage commitments, and the agreed level of reduced payments under HMS.

2.11 The datasets provided for both schemes related to the period January 2009 to March 2010, except for the HCA RSL monitoring returns which related to the period January 2009 to February 2010.

2.12 The analysis also made use of a wider range of economic and housing market data to track the changing market context in which the two schemes operated. This included economic and labour market data from the Office for National

Statistics, housing and mortgage market data from the Council of Mortgage Lenders, the Financial Services Authority and the Bank of England, and data on Support for Mortgage Interest from the Department for Work and Pensions. The specific sources for all individual datasets are acknowledged throughout the report.

2. Qualitative in-depth interviews

2.13 A total of 78 qualitative in-depth interviews were conducted with institutional partners, consisting of lenders and intermediary organisations, and existing and former borrowers.

2.14 The interviews gauged the perceptions of a large range of individuals and organisations involved in the decision-making and administration of the MRS and HMS, as well as the decision-making processes and experiences of borrowers who had enquired about, applied for, or been accepted on to the schemes.

2.15 The respondent samples were drawn purposively and, as qualitative research, were not designed to be statistically representative of organisations, or of households with mortgage arrears, but rather to capture a range of experiences. Nevertheless, the evidence regarding MRS suggests that the borrowers interviewed reflect the circumstances and attributes of other MRS applicants. To ensure effective access to the relevant organisations, the general approach was to discuss both HMS and MRS, where relevant, in the same interviews and in the context of other measures that also impact upon the level of mortgage arrears and possessions, such as lender forbearance, the economy and other initiatives such as the Pre-Action Protocol and enhancements to Support for Mortgage Interest (SMI).

2.16 Table 2.1 summarises the range and number of interviews completed and whether the focus of the interview was MRS, HMS, or both schemes.

Table 2.1 Summary of qualitative in-depth interviews

	HMS	MRS
Key players		
8 Key Players (policy and strategy)	✓	✓
Lenders		
7 Lenders	✓	✓
Intermediary Organisations		
1 CLG Fast Track team	-	✓
6 Local authorities	-	✓
8 Housing associations	-	✓
6 Independent advisors	✓	✓
Borrowers		
42 borrowers	10	32
Total (minimum) 78 in-depth interviews		

KEY PLAYERS

2.17 Eight in-depth telephone interviews were conducted with key players drawn from the lending, advice, housing association and Government sectors. The purpose of these interviews was to articulate the range of external contexts (e.g. economic, legal, regulatory, welfare frameworks) that affects the behaviour of lenders and borrowers and the choices they make about the schemes.

LENDERS

2.18 Seven in-depth interviews were conducted with mortgage lenders from across the market.

2.19 The selection of lenders was made to reflect lenders with different commitments to HMS, different rates of MRS activity and different market share. Lenders were drawn from 'prime' and 'sub-prime' markets, although it is acknowledged that this description is, to some extent, an artifice as several prime lenders also engaged in riskier and/or specialist lending. Sub-prime lenders were over-selected as it was understood that they are significantly over-represented in the cases that approach the MRS[2]. All lenders identified as potential interviewees had a sufficiently large loan book and/or experience of mortgage arrears and possessions to ensure experience of both schemes and alternative arrangements. These lenders also included some with Government equity stakes, some which are no longer lending, but who have a mortgage book to manage, and some mutual organisations. Most of these lenders have a large enough market share to be considered national organisations.

2.20 Four of the lenders interviewed were primarily 'prime' market lenders and three were 'sub-prime'. Four of the lenders had agreed to offer HMS; one had

[2] In November 2009, 71 per cent of referrals to the CLG MRS Fast Track team and 58 per cent of the applications to local authority MRS teams derived from these lenders, despite these particular lenders' market share representing only around 2/3 per cent of total outstanding mortgages.

a formal comparable scheme and two used routine forbearance tools. These lenders represented 51 per cent of the outstanding balances in the mortgage market and 38 per cent of the cases referred to housing associations from local authorities and the Fast Track team. It is unknown what share the four lenders who offer HMS have of the borrowers who are entered on to HMS.

2.21 These lender interviews identified the range of influences and constraints lenders faced, how HMS and MRS related to their current forbearance toolkits (and other Government or judicial responses, such as the SMI changes and protocol) and lenders' perceptions of the operation and effectiveness of the two schemes.

INTERMEDIARY ORGANISATIONS

2.22 Together with the CLG Fast Track team, local authorities, housing associations and local advisors act as delivery partners of MRS. Local advisors also offer advice for HMS cases. A total of six local authorities, eight housing associations, six local advisors and the CLG Fast Track team were interviewed.

2.23 As there are regional differences in the incidence of mortgage arrears and possessions the selection of intermediaries to interview was based on a regional split, between the North, Central and South of England. Two local authority districts were selected from each region to reflect different rates of repossession and MRS activity. Two housing associations in each of the three regions were selected from the original scheme participants (mainly Homebuy Agents) one of which covered one of the local authority areas. This was to gauge the effectiveness of the local operational relationships. In addition, these associations were able to speak about their broader experiences with other authorities. Two additional housing associations were interviewed from two of the regions to discuss the syndication process. Similarly, two local advisors were also selected from the three regions, one of which also covered one of the local authority areas.

2.24 The interviews were conducted by telephone and covered the following topics:

i) Local authorities

2.25 These interviews explored: the promotion and local awareness of the MRS; the investigation and decision making involved in the homelessness assessment; the role and contribution of advice (including in those circumstances short of entry on to MRS) in preventing possessions; the role, decision making and perceived effectiveness of the Repossession Prevention Fund; the typical borrower circumstances, and perceptions of alternative strategies pursued; the liaison arrangements and responses from lenders, housing associations, solicitors, CLG Fast Track team and borrowers.

ii) Housing associations

2.26 These interviews examined the operational process of MRS applications from referral from local authorities or the Fast Track team to completion and the management of former borrowers as tenants or shared equity homeowners. The interviews all included a discussion about the syndication process and how agents had set up local arrangements with partner associations. The two syndication associations discussed their experience of receiving properties.

iii) Independent advisors

2.27 These interviews examined how advisors assess the schemes' applicability for borrowers against alternative strategies of repayment, forbearance or (voluntary) possession. The advisors operated face-to-face and over the telephone and were accessed through two leading advice agencies.

BORROWERS

2.28 Forty-two in-depth telephone interviews were held with borrowers, 32 borrowers engaged with MRS and 10 borrowers related to HMS or comparable forbearance arrangements. These interviews were also conducted on the telephone, which was convenient for borrowers as they were frequently undertaken in the evening. Interviews lasted between 30 and 60 minutes.

i) MRS interviewees

2.29 The research aimed to ensure that households with a range of experiences of the MRS process were interviewed in order to understand the operation and take-up of this measure. Our first concern was to construct a framework for identifying and selecting households.

2.30 Households to be interviewed were drawn from the following categories:

- households approved for MRS and accepted
- households approved for MRS but who were declined by the housing association or who withdrew voluntarily
- households actively being considered for MRS but who have not to date completed and
- households who approached the local authority for assistance

2.31 The study aimed to have 32 interviews and an equal number of interviews in each category, drawn from the North, Central and South of England and the CLG Fast Track team. An opt-in method was used and the local authorities and Fast Track team were asked to dispatch letters to borrowers or former borrowers on our behalf with a project information sheet, and a form they could complete and return to us in a reply paid envelope to indicate their consent to be interviewed. A shopping voucher of £25 was offered as an incentive and was sent as a 'thank-you' to borrowers who were interviewed.

2.32 Five local authorities and the CLG Fast Track team dispatched a total of 364 invitations to borrowers or former borrowers associated with MRS to request their participation in the study. A total of 44 consent forms were received, which is a response rate of 12 per cent.

2.33 The target number of 32 interviews was achieved, but the distribution of borrowers was skewed towards those that had made formal applications for MRS. As the local authorities and Fast Track team had greater numbers of borrowers who had enquired about the MRS scheme or had pending applications than borrowers who had completed or withdrawn or been declined from MRS, so we were unable dispatch equal numbers of invitations (as initially planned). So although invitations were biased in favour of those borrowers who had only enquired, the responses were from borrowers who had applied or completed MRS. Table 2.2 illustrates the desired balance of borrowers and the actual balance of interviews conducted.

Table 2.2 Interview selection for MRS borrowers

	Desired interviews	Interviews achieved
Households approved for MRS and accepted	8	14
Households approved for MRS but who were declined by the housing association or who withdrew voluntarily	8	3
Households actively being considered for MRS but who have not to date completed	8	12
Households who approached the local authority for assistance	8	3
Total	**32**	**32**

2.34 A total of 11 borrowers were from the North of England, 12 from the Central regions and nine from the South.

2.35 The MRS interviews covered borrowers' awareness of the scheme, the borrowers' experiences of money advice and how they arrived at their decisions to give up homeownership or pursue alternative strategies, and their perceptions of the value of MRS to them and the impacts on their household. The choices or decisions borrowers made in regard to the shared equity or social renting options; their liaison arrangements with the local authority, lenders, housing associations and solicitors; and their views on the structure of the scheme in relation to the terms of the transaction and repair costs and forfeiting equity were also discussed. Finally, the impact of MRS, or their alternative pathway through the arrears processes, for themselves and other household members, and their sustainability of their new tenancy, were examined.

ii) Homeowners Mortgage Support

2.36 The study aimed to include 32 borrowers who would be potentially eligible for HMS across a range of circumstances:

- borrowers placed on HMS
- borrowers who were formally assessed for HMS but not entered on to the scheme. They may have been a) refused by their lender and/or offered an alternative forbearance measure; or b) considered HMS but declined the lender's offer
- borrowers who had been offered a comparable scheme or alternative forbearance by a non-participating lenders and
- borrowers who had been actively pursued through the courts (i.e. during January 2010 at the time of the selection, not longstanding adjourned cases or suspended possession orders) who were potentially eligible but were not offered HMS, or where any forbearance they may have been offered had failed

2.37 A total of 230 invitations to borrowers to participate in the study were sent out by three lenders (one with HMS, one that offers a comparable scheme and one that offered routine forbearance). Borrowers were asked to opt in to the study. One advice agency also asked its advisors to identify suitable borrowers. A total of 22 responses were received, a response rate of nine per cent. A total of ten interviews were conducted between March and April 2010. However, eight of the responses arrived after the start of the Government pre-election period known as "purdah" and as such, due to Government guidance, no contact could be made with these borrowers. Four borrowers had been entered on to HMS, three were on lenders' comparable schemes and three were on routine forbearance measures. Two of the borrowers associated with HMS or alternative forbearance lived in the North of England, one in the Central regions, five from the South and one from Wales.

2.38 The aim of these interviews was to examine the role HMS played, or could play, in preventing possession and helping people manage their arrears episode. These interviews considered any alternative pathways borrowers pursued if not placed on HMS, the processes involved, the barriers to entry to HMS, their motivations or reasons for not pursuing HMS (including any alternative offers from lenders) and, for those entered on to HMS, the effectiveness of the scheme in helping them manage arrears and avoid possession. In addition, it considered whether borrowers were disadvantaged by not being offered HMS.

3. Value for money assessment

2.39 The value for money assessment undertaken for this project has focused on the costs and benefits in terms of public expenditure outlays and savings. It has not directly examined the costs and/or savings to other parties.

2.40 The core of the analysis is to examine the costs arising from the operation of the two schemes, and then to compare them with the ‘counter factual’ costs that would have been likely to arise in the event that the schemes had not been in operation. The development of the alternative counter factual scenarios is a critical part of the assessment, and the results have been subject to sensitivity testing in respect of the composition of those scenarios. The formal analysis is related only to the number of cases that have completed under both schemes, and those costs or savings that can be given a robust financial value.

2.41 While the evidence on the indirect social costs arising from repossessions are considered these are not included in the formal financial evaluation. Similarly while we have explored the ‘comfort’ that the schemes may have provided to the mortgage industry and the housing market, and in particular the role of HMS in relation to the development of lenders own ‘forbearance’ policies in the management of mortgage arrears cases, again they are not included in the formal value for money assessment.

2.42 The assessment has also been undertaken within two alternative sets of accounting conventions. The first approach is a conventional public expenditure approach, based on the cash cost and savings as they enter into public sector accounts. The second approach involves the application of ‘resource accounting’ concepts, whereby for some items (particularly those involving capital assets and their use) estimates of the real resource costs are substituted for the cash flow estimates.

2.43 A full account of the methodology is provided, together with the assessment, in Chapter 8 and in Appendix C and D.

2.44 The report now goes on to examine the market context to the incidence and experience of mortgage arrears and possessions in the current period, and the policy background both as the UK entered the recession and currently.

Chapter 3

Market context

Introduction

3.1 The MRS and HMS schemes were introduced as part of a series of measures intended to mitigate the impact of the housing market and economic downturn prompted by the collapse of the wholesale mortgage markets (colloquially referred to as the ‘credit crunch’).

3.2 It very rapidly became clear that the potential threat to the housing market from mortgage arrears and possessions from this downturn was potentially as severe as that which occurred in the housing market crash at the beginning of the 1990s, albeit that there are a number of important differences in the economic and housing market characteristics of the 1991 and 2008 downturns.

3.3 This chapter sets out a brief overview of the characteristics of the 2008 downturn, and both the similarities and differences between the 1991 and 2008 economic and housing market downturns. In that context it outlines the range of Government and other initiatives introduced to mitigate the impacts of the downturn on the mortgage market, among which MRS and HMS take their place.

3.4 It concludes by tracing the trajectory and characteristics of the 2008 downturn, considers the relative importance of the range of mitigating measures, and the ways in which the market context of the MRS and HMS schemes has changed over the period since they were first conceived and introduced.

The 2008 downturn

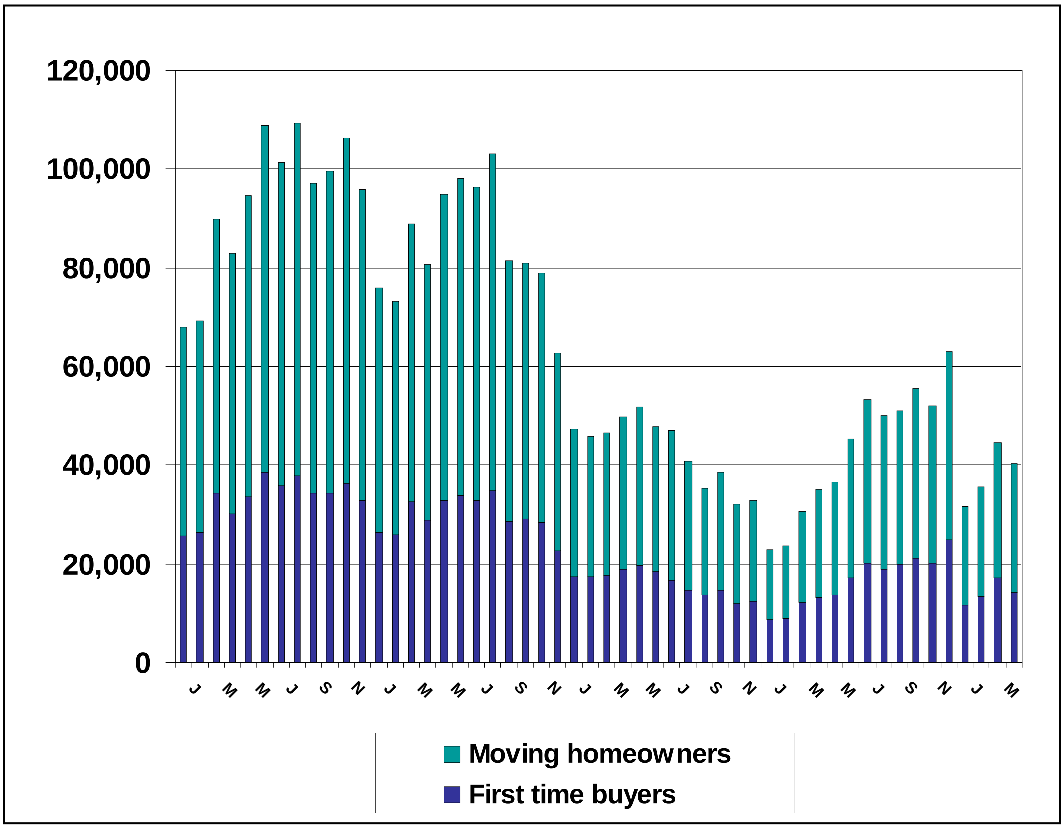
3.5 The collapse of the wholesale mortgage markets had already seen a sharp downturn in the levels of funding available for house purchase in the UK towards the end of 2007, and a sense of crisis emerged with the run on the Northern Rock in September, with savers queuing at branches up and down the country seeking to withdraw their deposits. Events unfolded swiftly, prompting Government responses that were a marked departure from the established Government policy framework towards the private financial sector. Northern Rock was taken into public ownership in February 2008, and this was followed by part of Bradford and Bingley in September (with part being transferred to Santander). In November the London Scottish Bank was placed in administration, and in March 2009 the main parts of Dunfermline Building Society were transferred to the Nationwide Building Society. Also in the first months of 2009 the Royal Bank of Scotland and Lloyds banks were brought into a Government ‘Asset Protection Scheme’ (HM Treasury, 2009).

3.6 While these events in the UK were dramatic, they were only the local expression of a worldwide financial market collapse that had its origins in the securitisation of sub-prime mortgages in the USA (Ellis, 2008). The consequential economic downturn has also been global, but with a more marked impact on the UK economy due to the particular importance of the financial sector in the UK. In 2007 the finance and business sector represented almost a quarter of the UK economy, and accounted for just over one in five of all jobs (ONS, 2009).

3.7 The sharp decline in levels of new mortgage advances towards the end of 2007 and into 2008 can be seen in Figure 3.1. In parallel with the decline in new purchases was a sharp fall in house prices; with prices in England falling by 15 per cent between January 2008 and March 2009 (Figure 3.2). While significant, this fall only reversed prices to the levels achieved in the first quarter of 2006; and they remained more than 50 per cent higher than at the beginning of 2002. By early 2010 they had recovered to a level just 6 per cent lower than at the beginning of 2008.

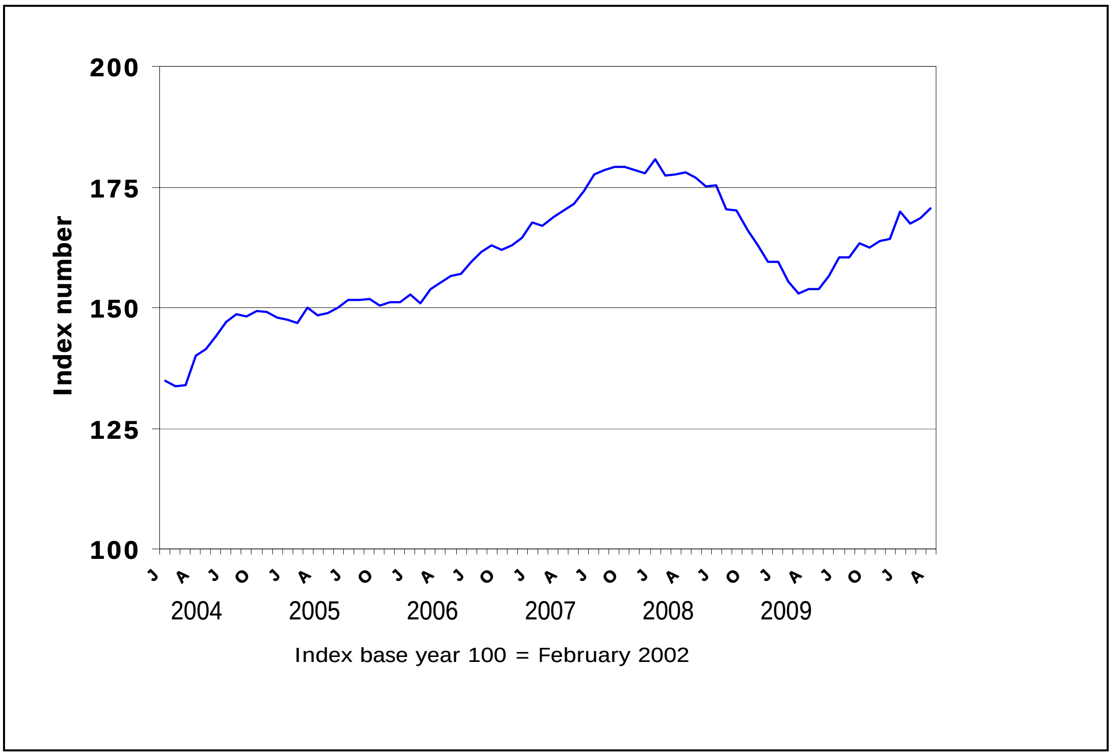
3.8 This nonetheless was sufficient to move large numbers of post 2006 purchasers into negative equity, given the high proportion of first time buyers in that period with only limited (or no) deposits. Issues of negative equity were even more severe for the small numbers of buyers who started out with 100 per cent plus mortgages; and in areas where house prices fell particularly sharply. Even by the end of 2008 the Council of Mortgage Lenders (CML) estimated that some 900,000 home buyers in England were in negative equity (Tatch, 2009). Thereafter house prices fell a further 4 per cent in the next quarter before beginning to recover. The CML data thus imply that levels of negative equity peaked at around 1.3 million before easing back below 900,000 by the summer of 2009.

Figure 3.1 Mortgage advances for house purchase



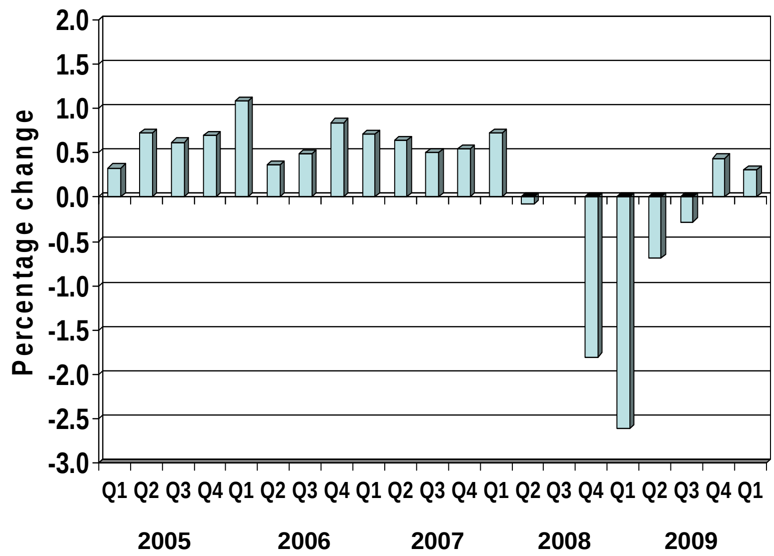
Source: Council of Mortgage Lenders

Figure 3.2 English house prices fall 15 per cent from peak



Source: CLG mix adjusted house price index

Figure 3.3 GDP falls in 2008



Quarterly changes in real Gross Domestic Product

Source: Economic and Labour Market Review, ONS

3.9 The mortgage market collapse also triggered a sharp downturn in new house building, and a more general economic downturn (Figure 3.3). Gross Domestic Product (GDP) fell sharply in the second half of 2008 and the first quarter of 2009, and only in the last quarter of 2009 were there signs of a very modest recovery; but by the first quarter of 2010 GDP was 5 per cent lower, in real terms, than in the first quarter of 2008.

3.10 The housing market and wider economic downturn raised fears of a sharp rise in both levels of unemployment and housing market repossessions; with the CML anticipating that repossession levels in 2009 could return to the 75,000 a year level experienced at the peak of the housing market downturn in 1991.

3.11 Such a rise in repossession levels would be problematic in its own right for the households concerned, but also would have had wider negative economic and housing market impacts. Not only would it have further undermined consumer and housing market confidence, the forced sales of repossessed dwellings would potentially further depress house prices and hinder housing market recovery.

3.12 Those fears prompted a range of Government initiatives to support the economy and employment, and in particular to support the mortgage market and minimise levels of repossessions. The MRS and HMS schemes were two of the initiatives introduced by Government with the specific objective of minimising repossession levels.

3.13 However, before outlining the range of Government housing market initiatives introduced, alongside MRS and HMS, attention should first be drawn to a number of important differences in the housing market and policy context in 2007 compared to that prevailing in 1991:

- in 1991 Bank Rates were set by the Chancellor of the Exchequer; in 2007 they were set by the Bank of England
- in 1991 Support for Mortgage Interest (then ISMI, now SMI) was paid to unemployed homeowners based on actual interest, from the point their benefit claim commenced (but only 50 per cent was covered for the first six months)
- in 2007 SMI was paid to unemployed homeowners based on a standard interest rate, and only from 9 months after their benefit claim started
- in 1991 average mortgage interest rates for new mortgages were 11.4 per cent; in 2007 they were 5.5 per cent (Wilcox, 2009)
- in 1991 the mortgage market was not regulated; in 2007 it was subject to regulation by the Financial Services Authority
- since 1991 there has been the development of a distinctive 'sub-prime' sector of the mortgage market in the UK

3.14 In this context the full range of housing market measures introduced by Government, as well as by the Bank of England and the Financial Services Authority (FSA), are summarised in Table 3.1, in the chronological order in which they were introduced. Not included in this schedule are the measures specifically directed at supporting levels of new house building in the private and social sectors, or to support new lending in the mortgage market. Here the focus is on those measures of direct relevance to the capacity of existing homeowners to remain in their homes through the economic downturn.

Table 3.1 Housing market measures

Date of measure	Key characteristics of measure
December 2007	Bank of England reduces Base Rate to 5.5 per cent; and in the months to April 2008 in further steps to 5.0 per cent.
May 2008	£9m additional funding for debt advice announced; introduced in June 2009.
October 2008	Bank of England reduces Base Rate to 4.5 per cent; and in the months to March 2009 in further steps to 0.5 per cent.
November 2008	Civil Justice Council introduce the Mortgage Pre-Action Protocol. Requires evidence that lenders have sought alternative resolution before seeking possession order.
January 2009	SMI reforms. Waiting time dropped to 13 weeks; capital limit increased to £200,000; standard interest rate frozen at 6.08per cent until October 2010, 3.67 per cent thereafter.
January 2009	Launch of MRS
February 2009	Commencement of CLG Communications and Publicity Campaign
April 2009	Launch of HMS
May 2009	£20m Repossessions Prevention Fund announced. Provides loans of up to £5,000 for households.
August 2009	*Homelessness Code of Guidance for Local Authorities*; supplementary guidance on treatment of mortgage repossession cases issued.
October 2009	FSA publishes outline proposals to strengthen its regulation of lenders arrears and regulation activities. Consultation concludes end April 2010.
December 2009	£4m extra funding for debt advice agencies and 80 court desks

3.15 While a detailed assessment of the impact of each of these initiatives is beyond the scope of this paper, some further elaboration is appropriate, particularly in terms of the changes in base rate and the SMI reforms.

Changes in the Bank of England base rate

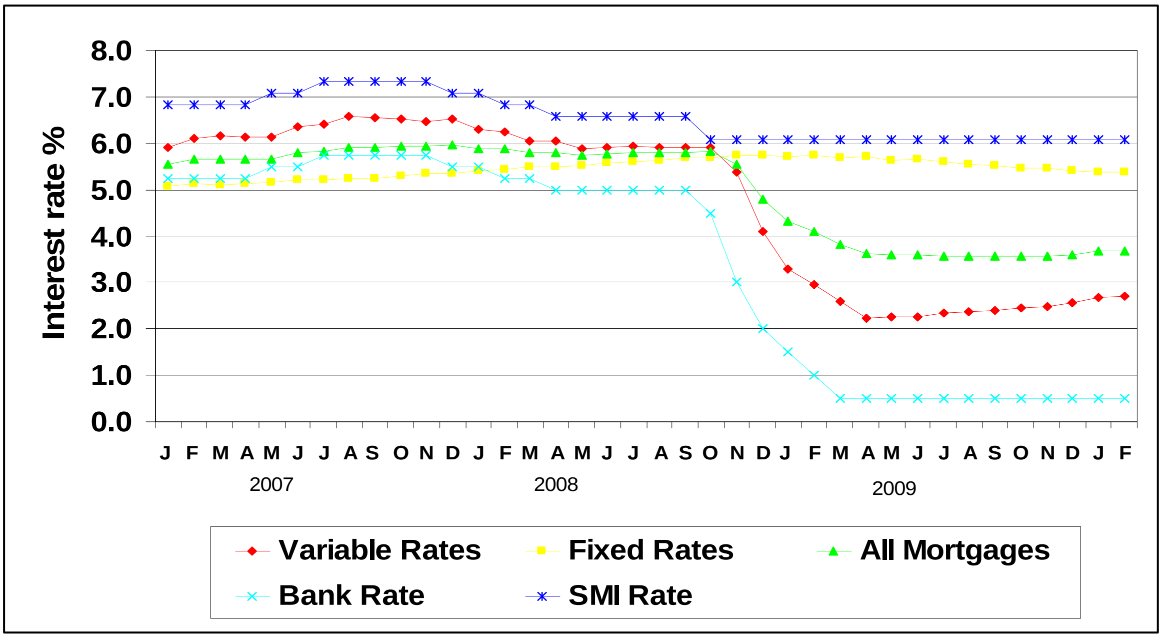
3.16 The changes to the Bank of England base rate, and in particular the sharp reductions in the months between October 2008 and 2009, were intended to stimulate the economy as a whole, rather than being specifically directed at assisting existing homeowners with their mortgage payments.

3.17 They have, however, had a significant impact in reducing mortgage costs, especially for those homeowners with variable interest rates that are contractually linked to base rates. However those direct contractual arrangements apply only to some variable interest rate mortgages and not at all to fixed rate mortgages. For those on fixed rate mortgages the potential benefits of lower interest rates only arise at the end of the term set for their fixed rate.

3.18 More generally, other than where they were contractually committed, lenders have not reduced their mortgage rates fully in line with base rates. While the full reasons for the more limited reductions in mortgage rates are complex, and beyond the scope of this report, the central point is that the sharp reduction in the base rate has not been matched by a similar fall in lenders costs.

3.19 Nonetheless while the margins between the base rate and mortgage rates have increased, overall average mortgage rates for outstanding mortgages have still fallen sharply from 2008 levels, as can be seen in Figure 3.4.

Figure 3.4 Mortgage interest and SMI rates



Source: Bank of England

3.20 Average variable rates dropped from 5.9 per cent in October 2008 to just 2.2 per cent in April 2009, before easing up to 2.7 per cent in February 2010. That upward easing reflects those mortgages that have moved from a 'tracker' rate to a discretionary standard variable rate as the contractual period for the tracker has come to an end.

3.21 In contrast, since October 2008 there has only been a very modest easing in average fixed rates, from 5.7 per cent to 5.4 per cent in February 2010. While taken together this has seen average rates for all outstanding mortgages fall from 5.8 per cent to 3.7 per cent, at the same time a large gap has opened up between the averages for variable and fixed rate mortgages.

3.22 Fixed mortgage rates also now dominate the market. While in 2002 they only accounted for 24 per cent of all new mortgage advances, this rose to 61per cent in 2005 and 73 per cent in 2007, before easing back to 67 per cent in 2009.

Support for Mortgage Interest

3.23 Figure 3.4 also shows the impact of the decision by Government to freeze the standard interest rate for SMI payments at 6.08 per cent, rather than permit it to follow the reduction in base rates (the previous policy had been to set the standard rate at 1.58 per cent above base rate).

3.24 The figure also shows that typically borrowers with variable mortgages are now likely to receive payments that are considerably in excess of their mortgage interest commitments. Indeed in some cases the SMI payments, although nominally related to mortgage interest only, will actually exceed a households total repayment commitments, including the capital repayment element.

3.25 This is, however, the average case, and in practice there are marked variations in the actual rates paid, both for variable and fixed rate mortgages. It is also notable that the margin between average fixed rates and the SMI rate has been very limited since October 2008, when compared with the preceding period.

3.26 Moreover while SMI is, in principle, intended to cover only interest payments in the context of low inflation and low interest rates, the interest component of total mortgage repayments is now typically lower than was the case in 1991 when average interest rates were 11.4 per cent. With interest rates at 11.4 per cent the interest accounts for 86 per cent of total payments on a standard 25-year repayment mortgage. With interest rates at 3.7 per cent the interest accounts for just 70 per cent of total repayments. In other words the capital element of mortgage repayments, which are not in principle covered by SMI, is now far higher than was the case in the last housing market downturn.

3.27 The other major change to the SMI rules was the relaxation of the period of delay before working-age benefit customer homeowners qualify for SMI, from nine months to just 13 weeks. The nine-month period of delay was introduced for all new mortgages in 1995, as part of a policy framework intended to promote the take-up of private sector ‘mortgage payment protection insurance’ (MPPI) policies by homeowners. In practice MPPI take-up never reached hoped-for levels, although by 2003 they were in force for 24 per cent of all mortgages. But thereafter the policies fell into disrepute and were subject to critical reports by both the Office of Fair Trading and the Financial Services Authority, and by 2008 the take-up rate had fallen back to just 17 per cent.

3.28 Alongside the increase in the maximum eligible mortgage for SMI, to generally £200,000, it should also be noted that the reforms also put a two-year time limit on the period that SMI can be received by new income-based Job Seekers Allowance customers who made claims after January 2009.

3.29 Ahead of the SMI reforms the independent view (Stephens *et al.* 2008) was that the combination of the period of delay before SMI eligibility was achieved, and the low level of MPPI take-up, meant that homeowners were more exposed to risks than was the case in the 1991 downturn.

3.30 While the SMI reforms have gone a long way to restore the balance the new 13-week period of delay, and the larger capital element within total mortgages still place a greater reliance on lender ‘forbearance’ to manage repayment shortfalls, that is only unevenly covered by the difference between the standard 6.08 per cent SMI interest rate and actual interest rates.

3.31 The reduction of the standard SMI rate to the average mortgage interest rate identified by the Bank of England from October 2010 will further increase the pressures on lender forbearance, particularly for households with fixed rate mortgages.

The Mortgage Pre-Action Protocol

3.32 The Mortgage Pre-Action Protocol was introduced in November 2009 by the Civil Justice Council and approved by the Master of the Rolls. It was primarily a procedural change intended to ensure that cases were properly prepared before arriving in court. They require lenders to document the alternative options they have pursued with borrowers with arrears before taking a possession action.

3.33 While the protocol has reinforced the notion that repossession should be a ‘last resort’ it did not include any specification of the ‘alternative options’ that lenders should consider ahead of the last resort. In that sense its approach was similar to the FSA guidance on lenders’ handling of mortgage arrears and possession actions introduced in 2004 (FSA, 2004). While the FSA has now proposed toughening its stance, and upgrading its advisory guidance to a regulatory requirement, that remains an option for the future, rather than a policy in operation during the current period.

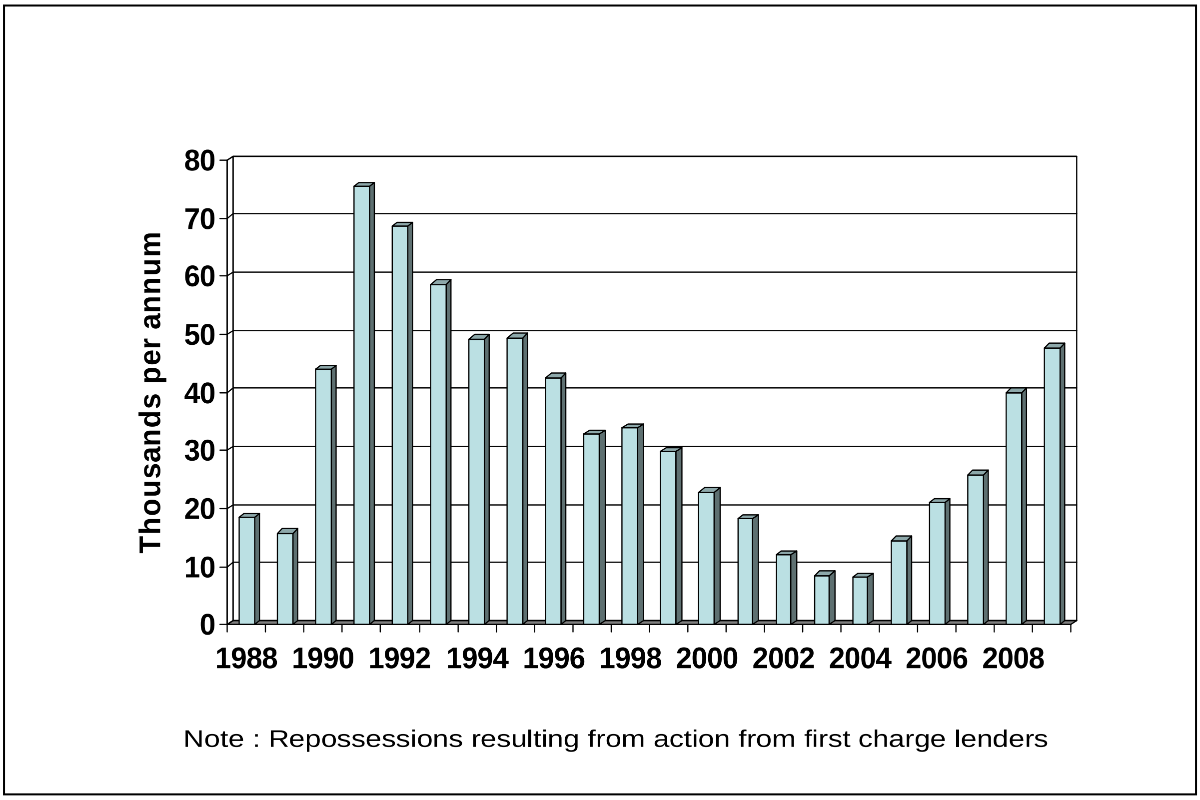
3.34 If the Pre-Action Protocol was essentially procedural it nonetheless had the potential to contribute towards a more substantive impact on lender behaviour. In the short term it also had an impact in reducing court actions as lenders adapted their administrative processes to meet the procedural requirements of the protocol.

Rise in repossessions contained

3.35 It is now a matter of record that the increase in repossession levels has been far less marked than was initially feared. The outturn level of mortgage repossessions reported by the CML in 2009 was 47,700, compared to its initial forecast of 75,000. However the CML figures do not include possessions resulting from actions by second charge holders. The FSA figure for 2009, including possessions by second charge holders, was 54,055.

3.36 However, it should also be noted that part of the increase in repossession levels shown in the CML figures for 2009 reflects a change in methodology. In previous years the figures were representative of CML members, who account for some 92 per cent of the total mortgage market. From 2009 the data has been grossed up to represent the total mortgage market.

Figure 3.5 Rise in repossessions contained



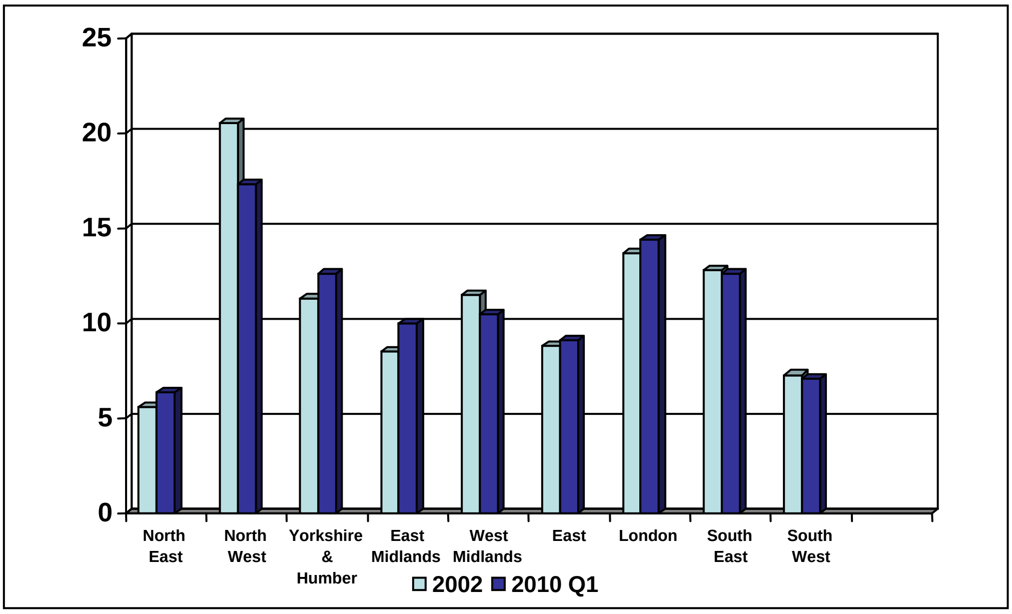
Source: Council of Mortgage Lenders

3.37 While the recent sharp rise in levels of non-mortgage debt suggests that possession actions by second charge lenders were far less significant in 1991, nonetheless total repossessions in 2009 have clearly been contained some considerable way below 1991 levels, as well as the level forecast by the CML. It should also be noted that repossession levels have been rising since 2004, and this trend preceded the 2008 housing market downturn.

3.38 It should further be noted that court orders for possession are not evenly distributed around England, and that distribution changes somewhat over time. Figure 3.6 shows the regional distribution of court orders made (including suspended orders) in 2002, and in the first quarter of 2010.

3.39 The high proportion of court orders in the North West at both times is quite striking; and this exceeds the proportion of owner-occupied dwellings in the North West (14 per cent in 2007). In contrast, the proportion of court orders in the southern regions of England are all somewhat below the regional share of owner-occupied dwellings in England.

Figure 3.6 Regional distribution of court orders for possession



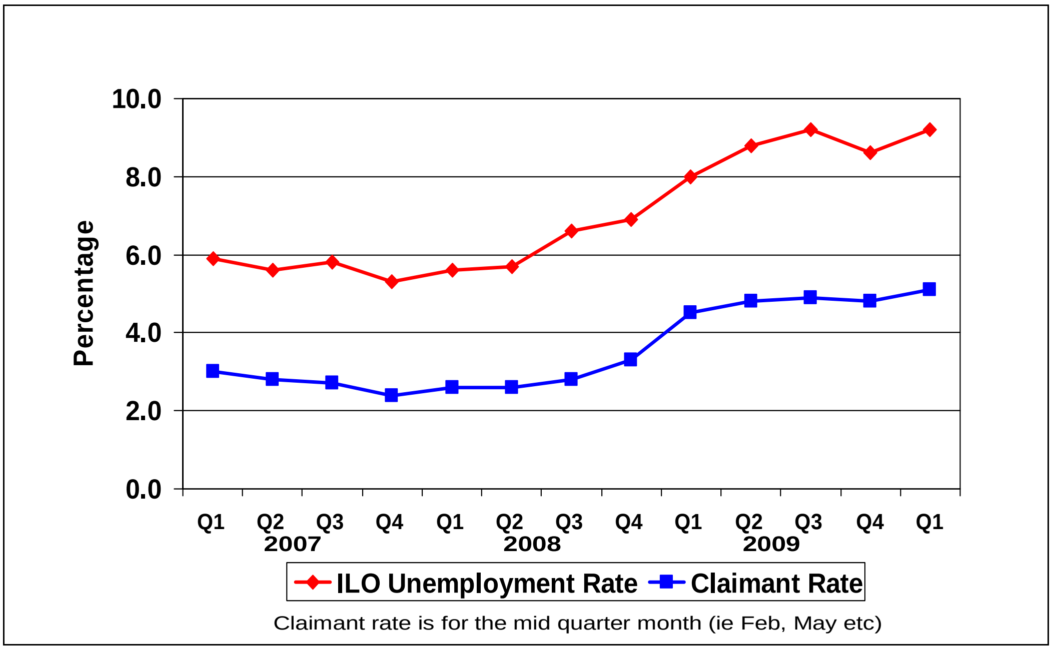
Source: Ministry of Justice Statistics

3.40 While the direct impact of the HMS and MRS schemes will have numerically made a small contribution towards the containment of possession levels clearly the major explanations for the limited rise in repossession levels lies elsewhere. In part this relates to other Government and industry policy initiatives, but also in part it relates to the relative severity of the 2008 downturn compared to that in 1991.

3.41 As seen above estimates of the numbers of homeowners in negative equity suggest that it peaked at around 1.3 million in the spring of 2009. In contrast levels of negative equity reached some 1.8 million in the fourth quarter of 1992, and even three years later was still estimated at 1.2 million (Wilcox, 1995). Negative equity has a strong influence on repossession levels as it limits the ability of homeowners in financial difficulties to make a voluntary exit from the sector without this involving lender repossession.

3.42 The rise in unemployment levels have also, to date, been less severe than anticipated (Figure 3.7). Nonetheless the claimant count rose from 780,000 in March 2008 to a peak of 1,628,000 in October 2009, before easing back to 1,544,000 in March 2010 (ONS, 2010). Comparisons with 1991 must be treated with caution due to intervening changes in benefit rules and structures, but in the last downturn they rose from 1,648,000 in 1990 to 2,877,000 in 1993. This suggests that, while this time round the numerical increase in claimant unemployment has so far been less severe, the proportional increase has been more pronounced.

Figure 3.7 Rise in ILO and claimant unemployment rates



3.43 However while unemployment levels are now forecast to ease back in 2010 (Office for Budget Responsibility, 2010), at the time of writing there is particular uncertainty about the prospects for public sector employment.

3.44 It is also notable that between November 2008 and August 2009 the numbers of unemployed homeowners receiving Job Seekers Allowance (JSA) and SMI rose from 8,000 to 26,100 – a 326 per cent increase. Over the same period there was just a 43 per cent rise in total numbers of JSA claimants. This is a clear indication of the impact of the SMI reforms shortening the period of delay before unemployed homeowners are eligible for SMI. Nonetheless JSA recipients remain a small minority of total SMI claimants. In August 2009 the total was 221,000, of which 78,700 were in receipt of Income Support, and 116,200 were in receipt of Pension Credit.

3.45 While the importance of the SMI reforms must be acknowledged, the evidence from the last downturn was that households in receipt of what was then ISMI, comprised only one in five of all homeowner households in mortgage arrears, and that four-fifths were not in receipt of out-of-work welfare benefits. The greater proportion of arrears cases related to households that had encountered a significant worsening of their financial capacity, either as a result of relationship breakdown or a loss of earned income, rather than household unemployment.

3.46 A high proportion of home buyers are dual earner households, and in their case the loss of employment by only one partner does not trigger eligibility for SMI. This is just one of the scenarios under which households can suffer a sharp drop in earnings levels. In addition the economic downturn will for some households have resulted in reductions in levels of overtime and bonus payments, while for others it will have involved the loss of a well paid job followed by a move into a less well paid job. The changing circumstances of working households through the downturn are thus also important.

3.47 There has also been a small rise in the proportion of part-time workers over the decades; and this rise has been accelerated through the course of the current downturn. In 1992 part-time workers comprised 23.5 per cent of all those in employment; by the last quarter of 2007 the proportion had increased to 25.4 per cent, and two years later it had increased to 26.6 per cent (ONS, 2010). This rise was a result of both a fall in the numbers of full-time jobs, and a rise in the numbers of part-time jobs.

3.48 There have been anecdotal reports of the significance of 'flexible working' and reduced hours as factors in containing unemployment levels over the last two years. While the data show a small reduction in average hours worked over the period of the downturn, and this was most marked in the summer of 2009, overall this has had rather less of an impact on total hours worked than the switch in the proportions of full-time and part-time jobs (see Table 3.2)

Table 3.2 Average hours worked by full- and part-time workers

Period	Full-time	Part-time	All workers
June – August 2007	37.3	15.6	32.2
June – August 2008	37.3	15.7	32.1
June – August 2009	36.4	15.3	31.3
December – February 2010	37.1	15.5	31.7

Source: Labour Market Statistics

3.49 It is also notable that over the two year period of 2007 and 2008 the rise in median earnings was slightly less than inflation (as measured by the RPI), so that in real terms earnings fell (Table 3.3). The real terms fall in earnings was slightly greater in respect of part-time jobs. Against that, median earned incomes rose in real terms in 2009, in the context of negative inflation (-0.5 per cent), or deflation. In contrast in 2009 it was the case that part-time earnings grew more rapidly.

Table 3.3 Annual changes in earnings for full- and part-time workers

Year	Full-time	Part-time	RPI
2007	3.2	3.5	4.3
2008	4.7	3.5	4.0
2009	2.0	4.4	-0.5

Source: ASHE; Office for National Statistics

3.50 The earnings data also show a sharp reduction in levels of median overtime pay in 2009. In 2009 overtime accounted for just 2.8 per cent of median earnings for all those in employment (not just those in receipt of overtime), compared to 3.4 per cent in the three preceding years. This implies a far greater reduction for those workers in receipt (or no longer in receipt) of overtime payments.

3.51 For households facing a loss of earnings the availability of in-work means-tested financial assistance is important, particularly for those with lower earnings. For childless couples tax credits are available where gross earnings fall below £340 per week. For families with one child tax credits (excluding the limited family element of child tax credits) are available where gross earnings fall below £450 per week, and for families with two children, tax credits are available where gross earnings fall below £550 per week. In those cases working and child tax credits thus provide a potential ‘cushion’ against loss of earnings, and for families with children the take-up rate for tax credits is now quite high.

3.52 Tax credits are more significant now than the equivalent support provided by the Family Credit scheme during the last housing market downturn, both because tax credits are now available for working households without children, but also because alongside the structural reforms, tax credits now provide a substantially greater level of support than hitherto.

Lender forbearance

3.53 One of the critical lessons from the last housing market downturn was the importance of lender ‘forbearance’ in containing levels of repossessions (Wilcox and Williams, 1996). Forbearance is the broad term used to note restraint by lenders in their management of mortgage arrears, and their willingness to defer repossession action and provide homeowners in financial difficulty with some flexibility in restructuring and/or recovering their mortgage position.

3.54 A recent report for Shelter suggested that there has been a cultural shift among lenders in developing forbearance policies, and this can be linked to the FSA regulatory regime introduced in 2004, and more recently to the introduction of the Pre-Action Protocol and HMS (Ford and Wallace, 2009). However it can also be linked to housing market conditions, and lender recognition of the potential damage that high levels of repossessions might pose to housing market recovery. This in turn raises questions about whether forbearance measures would be maintained in a period of housing market recovery.

3.55 One of the results of mortgage market regulation is that the FSA now provides data on the numbers of forbearance ‘arrangements’ entered into by mortgage lenders, and these are shown in Table 3.4. As can be seen, by the last quarter of 2009 35 per cent of all mortgage arrears cases were subject either to a ‘formal arrangement’, under which arrears are agreed to be repaid over a fixed period, or a ‘temporary concession’, under which it is agreed that a borrower may pay less than their contractual monthly payment for a period of time.

3.56 In this table the FSA defines mortgage arrears as those cases where the arrears represent more than 1.5 per cent of the total balance outstanding on the mortgage. It should also be noted that despite the substantial increase in the number of forbearance arrangement possessions as a proportion of mortgage arrears cases also rose over the period, from 2.5 per cent in the first quarter of 2007 to 3.7 per cent in the first quarter of 2009, before easing back to 3.1 per cent in the last quarter of 2009.

Table 3.4 Lender forbearance arrangements in mortgage arrears cases

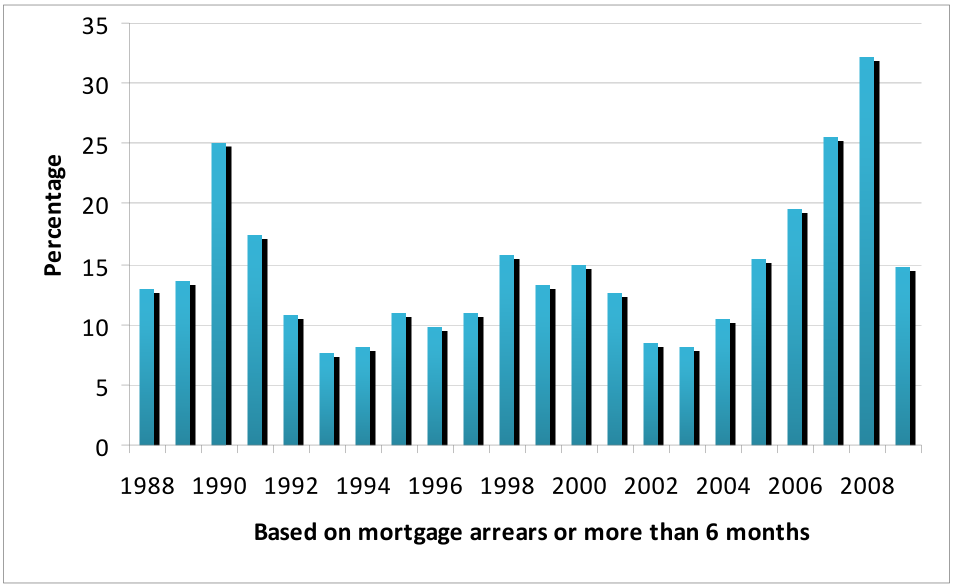
Period	Arrears cases		Formal arrangements		Temporary concessions	
	000's	% of Loans	Number	% of Arrears	Number	% of Arrears
2007						
Q1	259	1.72	52,820	20	11,331	4
Q2	267	1.73	51,517	19	13,496	5
Q3	274	1.77	53,923	20	12,859	5
Q4	289	1.86	55.346	19	12,800	4
2008						
Q1	300	1.92	58,404	19	13,233	4
Q2	310	1.98	64,884	21	13,021	4
Q3	341	2.18	73,871	22	13,895	4
Q4	377	2.42	80,593	21	16,936	4
2009						
Q1	399	2.61	97,752	24	18,128	5
Q2	402	2.63	112,087	28	23,704	6
Q3	394	2.56	108,766	29	24,397	6
Q4	378	2.45	109,713	29	21,014	6

Source: Financial Services Authority

3.57 A longer-term measure of forbearance is provided by comparing repossessions as a proportion of mortgage arrears over time. This is shown in Figure 3.8, based on CML arrears and possession figures. In order for this comparison to stretch back to 1990 arrears are defined here as being more than six months repayments. This is a more serious level of arrears than the FSA measure shown in Table 3.4, and the repossessions as a proportion of mortgage arrears cases are thus consistently higher. The proportions shown in Figure 3.8 are also based on a six-month lag i.e. repossession numbers in the second half of each year compared to arrears figures for the first half of the year.

3.58 On this measure it can be argued that lenders exercised less forbearance in the years to 2008 than was the case in the last downturn, but that subsequently there has been a sharp upturn in forbearance activity with the repossession to arrears ratio falling from 32 per cent in 2008 to 14 per cent in 2009. In the last downturn the ratio peaked at 25 per cent in 1990 before falling back to 18 per cent in 1991 and 11 per cent in 1992.

Figure 3.8 Repossessions as a percentage of mortgage arrears cases



3.59 While this does show the importance of forbearance in helping to contain repossession levels in 2009 it should also be noted that the administrative delays resulting from the introduction of the Pre-Action Protocol in November 2008 also played a small part in reducing repossession levels in the last quarter of the year.

Summary

3.60 There are both similarities and differences between the 2008 and 1991 housing market downturns. MRS and HMS have been introduced alongside a range of other measures designed to mitigate the impact of the downturn on levels of homeowner repossessions.

3.61 The current downturn and its characteristics continue to evolve and although we have returned to a small level of economic growth over the last two quarters there is considerable uncertainty ahead and unemployment is forecast to rise before falling back again.

3.62 A combination of Government and industry initiatives appear to have together contained levels of repossession in 2009. MRS and HMS have had a direct and indirect role within those initiatives, and the extent and characteristics of their contribution are examined in the following chapters.

Chapter 4

Meeting a need? Establishing a mortgage rescue scheme

Introduction

4.1 This chapter outlines the research participants’ views of the role mortgage rescue can play in supporting vulnerable households; how the funding and delivery of the MRS are structured and whether the demand and targeting of the scheme has been determined appropriately.

The rationale for Mortgage Rescue

4.2 This section examines the rationale for the MRS from the point of view of the research participants. However, to situate the discussion, this section begins by reviewing the evidence on the tenure destinations of homeowners after possession and considers the proportion of homeless acceptances who are former homeowners.

Tenure destinations of households who experience possession

4.3 Ford *et al.* (1995), in a study based on a representative sample of borrowers in arrears and experiencing possession, found that 34 per cent of owners went immediately on possession into social housing, compared to 33 per cent who went into the private rented sector. There has been a significant shift in the size and quality of the private rented sector since the last housing market recession of the early 1990s and so the initial tenure destinations of former borrowers may have changed. More recent data from the Survey of English Housing record the current tenure of all households where at least one member has, at some time, experienced repossession (Table 4.1).

Table 4.1 Current tenure by households who left their home due to mortgage arrears

	Households who left their home	
	Voluntary Possession (%)	Compulsory Possession (%)
Own outright	8	4
Mortgagors and shared ownership	30	24
Social rented	35	49
Private rented	28	24
Total	100	100

Source: *Analysis of three-year Survey of English Housing data, 2005/06 to 2007/08* (Rhodes and Ford, 2010)

4.4 However, these data are for all households who experience possession, not just those in priority need, and do not record the immediate tenure destination, only the households' current tenure (see Chapter 8 and Appendix C for further discussion). Nevertheless, the table shows that almost half of households who experienced compulsory possession are currently in the social rented sector, as are just over a third of those that handed the keys to the lender. Around one quarter of repossessed households used the private rented sector and a similar proportion had been able to re-enter homeownership at some point.

4.5 Homelessness and social housing data show that repossessed homeowners were accepted as homeless and/or allocated social housing prior to the introduction of MRS. Homelessness data (P1E returns) for 2008-09 show that in 2,395 cases the reason for the loss of the last settled home of households accepted as owed the main homelessness duty was mortgage arrears, representing 4.5 per cent of total acceptances. This compares with 1.5 per cent of acceptances where the reason for the loss was private rented sector rent arrears (Wilcox and Fitzpatrick, forthcoming). Furthermore, CORE data for England show that during 2008-09 2606 households, or one per cent, of new tenants of general needs social housing (both of local authorities and housing associations) had formerly been homeowners and considered the main reason they left their last settled home was because of issues related to financial pressures (relationship breakdown[3], inability to afford the mortgage or because of possession). Of these 2,606 former homeowners, 69 per cent had not been accepted as homeless. If correct, these data suggest that financial pressures on homeowners have created demand for social housing but not placed pressure on the homelessness legislation.

4.6 During the period April 2008 to March 2009 there were a total of 44,200 possessions due to mortgage arrears (CML Statistics Table AP4). However, it is unclear what proportion of the households that experienced possession during this period would have had a priority need for accommodation under

[3] The inability of the one partner to sustain the mortgage costs alone following relationship breakdown is a key source of mortgage arrears, alongside unemployment and illness (Gall, 2009).

the homelessness legislation. Therefore, the data do suggest that a significant proportion of former borrowers are finding housing solutions elsewhere, possibly in the private rented sector, but that it is likely that vulnerable households, likely to be accepted as owed the main homelessness duty, would seek support from local authorities.

Motivations for establishing a mortgage rescue scheme

4.7 Several key players reported that the idea of reprising the mortgage rescue schemes of the 1990s had been mooted in advance of the Government's involvement in 2008. This meant that there was significant institutional support for a Government Mortgage Rescue Scheme at the outset. The overarching rationale for the support for the scheme was to:

- avoid households becoming homeless and limit demand from those looking for alternative accommodation in the social housing sector
- provide secure and sustainable housing that exceeds options available in the private rented sector and
- alleviate the economic and social costs of possession for borrowers and lenders

4.8 There were other motivations for institutional involvement in the mortgage rescue scheme, that included the commercial interests of lenders, but overall there was a convergence of interests that meant there was widespread support for the initiative. Only one advisor thought the scheme ill considered as it did not sustain homeownership, but all other participants recognised that there were borrowers who can no longer maintain their contractual mortgage payments and have few prospects of being able to do so in the future and for whom a supported exit from the tenure was the best option. The various motivations are outlined in Table 4.2.

Table 4.2 Motivation for engagement with the MRS

Local authorities	• less expensive than accepting households as homeless and allocating them social housing • aligns with homelessness prevention agenda as contact with borrowers can provide opportunity to give advice about forbearance and debt to enable households to remain in home • helps retain households in community
Housing associations	• generous subsidies to purchase properties and improve them to Decent Homes Standard • provides income stream over long term • increases housing portfolio on which future loans can be raised • accords with social business plans • HCA priority

Lenders	• avoids the cost of taking property into possession, securing and maintaining property, legal costs of sale • attracts market value rather than distressed sale price that repossessed properties receive so less risk of or minimises potential shortfall debt if in negative equity • avoids greater losses arising from negative equity if property taken into possession
Advisors	• gives opportunity to provide housing and debt/money advice to households • provides a trusted landlord and three year tenancy agreement at a reasonable below market value rent in preference to private rented sector
Borrowers	• prevents household becoming homeless, avoiding subsequent uncertainty regarding alternative accommodation with regard to location, property, timescales and security • provides a buyer in a depressed housing market • sale at market value rather than distressed sale, minimising shortfall or overhang debt if in negative equity for which borrower would still be responsible • provides relief from the uncertainty and stress of debt(s) • allows household to remain in their home, in their community with continuity of schools and neighbourhood and family support • provides a trusted landlord and three-year tenancy agreement at a reasonable below market value rent

4.9 Table 4.2 indicates that financial reasons were important motivating factors, whether making the best use of resources, saving money or limiting losses. Social factors had less weight but were important to some groups.

Avoiding homelessness and social housing applications

4.10 Monk and Whitehead (2010) consider the safest place for vulnerable households to be in a recession is within social housing, as the tenancy is more secure, housing benefit is more likely to cover the rent than local housing allowance and the rents are more affordable. However, the social rented sector is heavily over-subscribed. Institutional participants overwhelmingly viewed the dominant role of MRS as diverting additional demand from struggling homeowners for homelessness services, temporary accommodation and social housing, towards an alternative safe and affordable housing option:

> *"Homelessness is very expensive for households and local authorities, not just monetary*, [but] *with the effects on families moving it's detrimental and the cost of services that are put in place to support them can be considerable. MRS would compare favourably."* (Local authority representative)

Avoiding use of the private rented sector

4.11 Advisors, and occasionally borrowers, interviewed in this study, often viewed vulnerable households exiting homeownership to the private rented sector as a risky strategy in comparison to MRS.

4.12 Advisors and borrowers valued the intermediate market rent, three-year tenancy and the trusted landlord offered by MRS, over the rents and tenancies available in the private rented sector. Five borrowers interviewed in relation to MRS had tried and failed to sell their home and had considered moving to the private rented sector, although this was occasionally a constrained choice as social housing was considered to be difficult to access and there were concerns about high private sector rents. One former borrower had sold her house due to delays in her MRS application but found the private sector rent unaffordable. (Two borrowers had expressed a preference for social renting should their MRS application have failed):

> *"I would be concerned if they went into the private rented sector. I would be worried for them, as six months after they are vulnerable to having the tenancy end at any time."* (Advisor)

> *"I've not put it on the market yet, I would sell that way,* [but] *wherever we'd be paying the same as the mortgage. I've been looking them up. One at the bottom of the road is £725 per month, more than the mortgage. Even flats are £600 per month."* (Borrower considering MRS)

4.13 A number of participants - borrowers, housing associations and advisors - also saw mortgage rescue as a positive alternative to the private sale and rent back schemes, highlighted as problematic by the Office of Fair Trading (OFT, 2008). One borrower said remaining in the home was important to him and if MRS had been unsuccessful, he would have opted for a private sale and rent back scheme. However, three borrowers had decided against pursuing these private options because the sale would be undertaken significantly below market value:

> *"You hear all bad stories of them being sold for £30/40/50,000 under value and it doesn't cover the mortgage and you're still liable for the debt."* (MRS household).

Averting social and economic costs of possession

4.14 Previous studies have highlighted the social and economic costs of repossession (Nettleton *et al*, 1999; Stephens, 1996). These studies describe the impacts on individual borrowers and their children as they suffer stigma, ill-health, difficult personal relationships, poverty and disrupted outcomes, as well as the financial exposure and loss of reputation for lenders (see Chapter 8 for a further discussion of these issues). The interviews with borrowers, lenders and other intermediaries confirmed concerns about these outcomes and suggested that MRS had a role to play in alleviating these adverse impacts.

4.15 Borrowers feared the disruption homelessness would cause for their children's well-being and education in particular. Eighteen of the MRS borrowers interviewed had dependent children. Borrowers were also concerned for the potential loss of their friendship and neighbourhood networks if they had to leave their home, and felt nervous about the possibility of leaving a safe neighbourhood:

> *"Would maybe be in private rented, paying higher rent. The options would be awful, evil* [if MRS had failed]*…I couldn't imagine it with my* [disabled] *daughter, change affects her deeply*.*"* (MRS tenant)

4.16 A minority of lenders and intermediaries also noted that MRS could avert significant numbers of repossessed property reaching the market, which could have a negative effect on local housing markets and blight neighbourhoods. In the 1990s, large numbers of properties in the possession of lenders depressed the market further, leading to the Housing Market Package (HMP)[4] announcement of 1992. The HMP funded housing associations to buy up excess stock to both boost the market and enable homeless acceptances to be moved-on from temporary accommodation. Moreover, lenders were enthusiastic about MRS as they recognised that it also had commercial advantages for them:

> *"We can wait and agree to take a small shortfall on MRS, rather than repossess and get a lower value. It's a no-brainer*.*"* (Lender)

Delivery and funding responsibilities for mortgage rescue

4.17 With widespread institutional support, MRS was established with funding from the Homes and Communities Agency (HCA) and key delivery from local authorities and housing association Homebuy agents[5] . Structural changes to the delivery and funding were made during the first year of the scheme and are outlined below where appropriate.

Funding Mortgage Rescue

4.18 The major source of funding for the scheme is from the HCA's National Affordable Housing Programme (NAHP), which is the principal funder of new social housing and intermediate housing market developments. In early 2009, associations assumed average grant rates for social housing of 45 per cent (HCA, 2010). However, the MRS originally provided grant rates to housing associations of 55 per cent of the value of the properties, which increased to 65 per cent in September 2009 for Mortgage to Rent cases, or 73 per cent

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[4] The Housing Market Package was introduced in 1992 and was a response from the Government to the housing market downturn and recession of that time (Stephens *et al*., 2008). A total of £612 million was provided to housing associations in England and Wales to purchase unsold stock from developers, private sales and properties empty due to possessions.

[5] Homebuy Agents deliver the low cost homeownership 'Homebuy' products for the Homes and Communities Agency across England. There are currently 14 associations with geographical responsibilities to provide one stop shop services for potential customers, housing associations and local authorities involved in the intermediate housing market.

grant funding towards the equity loan for Mortgage to Shared Equity cases. In addition, there is a 65 per cent grant towards the costs of bringing the property up to the Decent Homes Standard[6]. The generous grant rates associated with the MRS are undoubtedly an incentive to draw in additional housing association funding to deliver the scheme and have proved attractive to associations. This public subsidy can be recycled for social housing if the properties are sold in the future.

4.19 Housing associations provide substantial funds to MRS from their own reserves, constituting around a third of the funds required to deliver the scheme. However, a limited number of Homebuy agents were the original purchasers of MRS properties but had insufficient financial capacity to deliver the volume of completions desired. From autumn 2009, a network of syndicated local housing associations was established to increase the capacity within MRS by taking on excess properties from the Homebuy agents. One stakeholder considered that the importance of housing associations to MRS had been underestimated and their greater involvement at the outset would have rendered the syndication process unnecessary. One of the two syndicated associations interviewed had been disappointed not to have been part of the scheme from the beginning.

4.20 One participant argued that there was a downside to directing housing association funding towards MRS as this diverted investment away from new social housing:

> *"The capital tied up in mortgage rescue inhibits more housing associations engaging in the scheme, its money taken away from new affordable homes."* (Housing association)

4.21 Other associations recognised this was a possibility but viewed the generous grant funding as advantageous and noted that the funds they contributed were drawn from resources allocated to the intermediate market. The expansion of their portfolio and the income stream from the intermediate market rents made it worthwhile for associations to participate. One housing association in a central region did note however, that the financial viability of MRS purchases was robust even on the lower 55 per cent grant rate. There are likely to be geographical differences in how much subsidy is required, but one association suggested that there could be multiple sources of funding, akin to the mixed funding involved in Homebuy Direct[7] (where developer

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[6] All property owned and managed by the council or housing associations must meet the Decent Homes standard. To meet the standard, property must have reasonably modern facilities, be warm and weatherproof.

[7] HomeBuy Direct is an equity loan scheme available on specific new build properties brought forward by developers. Buyers are offered an equity loan of up to 30 per cent of the purchase price, co-funded by Government and the developer. The scheme helps participating house builders by enabling more first time buyers to purchase their newly built properties.

contributions are made in addition to association funds towards the purchasers' equity loan) that could make MRS more cost effective.

4.22 Although no developers are involved in MRS, lenders benefit from the MRS by avoiding the magnitude of losses arising from negative equity cases. In addition, as the sale of the property proceeds at near market value they do not sustain the depressed sale prices of repossessed properties or the costs incurred while the properties remain empty and in their possession. Although lenders are not expected to contribute formally to the funding of the scheme, in practice, some lenders have been willing to forego substantial sums due to them to ensure that cases complete.

4.23 The final source of funding for the MRS is the borrowers themselves, who are required to contribute three per cent of the property's value. Only two of the participants who expressed a view considered this charge inappropriate, as most felt borrowers should have to pay something towards their own rescue.

4.24 Table 4.3 illustrates the funding of a property under MRS in the West Midlands. The property is valued at £91,000. The borrower receives £88,270 as the borrower contributes three per cent, or in this case, £2,730. The HCA contribute £48,549 and the housing association £39,722. In this instance, as the borrower's original loan was £102,000 and they were in negative equity, the lender is asked, but does not have to agree, to write down a loss of £13,730.

4.25 The table both describes the funding model and also suggests some potential tensions or issues that are discussed in the following chapter. These include the extent of debt and lenders' willingness to consider writing it off.

Table 4.3 Example of funding of the MRS

Circumstances before intervention	
Region	*West Midlands*
Regional property price cap	£155,000
Property value	£91,000
Household income (gross)	£17,000
Outstanding mortgage	£102,000
Mortgage interest rate	6.0%
Term remaining (years)	23
Mortgage payment pcm (repayment)	£691
Mortgage payment pcm (interest only)	£510
Homeowners' equity	-£11,000
	-12.1%
Other housing commitments eg service charges (pcm)	£100
Net income as % of gross	74%
Total costs as % of net income	58.2%
Net income cap (max affordable)	45%
Maximum affordable payment pcm	**£372**
Eligibility for Mortgage Rescue	
Property value <= regional price cap (£155000)	Eligible
Household income < £60000	Eligible
Homeowners' equity <= 40%	Eligible
Minimum intervention = 25%-75% of outstanding mortgage	-
Mortgage is currently affordable (<45% net income)	No
Intervention available	
GOVERNMENT MORTGAGE TO RENT	
The lender(s) must write-down £13,730 in order for the rescue to proceed.	
Government Mortgage to Rent	
Price to be paid for property by RSL	97.0%
	£88,270
of which:	
HCA grant	55%
	£48,549
RSL contribution	£39,722
Outstanding mortgage	£0
Household equity contribution	0.0%
(0% of property value)	£0
After intervention	
Capital released to household	-£11,000
Assumed market yield	4.50%
Assumed intermediate yield	£0
Monthly intermediate market rent	£273
Household costs pcm	£273
Reduction in monthly payment	£237
Total costs as % of net income	26%

Delivery responsibilities

4.26 Delivery of the MRS to individual borrowers is a complex endeavour, which at the outset involved several key agencies: local authorities, housing associations, lenders and advice services. During the first year additional organisations joined the original participants, in particular the CLG Fast Track team[8] and a network of syndicated housing associations.

4.27 Originally the delivery of MRS was focused on local authorities as the scheme's ambitions were aligned with their homelessness prevention work. Local authority staff were to be responsible for the progress of the MRS applications, appointing advice workers and property valuers, as well as liaising with the lenders and referring cases to housing associations. Interviews indicated that responsibilities for MRS may lie within specialist teams, housing options or debt advice teams within local authorities.

4.28 The role of housing associations became increasingly important during this first year. Not only were they the end purchasers of the borrowers' homes, but interviews showed that associations, particularly Homebuy agents, played a critical role in negotiations with lenders regarding valuations and shortfall debts (see Chapter 5), and, as noted above, are an important source of funding for the scheme. Syndicated housing associations have been receiving referrals from Homebuy agents from September 2009; however, guidance to facilitate housing associations' MRS activities was only made available in December 2009.

4.29 The centrality of the advice services to the MRS intervention was welcomed as was the expanded provision of debt services. Borrowers can access money and housing advice, get support to maximise their income, manage and reprioritise any debts and be advised of the legal position regarding their housing. There were, therefore, opportunities for advice and support to facilitate the continuation of homeownership and make applications for MRS unnecessary. As many borrowers in arrears had multiple debts, advice agencies were seen as a key agency in helping borrowers *"manage all the people shouting at them".*

4.30 In September 2009, a Fast Track team was established by CLG to streamline the delivery of MRS applications and receive referrals directly from lenders. It provides a national service for England, administering the initial stages of MRS referrals, organising valuations and advice for the borrower, and passes eligible cases through to housing associations to consider. It also provides specialist expertise in liaising and negotiating with lenders. The Fast Track team has a contract with an advice agency to provide services to borrowers.

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[8] CLG has informed the research team that the Fast Track team is no longer accepting new referrals and will be disbanded.

This Fast Track team now runs in parallel to the MRS service provided by local authorities, but also offers support to local authorities with regard to complex debt cases:

> *"We'd like it all centralised and deal with one group of people, instead of 326 groups of people doing different things."* (Lender)

4.31 As local authorities provide the mainstream MRS there are many players responsible for scheme delivery, with different commitments and organisational capacities. The centralised Fast Track scheme set up to overcome some of the consequent obstacles to rapid implementation of MRS was welcomed by all parties, lenders in particular. The centralised administration of the Scottish Mortgage to Rent scheme was shown to be effective (Bramley *et al.*, 2009) and lenders frequently commented on their preference for this model over mainstream MRS. Although lenders also noted their preference for the English MRS model in comparison to the disparate range of mortgage rescue activities emerging in Wales. However, the partial centralisation of MRS delivery through the Fast Track team may conflict with the priorities and services of local authorities, although the legislation and guidance that governs their statutory homelessness functions and the non-statutory guidance on prevention strategies remains national.

Targeting and demand for mortgage rescue

4.32 The MRS is designed to meet the needs of vulnerable households for whom homeownership is no longer sustainable at the bottom end of the housing market. This section examines the research participants' views on the applicability of the MRS scheme eligibility criteria and whether the scheme is appropriately targeted.

Priority need

4.33 The MRS eligibility criteria require that, among other factors, the household meet certain criteria required in order to be entitled to the main homelessness duty (to secure accommodation) under the homelessness legislation (Part 7 of the Housing Act 1996). Households must be eligible for assistance[9], homeless or threatened with homelessness, and fall within one of three priority need categories. The three priority need categories (section 189(1)(a)-(c) of the 1996 Act) are:

- a pregnant woman or a person with whom she resides or might reasonably be expected to reside

[9] In certain circumstances some asylum seekers or foreign nationals are excluded from assistance with homelessness.

- a person with whom dependent children reside or might reasonably be expected to reside or
- a person who is vulnerable as a result of old age, mental illness or handicap or physical disability or other special reason, or with whom such a person resides or might reasonably be expected to reside.

4.34 Almost all partners viewed limiting the opportunity of MRS to those households most in need as appropriate. A small minority of partners raised concerns regarding couples or single people without any vulnerability and therefore with no eligibility for MRS approaching them for help. However, partners recognised that extending the scope of the borrowers eligible for support would have important cost implications and were therefore content with the current eligibility criteria.

4.35 The issue of the extent of personal responsibility a borrower must bear in taking out financial commitments where a high risk of default exists is a complex issue. It is now acknowledged that income checks and regulation of lending has been lax and there was an appetite amongst lenders to price risk in a market that many thought would not fall (FSA, 2009). Amongst the borrowers interviewed there were examples of irresponsible lending (and borrowing) with one household on benefits being granted substantial loans through brokers, possibly fraudulently; loans with 40 year mortgages at the limit of sustainability; and loans taken out in retirement on low incomes. A minority of borrowers noted how, in retrospect, they had been poorly advised by brokers to take on loans with high charges from specialist lenders, although this may have been the only loan available to some.

4.36 Borrowers involved with MRS also had loans in addition to the main mortgage. Of the 425 MRS cases in the HCA RSL monitoring returns that completed by the end of February 2010, 230 had additional unsecured debts and 182 had second charge loans secured against their property. Of these 425 cases, 100 had *both* second charges and unsecured debts. The average second charge debt, including only the cases with these charges, was £24,805 and the average unsecured debt was £16,627. Of the 32 borrowers interviewed with regard to MRS, 19 had remortgaged (more than once in 11 cases), 14 had second charges on their home and four had additional unsecured debts.

4.37 However, indebtedness was rarely considered the prime reason for borrowers' mortgage arrears. Of the 32 MRS borrowers interviewed, 11 had experienced unemployment or a loss of hours, five a failure of self-employment, nine ill-health or disability, three relationship breakdown and four other reasons that included bereavement. Only one MRS borrower cited their debt problems as a reason for arrears, but perceived them as being a secondary reason for their mortgage arrears.

4.38 Table 4.4 shows MRS applicants' stated reasons for mortgage arrears. Again, the principal cause of the mortgage arrears was labour market disruption. The level of indebtedness amongst MRS applicants therefore serves to complicate the impact of other shocks making borrowers more vulnerable and limiting their prospects for recovery. In very few cases has indebtedness alone driven mortgage arrears.

Table 4.4 Cause of mortgage arrears amongst MRS applicants to local authorities Jan 2009 to March 2010

	Relationship Breakdown	Illness	Job loss / reduced hours	Increased mortgage payments	Bankruptcy	Other	Not Stated	Total
Q1-2009	511	300	1,177	144	82	141	293	2,648
Q2-2009	731	471	1,722	118	102	261	394	3,799
Q3-2009	903	509	1,833	86	110	265	300	4,006
Q4-2009	808	497	1,840	77	89	279	720	4,310
Q1-2010	959	614	2,150	98	92	292	817	5,022
Total	3,912	2,391	8,722	523	475	1,238	2,524	19,785
Percentage	19.8	12.1	44.1	2.6	2.4	6.3	12.8	100
Percentage of those with stated reason	**22.7**	**13.9**	**50.5**	**3**	**2.8**	**7.2**		

Source: MRS monitoring returns for local authorities

Negative equity

4.39 Originally the MRS was not available to borrowers who were in negative equity. However, it became apparent that the exclusion of these cases meant the scheme was failing to capture many households in need. From May 2009, cases with loans of up to 120 per cent of the value of the house could be considered, which partners welcomed.

4.40 Interviewees noted that the administration of cases with negative equity was more problematic but omitting these cases would substantially limit the effectiveness of the scheme in supporting vulnerable households facing possession. HCA scheme data show that 47 per cent of the cases completed by the end of February 2010 had negative equity. As the housing market rises the proportion of MRS applicants with negative equity is likely to diminish. However, as housing markets are local, improvements in the market will not be uniform and areas that experience greater unemployment and have lower cost properties with more marginal households could recover at a slower pace.

Value limits

4.41 The focus of MRS is on the lower end of the market and property price caps are imposed to ensure that the scheme benefits only those who are unable to trade down. The price caps are based on 130 per cent of the lowest quartile property prices across all regions, except the South East and London. In these regions the caps are 120 per cent of the average lowest quartile house prices.

4.42 Table 4.5 shows the property price caps and the average and maximum values of the properties associated with completed MRS cases for each region. The average prices of properties related to the completed MRS cases are well below the regional price 'caps' in all regions. However, in all but two regions the maximum value properties were above the level of the normal 'cap'. Only in the North East and South West were the maximum value dwellings below the level of the standard 'cap'.

Table 4.5 Property prices and caps by region of completed MRS cases at the end of February 2010

Region	Price Levels			% Maximum above or below Cap	Cases in excess of cap
	Average	Maximum	Cap		
North East	£93,167	£120,00	£125,000	-4	0
North West	£96,635	£167,500	£135,000	+24	6
Yorkshire & Humberside	£103,821	£195,000	£140,000	+39	4
East Midlands	£112,000	£160,000	£155,000	+3	1
West Midlands	£117,232	£240,000	£155,000	+55	10
East	£152,625	£230,000	£200,000	+15	7
South West	£152,125	£180,000	£205,000	-15	0
South East	£179,204	£300,000	£235,000	+28	5
London	£220,221	£340,000	£305,000	+11	3

4.43 Reflecting the scheme data above, few local authorities and advisors suggested that the value caps were a problem in their area. The focus on the lower end of the market was considered appropriate and the flexibility that permits applications to be 20 per cent above the local property cap meant that institutional participants did not consider there was substantial unmet demand due to the property caps. In addition, in four regions express consent was sought and granted to proceed with five cases where the property value was more than 20% above the standard cap (North East (1 case), Yorkshire and Humber (1 case), West Midlands (2 cases) and South East (1 case)).

4.44 By 2007, the number of properties purchased from social landlords under the Right to Buy (RTB) represented about 20 per cent of the owner-occupied stock (CLG Live Tables 104 and 648[10]). However, a portion of properties bought under the RTB will now be part of the private rented sector or have been re-purchased by housing associations, so the proportion of owner occupied properties that have been RTB sales is likely to be lower. However, around half of MRS applicants interviewed for this evaluation occupied properties that had previously been RTB sales. Of the 32 borrowers interviewed who answered the question, 12 had exercised the RTB as sitting tenants, nine of whom had engaged in remortgaging activity. Another two MRS borrowers were occupying properties that had formerly been RTB sales, but they had not been the first purchasers. An apparent over representation of RTB properties was also evident within the Scottish Mortgage to Rent evaluation (Bramley *et al*., 2009).

4.45 It is unclear why there is a higher than expected incidence of RTB properties involved in MRS. However, the focus upon the lower reaches of the housing market means that RTB properties will naturally be identified, forming as they do a significant proportion of lower priced properties. The qualitative sample was not designed to be representative, but if this were the case we may have expected to see more *former* RTB properties (i.e. properties bought on the open market rather than by sitting tenants) amongst those interviewed. Alternatively, the incidence of borrowers being given access to large amounts of equity at the outset of their homeownership, as RTB sales were heavily discounted from the market value for many years, may have increased borrowers' propensity to remortgage and/or created debt problems, or made them a target for marketing of secondary lending products. It is also possible that RTB mortgagors have a higher risk of arrears than other borrowers. However, analysis of Survey of English Housing data across the economic cycle indicates that while RTB increased the risk of arrears (holding other factors constant) in the late 1990s, since then there has been no statistically significant relationship between RTB and arrears (Burrows and Ford, 2005, Ford and Rhodes 2010). In addition, former social housing tenants may be more inclined to consider MRS as they already have had experience of social housing and value what it can offer.

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[10] Derived from CLG Live Tables 104 and 648
http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/stockincludingvacants/livetables/
http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/socialhousingsales/livetables/

4.46 Should the property be a recent RTB or Right to Acquire sale, then there are arrangements for the discount to be repaid but this did not arise as problematic during the interviews.

Equity limits

4.47 Housing associations use the equity retained in the property to decide whether an MRS applicant progresses to the mortgage to rent (MTR) option, or the mortgage to shared equity (MSHE) option. With MTR the applicant is offered a three-year assured shorthold tenancy at up to 80 per cent of the market rent. With MSHE they remain a homeowner, but reduce their mortgage costs by using an equity loan from the housing association. If the borrower's loan to value exceeds 75 per cent then, if eligible, they are considered for MTR, but if the borrower's loan to value is between 25 and 75 per cent, then they go forward for MSHE, as long as remaining an owner is sustainable (see Chapter 6). The equity loan is used to repay between 25 – 75 per cent of the current mortgage, resulting in reduced mortgage costs and a monthly interest charge on the loan.

4.48 Most research participants accepted these equity limits but a minority believed that constructing the equity limits in this way rewarded people who had engaged in additional borrowing. Borrowers who had not remortgaged and had retained equity in their home, but for whom the mortgage was unsustainable, were not eligible for MRS at all, or only for MSHE which some borrowers did not favour:

> *"I'm absolutely appalled that if someone has more than 25 per cent equity they won't get mortgage to rent. If a couple bought 20 years ago and didn't jump on the bandwagon and didn't remortgage they can't get mortgage to rent. But if they have spent all their equity they would be eligible. It's appalling."* (Local authority representative)

4.49 One local authority advised that if people had equity in their home they would be able to trade down, but another noted a case where a borrower could no longer maintain the payments on a £10-12,000 loan on a property worth £60,000 and there was no lower priced property available in the area.

4.50 There were other concerns regarding the MSHE option, as the equity limits mean that it is only applicable to a narrow band of borrowers. In addition, the equity loan charge does not constitute rent, as in a shared ownership model of low cost homeownership, and is therefore ineligible for housing benefit. One Homebuy agent reported problems with some syndication associations having little experience of the intermediate or low cost homeownership market, confirmed by a syndicated association:

> *"Weren't really interested, bit more complex. We don't want to get involved. It's a lot cleaner in respect of mortgage to rent purchases, you*

buy the whole property, otherwise we'd have to draw up shared ownership leases, service agreements, slightly more complicated." (Housing association)

4.51 Current shared ownership or shared equity properties are not eligible for MRS. This issue was rarely raised but one association noted this as a weakness in the scheme design. Given the importance of shared ownership in Government policy it is therefore worth flagging up. In principle, shared owners should have access to flexible tenure arrangements, where a borrower can 'downstaircase' or reduce the proportion of their home (and increase the proportion they rent) to improve the affordability of their housing costs (CLG *et al*., 2010). However, the association reported that this arrangement does not work in cases of negative equity. Furthermore, as the mortgage protection clause in shared ownership leases ensures that the lender will be reimbursed the whole mortgage price regardless of the property's value. The potential for forbearance from the lender, therefore, could be undermined as the lender is not at risk of losing money. This association had in practice used their own funds to convert a shared ownership property into an intermediate market rent tenancy under the 'umbrella' of MRS.

Summary

4.52 Lenders, local authorities, housing associations and borrowers broadly concurred on the rationale for establishing MRS. To a greater or lesser extent they stressed the need to limit homelessness and the consequential additional demands on social housing, the advantages of social housing over the uncertainties in the private rented sector, and the ways in which MRS could limit the social and economic costs of possession.

4.53 The eligibility criteria for MRS were outlined and respondents judged that they were, overall, well targeted both in respect of meeting priority need and the value of properties that could be considered. The structure of the funding and of the delivery models was outlined showing the contribution of a number of different parties. There was a broad consensus that the funding model was an appropriate one, but with some key issues. It is clear that, as key delivery partners, housing associations' central role should have been acknowledged earlier. The syndicated housing association partners have now been established to overcome this original oversight but although housing association resources have been increased this may be at the expense of unnecessarily greater central funding, and lower investment in new build affordable housing.

4.54 Lenders in particular preferred the early administration of MRS to be dealt with by the centralised Fast Track team in comparison to the mainstream MRS delivered by local authorities.

Chapter 5

Delivering the Mortgage Rescue Scheme

Introduction

5.1 Chapter 4 discussed the structure of MRS, and the ‘in principle’ reasons why different partners engaged with the scheme. It also considered how the scheme was funded and the key eligibility criteria in relation to the target objectives. The chapter noted the current number of possessions and the potential demand for MRS. The views of borrowers and partners on the principles and structure of the scheme were presented. By contrast, this chapter considers the implementation process: how borrowers accessed the scheme in practice; how the eligibility criteria were applied; and the key issues relating to how the different parties worked together to deliver MRS.

Accessing Mortgage Rescue

5.2 This section provides an overview of the referrals that have been made to MRS and the experience of borrowers and other research participants in this initial stage of the process.

Referrals and applications for MRS

5.3 Over the fifteen months to March 2010 a total of 20,254 households approached local authorities with enquires about help with mortgage arrears (Table 5.1). Of those 1,230 (8 per cent) were selected for a housing options interview to complete an application for MRS. A total of 14,634, (72 per cent) received general advice, money advice or had been referred to their lender to seek greater forbearance to help sustain homeownership. Of the remaining households, 682 were supported to make an application for homelessness assistance as they were threatened with eviction within 28 days. A further 2,823 cases (14 per cent) were provided with advice and assistance in an attempt to prevent homelessness, where lender options had been exhausted but the cases fell outside the MRS criteria.

5.4 After the local authorities and Fast Track team have undertaken the preliminary assessments they refer each MRS case to the housing association. Figures 5.1 and 5.2 show the rate of MRS applications that have been referred on to housing associations by local authorities and the Fast

Track team between January and March 2010. These figures illustrate the growing momentum behind the scheme with steady increases in completions every month. The number of referrals has experienced some fluctuation but in 2010 has also been increasing for both local authorities and the Fast Track team each month.

Table 5.1 Initial outcomes of approaches to local authorities regarding mortgage arrears January 2009 to March 2010

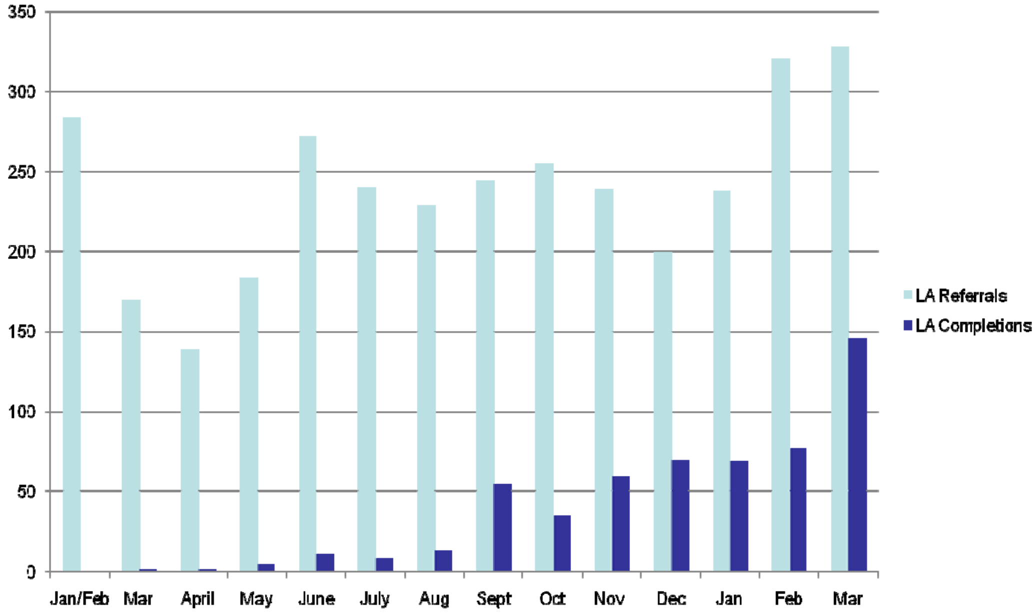
	Total approaches to local authorities	Information pack/ general advice	Referred to lender	Referred to Money Advice	Referred to BOTH lender and Money Advice	Housing Options interview to prevent home-lessness*	Housing Options interview to complete MRS application	Referred for consideration under the homelessness legislation**	Other	% Approaches that ended with MRS application
Q1-2009	3,118	949	1,161	438	537	404	171	125	131	10
Q2-2009	3,798	787	295	641	741	599	278	218	239	22
Q3-2009	4,006	810	262	764	808	627	349	139	247	26
Q4-2009	4,310	1,160	319	662	787	592	359	99	332	25
Q1-2010	5,022	1,405	328	833	947	601	526	101	281	31
Total	**20,254**	**5,111**	**2,365**	**3,338**	**3,820**	**2,823**	**1,683**	**682**	1,230	8.3

*Where lender options exhausted and/or 'outside' of MRS criteria

**Where threat of homelessness within 28 days

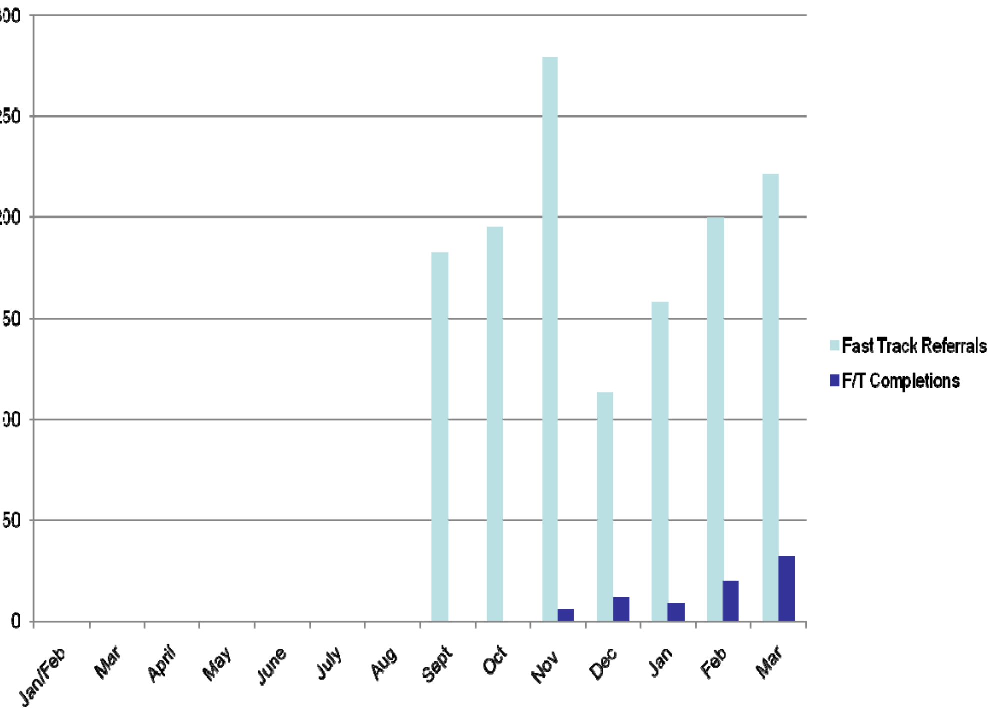
Source: MRS monitoring returns for local authorities

Figure 5.1 The rate of MRS referrals and completions for local authorities May 2009 to end of March 2010



Source: HCA RSL monitoring returns

Figure 5.2 The rate of MRS referrals and completions for the Fast Track team May 2009 to end of March 2010



Source: HCA RSL monitoring returns

5.5 Finally, Table 5.2 shows that of the MRS applications that have been referred to housing associations, a total of 629 applicants completed either a formal transfer of ownership from the former borrower to the association (MTR), or receipt of an equity loan to reduce their mortgage loan costs (MSHE) by end March 2010. This table also shows the volume of 'pipeline' cases pending completion. In addition, this table shows that the regions with the highest number of MRS applications have been the North West, the South East and the York and Humber.

Table 5.2 Summary of MRS cases January 2009 to end March 2010

Govt. Office Region	**No. of MRS applications via local authorities since January 2009**	**No. of lender referrals to Fast Track team since September 2009**	**Total 'live' MRS applications as at the end of March 2010**	**of total live cases, those being processed by local authorities**	**of total live cases, those being processed by the Fast-Track team**	**of total live cases, Local authority cases referred to RSLs**	**of total live cases, Fast Track team cases referred to RSLs**	**Completed cases since January 2009 to end March 2010**
North East	114	95	107	57	50	41	25	10
North West	645	213	376	295	81	157	55	124
Yorks & Humber	485	214	320	228	92	88	60	57
East Midlands	255	138	175	117	58	76	45	42
West Midlands	479	157	304	243	61	158	40	105
Eastern	230	118	147	96	51	59	30	71
London	332	155	191	137	54	54	30	66
South East	616	158	310	261	49	130	51	140
South West	187	100	110	76	34	49	28	17
England	**3,343**	**1,348**	**2,040**	**1,530**	**530**	**812**	**304**	**629**

Source: CLG MRS monitoring database

Access and knowledge of the scheme

5.6 Borrowers in arrears can access the MRS two ways: firstly, by approaching local authorities directly; and secondly, by agreeing to their lender making a direct referral to the Fast Track team. A range of other avenues exist for borrowers to be 'signposted' to the local authority service, such as by an advice agency, court desk service, a lender, media campaigns or via lenders' notifications to local authorities of impending court proceedings against homeowners, for example.

5.7 In practice, the borrowers interviewed showed a wide variety in the timing and sources of knowledge about MRS, a number having become aware of MRS through more than one source, and often only after chance encounters with professionals who mentioned the scheme during the latter stages of court hearings:

"I got to court and people were crying and I didn't know what to do. I saw a door with CAB on it and I knocked on the door. They asked questions and in 15 minutes I signed and they said I was eligible for MRS. They came into court and the judge edged towards my side…" (MRS borrower interviewee)

5.8 Of the 32 MRS borrowers interviewed only seven had heard of the scheme prior to making their applications. The largest single source of information about the scheme was advice agencies (12 cases). A further seven people were made aware of the scheme by their local authority. Amongst those who mentioned that they had heard of the scheme before making an application for MRS, some had remembered national press articles or assumed they had heard of it in advertising campaigns. A couple of these were advised of its existence by relatives and some through working with professionals on debt or social work issues.

5.9 The national broadcast and print media campaigns in January and September 2009 promoted the benefits of borrowers in financial difficulties talking to their lenders and suggested sources of assistance for borrowers requiring advice and information about different options. Lenders, advisors and local authorities all mentioned the effectiveness of the national publicity campaigns in generating borrower contact and thought there should be greater promotion of the scheme.

5.10 Local authorities had undertaken their own local promotion of MRS with mixed success, despite some local publicity. Several authorities had conducted promotion of MRS with other agencies, placed regular local adverts and held local recession road shows, either alone or in conjunction with large local employers who were making redundancies. While some of these events were poorly attended others were very successful. Others worked with local agencies to promote MRS, but one authority thought other agencies, such as their local Job Centre or advice service staff, were poorly informed. However, there was little sense that local authorities were routinely undertaking any systematic local analysis of redundancies or possessions to gauge demand for MRS services.

5.11 Under Civil Justice rules lenders issuing possession proceedings for mortgage arrears in the County Courts are required to notify the local authority of their intentions. Local authorities felt that lenders were not always providing this information, as fewer notifications were received than were cases listed in their local courts. Nevertheless, local authorities used the notifications to send out information packs about the support available to borrowers in arrears, and invited borrowers to attend an appointment or make contact with the MRS team. There were mixed responses, but some borrowers were contacting local authorities as a consequence of these notifications. This was considered preferable to the court advisors picking these borrowers up several months later, as it provides more time to come to an arrangement with the lender. One local authority noted that it was unclear whether lenders had also referred particular borrowers to the Fast Track team.

5.12 Lenders were also signalling to borrowers that MRS might be suitable for them. In the cases of three borrowers interviewed, a lender had directed the borrower to their local council, with another lender referring a further borrower directly to the Fast Track team. Two lenders reported a high level of engagement with Fast Track team referrals. One had issued a checklist to 'at risk' borrowers suggesting that if they met certain criteria they should approach their local authority and another lender was routinely referring borrowers to the Fast Track team. However, not all lenders were making referrals to this team as they thought it was not their role to 'promote' or give preference to any one route. There is therefore inconsistency amongst lenders in how they impart information about MRS or provide opportunities for borrowers to connect to the scheme through the Fast Track team or via the notifications of court proceedings sent to local authorities.

5.13 Sub-prime lenders are significant beneficiaries of the MRS. As at November 2009, the vast majority of referrals to both the Fast Track team (71 per cent) and local authorities (58 per cent) were specialist or sub-prime lenders, despite these particular lenders representing only 2-3 per cent of the total mortgage market. This may be as a result of the greater risk of their borrowers and/or the lack of forbearance opportunities available amongst some of these specialist lenders.

Applying the eligibility criteria

5.14 There are many agencies involved in the administration of MRS and there are disparities between the different organisations in the way they handle the scheme. This section examines institutional and borrower experiences of the initial stages of the MRS application process where eligibility is established.

Homelessness assessment

5.15 As a key part of the application process for MRS, applicants must meet certain criteria that, if they were to become homeless, would mean they would be entitled to be secured accommodation under the homelessness legislation ('the main homelessness duty'). They must be 'eligible for assistance' (which excludes certain groups of person from abroad) and they must fall within one of three particular categories of applicant who have a priority need for accommodation. However, only a minority of the borrower interviewees were aware of having had an assessment. Most did not know whether an assessment had been carried out, with three saying they were sure there had been none. It appears that a rudimentary homelessness assessment is often carried out as an integral part of the MRS application without the applicant being fully aware of this. One applicant noted this to be the case and that the whole assessment was carried out by the advice agency.

5.16 Table 5.3 shows the results of the homelessness assessment made by MRS teams. Of the 437 cases in the HCA RSL monitoring returns for 2009-10, 320 (73 per cent) of former borrowers were considered to be in priority need because there were dependent children in the household. A total of 61 (14 per cent) were eligible due to disability and 29 (seven per cent) as they were older people.

Table 5.3 Homelessness assessment category by MTR/MSHE cases

	Old Age	Disabled	Children	Special	Other	Total
MTR	27	59	312	25	2	425
MSHE	2	2	8			12
Total	29	61	320	25	2	437

Source: HCA RSL monitoring returns

5.17 There were differences between MRS assessments and homelessness assessments in relation to the risk of homelessness or priority need in some cases. Advisors and lenders reported that in practice some local authorities were interpreting the MRS rules more strictly than others:

"Disparate practices, with varying levels of competency." (Advisor)

5.18 For example, one borrower had written confirmation that the local authority did not consider her to be at risk of possession, and she was ineligible for MRS, as the lender had confirmed they would only seek a suspended possession order at court, rather than an outright possession order. Even where some cases were clearly unsustainable, advisors and lenders noted that some local authorities wanted to see a court order before considering MRS. A lender also confirmed that they received requests from local authorities to confirm that cases would definitely end in possession, in contrast to other requests that only sought assurance that the lender supported any sale of the property under MRS.

Property valuation

5.19 As mentioned in Chapter 4 the regional property price caps were rarely problematic but occasionally valuations were the source of some dispute or negotiation. The HCA Toolkit states that valuations must be undertaken by RICS qualified surveyors, but there was a diverse range of practices reported from local authorities and housing associations. Sometimes local authorities organised the property valuation and sometimes the housing associations. Some valuations were conducted by RICS valuers, others were estate agent market appraisals obtained by the borrower.

5.20 While disputes may be infrequent, it was not apparent that there were systematic mechanisms in place to resolve the valuation disputes that did arise. One local authority had used the Repossession Prevention Fund[11] (RPF) to pay for another RICS valuation, but other authorities, lenders or associations had asked the original valuer to reconsider, taking into account other factors and comparable properties in the area or had just obtained another estate agent appraisal of possible sale values. Some owners, and occasionally also lenders, challenged valuations and surveyors had shown some flexibility in increasing the value when they looked at the cases again. This was not viewed as a problem by any of the participants who saw this as normal surveying practice. Lenders, housing associations and advisors occasionally resorted to online automated valuation models such as *Zoopla* to resolve valuation disputes.

5.21 However, three owners mentioned that they felt *"cheated"* by not receiving the value for the property they had expected. This was particularly difficult in a few cases where the owner was unable to pay off all of their unsecured loans and retained shortfall debt after the sale. Nevertheless, even in these cases the owners mostly accepted the valuations, some being unwilling to *"rock the boat"* in case the rescue fell through.

5.22 Cases which were significantly over the local property caps were considered by local authority or housing association staff but usually only if there were other extenuating circumstances. For example, one housing association reported a case above the local property cap where the HCA agreed to MRS as the property had been adapted using Disabled Facilities Grant. The adaptations would have been replicated had the family been accepted as homeless and entitled to the main homelessness duty. Housing associations often sought advice about exercising flexibility from the HCA and several participants valued this aspect of the scheme.

Equity

5.23 Associations use the level of equity as a key factor when they decide whether the borrower would benefit from the intermediate rent (MTR) or equity loan (MSHE) options of MRS.

5.24 Table 5.4 shows the level of equity in the homes of MRS applicants for cases accepted on to MTR and MSHE. A total of 206 cases (47 per cent) of the total 438 cases completed in the period to February 2010 were in negative equity. A total of 48 cases, 11 per cent, had negative equity of 25 per cent or more, so were outside of the 120 per cent loan to value set out in the scheme

[11] The Preventing Repossession Fund is a small sum of money made available to local authorities as part of their preventing homelessness strategies. It can be used for any residents, regardless of tenure, at risk of losing their home as a consequence of the recession.

criteria, showing flexibility had been applied in these cases. All of the negative equity cases were placed on the MTR option.

Table 5.4 Levels of equity in MRS cases completed by the end of February 2010

	Negative equity cases					**Positive equity cases**					
Type of case	**-50% +**	**-25% +**	**-10% +**	**-0% +**	**All negative**	**0% +**	**10% +**	**25% +**	**50% +**	**All positive**	**All cases**
MTR Cases											
No unsecured debt	2	5	29	27	63	82	41	7	1	131	194
With unsecured debt	8	33	57	46	144	50	34	3	0	87	231
All MRS Cases	10	38	86	73	207	132	75	10	1	218	425
MSHE cases											
No unsecured debt	0	0	0	0	0	1	2	5	1	9	9
With unsecured debt	0	0	0	0	0	2	2			4	4
All Shared Equity Cases	0	0	0	0	0	3	4	5	1	13	13
Total cases	**10**	**38**	**86**	**73**	**207**	**135**	**79**	**15**	**2**	**231**	**438**

Source: HCA RSL monitoring returns

5.25 There were 231 completed cases (53 per cent) that had some equity in the property, after taking account of both secured and unsecured debts. A total of 424 cases had been placed on MTR and 13 on MSHE, but the table indicates that some flexibility has been exercised with respect to the levels of equity set out in the eligibility criteria for MTR and MSHE options. For example, the table shows that two borrowers had 50 per cent or more equity in their property: one had been entered on to the MSHE option and one on to the MTR option. Furthermore, most cases with positive equity had less than 25 per cent, 214 out of 231, so would be ineligible for MSHE but seven of these cases had been entered on to the MSHE option.

5.26 MSHE represents only three per cent of MRS completions, mainly due to the narrow range of eligible equity, which associations reported was the primary reason for low take-up. However, associations also reported that where it is offered a proportion of borrowers find it less popular than MTR and that some borrowers had refused offers of MSHE as they no longer wanted the responsibility of homeownership. One association had successfully appealed to the HCA to be able to offer borrowers MTR. Another association had made four MSHE offers, based on the amount of equity in the home but all the applicants refused *"Thanks but no thanks"*. Furthermore, associations said that sustainability was a more important factor in considering whether to offer MSHE:

"The equity became a little sticking point. I spoke to the [housing association] *myself and they said it looks like equity release, but I said in the circumstances I would find that difficult. My job was in industry and its very poor at the moment…I spoke to* [council] *and* [housing association] *and said I didn't think I could afford any mortgage or debts if they did equity release. I don't think it was suitable for me and* [the council] *made a good job of explaining it to* [housing association] *and in the end they agreed to a full sale*. [The council] *worked very hard."* (MRS tenant)

5.27 However, one MRS applicant had been interested in MSHE but was offered MTR and was unclear why, although is content to have completed a successful MRS application:

"The shared ownership, we were interested in that, it suited us down to the ground, but as it stands it didn't come off. Now we're renting, we were given no option. There has been minimum contact over such a long time, [we] *just got a letter saying 'we're going to buy your home and you will rent it back'"* (MRS tenant)

Delivering the Mortgage Rescue Scheme: operational processes

5.28 Having discussed the application of the scheme eligibility criteria, this section considers the time taken to progress applications and the experience of key agencies in the process.

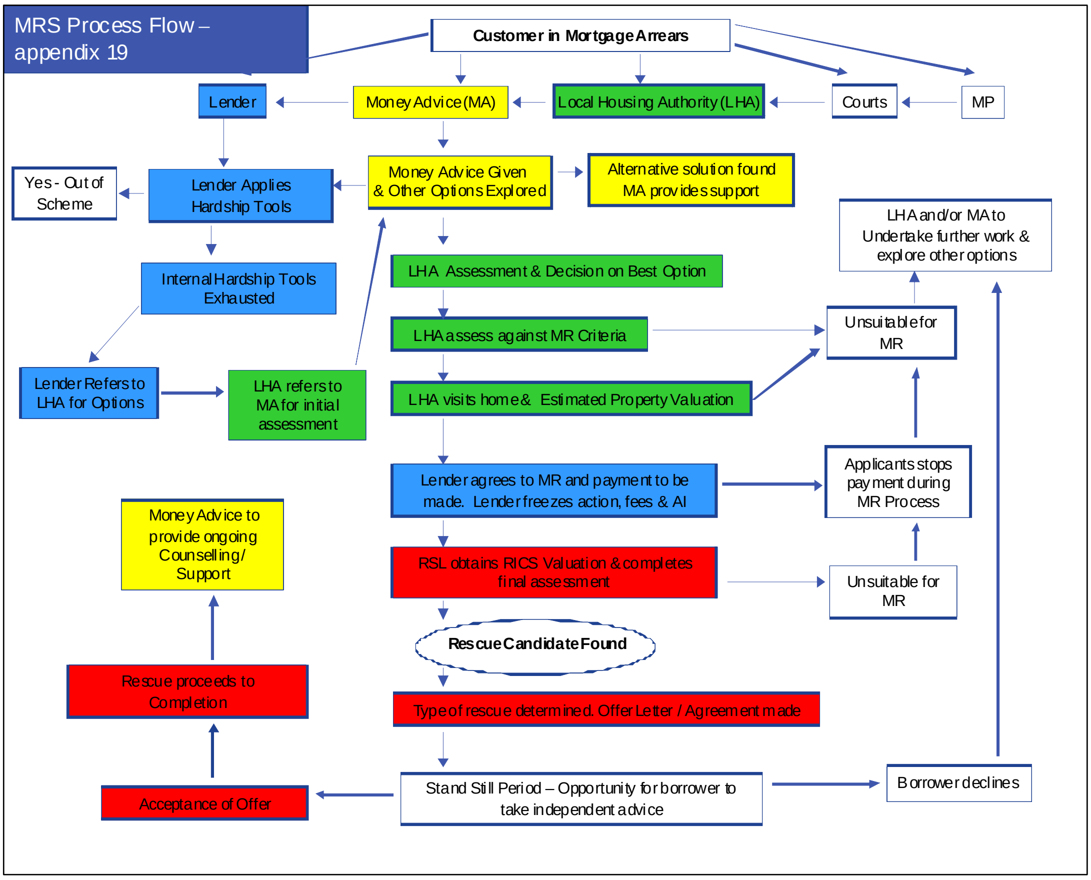
Administration

5.29 Delivery of MRS is a complex endeavour, requiring significant commitment from a variety of agencies. Figure 5.3 (overleaf) illustrates the processes that a borrower's enquiry and/or application for MRS goes through if they use the mainstream local authority route, and Figure 5.4 illustrates the process as administered by the Fast Track team, once they receive a referral from the lender.

5.30 This early evaluation found that all institutional participants and several borrowers reported delays to the administration of MRS applications as being problematic.

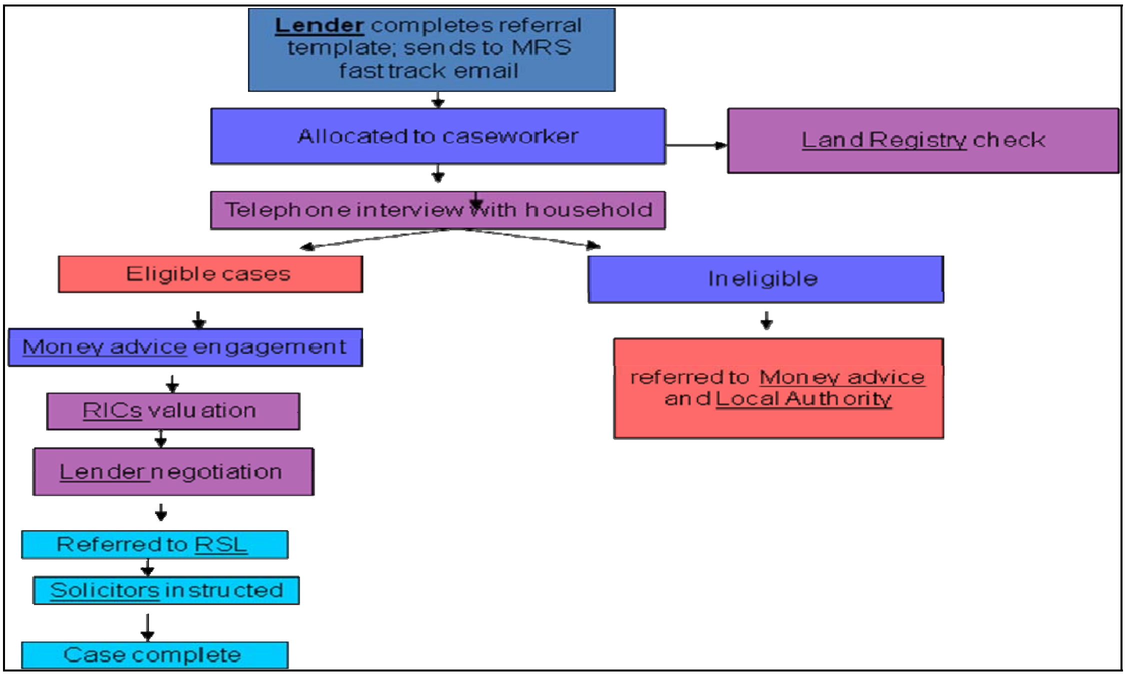
5.31 Local authorities and the Fast Track team undertake initial assessments of MRS applications that include obtaining money advice, property valuation, settlement figures from lenders and negotiation over shortfall debts. In some areas some of these tasks may be completed by the Homebuy agents rather than the local authority. The Fast Track team has a service level agreement with lenders and associations that these preliminary tasks will be undertaken in four weeks.

Figure 5.3 MRS processes (local authority route)



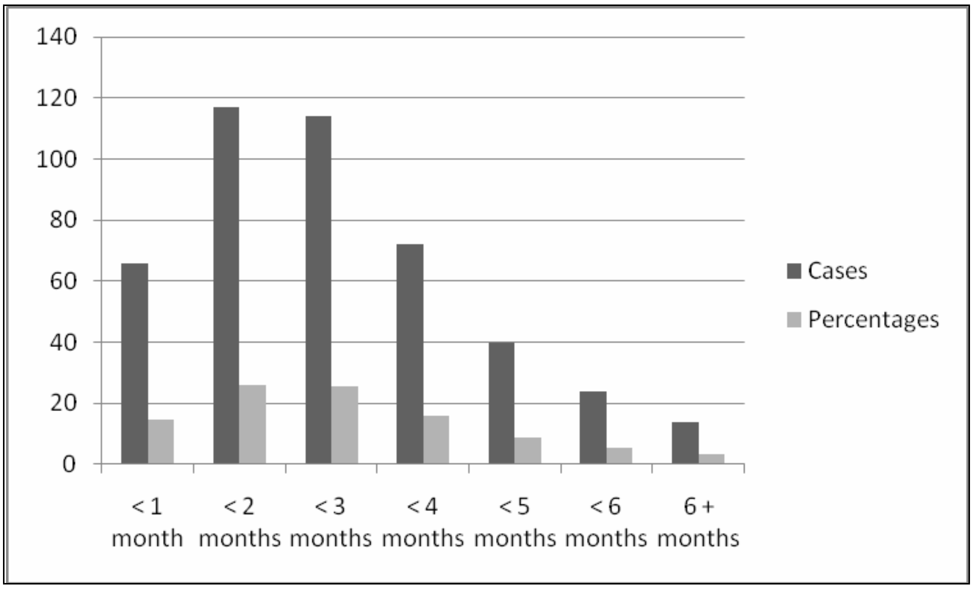
Source: Communities and Local Government 2009

Figure 5.4 MRS processes (Fast Track team route)



5.32 Figure 5.5 shows the time between the referral/MRS application to the Fast Track team and the referral of the case to the housing associations. The average time recorded is 73 calendar days, or 10/11 weeks.

Figure 5.5 Time from referral to Fast Track team to referral to housing associations



Source: MRS Fast Track team management database (Based on 447 cases for which both dates recorded).

5.33 There are no similar data for the time taken for local authorities to complete the initial stages of the MRS application up to the point of referral to the housing association. Interviews with lenders and advisors suggest that local authorities could take longer than the Fast Track team to complete the initial assessments.

5.34 Table 5.5 illustrates the percentage of MRS applications that progress to housing associations and completion. This table shows that across England, 13 per cent of applications have proceeded to completion but there are significant regional variations. For example, in the Eastern region 20 per cent of applications have so far resulted in completions compared to only five per cent in the North East. For the region with the most applications the North West, where 645 applications have been made, 14 per cent have completed so far. Referrals to housing associations by local authorities and the Fast Track team are broadly similar overall, however there are regional differences. For example, in the South East, 32 per cent of Fast Track team cases have been referred to housing associations compared to only 21 per cent of local authority cases.

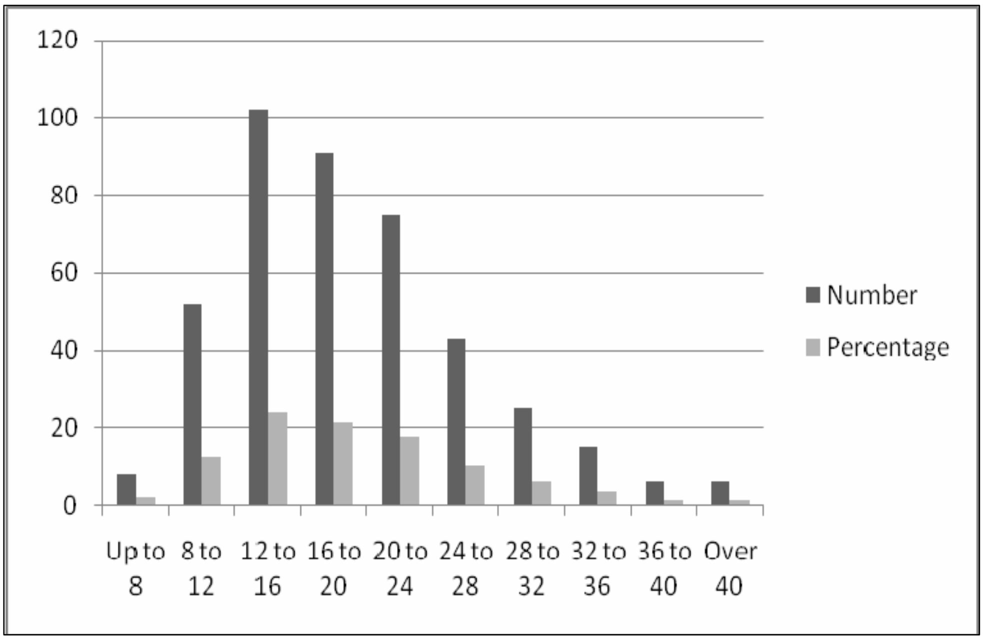
Table 5.5 Percentage of MRS applications referred to housing associations and completed by region by end of February 2010

Government Office Region	Proportion of completions to total applications (LA and Fast Track team)	Proportion of LA applications referred to Housing Associations	Proportion of Fast Track team applications referred to Housing Associations
North West	14	24	26
North East	5	36	26
Yorks & Humber	8	18	28
East Midlands	11	30	33
West Midlands	17	33	25
Eastern	20	26	25
London	14	16	19
South East	18	21	32
South West	6	26	28
England	**13**	**24**	**23**

Source: HCA RSL monitoring returns

5.35 The HCA RSL monitoring return also records the time taken to complete MRS applications from the point housing associations receive them (Figure 5.6). The figure shows that in the vast majority of cases, 62 per cent, the time taken to progress the applications from referral to a housing association to completion exceeded 16 weeks. A fifth of cases, 22 per cent, took 24 weeks or over to complete once referred to the housing assocation.

Figure 5.6 Time taken from referral to housing association to completion by the number of weeks for local authority and Fast Track team cases completed by the end of February 2010



Source: HCA RSL monitoring returns

5.36 The average time taken for all cases was 136 calender days, or 19 weeks. Taking into account the 10 weeks taken by the Fast Track team prior to the involvement of the housing associations, the average length of time for an MRS application to complete would therefore be 29 weeks or close to seven months.

Borrowers' experiences

5.37 Amongst the MRS borrowers interviewed, the average length of time an MRS application took from original approach to a completed sale was around 10 to 12 months. Three months was the fastest completion amongst the borrowers interviewed. Some borrowers indicated the MRS process was "straightforward" and that they had not experienced any undue problems:

> *"The process was simple and straightforward. I saw an advisor who helped me with the forms, it was very smooth…the housing association was excellent too."* (MRS tenant)

5.38 However, other borrowers' applications had been subject to significant delays. One case remained outstanding after 12 months. It was not always possible to determine why that had been the case as the borrowers had not all been kept abreast of developments with their case:

> *"We went to the council for help, we were the first ones or in the first eight on the list. We've been going ever since and* [it's] *still not sorted. We didn't hear anything for ages. God knows why, I think they are inundated with applications, they couldn't cope."* (MRS applicant still awaiting completion in December 2009)

5.39 Most borrowers were pleased with the application process and praised the work of the delivery partner. However, there was concern amongst a minority of borrowers about the lack of communication over extended periods while their MRS case was proceeding. When the initial application is made the local authority arranges with the lender to suspend the arrears recovery action, so for some borrowers they felt relieved of this pressure while their application was considered. Of the borrower interviewees who expressed a view, 15 spoke positively about the application process but eight borrowers, although pleased with the outcomes, felt that they had not been kept abreast of the progress of their application, and they had to make efforts to find out what was happening. A focus on delivery partners producing swift and effective processes to complete cases had in some instances left borrowers behind:

> *"Don't feel we got support. Don't hear from them* [except when] *they want information. We don't hear for months and they say they're getting on with it and that it's all going through, but we don't know what we're*

doing…We are just waiting it out and hoping not to be homeless…I'm completely numb to be truthful." (MRS applicant)

"[I] *like to think homeowners are kept well informed, but in long cases with constraints on time, maybe we aren't in touch as we'd like…there haven't been complaints from applicants about this*..[but] *we know it's a stressful situation."* (Housing association)

5.40 A minority of borrowers variously complained that: they had not completed actual application forms for MRS, not had any literature about the scheme, not received key decisions in writing or had felt *"processed"*.

Local authorities

5.41 Housing associations, advisors and lenders commonly had mixed experiences of local authority performance and believe that practice varied from very good to very poor:

"Some councils are excellent and some councils haven't the foggiest. They're gate-keeping, fobbing people off, they've had training and still don't know what to do. [Local council] *are excellent, brilliant. Same as the RSL* [local Homebuy agent]. *But* [another local council] *are rubbish. Terrible, barely has any completed cases. I've had to explain to them what to do myself."* (Advisor)

5.42 For example, there appeared to be variation in the extent to which local authorities will seek to negotiate greater forbearance before nominating for MRS, or whether they undertake a valuation of the property or in the quality of the information and referral they send over to housing associations. Several lenders considered the systems associated with local authorities to be very slow, as the referral to advice and the valuation were conducted sequentially rather than at the same time.

5.43 Some of the most committed local authorities carry out training for other organisations in their area, including, in at least one case, raising awareness with a 'court users group'. Conversely, in an area where local authority practice is reported as poorer, one housing association has a team of three staff who regularly visit local authorities to set out what their requirements are and to discuss the problems they encounter. One association was pragmatic and noted that it did not matter who undertook some procedures, such as the lender negotiations or valuations, as long as this work was completed promptly. She suggested that it was the quality of the partnerships forged that made the scheme effective and observed that staff from many agencies were all talking and working towards the same goal:

"Quite often we don't get all the paperwork, we do a lot of chasing before we can start the application, sometimes the redemption certificate is missing, or sometimes the Land Registry searches, or not having put down the reasons for the referral, no information. Some local authorities are brilliant and we know when we get their referrals we can start straight away, but sometimes we have to visit authorities, [we're] *trying to get them trained."* (Housing association)

5.44 Local authorities acknowledged that the rapid introduction of the scheme and, in some places, the absence of partner housing associations to receive the properties, had contributed to the early confusion and protracted administration of applications. Borrowers reported examples of local authorities being unaware of how to implement the scheme leaving them feeling unsupported and let down. The guidance was useful and local authorities appreciated that it had been written by local authority staff, but as the speed of delivery is important many local authorities recognised that they *"just had to make things happen"* rather than adhering to the fine detail of the MRS guidance. However, local authorities also recognised that implementing the scheme had been a *"steep learning curve"* but reported that *"we now know what we're doing".*

Fast Track team

5.45 Lenders favoured the centralised administration of MRS through the Fast Track team as they favoured a single point of contact, and the specified timescales and processes whereby they were notified of the progress of the application:

"[With regard to the speed of delivery] *in terms of initial output, yes, but basic details no. It then just disappears into a black-hole if it's not in the Fast Track team; it is* [also] *monitored a bit more effectively by the Fast Track team."* (Lender)

5.46 Local authorities and housing associations recognised the inclusion of financial expertise within the Fast Track team and drew upon this for their own cases (see below). Generally, lenders and associations were supportive of the Fast Track team, although shared a concern that this team had come under pressure and might get overwhelmed.

5.47 One housing association said they often received incomplete cases from the Fast Track team where key documents were missing, such as the lender's written agreement to a shortfall. She did, however, acknowledge that some local authorities were also under-performing:

"Fair to say it's been a bit of a nightmare…the throughput. Fast Track team have helped but even with that it's not great, [they're] *seriously behind on some cases."* (Lender)

5.48 Participants frequently noted that it was difficult to contact the Fast Track team by telephone.

Housing associations and the syndication process

5.49 Advisors, lenders and local authorities noted that, as with local authorities, some associations were more effective than others in progressing MRS cases. There were early problems in one region in particular, when the local Homebuy agent declined to be involved in the scheme, which was overcome when an alternative housing association stepped in to be the lead provider. During the first year there are examples of where the lead provider role has meant that they have become a driving agent, sharing good practice with their partner local authorities.

5.50 As mentioned, the syndication process was introduced to increase the capacity of housing associations to deliver MRS. Some associations sought syndication on a geographical basis to account for purchases which were not in their normal areas of operation. Another stated that it syndicated properties to members within a group structure in addition to external associations[12]. The process was said to work well but with some associations more enthusiastic than others. It was noted that there were no administration fees for the syndicated associations. Nevertheless, syndication was attractive to them in the context of reduced opportunities for conventional development:

"From the syndicating RSL's point of view, yes they've embraced the scheme, they can increase the stock, their development programme might have hit the skids, 'why not have these properties?'"

5.51 Relatively few cases would be sent to any one syndicated association and there was variation in the numbers being syndicated in different areas. One lead provider was planning to send most of its future cases to syndicated partners, whereas another with six or seven associations lined up was uncertain if they would be needed and had not yet syndicated any cases. One association welcomed HCA guidance on syndication, expressing the view that it should be strengthened to the status of inclusion in the offer of grant. Conversely, another viewed the guidance as *"very paper-heavy".*

[12] Many large housing associations are organised in to group structures where partner associations, often with different areas or regions of operation, come together under an umbrella of a lead association to share infrastructure costs and benefit from greater lines of credit.

5.52 Where repairs have been required it was recognised that different associations might interpret the Decent Homes Standard in different ways. A lead provider has therefore agreed with syndicating associations that the syndicated associations will undertake repair work and claim grants once the transaction is complete, assisted, if necessary, by the lead.

5.53 There was a concern that syndication could contribute to further delays to MRS applications as yet another organisation entered the process. One lead provider noted that although they had encouraged their syndicated partners to keep their own decision making to a minimum, supporting them by providing completed cases, she recognised that some associations wanted to conduct their own inspections and enquiries. The HCA toolkit provided includes examples of service level agreements and one lead provider had negotiated service level agreements with all its syndication partners, to clarify what was expected of both parties and the timescales to which they were to operate. Although one syndicated association said that they did not work to specific timescales.

5.54 Several borrowers interviewed said that their applications had been referred to more than one association. Although one borrower had reported that a syndicated association had dealt promptly with their case and completion, two borrowers described being left uncertain about the transfer of their home to another organisation and it had delayed the completion of their application.

Lender negotiations

5.55 As we saw earlier (see Table 5.4) 47 per cent of completed cases by the end of February 2010 had negative equity, which meant that the sale of the house did not generate enough funds to repay all of the debts secured upon the home. Lenders are asked, but are not obliged, to write off any shortfall debts. Table 5.6 shows the range of shortfall debts lenders agreed to write off. Out of the 425 completed cases in the HCA monitoring data, in 190 cases lenders agreed to write off an average of £15,567. In around a quarter of cases lenders agree to write off sums exceeding £20,000, and often the sums involved were much higher. The total amount written off by lenders was £2,957,730. In a total of 235 cases, lenders did not write off any debt. A minority of cases relate to cases that had equity in the stock.

Table 5.6 Total debt write-offs by lenders at MRS for completions to end of February 2010

	None	£1-£5k	£5k-£10k	£10k-£20k	£20k-£30k	£30k-£40k	£40k-£50k	£50k-£75k	£75k-£100k	Total write offs	
										No.	Average
Cases/ Average	235	50	33	56	30	10	6	2	3	190	£15,567

Source: HCA RSL monitoring returns

5.56 This section continues by exploring the participants' views of the negotiations held with lenders regarding these shortfall debts.

5.57 The Fast Track team, advisors or the local authority, conducted the negotiations with lenders, sometimes in combination. A significant majority of interview participants held that negotiating with lenders, particularly where there were shortfall debts or multiple charges secured on the property, was a significant source of delays in the administration of MRS. Negotiations in these circumstances were often reported to be protracted.

5.58 Table 5.7 illustrates how the length of time taken for MRS applications to reach completion from the point they were referred to the housing association varies between cases with equity, unsecured debts and second charges. Cases with second charges and unsecured debts take longer to complete. MRS cases that have no second charges or unsecured debts take an average of 116 calendar days, or 17 weeks, to complete once referred to the housing association, compared to an average of 147 calendar days, or 21 weeks, for cases with both second charges and unsecured debts. Interestingly, cases in positive equity with second charge debts and unsecured loans also take a longer time to complete, with an average of 141 calendar days, or 20 weeks, from referral to the housing association.

Table 5.7 Negative equity, second charges and unsecured debt and time from housing association referral to completion for cases completed by the end of February 2010

			Averages				
	Number of Cases	Property Value at time of application	Mortgage balance outstanding	Value of second charge loan secured against property	Amount of unsecured Debt	Estimated equity held in property	Time taken from referral to housing association to completion*
Positive Equity Cases							
Second charge and unsecured debt	40	£145,850	£97,834	£24,137	£8,725	£15,155	141
Second charge but no unsecured debt	51	£155,392	£108,228	£26,539	£0	£20,625	126
Unsecured debt but no second charge	46	£129,343	£111,859	£0	£7,335	£10,149	136
No second charge or unsecured debt	81	£155,006	£143,039	£0	£0	£11,967	116
Negative Equity Cases							
Second charge and unsecured debt	60	£129,483	£107,263	£26,520	£21,147	-£25,446	147
Second charge but no unsecured debt	31	£125,968	£121,643	£19,494	£0	-£15,169	149
Unsecured debt but no second charge	84	£122,993	£123,762	£0	£22,251	-£23,019	147
No second charge or unsecured debt	32	£126,500	£142,518	£0	£0	-£16,018	129
All Cases	425	£137,218	£120,772	£10,622	£8,998	-£3,174	136

*Time taken refers to calendar days

Source: HCA RSL monitoring returns

5.59 There was no pattern as to which lenders were easier to deal with. However, some sub-prime lenders routinely wrote off sums over the telephone, while mainstream lenders often refused to write off debt and chose to arrange an unsecured loan, requesting further internal valuations and signed documentation before agreeing the final arrangement. One high street lender was concerned that writing off debts to MRS applicants was not equitable as they were still requesting repayments from other borrowers who had exited homeownership. Occasionally, the unsecured loans arranged to repay shortfall debt were on minimal repayments of £1 per week, as advisors and lenders indicated that it suited lenders' accounting procedures to retain a performing loan, rather than write down a debt. This was not always the case however, and these unsecured loan agreements took time to organise:

> *"They are rigorous in their procedures and it takes forever to secure an agreement."* (Housing association)

5.60 Negotiations with second and third charge holders who may not receive any payment from the sale were most fraught. In some cases the RPF held by the local authority had been used to ease the transaction. Housing associations stated that the Repossessions Prevention Fund (RPF) had been used several times to repay small shortfalls, or make a contribution towards the shortfalls, in order to facilitate completion of transactions. It has been important in clinching deals.

5.61 A case study of an MRS application where the RPF has been used to repay a second charge lender is provided in Appendix B:

> *"It is a good use of money, but each case must be taken on merit. You can't have rules on its use, it has to be guidance. The alternative would be rehousing through the local authority which would be more expensive."* (Housing association)

5.62 A housing association interviewee described cases, where they had missed two proposed completion dates as protracted negotiations about shortfalls were unresolved and in these circumstances if the LA had been willing to use the RPF it could have helped. Some national partners believed that as the RPF was not ring-fenced, it was being swallowed up in general advice budgets and was of less use than it might be.

5.63 However, use of the RPF is not always thought to be helpful; if used indiscriminately, some second charge lenders have been said to expect this payment and withhold agreement without it. One lender was concerned that second charge lenders were unduly withholding consent to the MRS sale unless they got some share of any equity available or payment from the RPF to reduce their losses. This lender noted that that was the risk of being a second charge lender, as they sit behind the first charge lender and if there is negative equity they are not entitled to anything:

> *"They* [second charge lenders] *sometimes take the moral high ground with them and say 'we'll play hardball if you don't sweeten the deal'...it's wrong, they are vulnerable customers and need help. They shouldn't even be thinking about it."* (Lender)

5.64 Associations have suggested that a more targeted approach, where RPF is considered on a case by case basis and set at specific levels to get over particular problems, would be more successful. One lead association had secured agreement from all of the authorities in its area that the association would control this fund. Here, the assumption was that there would be no RPF payment unless the association approved the payment.

5.65 CLG has issued advice to MRS delivery partners on 'overreach' cases, where there are shortfall debts, that suggests that where second or third charge lenders will not agree to the sale the first charge lender can be requested to exercise their power of sale as a last resort. No participants mentioned employing this approach to resolve stalled shortfall negotiations and it is unclear how lenders would view such a move, given their current passive role in the MRS process.

Summary

5.66 This chapter set out the detail of the local authority and Fast Track processes by which MRS was implemented and then considered the experiences of the different parties to MRS.

5.67 Borrowers became aware of MRS as a result of publicity initiatives. Advice agencies were key sources of information while in general lenders were less proactive in promoting the scheme. Despite the specificity of the eligibility criteria and assessment process, only a minority of borrowers recognised that they had undergone an assessment. Advisors and housing associations perceived some variation in the ways in which local authorities interpreted and assessed the eligibility criteria. Property valuations were conducted by a variety of different organisations but overall they rarely led to problems or disputes. The relaxation of the negative equity limits in 2009 was welcomed and allowed more borrowers to be considered. The equity criteria for MSHE were such that few cases had come forward and the approach was not always popular with borrowers.

5.68 There are a number of issues associated with the implementation of the scheme; the administration was slow (particularly the local authority route); the likelihood of a successful outcome varied depending both on the route taken and the local authority involved with issues around the extent of flexibility exercised. Negotiations with lenders and other charge holders were sometimes protracted. A minority of borrowers felt that once they were in the process, communication was poor. Overall, it was recognised that the scheme had been introduced at speed with issues having to be sorted out as they arose. The response of CLG to this situation was acknowledged and the recognition of the importance of housing associations to the process had resulted in the institution of syndicates.

Chapter 6

The effectiveness of the Mortgage Rescue Scheme

Introduction

6.1 This chapter considers the early effectiveness of MRS by examining three issues. Firstly, whether borrowers' enquiries about the scheme have enabled them to maintain their homeownership as a result of better advice and liaison with the lender; secondly, whether the scheme has provided a structured exit from homeownership for those vulnerable households where the mortgage was no longer sustainable; and thirdly, whether those former borrowers who transferred their tenure under the terms of MRS are secure and able to maintain their new housing costs in the long term.

Sustaining homeownership

Outcomes for borrowers receiving only advice

6.2 As discussed in Chapter 5, a total of 20,254 borrowers approached local authorities for advice or assistance in relation to mortgage arrears. A total of 1,683 or 8.3 per cent of these approaches were assisted to make an application for MRS and 629 of these cases completed MRS successfully by March 2010. In addition, nearly 14,634 people received forms of advice and/or referrals to their lender, while others were referred directly to homelessness services.

6.3 There is a potential for all borrowers engaged with the MRS to receive advice, which they can use to negotiate additional forbearance from lenders, receive debt advice to maximise their income, or apply for assistance from the MRS if their homeownership is no longer sustainable. While borrowers who had approached local authorities, but not made MRS applications, were invited to participate in the research, it was overwhelmingly those borrowers who had completed or had applications for MRS pending that responded to our invitations to be interviewed. Four out of 32 borrowers interviewed had enquired about, but not made an application for MRS, the rest had completed or were awaiting completion.

6.4 There was some evidence that borrowers were benefiting from advice and support received as a result of approaching local authorities or advisors as part of the mortgage rescue process. One borrower interviewed was ineligible for MRS as they were not in priority need, but considered the local council to be *"brilliant"* and *"very helpful*" as, following her approach to them, she was subsequently able to agree a lower repayment schedule in court than the lender initially wanted. Another local authority acted as an advocate for a borrower to arrange forbearance with the lender and helped her claim benefits. This couple were about to start new jobs and felt very positive about their ability to recover their position.

6.5 However, another borrower had a less positive experience. He had met a duty solicitor at court and been referred to the local council about MRS, but had not heard anything back from the council. There appears to have been no formal approach to him from the local authority and no provision of advice. He may not have qualified for MRS as there was some uncertainty regarding whether his children lived with him or his wife following their relationship breakdown. However, he required support and advice with his mortgage. He was subject to a suspended possession order on terms which he could not afford. Following a mix-up about whether the first payment following the order was in advance or in arrears, the lender insisted that he had broken the terms of the order and was now requesting a sum four times that which the judge approved. The borrower regained employment but had been living on discounted food and is reconciled to repaying the sums requested by the lender in order to save his home.

6.6 Local authorities, lenders and advisors also viewed the preliminary provision of advice to borrowers in mortgage arrears as important and said they used every opportunity to examine the scope for further forbearance and to sustain homeownership if possible[13]. Lenders noted that an approach for MRS was used as an opportunity to try and arrange further forbearance. Two lenders reported that the appointment of named MRS 'champions' within each of the lender organisations, had meant that advisors and local authorities used these contacts and email addresses to request support for the borrower. The monitoring data do not show the outcomes of the advice and support given to borrowers who approached MRS providers but did not apply for MRS. In addition, local authorities and advisors are unaware of the outcomes for borrowers who use their services for enquiries alone as no follow up work is undertaken.

6.7 There were obstacles for borrowers trying to obtain the necessary information about MRS or the other options available to remedy mortgage arrears. One borrower noted that the job centre had not provided information and that only

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[13] Although conducted by an advice agency, a recent report found that contact with an advisor had enabled 63 per cent of borrowers in mortgage arrears to remain in their homes (Ahmed, 2010). Advice was a low cost and effective way of borrowers negotiating forbearance with the lender, as well as accessing schemes such as MRS and SMI.

after he had enquired about MRS did he learn of SMI, and that he could claim. His lender was then willing to forbear. The advice provided by local authorities and/or advisors is critical in achieving positive outcomes for borrowers to help them sustain homeownership, but there are many opportunities lost during the period in which borrowers are in arrears when key information could be communicated to borrowers by different agencies:

> *"Main thing is that the job centre doesn't tell you about benefits that were there, they're there to help you. And* [I am] *annoyed* [the] *lender could have told me. It was like they were making me go into arrears, but they could've told me. I just think I was ignorant. I've never been unemployed before. I must admit the lady at the council, she was great. Fantastic. I nominated her to be the person to talk to* [my] *lender for me because I was so stressed."* (MRS borrower)

Outcomes for borrowers with failed MRS applications

6.8 Table 6.1 shows that 2,580 MRS applications to local authorities had not completed for a variety of reasons. MRS applicants were offered an alternative option in a quarter of cases (25.9 per cent) and borrowers withdrew the applications themselves in nearly a fifth of cases (18.3 per cent). Further examination of applications revealed that households were not eligible in almost a third of cases (30.9 per cent) because there were ownership problems, the households would not fall within the relevant priority need categories or were ineligible for other reasons (which might include not considered to be at risk of possession, for example). Another quarter of applications (24.8 per cent) did not complete as excess income, valuations or negative equity were considered to be outside the scope of the scheme and/or the housing association refused the property.

Table 6.1 Reasons for closure of local authority MRS cases Jan 2009 to March 2010

	%
Household voluntarily withdrew	18.3
Offered alternative option	25.9
Ownership queries/2nd home	3.2
Ineligible	14.1
Not within a relevant priority need category	13.6
Excess Income/Valuation	7.7
Negative Equity	8.4
HA Refusal (Valuation/Condition)	8.7
Total	100.0

Source: MRS monitoring returns for local authorities

6.9 Local authorities, housing associations and advisors were also unaware of what happened to borrowers who were refused or declined MRS as there was no further contact with the borrower:

"I was going to see if things happened, [but I] *worried they'll ask me to chase things and I have no power to change things. It is about time to follow up…concerned for clients."* (Advisor)

"I leave it, they'd get in touch if there was a problem, so I assume they worked it out, but I've no data to back that up." (Advisor)

6.10 However, two borrowers who had sought advice but initially decided to try and retain ownership had been re-contacted by advisors after many months. Both borrowers' situations had deteriorated further and this offer of further assistance was welcomed.

6.11 Once lenders learn of a failed MRS application, the arrears recovery is resumed, but it is unclear how many failed MRS applications end in possession. Three of the borrowers interviewed had made MRS applications that had not completed. None have had satisfactory outcomes to date.

6.12 One borrower was 75 years old and her application was rejected as she and her husband were not as yet in arrears on the mortgage account. However, the situation appeared to be wholly unsustainable, as the couple had taken out a ten year mortgage in 2008 with monthly payments over £800 and an additional £25,000 loan based upon pension and childminding income, but the wife gave up her childminding as her husband became ill. The applicant has involved her local MP.

6.13 Another applicant, a single parent with four children, had had her house on the market but had applied for MRS as there were no buyers. Three months after her application she received a letter stating that her application had been declined. Ten months after her initial application she received a letter from the Fast Track team asking if she would like to consider MRS, but by that time her house was sold. She is renting privately and the rent is unaffordable. She described herself as 'cracking up' and cannot sleep:

"Complete waste of time…The Government leave you drawn…you need to be helped as soon as possible, you need a fast, definitive response, three months is too much, let alone ten months." (Former borrower)

6.14 In the third case a lone parent was not given assistance or support from her local authority and was initially told she was ineligible for MRS. Her lender had told the local authority that they would not seek full possession at court but only a suspended order and the local authority therefore confirmed in writing that they did not consider her to be in immediate threat of eviction. However, the lender was given full possession by the court. An MRS application was then considered which was not resolved for 12 months, and even then the outcome was unclear. The housing association said that her property, estimated to be worth £325,000, was over the local value limit of £305,000.

The property value is within the HCA's margin of flexibility but the housing association advised that the rental would be very high and that she should go back to the lender for assistance. The borrower was unsure if her application had been refused outright. An advice agency explained that she is *"at the mercy of the lender"* as she is technically renting the home at their discretion as the court granted them full possession. She found new employment and the lender immediately resumed recovery action demanding a repayment arrangement but this continues to be unaffordable due to the high interest rate and lower income than when she took the original loan. There may be some scope for a renegotiation of the loan but that was uncertain and the local authority had apparently closed off an MRS exit:

> *"Just feel you're on your own, someone like me tries to be honest and open and cooperate at the outset, telling them as soon as I have news I'll let you know. Every month I paid something. As soon as a mortgage rescue scheme* [was announced] *I self referred myself... what do I do? …feels like you're on your own, wade through it and getting hassled by the mortgage company, ringing you, putting stress on you."* (Borrower)

Supported exit from homeownership

6.15 This section considers whether successful completions of the MRS have facilitated supported exits from homeownership for vulnerable households, which allows them to organise their debts, retain homeownership where possible and avoid the personal disruption that attracts negative outcomes.

Borrowers perceptions of completed Mortgage Rescue

6.16 Between January 2009 and March 2010 there were a total of 629 completed MRS cases. Of the 32 MRS borrowers interviewed, 14 had completed their MRS sale and were now tenants of housing associations. A further 11 were awaiting confirmation of their application, some of which were awaiting completion of the conveyancing process.

6.17 For all of these borrowers the MRS had alleviated the acute anxieties associated with a long period of mortgage arrears. The events that gave rise to the mortgage arrears - unemployment, bereavement, relationship breakdown, as well as over-indebtedness - proved difficult enough on their own, but combined with the potential for losing their home, many borrowers felt under severe pressure. MRS was repeatedly considered to be a *"lifeline"* or a *"life saver"* and lightened their fears of homelessness. In particular, people noted that being able to transfer tenure but staying within their current property released them from stigma, from disrupting their children's education, secured their place in their neighbourhood and provided an immense sense of security and relief. As one association noted: *"You see the relief in their eyes* *when they're told they've been accepted."* The quotes are illustrative of the profound impact MRS has had on these former borrowers:

> *"At least I can come home, it's not my house, but the relief of keeping my home…no downsides. There is no downside. When you are told you can stay in your home, you don't know what it's like, which corner to go in and cry, who to grab and hug. It's like an angel touched your heart and all the threatening behaviour gone away, it's so hard to deal with."*

> *"I can sleep easier at night now, it's a means to an end. I can stay in my home, money is going to be tight but I will have the mortgage people off my back and made life a little bit easier. With my wife dying, at least I know I've got somewhere to live."*

Relinquishing ownership

6.18 In the 1990s, there was a sense, echoed by one of the lenders interviewed, that although 2,000 homeowners became social housing tenants through mortgage rescue schemes, people preferred to avoid becoming a tenant of a housing association. Borrowers interviewed in this evaluation had made strenuous efforts to maintain ownership of their home, by, for example, selling their belongings or tenaciously seeking support and additional employment. However, during the period of mortgage arrears these borrowers had recognised the unsustainability of their situation and, had, although with regret, reconciled themselves to renting. Their home was more important to them than the terms of ownership. They also recognised that renting meant they no longer had to struggle to maintain the mortgage and would be free of the responsibility of repairing the home. For example, the MRS had given one former borrower a *"clean start"*. Giving up ownership was not easy and some borrowers had mixed feelings, as they were giving up control of their home, however, their priority was to stay in the house not to own it:

> *"I love where I live. I have supportive neighbours who looked after me when I was ill. It's a council estate but mostly owned, but I'm not bothered about buying…I don't miss worrying about it."* (MRS tenant)

6.19 Several former borrowers expressed a view that homeownership might be desirable in the future but recognised that this might not be possible until they were able to repair their credit file. The ability to buy back their home later in their tenancy was, therefore, important to some borrowers, as this provided the hope that should their circumstances improve they could be owners again in the future. The inclusion of a right to purchase the home is at the discretion of the housing association:

"Just carry on if I'm a good tenant…[but] *It was very sad…we'd worked all our life, but MRS was our saviour…and we have the right to buy it back."*

6.20 Many MRS tenants were content to rent, even if in the short term. One borrower said that if her husband found a job they might buy again, but was satisfied in the meantime. *"Be a tenant for a while yet".* Another borrower was content being a tenant. *"Shared equity wasn't for me…I've no job and there's my age. "* He conceded that his attitudes to owning might change if he obtains new employment. However, other former borrowers and partners reported that people no longer wanted the responsibility of homeownership:

"Always ask 'Is this something you want?' But the majority don't want to be homeowners and want to do this." (Advisor)

"Reports from members indicate that people don't want to be homeowners anymore, they want to stay in their home and pay rent." (Key player lenders)

Sustaining the new tenure

6.21 The overarching ambition of MRS is to prevent homelessness and this section examines the early indicators of whether the new tenure arrangements that result from MRS will be sustainable in the long term.

Sustaining housing costs

6.22 As MRS has only been established since January 2009 and experienced a slow start, most completed cases interviewed had not been tenants for long. Both borrowers and partners considered it too early to determine the long-term sustainability of these tenancies. Housing associations reported that usually they managed the tenancies as part of their general housing management functions, but some had specific financial inclusion and tenancy sustainment officers who could also be drawn on to support these new tenants. There were three issues that required careful management and these were:

(i) the former borrowers' ongoing debts

(ii) obtaining help with their housing costs and

(iii) shared equity cases

i) Ongoing debt

6.23 As noted earlier, 47 per cent of MRS cases completed by the end of February 2010 had negative equity. In addition, 53 per cent had unsecured debts and 42 per cent second charges secured on their home. These circumstances were also common amongst the MRS borrowers interviewed. Although labour market disruption was the principal reason most borrowers fell into mortgage arrears, the multiple debts in negative equity cases meant borrowers were not always able to escape their debts on the sale of the property. Many MRS applicants complete with unsecured debt remaining and many transactions involved negotiating a shortfall repayment arrangement with lenders. Furthermore, many borrowers have received specific assistance from debt and money advisors, and seven have had mortgage arrears and payment problems in the past. Therefore, it remains a legitimate concern that the tenancies perform well and that, following the extensive efforts of MRS, that people do not go on to lose their home due to rent arrears.

6.24 Table 6.2 illustrates the levels of unsecured debts held by the 235 MRS households who completed in the period to February 2010.

Table 6.2 Average level of unsecured debt in MRS cases completed by the end of February 2010

	Average	Under £10k	£10k-£20k	£20k-£30k	£30k-£40k	£40k-£50k	£50k-£75k	£75k-£100k	Over £100k	Total
MTR	£16,566	108	62	20	16	13	7	1	4	231
MSHE	£18,550	0	2	1	1					4

Source: HCA RSL monitoring returns

6.25 The average level of unsecured debt is £16,566, but 27 per cent, 63 cases, had unsecured debts of £20,000 or more. Ten per cent had unsecured debt over £40,000. As discussed earlier, the data suggest that most cases were able to secure agreement of the lender to write off any shortfall debts arising from the mortgage, but these unsecured debts remain substantial for many.

6.26 Most associations noted that it was too early to determine the outcomes of the MRS tenancies but ongoing debt problems were an issue and that their financial inclusion or advice staff were providing assistance. At the time of the interviews, one association had 66 completions and seven of those were in chronic rent arrears, suggesting that in this admittedly small sample, 10 per cent of MRS tenants had serious arrears. In contrast, 4.6 per cent of all housing association tenants had rent arrears in 2009 (TSA, 2010):

> *"Never dealt with social housing tenants, so not sure how it compares. What I have found is that if HB is being paid direct to an applicant, some people prefer an X Box than to pay their rent. We're conscious we've rescued these people and don't want to send a notice of seeking possession, but by*

the same token they have to understand that this is a great possibility." (Housing association)

"Not had any complaints, most who are applying for mortgage rescue are doing so because they have been made unemployed and are signing on, so they are likely to get Housing Benefit and they have CAB giving them financial advice." (Housing association)

6.27 One MRS tenant acknowledged that following money advice they had reviewed their spending accordingly. *"We are trying to economise more after the advice".* And another former borrower said that advice had meant that new repayments were manageable, *"I thank God that it is not pressing to that extent, we can survive."* However, another MRS tenant who had still not applied for a 'rebate' (housing benefit) said that she had felt under pressure to accept the second charge lenders' arrangements for repaying the outstanding debt to them, for fear that the rescue would not take place, and was finding the new repayments difficult. Her mother was helping her and she considered seeking further support from CAB:

"I couldn't risk them backing out…This was the only agreement they'd accept and I'm struggling to pay it. Maybe I could approach them later."

6.28 One advisor thought some of her clients would go bankrupt after MRS completed and was concerned that this might make it harder to negotiate shortfall agreements with lenders in the future. One MRS tenant had been left with her husband's debts and shortfalls once the sale had completed and an advice service had helped her go bankrupt in order to avoid the responsibility for the shortfalls passing to her.

ii) Rent levels and help with housing costs

6.29 The intermediate market rent was welcomed by most MRS tenants although some that were aware of social tenancy rents thought that it was a little higher, but most were comforted that the rent was reasonable. For example, one noted that the new rent was *"a little easier"* and that he will now have some money left over to repay outstanding debts:

"Quite happy a realistic figure and it gave us a secure future, which is what we were looking for."

6.30 The financial breakdown of an MRS case in table 4.3 illustrated that this borrowers mortgage costs were £691 per month on a repayment basis and £510 on an interest-only loan, but they could only afford £372 per month. The final rent following completion would be £273, which is a £237 reduction in immediate housing costs indicating a greater opportunity for sustaining these costs than with the mortgage. In this example, the person had some income and it would depend on their household composition whether there would be any entitlement to housing benefit.

6.31 Of the 32 MRS applicants interviewed, in all probability 14 would be eligible for full housing benefit[14] and a further 11 could possibly claim partial housing benefit as they are on low incomes, and the others were unknown. However, three borrowers whose circumstances indicated they would gain from claiming housing benefit had either understood that they would not be entitled to claim it, or were unaware of 'in-work' or partial entitlement. It was not clear that the housing associations had helped everyone to complete applications.

6.32 It is too soon to establish the extent and cause of rent arrears amongst MRS tenants. However, housing associations reported some of the rent arrears problems to date have been associated with setting up fresh housing benefit claims. One association reported that they had successfully sought agreement with local authorities to process MRS tenants' benefit claims swiftly. Associations are obviously aware of continuing financial and debt pressures on these households and monitor the tenancies closely *"to make sure it's working"*. Therefore some risk exists that in some cases rent payments could become problematic in the future:

> *"The rent is due tomorrow, I <u>think</u> I have enough money to pay for it."*

iii) Shared equity

6.33 There were no former borrowers interviewed who were using the MSHE option of MRS and few housing associations had experience of this option. However, advisors and associations noted that the sustainability of this option was an important issue. One association had a MSHE case where the lender had specified that if one mortgage payment was missed then the case would be referred for possession. The association did not know whether any mortgage payments had been missed, but the MSHE borrower was five months in arrears with the monthly charge for the equity loan. This caused them great concern as this person's failure to respond to payment requests may end with the association seeking to litigate. MRS tenants receive support from housing management and financial inclusion staff, but it is unclear what support borrowers who entered into MSHE arrangements receive from associations, if any, as they remain full homeowners:

> *"We're chasing residents to clear the arrears, try to get an agreement on arrears, but if not we'll go down the usual route and get a solicitors letter*

[14] As the homes are owned by social landlords, housing benefit is payable rather than local housing allowance. As such the full intermediate market rent is eligible in housing benefit calculations, subject to the usual income and non-dependent calculations.

out to them. We don't want to do that as they've already been rescued, but they have to pay." (Housing association)

Decent and secure home

REPAIRS

6.34 An advantage of becoming a social housing tenant was that the repairs were now the responsibility of the housing association. Several MRS tenants said that they had not previously been able to afford to undertake key repairs whilst a homeowner and that they were relieved that they now had an opportunity to have their home maintained:

"I couldn't have afforded the repairs even if I got a job, I couldn't put the house in order, this was the best option." (MRS tenant)

6.35 Housing associations receive an additional grant of up to £30,000 to bring the property up to the Decent Homes Standard.[15] A housing association surveyor usually inspects the property prior to any formal MRS offer being made to the borrower to determine the condition of the property and estimates the costs of any remedial works required.

6.36 A total of 321 MRS cases, 75 per cent, required repairs out of the 425 completed cases to the end of February 2010 (Table 6.3). The average costs of repairs are modest, £11,868, but 13 cases exceed the maximum limit of the grant available.

Table 6.3 Repairs costs in MRS cases completed by the end of February 2010

	Number	%
Over £40,000	2	1
Over £30,000	11	3
Over £25,000	14	4
Over £20,000	30	9
Over £15,000	36	11
Over £10,000	54	17
Over £5,000	108	34
Up to £5,000	66	21
Total with repairs	**321**	
Average repair	**£11,868**	
No repairs	**104**	

Source: HCA RSL monitoring returns (average costs excludes cases that required no repairs)

[15] All property owned and managed by the council or housing associations must meet the Decent Homes standard. To meet the standard, property must have reasonably modern facilities, be warm and weatherproof.

6.37 The level of allowance for repairs was seen as fair by most of the borrowers. Housing associations commented that average repair costs were in the region of £6,000 to £10,000 with exceptional cases of up to £30,000, although others were between £1,000 and £2,000. Common repair items included the need to make heating systems safe. Some 'improvements', for example structural work which did not have building warranty, also had to be put right as part of the asset management work. Items such as conservatories were accepted subject to the owner signing a mandate taking responsibility for repair and safety issues. Several owners commented on the high quality of work and the good management of repairs carried out by housing associations.

6.38 A lender noted conversations with housing associations where some had been surprised that a proportion of homes required significant investment. Associations themselves suggested that most properties were in good condition, but that a portion of borrowers may have been financially constrained for some time as there had been little spent on home maintenance:

"Think the RSLs are naive as they assumed 'it's owner-occupation, I thought they'd looked after them'." (Lender)

*"Some are in excellent condition, really looked after, but some haven't been. You can see they have been struggling financially for some time as they've not invested in the property for a long time." (*Housing association)

SECURE HOME

6.39 MRS tenants are provided with a three-year assured shorthold tenancy. Most MRS tenants reported that the housing associations had told them that their home was safe as long as they complied with the terms of the tenancy by paying their rent and were 'good tenants'. For most completed MRS tenants this was sufficient security for them view the future positively:

"I've got well behaved children" (MRS tenant)

"I did get in touch about that, they said as long as I keep paying my rent I will always have a home and that was reassurance enough for me." (MRS tenant)

6.40 Some shared small anxieties about the uncertainty of what might happen at the end of the three years. However, housing associations reported that they had not yet decided what they would do in terms of granting a new assured shorthold or assured tenancy, or whether after the three-year period the rent would remain an intermediate market rent or convert to a social housing rent. The HCA toolkit confirms that tenants are able to stay in perpetuity as long as they comply with the tenancy conditions, but that it is up to the association which tenancy they issue after three years. A small minority of completed MRS tenants were concerned about the three-year fixed tenancy. For example, one MRS tenant was concerned about the fixed period and limited security as she has lots of pets that can sometimes contravene the terms of the tenancy agreement. She also felt she was paying more than her neighbours on the council estate as she was paying 80 per cent of the market rent not the target social rent. This person felt the scheme could be improved by getting rid of this fixed period. She felt relatively secure *"but I'll feel better after the probationary period."*

6.41 Two MRS tenants were unsettled by a further transfer of the ownership of their home from a Homebuy agent to a housing association local to them. The syndication process may alleviate such concerns in the future, as properties will go directly to the syndicated association and not to the Homebuy agent, although a minority of housing associations did suggest that they would consider stock rationalisation of early MRS properties in the future:

> *"The association tell me nothing, they've had my house off me, I've got a bit of rent arrears which I'm catching up on* [as a result of benefits being set up], *but they came out to me but haven't done anything. They want to sell the house to the other company but I'm left in limbo."* (MRS tenant)

Under- or over-occupation

6.42 Table 6.4 shows the size of home occupied and the number of people in the household. Without knowing the exact composition in terms of the nature of any disability, the sex of the children or whether there is a couple or lone adult, it is not possible to determine whether the household is under or over occupying the property. Social housing tenancies rarely allow for a spare bedroom when the tenancy is first granted, but low cost homeownership or other intermediate housing initiatives may. Assuming MTR tenants would have entered general needs social housing were it not for MRS, the table suggests that a minimum of 84 (20 per cent) of the 415 MTR households, where the information is recorded, could be under-occupying the property. Using the same broad match of household members to bedrooms within CORE data, a minimum of 12 per cent of new social housing tenancies (local authority and housing association) during 2008-09 were under-occupying. There are four MRS households with only two people in three-bedroom properties who were given equity loans but in line with common policies in the intermediate housing market these have not been included as under-occupying.

6.43 Conversely, the table also suggests that three households each with five members were occupying a two-bedroom property and would therefore be considered as overcrowded by the Bedroom Standard. The 12 six-person households in three-bedroom properties could also be considered overcrowded if they were a lone parent or the children were of different ages and sex. One borrower interviewed was satisfied with the completion of the MRS but was overcrowded and hoped for the housing association to transfer her to a larger home in the future.

Table 6.4 Size of MRS dwellings and households in MRS cases completed by the end of February 2010

Bedrooms	**Numbers in household**					
	One	**Two**	**Three**	**Four**	**Five**	**Six(+)**
MTR						
One	1	4				
Two	15	26	24	10	3	
Three	7	56	99	94	23	12
Four	1	5	5	8	15	4
Five					2	1
Totals	24	91	128	112	43	17
MSHE						
One						
Two		1	2			
Three		4	4		1	
Four				1		
Five						
Totals		5	6	1	1	

Source: HCA RSL monitoring returns

Improvements and future of MRS

6.44 An enthusiastic consensus has developed for the MRS to continue beyond its original two-year period. All participants recognised that the economic recovery was not yet well established, but also that some drivers of mortgage arrears, such as ill-health and relationship breakdown are apparent at any time of the economic cycle. There was a desire for the MRS to become a permanent feature of homelessness prevention. There was some recognition that the Mortgage Market Review (FSA, 2009) would afford greater scrutiny to lenders' lending and arrears recovery processes but that this alone was insufficient to limit the numbers of borrowers who experience a permanent loss of income:

> *"*[MRS] *is a good idea …..People should know* [more about MRS], *there are people living on credit cards*. [I'm] *worried that people will still need this help in the future*.*"* (Local authority)

6.45 CLG has already instituted a range of improvements to the MRS and this is widely acknowledged. However, institutional participants and borrowers identified a number of further improvements that could be made to MRS to increase the scheme's effectiveness. These relate to the borrowers' awareness of the scheme and other support available and to the delivery of the scheme:

> *"They've* [CLG] *done really well, there have been a lot of improvements, more information coming through, it's got a lot better in that respect. Now there are provider meetings* [organised by HCA and CLG]*, and they're an important chance to get together and one we all appreciate. It was such a new thing we were playing it by ear and seeing what would happen, a learning curve. We're in a good place now. We're committed and looking to progress 140 cases next year."* (Housing association)

6.46 Institutional participants recognised the impact of the initial media campaign in early 2009 and of the follow up in September 2009 and called for more awareness of the schemes. Borrowers reported that some lenders had not advised them that MRS help was available, although proposals that would require lenders to notify borrowers of all Government schemes are included in the Mortgage Market Review (FSA, 2009). Borrowers also reported that Job Centres did not always provide information about help available to homeowners:

> *"The Government need to make the information readily available through lenders, job centres etc." (*MRS borrower)

> *"The scheme should be advertised more widely. We were struggling, not coping. Family was buying us food and we were selling things but we didn't know about it* [MRS]*. We only found out because of a random comment."* (MRS borrower)

6.47 Several borrowers experienced disappointment with the access to or quality of advisors they met when they sought help for their mortgage arrears. Advice agencies acknowledged that MRS required specialist trained staff and that additional funds had been made available for them to undertake this work.

Improvements to the delivery of MRS

6.48 The remaining suggestions for improvements relate to the delivery of MRS. Most arise from the rapid implementation of the scheme but now that the processes are becoming more embedded, the quality, as well as the quantity, of service delivery can come more to the fore. Firstly, lenders and some advisors called for MRS to be administered solely through the centralised Fast Track team, suggesting there was too much disparity in the decision-making and speed of delivery amongst local authorities, even though it was acknowledged that many of them were performing very well.

6.49 The issue of timescales and service level agreements between the key delivery partners was frequently mentioned. While many delays resulted from the complexity of the cases, it was apparent some arose from inadequate process mapping and the inability of some organisations to act promptly on MRS referrals. The additional housing association guidance from HCA, and the timescale commitments from CLG Fast Track team are welcome but are worthy of further work. Some lenders considered that, although institutional participants did not consider them to be a prime source of delays, borrowers should also be made to respond more promptly to information requests, with penalties if they did not comply.

6.50 Borrowers called for improvements to be made to keep them informed of the ongoing progress of their MRS applications. Frequently borrowers were only contacted when specific information was required from them to advance the application but were unaware of what was happening when waiting for the next stage of the application process to commence or for the conclusion of ‘behind the scenes’ negotiations about valuations, write downs or shortfall arrangements.

6.51 In practice, some associations did not necessarily see it as their responsibility to keep the borrower informed of progress as they understood either the lead provider or the local authority would fulfil this role. Future revisions of the toolkit could include templates for providing borrowers with contact details of key workers responsible for progressing their case and maintaining contact throughout the application period.

6.52 There was also some concern about the eligibility criteria for the scheme. Two local authorities reported problems with households who had too much equity to undertake the mortgage to rent option, even when this was desired. There was a view that constructing the eligibility criteria in this way rewarded people who had engaged in excessive borrowing. Those borrowers who had not remortgaged and had equity in their home, but for whom the mortgage was unsustainable, were not eligible for MRS at all, or only for Mortgage to Shared Equity (MSHE) which some borrowers did not favour.

6.53 There was another issue that a local authority worker felt sent out the wrong signals about the scheme. This related to borrowers whose situation is wholly unsustainable but who are ineligible for MRS as they have not yet been issued with court proceedings (or may even not have been in arrears yet). These people are typically using alternative resources (like credit cards or family) to pay the mortgage but might be better served if they made no effort to pay the mortgage so that they would become eligible for MRS. Money advisers are in a difficult position as they cannot advise people not to pay, should the MRS application ultimately prove unsuccessful. It would be helpful to consider some way in which these borrowers could become eligible earlier in process.

6.54 Administrative delays were compounded by often protracted negotiations regarding secured charges on the property. Lenders and their representatives reported that a pro-forma is in development that would see first and second charge lenders sharing information regarding possible possession proceedings, with the borrowers' permission. However, based on the evidence, the authors suggest that a memorandum of understanding between the first and second charge lenders, local authorities and housing associations should also be produced to guide the resolution of disputes arising from multiple charges and/or shortfall debts in MRS sales.

6.55 The non-statutory and flexible nature of the MRS scheme means that there is large variation in practice between various local authorities and housing associations and it is unclear where borrowers, or their advocates, can appeal if they disagree with decisions made. Some delivery partners had gone straight to the HCA, others appealed to the housing associations, but it was not clear where a borrower could appeal against decisions of a local authority. The MRS on-line forum for MRS delivery staff suggests that the internal complaints processes of individual agencies should be used. Some borrowers had complained about valuations or rent levels but none suggested that they required a formal complaint procedure. However it was clear some borrowers, especially those that had been turned down by MRS partners, were unclear of who it was they should approach to ask for their case to be reconsidered -the local authority or housing association. Setting out advice on scheme responsibilities, who to approach if there is a problem and how to complain could be included in key scheme literature.

Summary

6.56 There have been fewer completions of MRS applications than originally anticipated for the first year of operation, but the referrals and operational processes are gaining momentum and the rate of completions is now rising each month. The scheme data do not record the outcomes for borrowers who sought advice only from MRS delivery partners and there is currently no systematic method in place to capture these data. Nevertheless, lenders, advisors, local authorities and borrowers did cite successes attributable to the presence of the MRS and there were examples of borrowers being able to negotiate greater forbearance with their lenders, resist court orders and remain in their home as a result of engaging with MRS.

6.57 The completion of MRS for vulnerable borrowers offered security and peace of mind following long periods of acute anxiety when they had been at risk of losing their home. The transfer of the borrowers' tenure from ownership to renting had stabilised their home and many cited the social and psychological benefits to their relationships and families from avoiding the disturbance of possession and homelessness. Several potential areas for further improving the delivery of MRS were put forward: achieving greater consistency in the speed and nature of decision-making; improving the information flow to borrowers; shared approaches to resolving disputes arising from multiple charges and shortfall debts; and clarifying a procedure whereby decisions might be appealed.

Chapter 7

Homeowners Mortgage Support

Introduction

7.1 This section focuses on the Homeowners Mortgage Support (HMS) scheme and considers the design of the initiative, its implementation and the direct and indirect impacts for individual borrowers.

7.2 There is considerable qualitative evidence of the partners' views of HMS, but as there are few HMS cases, experiences of individual cases are rather more limited. Ten borrowers were interviewed regarding HMS, four of which had been entered onto the scheme, and the remaining borrowers were on other forbearance or comparable schemes. The quantitative evidence should also be treated with caution due to the low take up of cases to date.

Policy development

Scheme design

7.3 The Homeowners Mortgage Support (HMS) scheme was launched to address a gap in the safety nets available to homeowners. Households with a specified *partial* loss of income are ineligible for any assistance from Support for Mortgage Interest (SMI), but nevertheless they may require some support until they can regain their financial position. The take-up of mortgage payment protection insurance has declined and so few borrowers are able to draw on these policies. In addition, if the household is not faced with possession, and are not in priority need, they are also ineligible for help through MRS.

7.4 HMS, therefore, is designed to incentivise lenders to offer greater forbearance for longer periods to borrowers who are not entitled to any other assistance with their mortgage arrears and who suffer a temporary income shock. The scheme is based upon lenders agreeing to accept a minimum of 30 per cent of the contractual interest payment for a period of between six months and two years. Any deferred interest is capitalised each month and the lenders' risk of losing these sums is minimised by a Government guarantee. Should the borrower be unable to recover their position and the case end in possession, if the lender is unable to recover the total debt from the sale of the house, then the Government will reimburse the lender with up to 80 per cent of the total deferred interest.

7.5 The Master Guarantee Deed specifies that the borrower is eligible for HMS in the following circumstances:

- they are a natural person*
- they are a UK citizen or if not that they have recourse to public funds
- they have suffered a temporary income shock but can meet a minimum of 30 per cent of the mortgage interest
- they have been reliant on existing lender forbearance for at least five months
- they have no other savings or assets of more than £16,000
- they accept being moved to an interest-only mortgage
- they purchased the property prior to 1 December 2008
- the loan must not exceed £400,000
- there is no other lender with loans secured on the property who would seek possession of the property during the period the borrower is entered on to HMS
- they have received money advice
- they do not receive mortgage support from either SMI or MPPI
- they do not own another property

7.6 By November 2009, 11 lenders had agreed to offer HMS, and these lenders represented half of the mortgage balances outstanding in 2008 (CML Statistics Table MM10). Four lenders had agreed to offer 'comparable schemes' and they represented 35 per cent of mortgage balances outstanding in 2008. Of the seven lenders interviewed, four offered HMS, one a comparable scheme and two made use of routine forbearance measures. One lender who offered HMS also had another rescue forbearance scheme.

Partners' perceptions

7.7 As a rapid response to the downturn and the increasing number of borrowers struggling with their mortgages, the Prime Minister of the time announced the new HMS scheme alongside the Queen's Speech in December 2008. Eight prominent lenders agreed in principle at the time, but legal and operational representatives from the wider lending industry did not become engaged in the detailed design of the scheme until after this point. Negotiations with the money advice sector were running in parallel to these discussions. The inception of HMS has therefore appeared classically 'top-down'. Key players,

* A natural person is a private individual, as distinguished from a corporation.

lenders and advice agencies overwhelmingly felt that this was an error and that a better initiative could have been produced if they had contributed to developing the initial outline of the scheme. Lenders, however, did appreciate that policymakers were constrained in their ability to shape the scheme differently.

7.8 Lenders and advisors form critical components of the arrears recovery and support processes for borrowers in mortgage arrears, and, despite the above comments, they have worked closely with the Government to develop the operational details of HMS. Partners acknowledged that CLG officials had tried to accommodate their concerns, but their support for HMS remains subdued. There was a view from lenders that they already offered forbearance and did so without the legal framework of the guarantee, which in a low interest rate environment meant that the sums involved were often small. There were also concerns that the monitoring requirements would place a disproportionate burden upon lenders and that the final model of HMS was unwieldy. There were also concerns that the scheme could increase the borrowers' debt:

> *"Lenders remedies are so similar, they're putting people on reduced payments for a while, covers the same ground with less paperwork and conditions attached."* (Advisor)

> *"*[HMS is] *complicated and cumbersome…with the admin there are hundreds of loops to jump through and information to keep*…[however] *it was a collaborative approach, members of CLG had a reasonable grasp of our concerns but were limited by ministerial and PM concerns that it was implemented quickly."* (Lender)

7.9 However, despite the reluctance to embrace the scheme in its entirety, some lenders viewed the scheme as another tool that could be used as a last resort for some customers and they signed up with this in mind. Other lenders joined the scheme at a later date and others have not ruled out joining in the future:

> *"*[We] *saw it as a solution for some customers and wanted to be an early adopter. Anything that could help, even if only one in 40,000, we're up for it."* (Lender)

> *"We couldn't see it had any value…we didn't see the up side. I know of lenders who've just signed up to say they have done* [so], *it's not a viable scheme…Having said that, we've not stopped considering HMS and might sign up in the future if we could see that it was beneficial." (*Lender)

7.10 The advice sector welcomed the routine inclusion of money advice as a core component of the HMS, but they shared lenders' concerns about what they viewed to be restrictive eligibility criteria and about how the scheme would be implemented. The advice sector was important for lenders as they were able to advise borrowers on maximising income as well as mortgage safety net solutions:

> *"Terrible, that's the best way to describe it. Far too many restrictive eligibility criteria, like the fact that they have to be paying an agreement for five months before entry, just the temporary income shock definition- if its not a recent temporary income shock, is that temporary or not?"* (Advisor)

> *"*[Our] *collectors deal with the problem, if they can't find a repayment because of relationship breakdown or unemployment…they say 'Go and see a not for profit advice service' and we give them the telephone details."* (Lender)

Perceptions of borrowers' awareness of HMS

7.11 Most partners thought that there was greater awareness of HMS amongst borrowers than MRS, but the picture was mixed. Six of the ten borrowers interviewed had heard of HMS in advance of approaching their lender or advice agency. These borrowers had made use of the direct.gov.uk or bbc.co.uk websites, or had heard the Prime Minister or Chancellor speaking about the scheme, and one borrower had received information about HMS from their local council. However, most advisors reported that, typically, borrowers seeking advice rarely knew of what help was available:

> *"Rarely have people heard of anything. The extent that people don't know about options is very worrying for me; it's unusual to find someone who knows anything." (Advisor)*

> *"I'd heard of it, on the internet and Government announcements. It was a relief for me when it was launched."* (Borrower placed on HMS)

7.12 Amongst those borrowers who had heard of the scheme there was some uncertainty about what the scheme comprised and its focus. Some lenders reported that they have had to manage borrowers' expectation that the scheme was a payment holiday, something which some borrowers had understood from the initial announcement. Further, the scheme was complicated to explain to borrowers:

> *"Is more difficult to explain, more difficult to understand, when borrowers find out* [then] *they're not interested. They thought they forgo the interest completely or for a two year payment holiday."* (Lender)

7.13 However, another lender suggested that the initial fear that borrowers would demand a two-year payment holiday had not been as great as anticipated.

7.14 Some borrowers assumed they would not be entitled while others thought that HMS was a right that all borrowers could claim. The discretionary nature of HMS whereby lenders can choose whether to sign up to provide the scheme and can then decide whether to enter individual borrowers on to the scheme, was not received well by borrowers. Borrowers, including those who were benefiting from being placed in their lenders' comparable or rescue forbearance arrangements generally perceived the scheme to be one that they were or should be, entitled to access. This stems from the initial presentation of the scheme as a customer-facing intervention, rather than one that largely exists to support lenders' forbearance practices and indirectly provides support to borrowers:

> *"*[They said] *'not obliged to be part of the Government scheme and we're not'. So that was it, I was resigned to living in the property and waiting to be repossessed."* (Borrower on lenders' comparable scheme)

Considering entry on to HMS

Targeting borrowers in need

7.15 HMS is designed to support borrowers who have suffered a temporary but partial loss of income who are not catered for under the current SMI provisions. This gap in safety net policy for homeowners is clearly apparent amongst the borrowers interviewed in this part of the study. There was some overlap between the circumstances and main cause of mortgage arrears amongst the ten borrowers interviewed. The main cause of the mortgage arrears was the failure of self-employment for seven people, and they had restricted access to some benefits because of their different national insurance contributions and there are problems demonstrating an absence of work unless they close their business completely. Seven respondents were part of couples where the partner continued to work following the failure of the other partner's employment, which is another reason there would have been no entitlement to SMI. Two further borrowers had partial entitlements to SMI because of remortgaging activity or because the loan was greater than £200,000 and had been placed on to a lenders' comparable scheme.

7.16 Several borrowers were angry that there was not more help available to them, many of whom had never previously needed to claim state benefits:

> *"Tried to get help from the muppets at the local job centre, but might as well have talked to the cat. The council were a waste of time. I'd heard that there might be help with unemployment with mortgages so I might as well talk to them, but* [they] *told me nothing, unless I have a disability, they don't help. Thirty-five years I've paid into this country and not got anything out of it. "* (HMS borrower)

7.17 The HMS monitoring data does not include household characteristics or their reasons for arrears and so we cannot illustrate the circumstances of all the borrowers currently entered on to the scheme.

7.18 At the outset, CLG were uncertain what the take-up of HMS would be, but assumed, based on views of lenders, that it could be around 42,000 borrowers. However, the targeting of HMS remains narrower than the potential borrowers requiring assistance. One lender, who offers the scheme, saw only a small tranche of borrowers for whom HMS would be applicable. These were the borrowers who were unable to benefit from this lender's other forbearance tools, such as their loan modifications programme that reduced the interest rate for 12 months rather than defer it for 12 months as HMS does. In particular, the borrowers this lender perceived as potential beneficiaries of HMS were those people who have taken out Individual Voluntary Agreements (IVAs)[16] as there are no advantages for them in rescheduling the debt as any additional monies have to be included in the other debt repayments. HMS provides the opportunity for these borrowers to have their mortgage payments reduced to a manageable level for a short period of time. No other lenders signed up for HMS identified a specific group of people who could benefit but suggested that the scope of HMS was too narrow.

7.19 An advisor concurred that HMS was applicable to only a narrow band of borrowers and could identify the households for which HMS had the potential to be most effective:

> *"The best cases for HMS are those with a decent prospect of getting a job and who make contact early and have an interest-only mortgage. Had one case where they* [the borrowers] *were well over the MRS value ceiling, although they were in priority need. His hours had gone down and his wife was sick. Had his arrears not been so high, and had they not had so much non-priority debt the lender would probably have accepted them, but as it was they were too big a risk. Ideally a bit of equity, not much non-priority debt. Got another couple who have modest arrears, £4000, modest non-priority debts. They've done a role reversal, she has three part-time jobs and he is a skilled builder who can't get work, but is*

[16] IVAs are proposed by debtors who make a debt repayment offer to their creditors. An insolvency practitioner oversees the process. Typically debts are under £15,000. Following the proposal, creditors vote on whether to accept the proposal which is then binding on all creditors. An IVA is a formalised Debt Relief Order. IVAs are less expensive to establish than bankruptcy and have the advantage that the debtor may be able to exercise more control over which of their assets are protected (including the house). Further details of both bankruptcy and IVA are available on the Insolvency Service website (www.insolvency.gov.uk).

doing courses to improve his skills while he's off, I think that one will go through." (Advisor)

7.20 Another advisor also noted the challenge in using HMS for borrowers with multiple charges:

> *"There's also lenders who are not signed up and then you have to have* [any] *second lender on board, but there is no advantage to them.* [I've]*One client who is closest as far as I can* [see] *with the lender: the lender is on board but the second lender said no, they demanded their full payment. Tried to get the same percentage of payment the first charge lender was accepting, but there is no advantage for them to agree. The first charge lender then thinks why should they take less than the second charge lender?"* (Advisor)

HMS applications

7.21 There is a prevailing view amongst lenders and advisors that the scheme is cumbersome to administer, too narrow in its applicability and with a lack of clarity about its remit. The evidence suggests that it can make it challenging for some borrowers to benefit from HMS provisions:

> *"*[The] *easiest part was agreeing, hardest was getting the infrastructure in place."* (Lender)

> *"Very complicated conditions to apply for it, so I've done less HMS than MRS. Complicated to meet the conditions, like disqualified if there is a reason to think that they can't meet the payments, so people with ongoing debt problems might make it difficult, they can't really qualify. The fact that some lenders are not signed up to it, If* [it was] *universal it'd be easier... At first there was lots of information then it disappeared off the map. I think there is confusion about what it is and where it fits in to everything."* (Advisor)

7.22 Of the four borrowers interviewed who had been entered on to HMS, two had had their request dealt with amicably and two others had protracted negotiations with their lender. In both cases where entry to the scheme had proved protracted the arrears had been longstanding.

Maintaining five months payments

7.23 The original scheme criteria required borrowers to have complied with an agreed arrangement with the lender for a period of five months prior to entry on to HMS. The terms of the agreement were at the discretion of the lender (so could be zero each month). This requirement has been relaxed, so although the contract that governs the scheme, the Master Guarantee Deed, has not been amended, lenders are now at liberty to enter borrowers on to HMS at an earlier point.

7.24 The requirement for the borrower to have maintained an agreement with the lender for five months prior to being placed on the scheme was considered to be a barrier by lenders and advisors. One lender who was actively using the scheme based their forbearance on the level of hardship experienced by the borrower rather than the number of months in arrears:

> *"Customers don't understand why they might only be entered onto the scheme in the future and not straight away, even if the lender has already put them on 30 per cent payments."* (Lender)

7.25 One lender had cases being monitored for compliance with the agreement for five months before being entered on to HMS but believes that they are likely to be offered an alternative form of forbearance rather than HMS if they need further assistance. In these cases it is possible that the borrowers' entry on to alternative forms of forbearance may actually be more advantageous. However, one borrower interpreted his lender's insistence that he could not be placed on the scheme immediately as lender intransigence, rather than a requirement of the scheme, leading to some acrimonious feelings. Although his payment may not have changed, the borrower gained a sense of assurance once he was entered on to a Government sponsored scheme and the 'waiting period' had increased his sense of insecurity. Furthermore, there are circumstances where a five months' wait is undesirable. Borrowers who pre-emptively contact their lenders do not want to accrue five months full arrears before support is available:

> *"People don't want arrears, especially those who are pre-emptive. HMS arrears would affect their credit file, so sometimes they say they'll find other ways of getting money, which does make you think that they could get money anyway. CLG originally conceived HMS as a last resort only so* [for some] *their credit file is already damaged, but now we're allowed to offer it at the front end."* (Lender)

7.26 One borrower thought the lender had been the biggest help to him and had not attempted to block his request for HMS. The borrower had understood that he would only be entered on to HMS once he had made six payments at the agreed sums. As he had missed a sixth payment recently, he felt he would have to reapply and restart counting the months before he could secure the comfort of the formal arrangement of HMS. He felt the terms of HMS were not transparent. One lender supported the move to allow earlier entry onto the scheme, but other lenders and advisors still cited the five-month rule as problematic and so there may be problems with how the CLG guidance has been interpreted.

Duration of income shock?

7.27 The definition of whether a borrowers' income shock was temporary or permanent was raised by several interviewees. Advisors and lenders conceded it could be a *"difficult call"* but it had not become a major issue. In practice, two lenders suggested that it has been quite easy, citing a case of a 72 year old losing self-employment, which he viewed as probably being a permanent loss of income; or of borrowers who had been out of work 12-18 months, which could also be considered as more permanent than temporary. However, one advisor reported experiences of lenders asking for proof of a return to work date before accepting that the situation was or had been temporary, which indicates that the scheme in this instance would not offer the support needed while the borrower was 'between' jobs.

7.28 Four borrowers had been entered on to HMS. One was awaiting confirmation of his request but it might be jeopardised as he was in his mid-50s and felt his age was the reason that he had only got three interviews out of 200 job applications and only six reply letters. The decision as to whether his situation was temporary or permanent could therefore have been an issue for the lender, especially as he had been unemployed for 12 months already. The other three borrowers on HMS had all been self-employed. One was undertaking further training in construction skills but was also in his mid-50s, one was making efforts to secure regular full-time employment and was younger. The last one was a mortgage broker and was awaiting a recovery in the mortgage market.

7.29 It was a concern to many advisors that many borrowers continued to seek advice too late as better arrangements can be made earlier. By the time many borrowers sought help there were fewer options for negotiation with lenders. One advisor identified this to be the prime barrier to entry on to HMS. Using HMS as a last resort at the end of a long period may conflict with borrowers indicating that they have good prospects to recover their position and afford the increased payments when they come off HMS. However, some borrowers felt that it was unnecessary to see an advisor straight away and sometimes declined lenders' offers of having their calls transferred to telephone advisors:

> *"I find clients leave it too late, they come 12 months down the line and have significant arrears, so have to pedal hard uphill to get the lender to agree."* (Advisor)

> *"I can fight my own battles, I can advocate for myself."* (Borrower on comparable scheme)

Deferring interest, accruing debt?

7.30 The potential for HMS to increase a borrower's debt and mortgage payments was another recurring theme, as some partners expressed concerns that borrowers would have to secure new employment on higher wages than previously in order to service the increased loan following the capitalisation of arrears and deferred interest. This of course happens with other forms of concessionary lender forbearance. Debt also increases if the period of the loan is extended to reduce repayments (thus increasing interest paid over the term of the loan), or where interest is deferred outside of the HMS scheme, where loans are moved to interest-only and revert to repayment loans with fewer years in which to repay the capital and in instances where the arrears are capitalised. These are all forbearance options available to lenders in their regular 'toolkits' and used routinely, all of which increase the sums repaid in the long term. Nonetheless, several participants noted the possibility of increased debt associated with HMS as being problematic:

> *"The client looks at the scheme in the here and now, but when they come off the scheme they will have an increased payment, and if interest rates go up…They'll have had a years breathing space but, although I've not got any clients on it yet, there's a concern that they might not be able to afford it* [the mortgage] *in the future."* (Advisor)

7.31 However, several lenders have introduced or are considering the introduction of loan modification programmes where borrowers are entered onto a lower interest rate loan for a short period. In this way, no further arrears are accruing unlike HMS. Lenders noted that this was preferable for both lenders and borrowers and was a major reason why in some organisations entry to HMS was not favoured:

> *"Some people have opted against loan modifications because they feel trust in the Government scheme and are unsure of the lender, even if they are better off with loan mods. However 9 out of 10 people opt for loan mods as it's the rational thing to do."* (Lender)

Scheme monitoring

7.32 One lender said that in practice the monitoring did not prove onerous as they have so few cases entered onto HMS that one member of staff can handle the reporting manually. This lender also reported that they had also adjusted their infrastructure and IT systems to accommodate the HMS reporting so that should they enter greater numbers of borrowers on the scheme in the future they could automate the monitoring and reporting. However, this had been a challenge for their organisation and other lenders suggested that they perceived the reporting requirements as burdensome which contributed to their lack of commitment to the scheme[17].

7.33 Lenders felt that the documentary evidence required to enter a borrower on to HMS and to demonstrate their eligibility was too great. The Master Guarantee Deed and administrative rules that form the contractual agreement between lenders and Government suggests that lenders request *'such information and documents from a Borrower as that Participating Lender considers to be appropriate or relevant to its assessment of that Borrower's eligibility*' (para.1.1 Administrative Rules) so how the lender chooses to demonstrate compliance is determined by the lender.

7.34 However, lenders remained cautious about Government assurances about the evidential requirements in order to make claims under the Master Guarantee Deed. Despite Government assurances that they are not looking to renege on reasonable claims for HMS in the future, lenders' own risk and compliance staff sought to make any future claims watertight and wanted to use a 'belts and braces' approach. Therefore the documentary evidence considered by lenders to be necessary to secure a claim in the future was seen as prohibitive and a barrier to borrowers accessing the scheme, not least as they were required to produce evidence repeatedly. One advisor noted that borrowers were often required to provide a greater level of documentation than they had to provide to get the loan in the first place. For example, one lender interpreted the compliance requirements as:

> *"…thirteen elements on what to expect, passport, nationality. It's like a person is* [applying for] *a new mortgage application. It's a hell of a lot of effort compared to one of our own solutions.* [Even when we enter them on] *30 per cent or two years,* [using internal scheme] *is easier…stops customer engagement as it's* [only] *three things for loan mods and 13 things for HMS."* (Lender)

7.35 The same lender suggested that the guidance from CLG for lenders to enter into the 'spirit' of the scheme was too much of a risk when addressing potential claims under the guarantee. Lenders therefore continued to request substantial amounts of documentation from the borrower to ensure the guarantee would be paid if drawn upon in the future. This was documentation that they did not require to move people on to their own forbearance schemes:

> *"Loan mods are a lot of work, but nothing in comparison to HMS. If we can do the front end good enough to waive interest, let alone defer interest."* (Lender)

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[17] In March 2010, CLG streamlined the monitoring data requirements from lenders in response to the low take up of HMS and lenders' representations.

7.36 A lender and borrower both noted that the application process for HMS was therefore lengthy due to these requirements. One borrower applied in December 2009 and was placed on HMS in March 2010. One advisor also noted the lengths people had to go to be considered for the scheme, which combined with the uncertainty surrounding the scheme's effectiveness in the long term makes the scheme less appealing.

Outcomes of HMS

7.37 From April 2009 to March 2010 HMS has achieved a total of 32 borrower registrations. As there are so few cases, caution must be exercised in inferring that future HMS cases will accord with the characteristics of mortgage loans presently entered on to HMS. However, Table 7.1 shows the range of the 32 HMS cases registered by March 2010, and Figure 7.1 shows the regional distribution of these cases.

Table 7.1 Characteristics of borrowers' loans at time of entry on to HMS April 2009 to March 2010

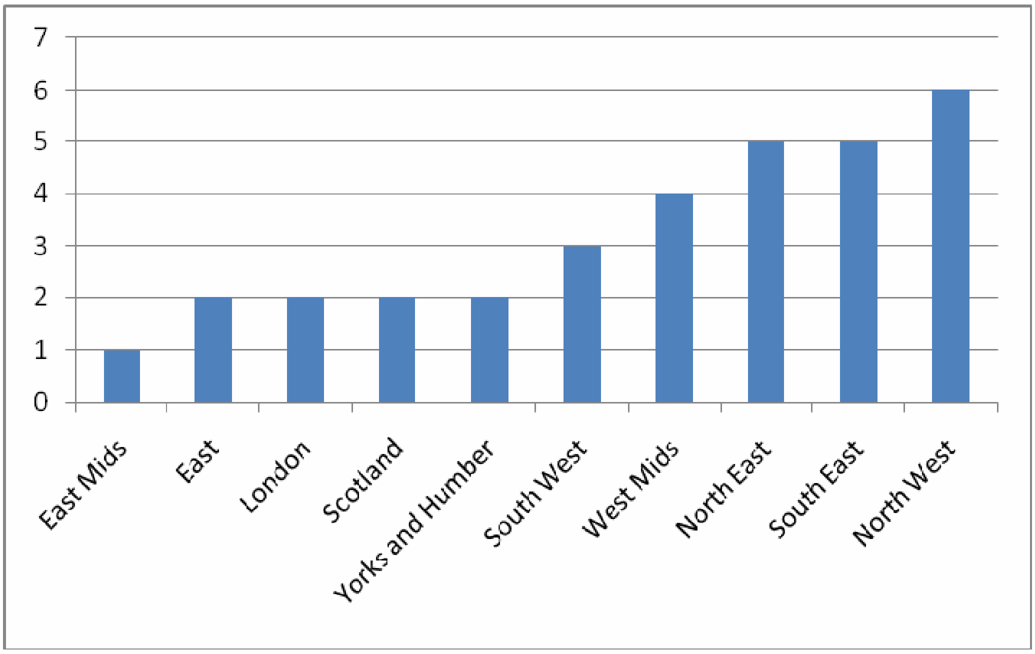
	Mortgage balance outstanding	Loan to Value	Base property valuation	Interest Rate	Total monthly interest payment	Monthly interest payment under HMS	% of interest being met	Amount of monthly deferred interest
Mean	£186,014	98	£189,296	5.45	£855	£362	42	£493
Low	£40,003	24	£57,603	3.5	£117	£35	29	£82
High	£339,466	186	£388,840	7.09	£1,723	£700	84	£1,088

Source: HMS Scheme Monitoring Data

7.38 The average property value is £186,014 which is slightly in excess of the average property value for England, which in March 2010 stood at £164,288. There is a wide range of property values, however: the lowest value was £57,603, and the highest £388,840. Half of the HMS cases had negative equity on the mortgage at the time they were entered onto the scheme, but it is unclear whether these borrowers have other charges secured on their property. Of the loan to values reported for these cases the lowest is only 24 per cent, while the highest is 186 per cent.

7.39 The average interest rate currently payable on mortgages is 3.67 per cent (Bank of England) and at Q4-2009, 60 per cent of loans had interest rates below four per cent (CML Statistics Table MM19). Just four of the HMS borrowers had interest rates below 3.67 per cent and eight have rates higher than the standard rate of interest used for SMI payments until October 2010, 6.08 per cent.

Figure 7.1 Regional distribution of HMS cases from April 2009 to March 2010



Source: HMS Monitoring Data

7.40 Figure 7.1 shows the regional distribution of HMS cases. The North West had the highest number of cases, followed closely by the South East, North East and West Midlands. There are two cases in Scotland and it should be noted that although housing is a policy area for which the Scottish Government has devolved powers, HMS is a UK scheme designed to support lenders and as such is national in its applicability. There are no cases in Northern Ireland or Wales as yet.

Importance of advice for HMS

7.41 Borrowers can seek advice about HMS from a range of not for profit agencies who complete a common financial statement, recording the borrowers' income and expenditure, and advice given on the options available to remedy their mortgage arrears problems. To facilitate greater use of HMS, CLG contracted an advice agency to receive referrals of potential HMS cases directly from lenders. HMS Direct was established in December 2009. However, one major lender signed up to HMS had not referred any cases to the HMS Direct service, and seemed unaware that it exists. This lender did not consider it to be the lenders' role to identify potential candidates for HMS or MRS:

> *"Once they've seen the advisors we'll be in a position to say which of 1, 2, or 3 options they're eligible for. No point offering something like HMS if once they've got WFTC they can then afford the mortgage. We cannot advise, agencies decide the best solution."* (Lender)

7.42 The one borrower interviewed because there was a chance they could access HMS, or a comparable scheme, had not heard of HMS until she was referred by her lender for HMS Direct after being told she would not be eligible by another advice service. The advice agency is now looking into an application for MRS. Another borrower only got advice support for a HMS application on his third visit to a local agency, after being told they could not help him prepare a financial statement:

> *"I couldn't believe the first guy, it was a cowboy approach. 'I came here to earn my money and go home'.* [The older guy] *he had more emotion and feeling, he gave me everything.* [Advice agency] *need to be trained, genuinely committed and put their heart into what they're doing. The first guy was so negative."* (Borrower on HMS)

Effectiveness

7.43 Most lenders and advisors noted that the introduction of HMS helped foster greater forbearance by lenders, and that as part of a raft of other initiatives by the Government to limit possessions, HMS has had some indirect impact on lowering possessions. More borrowers are accessing lenders' comparable schemes and these are sometimes more advantageous than HMS.

7.44 One lender said HMS had not benefited any of their individual borrowers in arrears as they have not yet used the scheme but conceded that there have been indirect impacts of HMS. A key player acknowledged that although lenders were under pressure to take part in HMS not all did so, but they found ways to offer parallel schemes with less complexity:

> *"It has fulfilled its purpose, its prevented repossessions. Meant borrowers considering entry to HMS have been offered lender forbearance…well it can be directly attributable, as when people hear about the schemes they reach out to CAB, LA or lender and the lender says 'let's explore what we can do to help before we use taxpayers money', so both schemes do what they are designed to do."* (Lender)

> *"Undoubtedly acted as a catalyst, a very positive sign of it. Lenders were responding to what was on the table…HMS has been a success, the process, it evolved, it prompted, it cajoled lenders to do more of their own schemes directly and influenced other options to help customers."* (Lender)

7.45 However, another key player representing a section of the lending industry was more ambivalent about the influence of HMS on lenders' own forbearance:

"Maybe [it has] *from the PR point of view* [influenced the market]*, as the lenders had to be seen to be offering something comparable to avoid negative media coverage. But the increase in forbearance is more because more people are needing it as there has been a reduction rather than loss of income. That's why we've seen more forbearance, not because the Government forced it."* (Key player lender representative 2)

7.46 One agency, however, viewed HMS as being influential but not in isolation. Rather the impact was in conjunction with lenders' own commercial interests not to possess and the Pre-Action Protocol. HMS had indirectly exerted pressure on the market:

"HMS is narrow in the help it offers, but without it I don't think lenders' forbearance would be at the top of their thinking. A lot of lenders were not terribly happy with HMS, said there was no need as they were forbearing anyway, and so they had to put their money where their mouth was and extend forbearance. Having said that the Pre-Action Protocol was there in November 2008 and that already set the scene, and then it was in most instances not in the lenders' interest to repossess, so there's been three things combine." (Key player advice sector)

7.47 Several research participants acknowledged that HMS had additional benefits, over and above whether it indirectly influenced lenders' own forbearance or directly assisted individual borrowers, by the publicity surrounding the scheme generating additional customer contact with lenders:

"The pay off has been in contact generation and making people pick up the phone and that's the hardest thing…" (Lender)

"Overarching Government involvement has made lenders look at their processes and the Pre-Action Protocol has been very important. Mortgage rescue and HMS numbers aren't high, [but] *have had an affect as the Government has advertised the fact that things are out there, and there has been more communication between borrowers, lenders and the advice sector."* (Key player lender representative 3)

7.48 One lender could demonstrate that HMS had benefited a greater number of individual borrowers than the small number that had been entered on to HMS. Table 7.2 shows the outcomes of borrowers who had approached this lender for advice as at February 2010.

Table 7.2 One lender's recorded outcomes of borrowers' requests for HMS at February 2010

HMS stage	Number of cases
Total referrals	152
- Offered internal forbearance	96
- No solution required	29
- Receiving money advice	23
- Placed on HMS	4

Source: Lender interviews

7.49 Some participants noted that the effectiveness of HMS for individuals will not be known for some time. As noted earlier, a number of lenders, borrowers and advisors were concerned about the increase debt accrued while borrowers made use of the scheme. Borrowers also still felt uncertain about their future:

> *"It's helping some people, but we don't know how they'll fare when they come off the scheme. How they'll fare with greater demands for payments, but won't be able to assess this for a few years."* (Key player representing advice agency)
>
> *"Measure of when HMS is a success is when interest rates rise, as customers coping now could reach a tipping point."* (Lender)
>
> *"*[HMS] *helped me a bit, but I'm still worrying about losing the house."* (HMS borrower)

7.50 The weak support for the scheme from the advice sector is problematic. And as HMS is not a customer-facing scheme the benefits for individuals are unclear. The lack of transparency of lenders' forbearance practice led one advisor to be wary of the scheme unless there were transparent and clear entry criteria.

Improvements to HMS

7.51 Interviewees suggested some potential improvements to HMS that might then increase take-up. One advisor suggested that as the Government is guaranteeing the majority of the deferred interest on HMS the lenders should not capitalise the deferred interest and charge additional interest but put them in a separate account to be dealt with later. This would reduce the risk of the borrower being unable to cover the increased mortgage on their return to work. There was considerable support for the five months 'waiting period' to be removed before entry to HMS. Moreover, a reduction in the documentation required to prove eligibility and in the monitoring requirements would be supported.

7.52 Several lenders (not currently signed up to the scheme) said they did not rule out using HMS in the future, although some would require significant changes to the scheme if they were to join:

> *"Unfortunate given I'm talking myself out of a job, but I do not really* [see a future for HMS]*, unless all lenders have to offer it, or if the criteria* [are made] *easier, and there is less discretion from lenders. What has been good is the money advice, that's good that more people have had access to money advice."* (Lender)

7.53 All the lenders interviewed believed significant change was required but had few specific suggestions, and further, had little appetite for change in the short term. Many participants noted the extensive infrastructure that some lenders had developed within their own organisations and that any moves to alter the scheme now would mean this was wasted, and that HMS would not be there for future threats that could force struggling homeowners into arrears, or possession.

Comparable forbearance

7.54 The section examines the impact on borrowers of the forbearance arrangements that lenders offered instead of HMS. Lenders either signed up to offer HMS, declared they would offer a comparable scheme or neither signed up to HMS or made any pronouncements about their forbearance arrangements. Some of the alternative forbearance arrangements were offered by all three categories of lender, including those who included HMS within their forbearance 'toolkit'. Some lenders offered distinct loan modification schemes, while others offered similar concessionary arrangements to HMS or cited their use of regular forbearance tools, such as moving loans to interest-only or extending the terms of loans as 'comparable' to HMS.

7.55 In September 2009, a CLG survey of HMS Lenders[18] found that 6,420 borrowers in arrears had been placed on interest-only loans at less than the contractual amount, 15,516 on repayment loans at less than the contractual amount, and 14,206 borrowers on loan modifications, where the contractual interest rate of the loan is reduced for a set period.

7.56 A minority of lenders, both those who had signed up for HMS and those that had not, have begun to offer loan modification programmes. These schemes restructure the original contracted interest for a specified period for borrowers where the normal range of forbearance tools is no longer sufficient to limit the

[18] 'HMS Lender' in this context includes those who have agreed to offer HMS and those committed to offer similar extended forbearance without taking up the Government guarantee.

growth in arrears and prevent possession. For example, one scheme offers borrowers a restructured loan at 2 per cent interest in the first year, 3.5 per cent in the second year and 5 per cent in the third year; and another lender offers a reduction on their current contractual interest rate at a new rate based upon the borrowers' individual income and expenditure. These loan modification models forgo interest for set periods rather than defer interest, so benefiting borrowers by not increasing their debt, and lenders by not increasing further the arrears on an account. Lenders described the thinking behind this approach as being a 'psychological contract' that means as the lender has given up something the borrower will feel more compelled to maintain their agreement and work with the lender. This factor is absent from HMS but, as described above, HMS does offer security to some as it is Government sponsored. One lender had 1800 loan modification cases that after almost one year of implementation saw 91 per cent of borrowers maintaining their payments:

> *"Need to focus on unemployed, those with good track record of payments, look at their employment history. When I get back on my feet, I'll be a customer again and remember who helps me."*
> (Borrower on comparable scheme)

7.57 However, as with those borrowers who were entered on to HMS, there were differences in how easy comparable arrangements were to obtain:

> *"*[They said] '[We're] *not obliged to be part of the Government scheme and we're not'. So that was it, I was resigned to living in the property and waiting to be repossessed."* (Borrower on a comparable scheme)

7.58 Two borrowers who were on a comparable scheme had heard of HMS, having heard the Chancellor discuss it on the news, or found it on the internet or other information in other media. They had perceived the scheme to be something they had a right to obtain, as the focus of HMS being a support to the lender rather than the borrower was not communicated well at the outset. As a result of a request for HMS these borrowers were offered the lender's alternative forbearance scheme:

> *"My wife went on the internet and found the scheme the Government were doing and asked them* [lender] *about it and they said they were not signed up for it. They said they had a similar scheme but said that we did not qualify. My wife got quite narky with them…She got CAB involved."*
> (Borrower on lenders' loan modification scheme)

Summary

7.59 HMS has had little direct impact on the pool of borrowers in arrears, but has been important for a very small number of individual borrowers who are registered with the scheme. However, most institutional participants consider that HMS, alongside other Government measures, has significantly influenced the extent of lenders' own forbearance policies. In this way, HMS has indirectly benefited many more individual borrowers than have been registered on it.

7.60 Support for the scheme's continuation is weak, but partners wish to retain HMS until the risks of arrears and possessions from rising interest rates and unemployment have abated.

Chapter 8

Value-for-money assessment of Mortgage Rescue and Homeowners Mortgage Support

Introduction

8.1 The brief for the research required an assessment of the value-for-money provided by the MRS and HMS schemes but specified little detail of what was expected. Some background information was provided on the case made for the schemes internally within Government at the time they were under consideration as part of a package of measures, and this provides some indication of relevant expected impacts.

8.2 The concept of 'value-for-money' (VFM), and its relationship with the wider concept of scheme or policy appraisal, is discussed in the first part of this chapter. This discussion provided a basis for a dialogue between the research team and CLG about the most useful approaches in the context of this study. In the light of this discussion it was decided to develop a detailed quantitative financial appraisal of the impact of the MRS and HMS schemes on public finances. This was to be complemented by a mainly qualitative review of wider social and economic costs and benefits, drawing on such evidence as could be found, particularly on the social costs of mortgage repossession. This chapter discusses the implementation of the financial VFM analysis in relation to the two schemes, and presents results in summary form, including some sensitivity tests. Fuller details of the approach are discussed in Appendix C, while schematic models are presented in Appendix D, along with a schedule of parameters and input assumptions and notes on the bases for these.

Value for public money and wider appraisal

8.3 The core concept of value-for-money (VFM), in the context of evaluations of public policies or programmes, generally refers to costs and benefits in terms of public expenditure outlays and savings. This is therefore the initial focus for this part of the work. However, this is a narrower concept than the full economic appraisal of public projects or programmes, traditionally known as cost-benefit analysis (CBA), as recommended in the H M Treasury *Green Book*[19]*.*

8.4 The simplest approach here is just to count direct cash expenditures incurred or avoided, and any changes in revenues, at the time when they are incurred. These are then discounted to net present values (NPV) using a discount rate, which may be the same as or different from the assumed rate of interest[20].

8.5 This approach may be modified in some cases by the application of 'resource accounting' concepts, whereby for some items (particularly those involving capital assets and their use) estimates of the real resource cost, or 'opportunity cost', are substituted for the cash flow estimates. This variant approach may be argued to be relevant to the present case and we illustrate its application below in relation to the provision of social rented housing.

8.6 While VFM assessment is most commonly associated with public spending impacts, it is important to note that VFM can be addressed from the viewpoint of other parties. In this context, other obvious parties to consider include:

- households potentially participating in the MRS or HMS schemes
- mortgage lenders and
- housing association providers

8.7 Some previous evaluations, for example the study by Bramley *et al*. (2002), looking at the then range of LCHO programmes in England, included some of these other perspectives, particularly households. Part of the rationale here is to inform judgements about aspects of scheme design which may have a bearing on the likely take-up of schemes. In addition, these questions are relevant to questions about the incidence or distribution of benefits from schemes. We do not undertake such assessments formally or fully in this study, but we do note particular features of the scheme from these other viewpoints, where relevant.

8.8 A full cost-benefit analysis (CBA) of policies or programmes would be expected to take account of these impacts on other parties. There is an exhortation to measure 'opportunity costs' rather than accounting costs, where these may be materially different; we illustrate this with our 'resource cost' variant. It would also be expected to take a broader view of the impacts, for example incorporating social or environmental impacts which, while having a 'social value', are not fully or easily represented by the identifiable public

[19] The HM Treasury "Green Book" provides guidance on the economic assessment of spending and investment and to related guidance including the preparation of business cases for the public sector.

[20] In practice, and for convenience, we assume that the test discount rate is the same as the real interest rate, 3.5 per cent.

spending impacts clearly related to the programme. In the present context these would include the potential social impacts of home repossession, or its avoidance, including in particular the effects on households in terms of unwonted disruption and removal, disruption of children's education, stress-related health problems, and possible marital and relationship breakdown. These might have some indirect downstream effects on public spending, in related services like education and the NHS, but it is perhaps more likely that the impacts would be seen more in terms of worse outcomes from these services. These effects are discussed in the final section of this chapter.

8.9 Other features of the full CBA approach could include: adjustments to certain market prices because of the distorting effects of taxes, subsidies, monopoly, etc.; distributional weighting of costs and benefits according to the economic position of the people affected; a discount rate based on a so-called 'social time preference rate' (currently 3.5 per cent real) rather than an interest rate (H M Treasury, *Green Book* s.5). Again, these issues are not developed further in this chapter, although we briefly discuss distributional issues in the final section.

8.10 There are also indirect impacts on the regulatory and financial environment of the housing market and on perceptions of risk associated with homeownership, which could arguably have more pervasive longer term effects. A package of measures including MRS and HMS may be seen as increasing confidence in homeownership, so leading to higher future levels of the tenure, which is a high level Government policy goal, partly because of alleged wider social benefits. A tangible aspect of this might be a lower average cost of mortgage finance because of a higher level of confidence in the ability of the system to insure risks. A further systemic benefit may be associated with the effects of this package of measures on housing market stability, limiting the extent of over/undershooting particularly in the context of a market downturn. There is wide recognition of the potentially destabilising influence of the housing market on the wider macro-economy, underlining the importance of this point. Again, these issues are briefly reviewed in the final section.

Measuring direct public finance impacts

Mortgage Rescue Scheme

8.11 The basic idea of this financial appraisal is to compare the financial costs and benefits (including cost savings) accruing to Government, if they provide an eligible household with MRS, with the corresponding or related costs and benefits which would have been incurred if MRS had not been available, given the likely course of events. The main ***costs*** to Government of MRS are:

- the grant paid to the housing association provider

- any housing benefit (HB) paid to the household and
- administrative costs of scheme

8.12 These costs vary by region and by type of case, particularly where MRS is provided through shared equity (MSHE) rather than mortgage-to-rent (MTR).

8.13 The costs and benefits of the alternative scenario, where MRS is not provided, depend on what would have happened to the household concerned. We consider several possible outcomes, in this case four:

- repossession takes place, and household is accepted as owed the main homelessness duty and allocated social housing after a short stay in temporary accommodation
- household loses ownership of home, whether through eviction or voluntary sale, and becomes a private tenant
- household remains an owner-occupier, possibly receiving support through SMI or HMS or
- the household dissolves, moving to live with others (e.g. parents)

8.14 We assign different probabilities to these outcomes based on various evidence from this research and other sources, particularly large scale Government surveys. So the average net cost/benefit of the ‘no MRS’ scenario will be the average of the values for each of these outcomes, weighted by the probability of that outcome occurring.

8.15 The costs of the alternatives include major elements of:

- cost of new provision of social housing to meet extra demand from homeless acceptances, or of the displacement of other households from the social into the private rented sector
- cost of housing benefit (HB) or local housing allowance (LHA)
- cost of temporary accommodation
- cost of homelessness administration

8.16 It is the saving of these costs which represent the ***benefits*** of the MRS scheme in financial terms. In the case of the first of these items, we compare two alternative bases for estimating this cost, one based on the cash costs of (some) new provision and some displacement, and the other based on the resource cost (opportunity cost) of a social rented unit.

8.17 All costs and benefits are assessed over 30 years on a discounted present value basis, with a shorter time horizon (15 years) also being compared. The results are also compared under a range of different assumptions about key inputs.

Overall costs and value for money of the Mortgage Rescue Scheme

8.18 Table 8.1 presents a summary of the main financial benefits and costs, all referring to impacts over 30 years but expressed as Net Present Values (NPVs). The first column shows the figures for England, with the first block of figures referring to the cash approach and the second block referring to the resource approach. The size of the figures in the table indicates that the largest items are housing benefit (HB) costs, both those incurred and those avoided, and the cost of grant funding for MTR set against the costs avoided in terms of social housing provision. The 'benefit' of MRS is greater under the resource cost approach, mainly because the cost of social rented provision which is avoided is larger, when reckoned in this way, than when calculated for marginal new social provision and displacement effects.

Table 8.1 MRS value-for-money: summary of benefits and costs by region and basis (per household)

SUMMARY REGIONAL COMPARISON				
Cash Basis	**England**	**Nth-Mids**	**South**	**London**
Benefits (Savings)				
Admin & TA	5,096	3,781	4,933	8,346
Soc Rent Provision or Displacement	9,751	7,026	11,549	17,330
HB, LHA & SMI	32,616	27,823	34,532	44,479
Total NPV cash benefit	47,462	38,630	51,014	70,156
Costs				
Admin	4,275	4,275	4,275	4,275
Grant-Surplus & future value	35,193	32,562	43,940	42,118
HB	52,183	41,596	56,915	80,278
MTSE net cost	880	700	795	2,724
Total NPV cash cost	92,530	79,133	105,926	129,395
Benefit/Cost Ratio	0.51	0.49	0.48	0.54
Net NPV Cost	45,068	40,503	54,912	59,239
Resource Basis	**England**	**Nth-Mids**	**South**	**London**
Benefits (Savings)				
Admin & TA	5,096	3,781	4,933	8,346
Soc Rent Provision or Displacement	43,725	31,125	50,306	79,709
HB, LHA & SMI	32,616	27,823	34,532	44,479
Total NPV resource benefit	81,437	62,729	89,770	132,534
Costs				
Admin	4,275	4,275	4,275	4,275
Resource cost of MRS provision	29,648	23,633	32,337	45,611
HB	52,183	41,596	56,915	80,278
MTSE net cost	880	700	795	2,724
Total NPV resource cost	86,986	70,205	94,323	132,888
Benefit/Cost Ratio	0.94	0.89	0.95	1.00
Net NPV Cost	5,549	7,476	4,553	353

8.19 Smaller items on the benefit side are costs avoided in respect of administration and temporary accommodation for homeless households. On the cost side, administrative costs are relatively modest, although there may be some understatement of costs incurred through the Repossession Prevention Fund. The costs associated with shared equity provision (MSHE) are very small, partly because this scheme is closer to self-financing, but even more importantly because we assume only a small fraction of cases go through this route.

8.20 If the ratio of costs to benefits exceeds 1.0, the benefits exceed the costs, but if the ratio is less than 1.0, the costs exceed the benefits. In this case, the ratio of benefits to costs is around one-half (0.51) under the cash approach. However, it is much higher, approaching unity (0.94), under the resource cost approach (for the reason explained above). Another way of looking at overall performance is the net NPV cost per case. This is around £45,000 under the cash approach but only £5,500 under the resource approach.

8.21 Table 8.1 also enables the VFM performances to be compared across regions. Under both approaches, the benefit/cost ratios are somewhat (10-12 per cent) higher in London compared with the North-Midlands. Under the resource approach, the ratio is also a bit higher in the South than in the North-Midlands. Basically, for several elements in the calculation (administration and temporary accommodation (TA), social provision/displacement) there is a sharper difference in the costs avoided than in the costs of MRS itself, making MRS seem slightly more worthwhile financially in London (and the South). However, it should be said that these performance differences between regions are relatively modest in this case, and less striking than may be found in some other aspects of housing provision, despite the large differences in absolute magnitudes.

8.22 The assessment compared performance ratios on a shorter time horizon, looking 15 years ahead rather than 30 years. This suggests a poorer performance under the cash approach (a ratio of 0.32 versus 0.51), but it does not make very much difference under the resource approach (0.92 versus 0.94).

8.23 The assessment presented two different bases for the financial VFM, a cash and a resource-based approach. Which of these is ‘better’? Arguably, it is valuable to present information on both bases. Which should have more influence on decision-making depends on your viewpoint and priorities. The resource approach is slightly closer to the recommended cost-benefit approach to longer term Government decision-making, although it still does not reflect all the social costs (discussed further below). The cash approach may be important if the focus is upon achieving targets for public spending and borrowing in cash terms.

8.24 To put these findings in perspective, it is worth underlining the policy context. The MRS was not introduced to make money for the Government. The motivations for the policy may be debated, but they were arguably more to do with underpinning the housing and mortgage markets faced with a serious risk of instability and dislocation, as well as with avoiding the perceived adverse social effects of repossession. What the narrow financial VFM analysis shows is that, although the MRS involves short and medium term spending, once allowance is made for costs avoided the longer term net cost is small and, on a resource cost basis, neutral or negligible. Given the broader policy objectives, that is an important positive conclusion.

Sensitivity analysis of MRS

8.25 Sensitivity analyses are a standard tool within VFM and broader appraisals to enable uncertainties about underlying assumptions to be explored.

8.26 Table 8.2 presents a summary of sensitivity tests performed within the spreadsheet model set up for this analysis. Seven variant assumptions have been selected as examples of instances likely to affect the overall results significantly where there are some grounds for uncertainty about the relevant assumptions. The performance measure used is the benefit/cost ratio for NPV values assessed over 30 years under the cash and resource based approaches. The baseline ratios are shown at the top of the table, which also compares England and the three broad regions.

Table 8.2 MRS sensitivity: benefit/cost ratios and changes in ratios for different assumptions by region and basis

	England	Nth-Mids	South	London
Baseline Benefit Cost Ratio				
- Cash Basis	0.51	0.49	0.48	0.54
- Resource Basis	0.94	0.89	0.95	1.00
Change in Ratio				
More SR provision response to homelessness			(40% vs 10%)	
- cash	0.17	0.16	0.18	0.20
- resource	0.00	0.00	0.01	0.01
More homeless SR, less PR & OO			(65% vs 55%)	
- cash	0.04	0.04	0.04	0.04
- resource	0.11	0.11	0.12	0.13
Fewer homeless SR, more PR, OO, dissoln		(20% vs 5%)		
- cash	-0.04	-0.04	-0.04	-0.04
- resource	-0.15	-0.14	-0.16	-0.17
More MTSE, less GMTR		(90% vs 80%)		
- cash	0.08	0.08	0.08	0.06
- resource	0.14	0.13	0.15	0.11
Higher HB cost rel to elig				(75% vs 85%; & 45% vs 50%)
- cash	0.02	0.02	0.02	0.01
- resource	-0.02	-0.01	-0.02	-0.03
Lower initial HB for MRS cases		(55% vs 65%)		
- cash	-0.01	-0.01	-0.01	0.00
- resource	0.03	0.02	0.03	0.03
Lower HB SR tenants		(0.5 vs 0.7)		
- cash	0.00	0.00	0.00	0.00
- resource	0.00	0.00	0.01	0.01
Lower SMI elig				
- cash	0.00	0.00	0.00	0.00
- resource	0.00	0.00	0.00	0.00

8.27 The first variant test is to assume a greater response of new social provision to homeless acceptances (40 per cent versus 10 per cent). This makes quite a positive difference to the cash based ratios, raising these by 0.17 for England with a range from 0.15 in the Midlands-North to 0.19 in London. It does not affect the resource-based ratios. This improvement is not sufficient to raise the ratios to unity, mainly because in only 55 per cent of MRS cases is the outcome assumed as homeless acceptance and the allocation of social housing.

8.28 The second test addresses this latter assumption, comparing the situation where 65 per cent (versus 55 per cent) of MRS cases have this outcome. This raises performance ratios markedly (by 0.11 or about 12 per cent) in the resource-based analysis, while making a smaller difference to the cash based ratios (0.04, or 8 per cent). However, in the light of evidence discussed further in Appendix C, it may be that this ratio is actually lower, so we also test an assumed share of 40 per cent of MRS cases who would have had this outcome. This has the effect of reducing the ratios by about 0.15 (16 per cent) for the resource approach and 0.4 (8 per cent) under the cash approach.

8.29 Achieving a higher share of shared equity provision (20 per cent versus 5 per cent) would also raise the performance ratios markedly, this time under both approaches, but with a bigger impact under the resource approach (0.14 versus 0.08). The increase would be greatest in the South and least in London.

8.30 Changing the assumptions about HB eligibility would have mixed and generally small effects, because these tend to be offsetting on the cost and benefit sides of the equation. It also appears that the net impacts may be positive or negative depending on whether a cash or resource approach is followed. SMI eligibility has a negligible effect, because of its time-limited nature.

8.31 More broadly, these sensitivity tests suggest that our central case findings are fairly robust, and not highly sensitive to key assumptions.

Homeowners Mortgage Support

The nature of HMS

8.32 Although the high level aims of the HMS scheme are similar to those of MRS, the scope, mechanism and financial characteristics are significantly different. As described elsewhere in this report, HMS offers a form of time-limited guarantee to some (self-selected) mortgage lenders in respect of cumulative losses incurred by the lenders through exercising forbearance with a selected target group of borrowers, essentially those suffering a ‘temporary income shock’ but still retaining some income sufficient to maintain reduced payments.

8.33 Although we assess benefits in a similar fashion for HMS as for MRS, the cost side of the equation is quite different. Since what is offered is a guarantee relating to outcomes after two years, there is no initial outlay (other than some administration and money advice) by the Government. Costs for the Government arise in the negative outcome scenario, where the homeowner does not recover financially, defaults and leaves the Government with its guarantee on the debt shortfall relative to market value, including rolled up interest charges. Technical details of these calculations are given in Appendix C.

8.34 Key to assessing the impact of HMS are the assumptions made about what proportions of households would recover financially and what tenures they would end up in. The reasoning behind our assumptions in this regard is provided in Appendix C.

HMS financial costs and benefits

8.35 Table 8.3 presents a summary of the narrow financial costs and benefits of HMS for the public sector in the baseline case. The financial costs and benefits (costs avoided) are Net Present Values assessed over 30 years and 15 years. It also shows the different tenure outcomes which are implied by our assumptions.

8.36 It is useful to focus briefly on these assumed tenure outcomes, as these provide a picture of the impact of the scheme in terms of its broader goals, and may be considered relevant to considerations of cost-effectiveness. Basically, HMS is assumed to raise the proportion of relevant eligible households remaining as owner-occupiers from 20 per cent without the scheme to 50 per cent with the scheme. This is achieved by diverting 10 per cent from the social sector, 15 per cent from the private rented sector and 5 per cent from household dissolution.

Table 8.3 Summary of costs and benefits by basis and tenure outcomes for HMS assessed over 30 and 15 years

Summary Results for HMS				
		30 Year	**15 Year**	
Total Cost - cash		£32,974	£24,942	
Total Benefit - cash		£33,833	£25,344	
Total Cost - resource		£38,985	£26,436	
Total Benefit - resource		£57,790	£37,911	
Benefit: Cost Ratio Cash		1.03	1.02	
Benefit: Cost Ratio Resource		1.48	1.43	
NPV Net Cost – cash		-£859	-£402	
NPV Net Cost - resource		-£18,805	-£11,475	
	With HMS			No HMS
Final Tenure Own	50%			20%
Final Tenure Social	30%			40%
Final Tenure PRS	15%			30%
Final Tenure Dissolve	5%			10%

8.37 Looking at the financial figures assessed over 30 years, on a cash basis there are costs of £33,000 against benefits (costs avoided) of £33,800, giving a benefit/cost ratio of 1.03 and a net cost of *minus* £860 per case (i.e. a surplus). On a resource basis, both figures are higher but the increase is greater for the benefits (costs avoided), which rise to £57,800, while the costs rise but only to £39,000. Thus, the benefit/cost ratio is substantially higher at 1.48, with a net cost of *minus* £18,800 (a substantial surplus). Assessing over just 15 years gives lower absolute figures but rather similar ratios.

8.38 The costs comprised a weighted sum of costs under five different courses of action, weighted by their assumed probability. With HMS, the most common outcome (50 per cent of cases) is the household recovering, in which case there are no public costs. This brings the overall costs down substantially.

The other four options entail costs of both the HMS liabilities themselves (discounted to today's values) plus the costs of homeless acceptance and provision of social housing and HB/LHA where applicable, allowing for two years' deferment.

8.39 The benefits side comprises the costs avoided, again based on the weighted sum across five courses of action, two of which involve no public cost (remaining owner, dissolving). As shown in Table C.1, however, the weights are different, and some costs are incurred sooner.

8.40 Overall, the analysis in Table 8.3 confirms that the level of gross and net costs involved is less than with MRS. Furthermore it shows that the benefit/cost ratios are more favourable with HMS than with MRS, by around 40 per cent, and the schemes appear to offer a financial surplus. The results are particularly favourable under a resource costing approach, but they are better than neutral even under the cash approach.

Sensitivity tests for HMS

8.41 Table 8.4 presents selected sensitivity tests for the HMS assessment, picking those assumptions thought likely to make most difference to the outcome. The table focuses on changes in the benefit/cost ratios under the two time horizons and the cash and resource approaches.

Table 8.4 HMS sensitivity: benefit/cost ratios and changes in ratios by assumption and time horizon

	30 Year	15 Year
Baseline Benefit Cost Ratio		
- Cash Basis	1.03	1.02
- Resource Basis	1.48	1.43
Change in Ratio		
65% income recovery		
- cash	0.32	0.36
- resource	0.58	0.58
Lower propensity to homeless acceptance/Soc Rent		
- cash	0.11	0.11
- resource	0.06	0.06
Prices fall 10% next 2 years		
- cash	-0.03	-0.04
- resource	-0.03	-0.05
Prices rise 20% next 2 years		
- cash	0.08	0.11
- resource	0.10	0.15
Lower HB entitlement HMS cases		
- cash	-0.01	-0.01
- resource	-0.01	-0.02
Higher new provision response to homelessness		
- cash	0.08	0.10
- resource	0.00	0.00

8.42 The assumption that only 50 per cent of cases recover substantially from their supposedly temporary income shock may be seen as unduly conservative, although this may be a prudent assumption in the light of the recent recession and job prospects in the coming period. Table 8.4 shows that a more optimistic assumption (65 per cent recovering) would lead to a substantial positive shift in the performance ratios, in round terms of about 30-40 per cent.

8.43 A lower propensity of HMS cases to be accepted as homeless and allocated social housing would improve the ratios but by a smaller amount (0.11 cash, 0.06 resource).

8.44 If house prices fell by 10 per cent over the two-year period, the ratios would fall by 0.03 (30 year time horizon) to 0.05 (15 year). However, if prices rose by 20 per cent, the ratios would improve by 0.08 (30 year) to 0.15 (15 year), with a bigger effect in the shorter term.

8.45 A lower entitlement to HB (or LHA) among HMS cases would reduce the ratios slightly (-0.01 (30 year) to -0.02 (15 year)).

8.46 A higher responsiveness of new social provision to homeless acceptances (40 per cent versus 10 per cent) would raise the performance ratios under a cash basis by 0.08 (30 year) - 0.10 (15 year), without affecting the resource based ratios.

8.47 These tests appear reasonably reassuring, in the sense that, where they do indicate a significant impact, this is generally in a positive direction. In addition, the base starting point is generally neutral (cash) or positive (resource), so in that sense there is more margin for variation. However, they do underline the point that the results do depend on the assumptions, which themselves involve considerable judgement.

Wider social costs

8.48 It is appropriate to discuss wider social costs of home repossession, partly because they seem to be an important part of the rationale for the schemes and are believed to be important, and partly because the narrower financial /resource cost assessments do not provide an unambiguous picture of net value-for-money. However, in consultation with CLG, it was agreed that this discussion should be essentially qualitative. It was recognised that the available evidence would probably not provide a basis for quantification of either the incidence or severity of relevant social consequences, and that it was highly unlikely that we would be able to ‘monetise’ these effects.

Overview of social costs

8.49 Most of the research evidence on these social costs is qualitative, particularly based on a number of studies carried out in the 1990s. A good example is the work summarised in Table 8.5 below by Nettleton *et al*, carried out for JRF at the University of York[21]. This research was an in-depth study of 30 families including interviews with 44 adults and 17 children. It certainly provides a convincing picture that many of these families experienced a range of problems under the six headings identified below and that often these problems were serious and distressing. It can also be understood that problems under some headings to some extent caused or reinforced problems under other headings, for example the health and wellbeing issues.

8.50 This study was representative of a number of such studies carried out in that period following the large number of repossessions in the earlier 1990s.

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[21] The study from which the above Figure was taken was one of a cluster of overlapping studies undertaken at the end of the 1990s and reported also in the book by Ford, Burrows and Nettleton (2001) *Home Ownership in a Risk Society: a social analysis of mortgage arrears and possessions* as well as in articles in the *Journal of Social Policy* (Ford and Burrows, 1999) and *Sociology of Health and Illness* (Nettleton and Burrows 1998).

The difficulties in trying to quantify and place monetary values on these problems should also be apparent. One can get a broad sense of the frequency of particular types of problem, albeit subject to the usual caveats about representativeness and small samples – this could be expressed in terms of categories such as 'a majority', 'around half', 'a large minority', 'a small minority'. It might be necessary to read the detailed reports or even speak to the researchers to get to this level. The next step in the process is to try to define the severity of the problems, as particular terms for problems might embrace quite a wide range. The third and most difficult step would be to assign monetary values to some of these problems. This could only be done by referring to other research in related fields, e.g. health economics, economics of education, etc. It would be beyond the scope of this study to undertake such comprehensive reviews.

Table 8.5 Social consequences of mortgage repossession

The processes of mortgage repossession and losing the family home has consequences for:					
Social status and identity	**Personal and family relationships**	**Health and wellbeing**	**Quality of life**	**Future aspirations**	**Children**
Stigma	Marital breakdown	Poor mental health	Homelessness	Financial insecurity	Loss of friends
Humiliation	Relationship tension	Poor physical health	Loss of lifestyle	Fear of the future	Schooling
Embarrassment	Split-up household	Depression	Poverty	Fear that they can't buy house again	Health
Loss of 'owner' status	Arguments	Stress	Long-term debts	Loss of 'hopes and dreams'	Emotional insecurity
Sense of failure	Loss of 'hopes and dreams'		Insecure tenancy	No independence	
Letting family down	Inability to invest trust in relationships		Social isolation	Social isolation	
Loss of confidence	Parenting difficulties		Loss of job	Poverty in old age	
Loss of self esteem			Loss of friends		
Sense of regret			Unsuitable accommodation		
Becoming 'second class' citizens			Lack of space		
			Loss of personal possessions		
			No access to credit		
			Loss of pets		

Source: Joseph Rowntree Foundation, Findings F829, based on Nettleton, S., Burrows, R., England, Seavers, J. (1999) *Losing the Family Home: exploring the social consequences of mortgage repossession* York: York Publishing Services.

Problems and complexities in defining social costs

8.51 Useful though the above table is in providing a checklist and giving a flavour of the kinds of impacts people experienced, it has considerable limitations as a basis for approaching a cost-benefit analysis or providing a complement to the financial assessments reported here. Many of the factors identified are essentially social-psychological effects; others are tangible impacts or outcomes; some are financial effects, and some of these have already been reflected (at least in part) in the analysis already reported.

8.52 There are also considerable problems with establishing the direction or sequence of causality. For example, repossession is clearly associated with job loss and unemployment, reduced income, and some health problems. But we know that very often it is the job loss, income loss, or health problem which actually contributed to causing or triggering the repossession in the first place. So in that (very common) case, one cannot infer from the association a causality running from possession to unemployment, etc. While it may be true that in some instances the repossession itself, and its aftermath, contributed to causing subsequent further unemployment, income loss or ill health, this is perhaps less common than the relationship in the other direction, or as a prior cause of repossession.

8.53 There are also sensitive issues around the circumstances giving rise to the risk of repossession and the extent to which these may have reflected discretionary choices of households rather than factors beyond their control. This may be argued to be relevant to views taken about the status of these problems as cases of ‘social need’ which are a priority for public assistance (Le Grand, 1991*)*, although they may constitute a case for other kinds of public action, such as better regulation. Evidence from both our previous study of the Scottish MTR scheme as well as this current study of MRS and HMS suggests that an increasingly important factor has been the accumulation of secondary secured and unsecured debt, alongside the factors classically associated with mortgage arrears and possessions in terms of loss of job or income, or episodes of ill-health.

A suggested framework for analysing social cost

8.54 It is suggested here that a more useful classification of social impacts and costs may be something like that presented in Table 8.6 below. This draws a distinction between the following categories of effects: subjective social-psychological effects; financial impacts on households; tangible social-demographic impacts; recognised social needs; and the public service costs of responding to those needs.

8.55 This analysis suggests that qualitative research which explores the subjective psychological and social effects will shed light on the meanings, emotions and conflicts invoked by repossessions, and that this will help to underline the importance of the issue – how strongly people feel this is something to be avoided – as well as pointing towards some potential consequences. However, this is still several steps removed from a tangible, recognised social need or deficiency or a public service provision in response to that.

8.56 Research which linked the experience or risk of home repossession to 'tangible' social and demographic impacts, such as marital breakdown, depression or job loss, would be particularly useful if it could quantify the degree of linkage, especially where it could untangle or control for the effect of prior or associated problems (eg distinguish loss of job or partner preceding and precipitating repossession from loss of job or partner following and exacerbated by repossession). Such research seems rare although we mention one or two examples below.

Table 8.6 Suggested schematic typology for social effects and costs of repossession

Subjective Psychological (1)	**Financial Impacts (2)**	**Tangible Social & Demographic Impacts (3)**	**Recognised Social Needs (4)**	**Public Service Costs (5)**
	Loss of savings & assets			*Benefits*
Loss of status as owner		Loss of home Move to PRS Hshld Dissoln	Homelessness, Overcrowding Unsuitable accom Insecure tenure	*Social housing provision* *Housing aid & advice*
Relationship tension Arguments		Marital/ relationship breakdown	Lone Parent Concealed hshld	*Benefits* *Social Work*
Sense of failure Low self esteem		Stress Depression	Mental Ill Health Alcohol	*NHS* *Incapacity Benefit* *Social Work*
Emotional insecurity			Physical Ill Health	*NHS* *Incapacity Benefit*
Loss of trust Stigma Humiliation		Loss of friends	Social Isolation	*Social Work*
		Loss of pets		
Parenting difficulties Emotional insecurity		Frequent Moves	Underachievement in School	*SEN provision* *Pupil premia* *Educ welfare*
Loss of confidence		Loss of Job	Unemployment	*JSA*
	Residual Debt		Financial Exclusion	*Money advice*
	Current poverty	Loss of possessions	Material deprivations	*Benefits* *Tax Credits*
Fear for future	Prospective poverty in older age			*Pensions, pension credit*
	Reduced access to credit		Financial Exclusion	*Money Advice* *Subprime reguln*

8.57 'Recognised social needs' are particular states that people may be in where there is some shortcoming against recognised norms. Whereas the previous column (3) identified particular changes or transitions which might be triggered by repossession, column (4) refers to the state which results for some of the affected people. Column (5) suggests some public services which might be affected by the additional needs, whether in terms of a direct additional cost or in terms of additional pressure on the service, which might (particularly under limited budgets) be reflected more in worse service outcomes or displacement of other need groups. The balance between these depends on budgetary constraints and allocation systems, service priorities, people's awareness of services, and so forth. We illustrated this earlier by commenting on and testing variations in the provision of new social housing as a response to additional levels of social housing.

8.58 It should also be noted that some of the costs in column (5) have already been counted in our narrow financial VFM analysis, for example the costs of social housing provision, (some) aid and advice, and part of the cost of benefits (i.e. the HB and LHA costs).

Examples of social impacts and costs

ILL-HEALTH

8.59 Perhaps the most useful specific example of a study linking mortgage indebtedness and repossession to health problems is Nettleton and Burrows (1998). This uses a secondary analysis of British Household Panel Survey (BHPS) data from the early-mid 1990s to explore whether the onset of mortgage indebtedness has an independent impact on the mental health of individuals and on their use of GP services. Mental health is assessed using a common subjective wellbeing scale, while GP use is assessed from number of visits. The study not only showed positive relationships between mortgage difficulties and these outcomes, but more interestingly showed that in some cases these relationships remained significant even after controlling for the effects of income levels and changes, physical health levels and changes, employment status and change, and other factors including demographic and relationship changes. Subjective wellbeing was significantly worsened, for both sexes but particularly for women, even after controlling for the other variables just mentioned. These relationships were stronger in the worst period of housing market crisis (1992-2) than in a later period in the mid-1990s. For GP visits, after controlling for other variables the onset of mortgage problems was only significant for males and in the earlier period.

8.60 This paper goes on to discuss the reasons for the findings, particularly in relation to mental health and wellbeing. It suggests mortgage indebtedness is, like illness, one dimension of a series of 'biographical changes', and goes on to discuss the concept of 'ontological security' as applied to homeownership, and to the link between 'individualisation' and insecurity.

8.61 While arguing for more qualitative studies, this paper shows that quantitative modelling of risks and incidence are possible and that quite sizeable and significant effects may be observed. This type of approach could be updated, although the low incidence of mortgage problems in the period of the late 1990s/early 2000s might reduce the power of the modelling to some degree.

SCHOOL EDUCATION

8.62 It is plausible to argue that mortgage payment problems, debt and repossession may create problems for families and children which are later reflected in problems within school, both in terms of behaviour and achievement. Tension and argument within the household, as well as the risk or actuality of loss of home, would raise emotional insecurity for children, while the actual forced move of home may lead to a move between schools, and possibly a sequence of moves. The qualitative interview evidence from this study provides strikingly common references to concerns about avoiding disruption to children's' lives and schooling (see for example section "Borrowers perceptions of completed MRS" in Chapter 6)

8.63 There is now a considerable body of research and rich systematic data relating to the attainment and other characteristics of school pupils at individual, school and neighbourhood level. This research has looked at a range of factors affecting outcomes. We refer here to studies involving one of the authors which have touched on indirectly relevant relationships.

8.64 Bramley and Karley (2005, 2008) looked at the relationship between home-ownership and educational achievement. This study, reflecting some US work, suggested that there was some influence of housing tenure on school attainment, even when controlling for obviously powerful and correlated factors like poverty. The Scottish part of this study showed that (from the individual-based Scottish School Leavers Survey) that owner occupation was the second most powerful predictor of attainment after parental qualifications (however, this dataset did not permit neighbourhood or school level effects to be tested). The Scottish modelling of school attainment showed that changes in owner occupation at neighbourhood level had an effect which was similar to but smaller than the effects of ownership level, suggesting some differential effects around the margins of homeownership.

8.65 In work for the Welsh Assembly Government (WAG) Bramley and Watkins (2007, 2009[22]) developed attainment and related cost models for primary and secondary schools, based on modelling of the whole Welsh system using data at individual, school, neighbourhood and locality levels. This work refers to and reflects the wider school attainment literature. It is particularly interesting to reflect briefly on the relative role played by variables relating to housing and school mobility, housing tenure and housing problems alongside other key influences on attainment. Table 8.7 shows selected impacts as measured by standardised regression coefficients, as well as their significance levels. These models contain a large array of other variables believed to influence attainment and so can be said to control for most other currently measurable effects.

[22] The Report on the study by Bramley and Watkins of '*Alternative Resource Allocation Methods for Local Services in Wales*' was presented to WAG in September 2007, and has been referred to in several subsequent Welsh Assembly Committee Inquiries. A paper based on this was presented at Scottish Government Conference on Regeneration Research in June 2009. A revised paper based on this research is under consideration for the journal Environment and Planning C.

Table 8.7 Impacts of selected variables on primary and secondary school attainment in Wales 2006

Variable (selected)	*Primary* Std Regr Coeff	*KS2 score* Signif. p	*Secondary* Std Regr Coeff	*GCSE score* Signif. p
Moved home (prev year)	-0.008	0.038	-0.036	0.000
Moved school	-0.010	0.014	-0.058	0.000
Moved both home & school	-0.037	0.000	-0.038	0.000
Owner Occupier % COA	0.026	0.000	0.036	0.000
WIMD Housing Score LSOA			-0.016	0.000
In Care	-0.023	0.000	-0.016	0.000
Any SEN	-0.280	0.000	-0.085	0.000
SEN Stage (score)	-0.395	0.000	-0.050	0.002
Free School Meals eligible	-0.091	0.000	-0.072	0.000
FSM school level	-0.047	0.000	-0.059	0.000
No Qualifs aged 35+ % COA	-0.078	0.000	-0.090	0.000
Non White/British	-0.008	0.057	0.026	0.000

Notes: Standardised regression coeffients (‘betas’) and significance levels in OLS models for individual pupil scores at Key Stages 2 (primary) and 4 (secondary), all state schools and pupils in Wales 2006. Primary model contains 25 variables altogether; secondary model includes 38 variables including prior attainment of individual pupil at KS2 5 years earlier.

8.66 Table 8.7 shows that pupils moving home, school or both in the preceding years have lower attainment at both Key Stages, with a relatively larger effect for moving both home and school at primary level, and for school moves at secondary level. There is a similar order of magnitude positive effect from the owner occupation rate at small neighbourhood scale, and a smaller negative effect from the WIMD Housing Deprivation Score (which reflects lack of central heating and overcrowding). The effects from mobility and homeownership are not trivial, in the sense that they are similar in magnitude to the effects of being in care, SEN stage (secondary), and free meals (school level), and larger than the effects of non-white/British ethnicity. Although the mobility and housing effects are smaller than the most powerful predictors of SEN (special educational need), individual free school meal eligibility (i.e. low income poverty), and parental age group qualifications, in the latter two cases the coefficients are in the same general league. The model is basically saying that the effect of a move out of owner occupation combined with a move of both home and school could have a similar order of magnitude effect as low income poverty or parental lack of qualifications.

8.67 It is a further step, and probably a step too far, to try to turn such effects into some monetary equivalents. This study of education and resource allocation in Wales did attempt to measure the marginal effect of school spending on attainment, and from that infer how much extra spending would be needed to raise attainment to various target levels. In general these figures are rather large. Working through the implications of the numbers in Table 8.7 and other data from this study, including the marginal effects of spending on attainment, suggests that the ‘cost’ of repossessions in terms of compensatory educational resources within the school sector could be of the order of £18,000. The majority of this figure is accounted for by the primary sector, where the estimate is less certain. Without wishing to claim that this figure is anything other than a broad ballpark estimate, it does suggest again that social costs within the children/schooling sector are non-trivial. This also provides a possible pointer to further work on this issue if it were considered appropriate.

Housing and mortgage market benefits

8.68 As noted above, there is another class of potential societal benefits to be considered when evaluating MRS, HMS and associated policy measures, and these concern the wider functioning of the housing and mortgage markets.

MORTGAGE MARKET

8.69 It is not difficult to argue that a large, mature and competitive mortgage market, appropriately regulated, provides significant benefits to society, in terms of widespread access for households to home-ownership through credit available on favourable terms, including high loan-to-value ratios for those with limited wealth, long mortgage periods, and interest rates at a relatively low margin above bank base rates. These conditions also enable investors to support a large and growing private rented sector which provides ready access, flexibility and mobility. Such a mortgage market supports effective demand for housing and hence a vibrant new build sector as well as opportunities for households to move geographically or trade or improve dwellings to match consumption to current needs and preferences. The relative merits of different tenures have been the focus of political controversy in the past and intellectual debates up to the present time, but a respectable case can be made that widespread owner occupation offers certain societal benefits, for example widespread opportunities for asset accumulation, community stability and social capital, and incentives for people to maintain and improve the housing stock. For these reasons most political parties support homeownership.

8.70 From the early 1980s up to the late 2000s Britain had such a mortgage market, with a wide range of providers offering a wide range of products and little evidence of credit rationing. Lenders operated under a range of business models, some staying close to the traditional building society savings and loan model while others made increasing use of access to wholesale funds through mechanisms including bond issues and securitisation. Turbulent market conditions in the early 1990s placed the system under some strain but the market recovered from this, with some Governmental support. With the benefit of hindsight, it can be argued that, particularly after 2000, the system under 'light touch' regulation developed in a way which was not entirely healthy or sustainable, in terms of the promotion of indebtedness for some at unsustainable levels, and that provides some case for current reforms of regulation.

8.71 However, from mid-2007 the system suffered a major dislocation, triggered by responses across the banking sector to the US sub-prime market crisis. In particular, access to wholesale funds for mortgage lending virtually dried up, introducing an era of significant credit rationing, which still continues to date, complicated by the wider banking crisis and the need to recapitalise the system.

8.72 There are probably several barriers to the restoration of a less rationed, more flexible and affordable supply of mortgage finance. However, clearly among these is the need for transparency and confidence concerning the risks associated with mortgage loans and the mechanisms in place to manage and insure those risks. Part of the solution here lies in the field of regulation, to ensure that loans are not mis-sold and offered to households beyond levels of debt which they can reasonably service; part of it has to do with safety nets in place to deal with situations of unexpected loss of income or falls in value leading to negative equity; and part of it relates to the processes invoked by lenders in situations where loans or their servicing appear to be at risk.

8.73 Knowledge that such processes are in place to manage and minimise repossession levels and losses to lenders should give confidence to investors in banks, mortgage-backed bonds or securities, that these investments are not in fact exposed to large or uncertain risks. In the short term MRS and HMS can be said to have made an, albeit modest, contribution in that respect.

8.74 MRS is a relatively last-resort mechanism offered to households in difficulty for whom the forbearance route appears unviable, where there is little ability to trade down, and where the alternative social costs are likely to be high. HMS is an attempt to offer lenders a partial guarantee against further losses from offering additional forbearance in situations of partial and temporary income loss. It is relatively low cost for Government, but appears from low take-up and evidence concerning the development of lenders' own forbearance policies, to be of limited direct significance, but perhaps rather more so as a stimulus for lenders to reassess their own practice.

8.75 Other measures promoted by the Government appear to be more important in restoring orderly, restrained and rational approaches to the management of problem mortgage debt. These include the reduction of the waiting period for SMI, the revised court protocols, information and money advice services, and stronger regulation enforcement and revision of MCOB. Very low bank base rates and monetary easing have enabled mortgage interest rates not to rise much despite the need for banks to recapitalise.

8.76 Therefore, we would argue that the package as a whole has helped to create the basis for the restoration of an effective and efficient mortgage market. However, it would not be realistic to claim that the two measures evaluated in this report, MRS and HMS, have been the major or most important parts of the package. MRS fills a piece in the jigsaw as a last resort mechanism, while HMS may turn out to have been redundant.

HOUSING MARKET STABILITY

8.77 The other aspect of wider societal benefits concerns the behaviour of the housing market, and in particular the possibility of inducing somewhat greater stability than might otherwise have occurred. Housing market instability has long been seen as something of an Achilles heel in the British macro-economy, inducing instability elsewhere in the system through its effects on capital investment and construction, on savings and consumption (including through equity withdrawal), as well as having widespread adverse social effects on wealth distribution, labour mobility, and housing affordability and need. These issues were extensively debated in the context of the Barker (2004) review of housing supply, which underlined that a key longer term contributor to instability was low and inelastic housing supply. With the benefit of hindsight, one may wish to add that instability has also been exacerbated by an excessive supply of credit and lax lending criteria in the upswing, and by the tax treatment of housing.

8.78 The package of housing market measures introduced by the Government in 2008-09 was clearly motivated in part by a wish to reduce instability in the sense of reducing the danger of an excessive and uncontrolled downswing in prices, activity and confidence. Measures such as accelerated social housing investment and raised Stamp Duty threshold can be seen in this context. How far is it reasonable to claim that MRS and HMS play any role in damping market instability?

8.79 The experience of the early 1990s housing slump is perhaps relevant here. In that downturn there was a significantly larger ‘spike’ in repossessions, which arguably did have a negative effect on the market for a period. There was a direct effect at the time through repossessed properties being dumped on the market in the middle of a recession through auction and similar processes at knock-down prices. There was clearly a shock to confidence and market sentiment associated with this, and a medium term effect in reducing households’ confidence about entering the commitment of house purchase. There was a substantial problem of negative equity which persisted for a number of years and which, in the absence of effective mechanisms to facilitate household moves led to a marked reduction in market turnover and mobility.

8.80 It appears that the current package of measures in the mortgage market has helped to prevent such a large spike in repossessions from occurring so far. It is also noteworthy that house prices have not fallen as far as some commentators expected before beginning to rise somewhat over the last year, although transaction activity in the market remains very low. However, we would argue that it is factors like the relatively low level of interest rates and the broader measures relating to forbearance which are the main (and connected) explanations for these relatively 'favourable' outcomes so far. It can still be argued that the market remains fragile and vulnerable to increases in interest rates which could lie ahead, along with uncertain economic prospects given the fiscal deficit problem. Given the relatively small scale of activity in the MRS scheme, and the minimal activity in HMS, it is not possible to argue that these measures have played a major role in stabilising the market.

Conclusions

8.81 It is feasible and useful to provide a quantitative financial appraisal of the value for public money represented by the MRS and HMS schemes, based on early data from the operation of these schemes and making reasonable assumptions about counterfactual scenarios. A broader assessment of the social and economic costs and benefits can only be attempted in a more qualitative fashion, identifying types of benefit and cost and pointing to selective evidence about their significance. An overall assessment of the schemes must balance the narrow financial effects with these wider social effects. The Government did not enter into the schemes to make money, but rather to achieve the wider social and economic benefits of a well-functioning housing and mortgage market.

8.82 The financial appraisal follows the general principles of such appraisals in the public sector propounded in the Treasury's *Green Book*, including the use of discounted cash flow analysis, and explores the significance of resource versus cash approaches to accounting for the use of social housing assets. It defines a set of options within each scheme, including a range of counterfactual options concerning what would have happened if the scheme had not been in place. The probabilities and values attached to these different options and outcomes is informed by evidence from scheme cases and by some other sources, but inevitably many assumptions must be made and key ones are subjected to sensitivity testing. The results focus on the average values of costs and benefits (costs avoided) for typical average cases, but also showing regional variations (in MRS) and different time horizons for assessment.

8.83 The current grant to providers for MRS appears generous for an 'intermediate rental' form of provision, with an average value of over £90,000 per case, and there may be a case for reviewing this. However, we offset this in the assessment with the value of future projected surpluses, assuming that these will be available for 'public purposes' even though they sit within the accounts of nominally private entities (housing associations).

8.84 The total cost of an MRS (Mortgage to Rent) case is around £90,000-£96,000 per unit, depending on the accounting basis, and including administration and associated HB costs. The shared equity (MSHE) option is much cheaper, with a net cost in present value terms of only £17,000, allowing for future charges, redemptions and staircasing. However, few households are currently going down this route, so costs are dominated by the rental option.

8.85 The financial benefits of MRS are costs avoided. If all cases would otherwise have become homeless and rehoused in the social sector, there are substantial costs involved. Under a cash accounting approach these would fall short of the costs of MRS, whereas under a resource accounting approach they would comfortably exceed them. However, we assume significant numbers of cases would have gone through other routes, including private renting, remaining an owner, or household dissolution. To varying degrees these have lower costs associated with them, and the overall benefits are a weighted average of these different scenarios.

8.86 The overall ratio of benefits to costs is just over half (0.51) under a cash accounting approach, but rises to approaching unity (0.94) under a resource accounting approach. Under a 15-year time horizon the gap is wider. Benefit/cost ratios are 10-12 per cent higher in London compared with the North-Midlands, and slightly higher in the South. Another way of presenting this is to say that MRS has a net cost to the Government of £45,000 per unit in cash terms although this figure is only £5,500 in resource terms.

8.87 Given that the major objectives of these schemes are to achieve wider social and economic goals, this evidence of neutral or moderately negative net financial costs may be taken as encouraging and suggest that MRS provision is not imprudent.

8.88 Sensitivity tests show that VFM performance is significantly better under the cash approach if we assume an increase in new provision of social rented provision in response to increased homeless acceptances. It is also slightly better if we assume more of the cases would have otherwise been accepted as owed the main homelessness duty. A bigger role for shared equity would also improve performance. Differing assumptions about HB/LHA eligibility do not affect the bottom line much. Broadly, we argue from these tests that our estimates are robust and not unduly optimistic.

8.89 Although we adopt a similar approach to HMS, the nature of the scheme is quite different and this impacts particularly on the cost side. We rely more on judgmental assumptions about the mix of options and counterfactual scenarios, but demonstrate through sensitivity tests that the overall results are robust.

8.90 HMS is relatively cheap, particularly in terms of the likely cost of the guarantee to lenders. Overall costs are of the order of £30,000-£40,000 per case, including HB/LHA costs, with benefit/cost ratios exceeding unity and, under the resource accounting approach, nearer to 1.5. While these figures could move around considerably depending on key assumptions, nevertheless we conclude that the VFM of HMS is likely to be favourable in most circumstances.

8.91 The nature of the wider social costs of mortgage indebtedness and repossession are evidenced by a cluster of studies undertaken at the end of the 1990s. We note some problems of mixing of different categories of effect, the difficulties of separating causes and effects, and some issues about individual choice underlying indebtedness. We go on to propose a framework for analysis which distinguishes subjective psychological effects, financial impacts, tangible social/demographic impacts, recognised social needs and related public service costs. This may be helpful in future research, but currently only a few examples of studies which establish relevant links can be found.

8.92 To illustrate potential social costs, we cite evidence of links between mortgage indebtedness and subjective wellbeing (related to mental health) and GP visits, which shows these are present even when controlling for other factors relating to income, health, employment and relationship changes. We also cite evidence from recent research on school attainment and costs, which suggests links between homeownership and pupil mobility and attainment. Inferences from this work suggest quite sizeable costs from disrupted education associated with repossessions.

8.93 We also discuss wider societal benefits from an improved functioning of the mortgage market and reduced instability in the housing market. This discussion concludes that the overall package of Government measures is likely to help to achieve some benefits in both of these areas. However, the role of MRS and HMS in contributing to this is at best marginal, with other aspects of the package much more important.

Chapter 9

Conclusions, discussion and policy implications

Introduction

9.1 This report represents the first stage of the evaluation of the two Government schemes, the MRS and HMS. These schemes were developed and introduced in difficult market circumstances arising from the financial crisis and subsequent housing market downturn. They were rapid policy responses designed to militate against the social and economic costs of homeowner possessions, which had been rising since 2004, but had been accelerated by the recession.

9.2 The introduction of the Government schemes and their promotion of partnership working with the lending and advice sectors to prevent mortgage possessions, has successfully contributed towards the maintenance of market confidence at a time when the magnitude and duration of the recession were unclear.

9.3 The numbers of individual borrowers who have avoided possession as a result of MRS and HMS has been relatively modest. This is especially so in comparison to the numbers of borrowers benefiting from the greater lender forbearance shown since 2008, and other measures such as low interest rates and the SMI enhancements.

9.4 Nonetheless, momentum is gathering behind MRS after a slow start and during the first 15 months a total of 629 borrowers have new tenure arrangements as a consequence of the scheme. MRS has been a popular intervention, but has nonetheless been beset with long delays in delivery. This reflects the complexity of the scheme, but also the apparent absence of operational commitments amongst some individual agencies, as well as protracted negotiations arising from multiple charges and negative equity associated with the properties.

9.5 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 net costs overall, at £5,500. 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.

9.6 HMS has been successful by indirectly supporting the shift in the market towards supporting borrowers through the recession. However, lenders and advisors remain unconvinced by HMS and, as such, it has made a negligible impact upon individual borrowers' ability to retain homeownership, as during its first year of operation only 34 borrowers were entered onto the scheme.

9.7 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.

9.8 Although the growth in possessions appears to have been stemmed, the situation remains precarious. Participants support retention of these emergency measures until the 'long tail' of risks to the rate of mortgage arrears and possessions arising from the recession has abated. In the long term, however, only a role for MRS is envisaged supporting the small numbers of homeowners who cannot sustain homeownership throughout the market cycle. In the end though, any consideration of the future of either scheme must be conducted in the context of a comprehensive review of the currently weak system of safety nets available to homeowners.

9.9 This chapter continues by discussing a range of more detailed issues presented by the evidence, before setting out the limitations of this initial phase of the evaluation and the policy implications arising from the study.

Mortgage Rescue Scheme

9.10 Over 20,000 households approached MRS delivery partners for assistance, enabling 629 households to convert from ownership to intermediate renting or reduce their mortgage loans. Around 15,000 of these households have received debt advice and support from their lenders as a result of the scheme. Institutional participants report favourably the opportunities to renegotiate mortgage payments that this advice has provided, but longer term outcomes of this advice and assistance have been hard to evidence.

9.11 The effectiveness of MRS has been constrained by the length of time it has taken to process applications, which on average during this first year has been seven months. Delivery processes need to be made clearer, communications improved and timescales monitored to maintain confidence in the scheme. Agencies have been focussed on building effective partnerships and organising delivery mechanisms, but a significant minority of borrowers report a lack of contact during the long application process that can compound their anxieties. There were many examples of borrowers praising individual staff from various delivery partners for their assistance. However, there is a concern that different agencies believe the responsibility for updating applicants and supporting them through the long process lies with another agency. A clear named contact should be provided to applicants and this person charged with driving the application progress from beginning to end.

9.12 Participants report greater effectiveness and competency as the scheme developed, but inconsistent delivery remains problematic. Differences in local authority assessments of borrowers' risk of possession are apparent, meaning borrowers in similar circumstances may be considered eligible in some areas and not in others. The flexibility in the margins of the scheme were valued by institutional participants, but may also give rise to some agencies exercising discretion more than others, particularly in respect of equity levels and eligibility for MTR or MSHE options. Furthermore, some local authorities may have other priorities for their resources, meaning that borrowers who seek support in some areas could be under-served.

9.13 There was institutional support for MRS administration to be conducted through the centralised Fast Track team to ensure consistency, a single point of contact and, possibly, greater speed of delivery of the early stages of the MRS application process. Any difference in the rates of completion between the Fast Track team and local authority mainstream delivery of MRS could not be established. The Fast Track team was too new and individual case level data were absent for local authorities. The local delivery of MRS as part of local homelessness prevention strategies conflicts with any centralised delivery of the scheme. However, there may be scope for local authorities to emulate any effective delivery processes or mechanisms developed by the Fast Track team. A single centralised scheme delivered by local partners is preferable to a myriad of individual schemes provided at a local level, which is what lenders perceive to have happened in Wales.

9.14 Negotiating shortfall debts on negative equity cases and multiple charges remains another obstacle to delivering an important scheme. There is a requirement that in the short term key agencies should seek pragmatic solutions to agree consistent approaches to this issue, and possibly in the long term, it suggests that policy consideration should be given to how multiple charges on properties are managed.

9.15 The longer term outcomes of borrowers' contact with the scheme are uncertain as this study forms only part of an originally longer term evaluation and because the MRS delivery systems have only recently become embedded. Furthermore, agencies have few processes to follow up on events after the provision of advice and support to households and monitoring systems do not demand such data. There are concerns about the longer-term outcomes of borrowers given only advice or initial lender forbearance, as well as about the sustainability of the new tenure arrangements of completed MRS cases. It is possible that uncertain prospects for housing benefit and continuing debt problems could produce higher levels of rent arrears, which would require intensive housing management for MRS tenants and those borrowers receiving equity loans.

9.16 There are also anxieties amongst a minority of MRS tenants as to the associations' plans for their assured shorthold tenancies and intermediate market rent at the end of the initial three year period. Associations should seek to reduce uncertainties as a priority.

9.17 The cost/benefits of MRS are presently neutral in resource terms, but the value-for-money assessment does not include the considerable unquantifiable social benefits of the intervention. Existing evidence suggests that avoiding possession and maintaining homeownership can avoid negative outcomes for adults and children and this should be considered when reviewing the schemes. There is scope for the continuation of the scheme to be maintained on the basis of a lower grant rate, which would improve its cost effectiveness.

9.18 Amongst the borrowers interviewed, drawn mostly from MRS applicants, there was a preference for MRS and becoming a tenant over losing their home as a result of possession. Partners also supported the view that there was an appetite amongst struggling borrowers that they wished to relinquish homeownership, possibly in contrast to borrowers in parallel circumstances in the 1990s. The evaluation had limited evidence from borrowers who only sought advice and assistance from MRS partners, rather than an application to join the scheme. Therefore it is possible the views of other struggling homeowners may differ to those interviewed in this study. Marginal homeowners' continuing commitment to the tenure would, therefore, warrant further examination.

9.19 There was strong support for the continuation of MRS in perpetuity, and most certainly until any economic recovery is established. The loans currently being repaid by MRS are predominantly from sub-prime lenders who are significant beneficiaries of the scheme. Sub-prime lending was largely halted in 2008/9 and one argument is that a limited period of time will deal with the exit of cases from this sector and reduce the demand for MRS. However, some sub-prime lenders are now returning to the market, albeit offering loans on more stringent terms. Further, traditionally a significant proportion of borrowers turned to the sub-prime sector to re-mortgage and consolidate their debts as their prior financial difficulties grew. Looking ahead, similar borrowers with financial difficulties are unlikely to have access to this debt consolidation step and will, potentially, turn to MRS earlier, at the point they hitherto would have approached the sub-prime sector. Thus demand for the scheme is likely to persist.

9.20 The HMS monitoring data does not record individual borrower characteristics or details of other secured or unsecured debt commitments. This means that the identification of the circumstances that have prompted the borrowers' arrears, the level of mortgage arrears or other debt and household circumstances is not possible. As the original HMS monitoring requirements were a source of contention between CLG and lenders, any further revisions to data collection are not recommended.

9.21 The MRS monitoring data has significant gaps that inhibit the identification of key trends that could inform the analysis of the schemes' effectiveness. For example, not all datasets include household or case level data or record the dates of application or referrals. In addition the pathways of application through MRS cannot be identifies.

9.22 In conclusion, the enthusiasm expressed for MRS is matched by frustrations surrounding the length of time cases take to complete and there is strong support for the scheme to become permanent. The impact of MRS on individual households who have completed has been profound but the scheme's relative influence over the rate of possessions has been small, as macro factors such as interest rates and other support through SMI and lender forbearance, for example, have had a greater impact on the pool of borrowers in mortgage arrears.

Homeowners Mortgage Support

9.23 HMS represents a low cost initiative that has, as part of the wider Government strategy of working in partnership with lenders and the advice sector, had a significant but indirect impact on possessions by influencing the extent of lender forbearance and bolstering market confidence. However, the direct impact on individual borrowers has been negligible. Borrowers welcomed the scheme but were concerned that it constitutes a support to lenders and not directly to individuals. HMS is at the lenders' discretion and there remains a gap in the safety net provision for borrowers ineligible for SMI and yet suffering only a temporary income shock. In cases where lenders have not entered borrowers onto HMS, alternative forms of forbearance may have been applied, but it is likely that many dual-income or self-employed households may remain insufficiently supported. Borrowers wished to see clearer entrance criteria for HMS but this would conflict with the lender focus and discretionary nature of the scheme.

9.24 Lenders complained about the monitoring data requirements of HMS being onerous and suggested that the entrance criteria and documentary evidence required to enter a borrower onto the scheme constituted barriers to take-up. While no complaints about the guarantee were made they were clearly an insufficient incentive for lenders to provide HMS, as lenders preferred to offer concessions and forbearance outside of HMS where possible. The main issue then is whether borrowers have been in a worse position by not being entered on to HMS. Substantial numbers of borrowers, far in excess of those on HMS, have benefited from alternative forms of lender forbearance. So not only have many borrowers not been adversely affected, but HMS has played some part in the existence of alternative forbearance. However, the inconsistent application and lack of transparency in forbearance arrangements means that some borrowers may not have recourse to either a comparable or alternative forbearance schemes, or HMS.

9.25 The evaluation has been unable to determine the longer-term effectiveness of the HMS model because there are so few cases entered onto the scheme and because of its short duration. The impact of the scheme would be measured by the performance loans entered on to HMS, how quickly borrowers are able to recover their income and their ability to meet their higher future mortgage payments. There are concerns that long-term concessionary mortgage payment arrangements can be detrimental to borrowers as, especially in a falling or stagnant housing market, the loan debt can rise beyond the borrowers' means when they re-enter the labour market. This is a risk of HMS that many lenders and advisors reported, but can also arise from other forms of lender forbearance. There is a tension between lender forbearance offering borrowers a 'breathing space' and the risk that longer concessions actually increase the borrowers' debts. However, making a judgement call on sustainability and avoiding losses for borrowers and lenders can be difficult, and some future analysis of the individual financial impacts of forbearance would be beneficial. Loan modifications as a temporary payment concession avoid these risks and have proved popular with lenders as well as borrowers and have assisted greater numbers of people than HMS.

9.26 Few improvements were suggested to HMS, although lenders and advisors viewed there to be too many barriers to entry. Most wished the scheme to remain, not however, through any strong commitment to HMS as an effective scheme, but to support the market should conditions prompt a further deterioration in the levels of arrears and possessions and an increase in numbers needing support.

Going forward

9.27 Table 9.1 provides a summary of the strengths and weaknesses of the current support to borrowers relating to mortgage arrears and possessions.

Table 9.1 SWOT analysis of current support for borrowers in mortgage arrears

Strengths	Weaknesses
• lender forbearance- many innovative schemes and increased willingness to engage with advice sector and borrowers • message to borrowers to contact lenders about help available being heard • additional scrutiny of lenders' compliance with arrears recovery components of MCOB • amendments to eligibility and payments of Support for Mortgage Interest (SMI) welcomed and helping additional borrowers • Pre-Action Protocol to foster expectation that possession is action of last resort • low interest rates help sustain mortgage payments and arrears repayment arrangements • constructive relationships between Government, lenders and advice sector with shared ambitions • government schemes of MRS, HMS and SMI support individual borrowers in obtaining further forbearance and/or avoiding homelessness. HMS supports lenders • advice services now central to Government schemes and arrears recovery procedures.	• lender forbearance inconsistent and not always transparent • variable access to forbearance and support amongst borrowers • problems with access to and quality of advice services • stagnant housing market means borrowers cannot always sell their way out of debt • lack of awareness of support available to borrowers • government schemes time limited • mixed perceptions of the effective operation of the Pre-Action Protocol and no systematic evaluation • access to SMI does not always avoid possession due to remortgaging activity and higher interest rates • safety-net provisions are incomplete • HMS has very low take-up • MRS has operational weaknesses • second charge lenders can constrain forbearance and implementation of MRS
Opportunities	**Threats**
• lenders still considering further innovation, increasing access to loan modifications or pre-emptive arrears support in the future • rising housing market may provide additional opportunities for borrowers to sell their home • high fixed rate mortgages coming to an end • some sub-prime lenders re-entering the market, may provide chance for some borrowers to refinance on to better deals and rehabilitate their credit record • mortgage market review offers potential for greater controls over lending and arrears recovery processes	• prospect of rising interest rates could significantly disrupt current arrears arrangements and prompt new arrears cases • rising unemployment and weak economic recovery could also prompt new arrears cases • rising housing market could undermine the commercial case for lender forbearance as possessions less likely to incur losses from negative equity • lenders original forbearance measures expire and they seek to bring long-term arrears cases to a conclusion • the withdrawal of Government support as measures time limited

9.28 There are a number of strengths in the market that can mitigate the impact of the downturn on arrears and possessions and these relate to the low interest rates, lender forbearance, the emergency changes to SMI and the Government interventions to foster close working relationships between lenders, the advice sector and Government. Publicity surrounding MRS and HMS and the help available to borrowers also forms part of this picture, successfully encouraging people to seek help from their lender and advice services.

9.29 However, very real risks remain, most notably from the possibility of rising interest rates and/or unemployment. Rising interest rates would represent a serious risk to borrowers currently maintaining payments or arrears arrangements. Rising unemployment would prompt new arrears cases while constraining the ability of existing borrowers in arrears to re-enter the labour market. Furthermore, as economic recovery takes hold there will be pressures on lenders to conclude long-term arrears cases.

9.30 While the role of MRS and HMS in containing possession levels has been relatively modest, there is a case for considering their retention until a housing market and economic recovery has been achieved, and there has been an opportunity to review the overall longer term safety net provisions for homeowners.

9.31 If instituted, the proposed revisions to mortgage regulation have the potential - if rigorously supervised - to minimise risks and ensure the affordability of new mortgage lending, and can impose greater expectations of lenders in terms of good practice in arrears management. However, regulation and forbearance alone cannot support all borrowers suffering income shocks. The main issue is to develop a safety-net system, ahead of the next crisis, that supports the sustainability of homeownership, and reduces demands from the small numbers of vulnerable borrowers who would require support from any permanent MRS throughout the market cycle. The study illustrated long-known weaknesses in current safety-net provision. If the expansion of homeownership is to remain a central component of UK housing policy then these deficiencies need to be urgently addressed.

Phase two of the evaluation

9.32 The evaluation considered one year’s operation of a two year initiative. The assessment offered here may change as the schemes become more fully embedded during 2010. Further, the schemes have not been running long enough to identify all outcomes. For example, there are a number of issues that Phase One of the evaluation has been unable to fully assess that could become apparent in the long term and improve our understanding of the operation and effectiveness of MRS and HMS. These include:

- the outcomes for borrowers who approach local authorities or advice agencies for support under the auspices of MRS, but who are directed to other forbearance or homelessness and advice options, rather than formal applications for MRS. Current monitoring data and administrative systems within local authorities, advisors and the Fast Track team cannot account for the outcomes of these borrowers or those borrowers for whom the MRS application was unsuccessful or was withdrawn
- the implementation of MRS in a stable operational environment. The scheme was delivered rapidly to address emerging needs without time to pilot the service, meaning that the first year has been subject to many 'teething problems' and was subject to constant refinement. Furthermore, the Fast Track team has only been established since September 2009 so the longer term effectiveness of the more dispersed or centralised delivery model is as yet uncertain. The scheme has yet to mature but may deliver more effectively going forward
- the long term sustainability of the new MRS tenancies (or equity loan arrangements). It was too early to appraise how effective the support and management of the new arrangement have been so far. It is understood that new HCA monitoring data of the longer term outcomes for mortgage to rent and mortgage to shared equity cases could become available in the long term. Housing associations would have had broader experience of managing MRS tenants and the sustainability of borrowers who received equity loans could be appraised
- the effectiveness of HMS for individual borrowers and lenders as too few cases had been entered on to the scheme. These arrangements would require long term monitoring to determine the outcomes for borrowers and lenders

Policy and operational implications

Policy implications

9.33 Two sets of issues are discussed below. The first set of issues relate to the on-going social policy objectives of supporting homeowners and preventing homelessness and the ways in which MRS and HMS might contribute to these objectives. The second set of issues focuses on a set of immediate actions suggested by the evidence that would improve the operation of MRS and HMS in the short term and which would be essential should either scheme continue.

MRS and HMS: their contribution to social policy objectives

1. MRS meets a need which is likely to be ongoing. There are risk factors, such as ill health and relationship breakdown, present throughout the market cycle that underlay cyclical fluctuations in arrears and possessions arising from labour market disruption. Therefore, MRS has a long term role supporting wider homelessness prevention initiatives.

2. This is the fourth housing market downturn since the late 1970s and the second time a mortgage rescue scheme has had to be developed during a crisis. Even as the market improves there is merit in retaining both a commitment to MRS as a matter of policy and a viable scheme (even if in the background) so that institutional memory is maintained and, when required, it can come to the fore with a step change in delivery.

3. HMS serves a gap in current safety net provision and has been effective in encouraging lender forbearance. This has provided many borrowers with the opportunity to recover their arrears and sustain home ownership. Until economic recovery is established there is a continuing role for HMS to support market confidence.

4. Both schemes reflect continuing gaps in the safety nets available to homeowners and both schemes have a potential, if modest, role pending housing market recovery and a review of the overall long term safety net provisions for homeowners.

5. There are some complex issues of policy priorities emerging from the evaluation to date reflecting the fact that homeownership has become entangled with other aspects of household financial planning. In particular is the extent to which resources are being committed to safeguard people's housing, when arguably non-mortgage secured debt as well as unsecured debt have contributed towards their mortgage payment difficulties. This, however, has to be set against the evidence that in the majority of cases household's found this debt affordable prior to their loss of employment income, even though its presence serves to complicate housing policy responses.

6. The overall impact of both MRS and HMS has not been proportionate to the substantial effort involved in their development and implementation. Government action in this area has bolstered market confidence in a nebulous manner. While MRS in particular has had a profound impact on the individual households concerned, to date the impact of both schemes has been relatively marginal to lowering the rate of possessions compared to other measures such as lower interest rates.

Operational implications for MRS

1. The research evidence indicates that MRS and other homeowner support options should be publicised more widely. In particular there is a need and an opportunity to ensure that all pertinent agencies routinely and consistently impart set pieces of information to borrowers about all support options, including MRS.

2. Greater publicity for MRS must be accompanied by clearer processes, better communications and effective timescales. Emphasis needs to be placed on disseminating and promoting best practice in order to develop the delivery of MRS amongst those local authorities and housing associations that lag behind.

3. Approaches to the negotiation of shortfall debts should be reviewed, particularly with regard to cases where there are multiple charges and where the Repossession Prevention Fund is used to support completions. If not already underway, liaison between CLG and the Council of Mortgage Lenders, the Finance and Leasing Association, the National Housing Federation and the Local Government Association to consider the introduction of a memorandum of understanding may assist this process.

4. The higher grant rate has incentivised associations but there was evidence, particularly from the VFM assessment, to suggest that the scheme would remain beneficial on a lower rate.

5. A systematic follow up process for identifying outcomes for borrowers unable to access MRS and/or who approached the scheme for advice and support should be developed and implemented.

6. Gaps in the monitoring data need to be addressed, in particular to document the timescales for key stages and between application and completion, the individual circumstances of borrowers, and outcomes for those who approach the scheme.

Operational implications for HMS

1. Fewer recommendations for improvements to HMS were made (than for MRS), but the monitoring information that lenders were required to submit to CLG was a source of frustration to lenders. From March 2010 this has been addressed and a streamlined suite of monitoring data are now required.

2. The requirement for payments to be monitored or maintained by borrowers for five months prior to entry onto HMS was considered to be problematic and lenders would support this criteria being lifted and the Master Guarantee Deed amended accordingly.

3. Borrowers would like to see less discretion by lenders and clear entrance criteria developed for the scheme.

Glossary

Assured Shorthold Tenancy (AST) – An assured shorthold tenancy allows the landlord to regain possession of the property six months after the beginning of the tenancy, provided that they give two months' notice requiring possession. In contrast, an assured tenancy means that tenants have the right to remain in the property unless the landlord can prove to the court that they have grounds for possession. With an assured tenancy, the landlord does not have an automatic right to repossess the property when the tenancy comes to an end. Housing association tenancies are primarily assured but introductory tenancies are common where shorthold tenancies are provided for the initial 6-12 months of the tenancy.

Bankruptcy – The legal proceedings by which the affairs of a bankrupt person (one unable to pay their debts from income) are turned over to a trustee or receiver for administration under the bankruptcy laws. There are two types of bankruptcy: a) Involuntary bankruptcy **-** one or more creditors of an insolvent debtor file a petition having the debtor declared bankrupt; b) Voluntary bankruptcy - the debtor files a petition claiming inability to meet financial obligations and willingness to be declared bankrupt. Assets of the bankrupt can be accessed in order to pay creditors (subject to restrictions that allow the bankrupt enough to live on). After a period of time the bankrupt is 'discharged' and any remaining debts written off.

Court desk advisors – The court desk advisor provides expert advice by skilled housing professionals whenever possession cases are being heard at the court.

Decent Homes Standard (DHS) – The Decent Homes Standard is a minimum standard that triggers action to improve social housing. It is a standard to which homes are improved. As constructed, the standard allows all landlords to determine, in consultation with their tenants, what works need to be completed, and in what order, to ensure the standard is met. The Decent Homes Standard has four criteria, which are that it meets the current statutory minimum standard for housing; it is in a reasonable state of repair; it has reasonably modern facilities and services; and it provides a reasonable degree of thermal comfort.

Fast Track team – A team established in September 2009 to help 'fast-track' Mortgage Rescue cases from referral to completion. A central case management team took referrals direct from lenders.

Individual Voluntary Arrangement (IVA) – A debt repayment offer by a debtor to their creditors, overseen by an insolvency practitioner, and typically used for debts under £15,000.

Interest only mortgage – A mortgage where during its lifetime only interest payments are made. The capital debt is repaid at the end of the period, typically through a repayment vehicle such as an endowment policy or savings policy. Interest only mortgages result in lower monthly payments than mortgages that require the repayment of interest and capital each month. Lenders can move borrowers on repayment mortgages to interest only for short periods to reduce outgoings.

Intermediate Market Rent – Homes offered at 80 per cent of the market rent to households for whom social housing is unavailable but who cannot afford to purchase their own home. Most often provided by housing associations on assured shorthold tenancies.

Job Centre – Job centres administer claims for benefits such as Jobseeker's Allowance, Incapacity Benefit, Employment and Support Allowance and Income Support. They provide access to job adverts and training for unemployed people. They are run by JobCentre Plus, and agency of the Department for Work and Pensions.

Lender forbearance – An agreement by a lender that a borrower can repay arrears over a period of time. The agreement can take several forms including reduced monthly payments or a switch to an interest only mortgage. 'Forbearance' arrangements often forestall possession proceedings.

Master Guarantee Deed – The legal contract between the Government and mortgage lenders who offer HMS. It forms the basis for any compensation claims by lenders for losses arising from borrowers entered on the scheme who default on their agreed mortgage payments.

Mortgage Market Review – The Financial Services Authority's proposals for fundamental change to mortgage market regulation following the financial crisis.

Mortgage Payment Protection Insurance (MPPI) – An insurance policy to cover mortgage repayments (and other related expenditure such as buildings insurance), in the event of accident, sickness or unemployment for a specified period of time.

Partners – Those agencies charged with co-ordinating and/or supporting the delivery of the Mortgage Rescue Scheme and Homeowners Mortgage Support. These are local authorities, housing associations, not-for-profit advice agencies and mortgage lenders.

Negative equity –The negative difference between the outstanding mortgage and the value of the property on which it is secured.

Possession order – A lender can apply to the County Court for 'possession' of the home because of mortgage arrears to prevent a person being able to re-enter the property. An *outright* possession order requires the mortgagor to leave the accommodation by a specified date or face being evicted. A *suspended* possession order allows the borrower to remain in the property on agreed terms, for example, that the mortgage is paid plus a sum each month towards the arrears.

Pre Action Protocol for Mortgage Arrears – Established by the Civil Justice Council and approved by the Master of Rolls, to require lenders seeking possession for mortgage arrears in the County Courts to provide evidence that they exhausted forbearance options and that mortgage possession is the last resort.

Priority need (for accommodation) – Under the homelessness legislation, councils must secure accommodation for applicants who are unintentionally homeless and fall within a priority need group. These include people whose household includes a pregnant woman or dependent children, 16 and 17 year olds (unless owed a duty by Children's services), care leavers aged 18-20, people who are vulnerable for some reason (eg illness or disability), and people homeless as a result of an emergency such as fire, flood or other disaster.

Repossession Prevention Fund (RPF) – A £20m fund allocated to local authorities, open to anyone threatened with homelessness either through repossession or eviction. For example, it could be used to clear mortgage or second charge arrears in appropriate cases, where this would prevent repossessions. The maximum loan £5,000 and is conditional on the household seeking money advice with CAB or other money advice agencies that are used by the council.

Second charge lending – Second charge lending, or a secured debt, involves consumers with an existing mortgage taking out further personal borrowing which is secured against the equity in their home. An additional 'charge' is placed on the legal title of the property, and, subject to the first charge being cleared, the second charge lender can recover the outstanding debt in cases of default.

Support for Mortgage Interest (SMI) – A housing allowance given to help homeowners on qualifying benefits - Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Pension Credit - meet their mortgage interest payments. SMI is only payable on loans used to purchase the property or improve the property. SMI payments commence after a 13-week wait period (reduced from 39 weeks in January 2009) except for those in receipt of Pension Credits where there is no waiting period, and the maximum loan value of £200,000 (increased from £100,000 in January 2009). It is paid at a standard rate of interest (currently 6.08 per cent, due to fall to 3.67per cent from October 2010).

Syndicated housing association – An association that has agreed to receive mortgage rescue properties from the administering Homebuy agent or lead association for MRS purposes in that area. They will purchase the property and the former borrower becomes a tenant of that association.

Unsecured debt – Personal loans or credit card debts that are not secured on the property.

Appendix A

Policy questions for the evaluation of the Mortgage Rescue Scheme and Homeowners Mortgage Support

Questions to explore for Phase 1 – interim evaluation

Both schemes

1. What processes have proved particularly effective for the schemes and which have caused obstacles to delivery?
2. Why are households who are eligible for the schemes choosing not to take them up? What alternative paths are they following?
3. What is the impact of the schemes on beneficiaries' economic and social conditions?
4. How can the schemes be further improved in order to maximise and better target take-up?
5. Are their any evidence gaps that need to be filled in order to complete a final full evaluation of the schemes?
6. Where possible, what are the costs, benefits and net benefits of the schemes to date?
7. What have been the indirect impacts of the Government launching the schemes?
8. The MRS is due to end in March 2011 and HMS in April 2011. Do partners feel that the scheme should be ended sooner than planned or should it be extended? If so why and when should it be extended to?
9. What role and impact have the macro-environment and other Government preventing repossessions responses had on the schemes?

Specific to the Mortgage Rescue Scheme (MRS)

10. What flexibility are delivery partners exercising in dealing with potential scheme entrants where scheme parameters are flexible?
11. Why has there been no/low take-up of the shared-equity option to date?
12. Where possible, what impact has the centralised "fast track" central case team (set up in September 2009) had to date on effectiveness and speeding up processing of applications?

Specific to Homeowners Mortgage Support (HMS)

13. How much has the HMS ‘moved the market’ with respect to additional forbearance shown (by those lenders not signed up to the scheme)?
14. Why did some lenders choose not to sign up to HMS or HMSS?
15. For lenders signed up to HMSS, to what extent are they engaging with or encouraging borrowers to take-up the scheme?
16. What is the cumulative impact to date of the HMSS and “comparable arrangements” with other lenders within HMSS?
17. For lenders who undertook their own “comparable arrangements” to what extent are they engaging with or encouraging borrowers to undertake forbearance arrangements?
18. Have there been any indirect benefits to borrowers from the money advice provided through HMS?

Appendix B

Case study MRS application - shortfall negotiations

Mr and Mrs L. West Midlands

Couple with two young children live in Mr L.'s childhood home on which he had exercised the Right to Buy in 2004. Mr L. was working full time until made redundant and then struggled to find full time work. Further redundancies and short time led to missed and short payments on both the first charge and a secured loan, taken out for home improvements and debt consolidation.

In May 09 Mrs L. suffered complications during childbirth and their daughter was kept in hospital for several weeks leaving Mr L. unable to seek employment. It was at this point that Mr L. approached the homelessness services facing repossession.

Application was taken for MRS, all checks completed and referral made to housing association.

The property was valued at £70,000. The borrowers' three per cent contribution meant that amount offered for the property was £67,900.

The first charge lender was owed £ 60,660; the second charge owed £17,000, leaving a shortfall of nearly £10,000 for the second charge.

Negotiations commenced, and the first charge lender refused to take any loss, and the second charge lender refused to enter into any negotiations. A stalemate continued for several weeks with several attempts at contact from the local authority and housing association.

At this point the local authority received notice of the funding available from the Preventing Repossession Fund. The second charge lender requested full payment of shortfall from the funding. The local authority offered £3,000 for them to write off any further shortfall, but the offer was ignored.

The first charge lender decided to pursue the arrears recovery against Mr. and Mrs L. with a possession hearing as no settlement was in sight.

After court case there was an agreed a settlement with the second charge lenders' parent group company stepping in.

Appendix C

Further explanation of the value for money assessment

Mortgage Rescue Scheme

Schematic 1 (see accompanying spreadsheet in Appendix D) sets out a simple framework for assessing the immediate public financial impacts of MRS. As in most such assessments, the idea is to compare the costs and revenues associated with applying the scheme (MRS) to a representative case, with the costs and revenues associated with an alternative course of action (or set of possible courses) which would happen were the scheme not available for that case. This is set out in the Schematic like a balance sheet, which helps to bring out the point that several items on either side of the sheet are similar.

There may be sub-options, under either general course of action, which may have different probabilities of applying. With MRS, the major sub-options are Government Mortgage to Rent (MTR) and Shared Equity (MSHE). Initial evidence on the scheme suggests the overwhelming majority of cases will go through the former scheme. On the other side, the alternatives (were MRS not available) are more diverse and less certain. We suggest four alternatives in this context:

> Bi - household accepted as owed the main homelessness duty by local authority and allocated social housing, probably following a period in temporary accommodation
> Bii - household loses ownership of home, whether through eviction or voluntary sale (possibly accompanied by private sector leaseback), and becomes private tenant
> Biii - household remains an owner occupier, possibly receiving support through SMI or HMS
> Biv - household dissolves, moving to live with others (e.g. parents)

Within some of these there are further sub-options, which may be separately identified, or represented by averaging their cost characteristics with appropriate weights (for example, the amount of time spent on average in temporary accommodation, temporary accommodation (TA), which may vary for individual cases from 0 to 24 months or more). Particularly important in this context is how the unit of social housing used for permanent rehousing under option Bi is sourced. It appears that this is the critical assumption governing the overall VFM outcome, at least under the cash accounting approach. Where the extra homeless acceptance leads to the provision of an extra social unit, there will be large public outlay on grant to fund this (balancing the MRS capital grant on the other side of the balance sheet). However, if there is no extra provision, the impact is through a displacement process. Some other household in need does not get a social tenancy. This can be argued to have some impact on public spending, through higher levels of local housing allowance (LHA) expenditure in the market rented sector for some of these households, compared with the HB which they would have received in the social sector. This is revenue rather than a capital impact, and spread over some uncertain period into the future. Furthermore it would only apply to some displaced households; others would not be in the eligible income category; others again would be new households who would not have been able to form (so soon).

In view of its importance for this assessment, we look specifically for evidence on the association between levels of homeless acceptances and new provision of social housing, while recognising that this is conditioned by policy. As a first take on this, we looked at the statistical relationship between social completions and homeless acceptances across LA districts over the period 2000-2007[23]. This suggests quite a low positive relationship, whereby about 3-5 extra social units were built per 100 extra acceptances. This could be seen as being on the low side, constrained by low levels of social provision in this period. Another way of looking at it is to say that homeless acceptances allocated social housing (38,2200 in 2008/09) represent 20per cent of net lettings (c.190,000), and that 20 per cent of new social provision (26,000) would be 5,200 units per year, which is 13.6 per cent of the number of homeless acceptances allocated social housing. Therefore we take the rounded mid-point of these two estimates (10 per cent) as our baseline assumption, and look at the sensitivity to a markedly higher figure as well.

Overall, this analysis suggests that the assessment of costs under the alternative scenarios will be mainly dominated by differences in revenue costs for HB and LHA, as well as the excess costs of TA.

Alternative resource cost approach

As mentioned above, it may be preferable to measure some items using a resource cost approach. This applies in particular to the opportunity cost of the use of capital assets, such as social housing. It is suggested that a reasonable measure of the resource cost of using a unit of social housing for a period is the ‘economic subsidy’ cost per year times the number of years of use. ‘Economic subsidy’ is commonly defined as the difference between the market rent of a dwelling and the social rent of a dwelling, as presented in Hills (2007, p.79). This may be thought of as the subsidy entailed in paying a leasing charge to a private landlord while renting the dwelling to

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[23] Using the standard technique of regression analysis.

a social tenant; or alternatively, as the opportunity cost to a landlord of letting the property in the private market itself, rather than to a social tenant[24].

This way of reckoning the cost of social housing appears to produce lower NPV figures than the initial cost of procuring new social housing through payment of grant. The main reason for this is that the latter does not take account of the fact that the housing association ends up with a free asset after it has paid off its loans; it should really allow for future grant redemption or recycling. This is something we can and do estimate, using our discounted cash flow model, within the cash flow approach. The effect is to reduce the NPV cost under the cash approach to a level more similar to the resource cost approach, although still higher. On average, under baseline assumptions, the initial grant of £90,564 is defrayed by positive cash flow over 30 years of £53,519 making a net cost of £37,054, which compares with the resource cost of £31,209.

Time horizon

Another factor which makes a difference to the figures is the time horizon of the assessment. While in general it is appropriate to take a long view when assessing investment options, it may also be true that beyond a certain finite horizon there is so much uncertainty that little is gained from trying to model it. For example, it might be argued that a typical social tenant, or indeed a recipient of MRS, might be expected to have a typical tenancy duration of (say) 15 years. On that basis it may be preferable to simply focus the VFM assessment on that period. Following discussion with CLG, it was decided to treat the standard time horizon as 30 years, which is also the typical term of borrowing for social housing investment (and the upper end of typical individual mortgage loan terms). However, figures are also shown for a 15 year horizon.

Range of variation

While it is clearly useful to present an assessment based on overall national average values, it is generally useful also to present estimates based on a range of input assumptions. There are several rationales for this. Firstly, as the scheme evolves in the future, the typical/average values may change, and at the moment this is a source of uncertainty. Secondly, there are clearly systematic variations between regions, because of differing housing market conditions and differing socio-economic conditions of households facing difficulty. These may lead to markedly different VFM results between regions, which may be relevant to policy development for the scheme. Previous similar VFM studies (e.g. Bramley *et al* 2002 evaluation of LCHO programme) have sometimes provided regional analyses routinely. It was agreed to

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[24] It might be argued that the Government/social landlord would incur the economic subsidy cost of the dwelling anyway, as it would be let to another tenant if not to the MRS household; however, this is not a cost of the MRS scheme, but rather the cost of the Government's general policy of providing social housing at sub-market rent (which is not the policy we are evaluating here).

provide estimates for three broad regions (London, South, Midlands-North), where the data permitted this (i.e. in the case of MRS scheme). Thirdly, there is great variation between individual cases, which can be related to their background situations. It may be useful to exemplify a range of such cases, to highlight differences in VFM for different types of case.

Initial assessment of MRS

Costs of Mortgage Rescue (Ai MTR option)

In discussing the build up of the various cost elements we refer to national average values in the text. The summary Table 9.1 shows estimates for the three broad regions as well as for England overall.

Three cost items are shown here. The first is the administration fee paid to the provider (we assume £4,500). While there does not seem to be any issue about this figure, there are apparently some other costs incurred by some local authorities using the 'Repossessions Prevention Fund', where discretionary payments up to a maximum of £5,000 may be made for various purposes, possibly for valuation or other fees but most significantly to help close any shortfall between debts and funds available after sale. There is interview evidence of such payments being common in some places, but no systematic data on this element of cost, which must therefore be seen as something of an underestimate.

The second item, and under the cash accounting approach the largest, is the grant paid to the provider for the MTR unit acquisition, £90,600 (HCA average to Feb 2010). This grant looks high, at 66 per cent of the average market value of £137,200, although there are repair costs averaging £8,960 to cover. It is not clear why the grant has to be this high, as it leaves the housing associations earning a high future return from net rents without having to contribute a share of the original capital funding.

As suggested above, we should probably account for a positive offset to the grant cost from the future value of the unit available to the housing association. One way of reflecting this is to take the NPV of the net cash flow surpluses generated for the housing association (rent less M and M less mortgage payment on its share of the capital cost). In practice this positive offset is quite large relative to the original grant - £53,500 - this is another way of expressing the point that the funding model for housing associations on MRS seems very generous. This assumes the unit continues to be let at intermediate rents. Taking just the first 15 years' surpluses gives an offset of £18,900. To count this as a public expenditure offset is arguable, because it sits in the accounts of housing associations which are not currently treated as an integral part of the public sector, and it is not clear what transparent mechanism is in place to ensure that this money is recycled for 'public purposes'. However, we note that HCA are currently consulting on modified arrangements for grant redemption on intermediate rent provision, which would bring some more of this money back to HCA. Our approach is to assume that all of the future surpluses of housing association providers are available for 'public purposes', such as cross-subsidising new social rental provision, and so we count all of this in our assessment.

The third item is the cost of HB, which we need to account for because of different rent levels in different cases. We assume that MRS (MTR) cases would have a high initial eligibility for HB, but that for some of these households incomes would improve markedly in years 3-5 leading to a fall in HB eligibility (from 85 per cent to 50 per cent). A crude attempt to assess potential HB eligibility from the HCA case file suggests that nearly 90 per cent might be eligible. This would contrast with a normal social tenant, where we assume eligibility averaging 65 per cent over time. Given these assumptions, with an intermediate rent of £114pw, the NPV of the HB bill would be £54,900. If we only looked at the first 15 years, it would fall to £34,300. These costs assume net cost of HB equivalent to 80 per cent of full rent of eligible households, allowing for partial versus full HB and non-dependent deductions.

The total cost of a mortgage rescue (MTR) therefore amounts to, on first basis (cash flow, long term) to £96,500, including the full offset from housing association surpluses [4,500+90,600-53,500+54,900]. However, if we use the resource cost approach the cost is slightly smaller at £90,600 [4,500+31,200+54,900]. It is perhaps reassuring that the two approaches yield similar figures, but it must be noted that this only arises because we take full account of the 'public benefit' of future housing association surpluses.

Looking at costs over only 15 years would make the estimate on the first basis £110,500. [4500+90,600-18,900+34,300], which is slightly higher than the long term cost because of the smaller offset from future surpluses. Under the resource cost approach, the 15 year the cost is much lower at £57,200 [4,500+18,300+34,300].

Costs of Mortgage Rescue (Aii Shared Equity option)

Modelling the shared equity model is more complex in some ways, but because it seems to be playing a relatively small role we do not discuss all of these complexities in so much detail. Our approach builds on discounted cash flow analyses used in previous studies of equity loan models carried our for CML (Bramley 2004) and more recently for the Affordable Homes Partnership in Ireland (AHP 2008).

The shared equity (MSHE) option within MRS is structured in such a way as to be potentially largely self-financing in the long run. Households are given an equity loan to substitute for a large part of their existing mortgage, but upper limits to this are determined by the requirement for households to have at least 25 per cent equity at the outset. Households make a payment set at 1.75 per cent of the equity loan initially, rising by RPI+0.5 per cent pa. It is also presumed that at some future date(s) the equity loan would be redeemed (half at year 30, and the remainder at year 40). In addition, one may anticipate some flow of staircasing receipts, arising where households move or experience an increase in income or assets sufficient to enable them to buy out the equity loan. Following previous exercises analysing LCHO schemes with potential staircasing, we assume that this would occur at a rate of 2 per cent of remaining cases pa, rising to 5 per cent where the model indicates that a typical household's income would have risen sufficiently to cover full buyout. We assume that typical MRS/SE cases would experience above average increases in income between years 3-5 (raising incomes by 50 per cent over this period, from the typically low level of the initial position).

Using these assumptions about the operation of the scheme we estimate that for a typical case where the initial equity loan was set at 47.3 per cent of the market value of £150,300 (approximately the averages for initial 13 cases), the NPV costs over 30 years would comprise £71,100 for the initial EL (of which £20,200 is contributed by the provider), -£36,500 for EL charges and redemptions, and -£21,500 for staircasing. This would yield a modest net cost of £17,600 allowing for the initial administration charge.

However, assessing NPV costs over a shorter period of 15 years would in this case yield a still substantial positive cost of £46,200.

It does not appear that HB is relevant to this option, since (a) the EL charge would not be treated as rent and (b) households would have to have enough income to service both this and the residual mortgage payment.

The initial *take-up* of the SE option within MRS has been extremely low. There are 14 cases in the HCA RSL monitoring returns compared with 425 MTR cases, a share of 3 per cent. If we assume a mix of 95 per cent MTR and 5 per cent MSHE in MRS cases, then the overall weighted average cost per case would be £92,505 using the cash flow basis or £87,000 using the resource cost basis (over 15 years the net costs are £107,300 cash and £56,600 in resource terms).

The net cost of shared equity would be markedly higher in London, at about £44,000, compared with c.£14-15,000 in the other regions, given the input assumptions. However, it should be noted that the number of cases on which this is based is tiny.

In big picture terms, MSHE is theoretically attractive because it enables people to remain with a foothold in owner-occupation, it is flexible up to a point, and its costs to the public purse are slight in the longer term. However, the awkward reality is that few cases of households approaching the scheme, who are often more difficult and complex circumstances owing to secondary debts and loss of income, turn out to be eligible or viable cases for MSHE. This is not totally surprising, in the light of experience with the Scottish scheme, where we estimated that only a moderate minority might have been eligible, and that is in a context where Scottish MTR was open to non-vulnerable households. We argued that it would have been necessary to widen eligibility to get a reasonable take-up of the SE option. However, the very low take-up of MSHE in the English scheme may also reflect features of the scheme which make it relatively poor VFM for the households themselves. For example, although the amount repayable on moving or staircasing rises with future house price increases, it does not fall if prices fall in nominal terms.

Costs of alternatives

The costs of the alternatives to MRS, the 'counterfactual' scenarios, are really the financial 'benefit' measures in this exercise. As explained above, we consider four possible outcomes in terms of tenures for households facing repossession, in the absence of MRS. These are social renting, private renting, remaining in owner occupation or ceasing to be a separate household. The main relevant evidence on the relative incidence of these is some analysis of combined 2005-06-2007-08 SEH data on the current tenure of households where at least one member has been previously subject to compulsory or voluntary possession. Taking the average the three categories (voluntary exit[25], voluntary and compulsory possession), the percentages of households by current tenure is 41 per cent social, 26 per cent private rent and 34 per cent own. In translating these for the MRS counterfactual scenarios, we have to allow for differences arising from three factors: (a) that a considerable but varying time will have elapsed since the exit or possession experience; (b) that these are all household types, not just those in the priority need categories under the homelessness legislation; and (c) that households dissolving and not reforming again soon are not counted. The proportion of current owners may be higher, after this potentially longer period, than in the initial situation after possession (point (a)); the proportion of social renters previously owed the main homelessness duty is likely to be larger for MRS cases because these are all priority need households (point (b); and some allowance should be made for household dissolution. It is necessary to make a judgement on the likely effect of these differences. The baseline proportions for the tenure outcomes we have assumed are: 55 per cent social, 18 per cent private rent; 22 per cent owner; five per cent dissolved. We also test sensitivity to this assumed mix.

It would be possible to approach this issue in a different way, by looking at the data on homeless acceptances by previous tenure and reason for homelessness alongside data for the same time periods on numbers of repossessions. In the Scottish MTR study we did make some estimates of this kind, and showed that only a proportion of repossessions ended up being allocated social housing after being accepted as homeless. However, the Scottish scheme is not confined to priority need cases. The English homelessness data by reason for loss of last settled home (Live Tables 633) suggest an annual number of only 2,300-2,600 in the period 2006-08 for priority need homeless acceptances by reason of mortgage arrears,

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[25] Voluntary exit refers to those cases where borrowers sell their property to avoid mortgage arrears, on as a result of arrears. It does not include life-style moves (e.g. downsizing).

repossession or other loss of owned home[26]. This number is a much smaller share of the total number of repossessions in that period (between 6 per cent and 12 per cent), and not all of these acceptances would necessarily have resulted in allocation of a long term social tenancy. A similar picture emerges from the CORE data on main reason for leaving the last settled home, with a similar number estimated for mortgage difficulty and related reasons, of around 2,300 in 2007-08. One should make some allowance for the difference between priority need groups (mainly families with children) and all household types, and for people being allocated social housing without having experienced homelessness, with other reasons for leaving their last settled home associated with them. Even after making such allowances, this evidence suggests that the proportion assumed to go into social housing may be markedly lower than in our baseline assumption.

In principle, qualitative evidence from household interviews may also be relevant to outcomes for households were MRS not available, based on hypothetical questions about what might have happened. Unfortunately the number of relevant interview responses is too small to draw clear conclusions; Chapter 4, para 4.12, suggests five households might have gone into private renting and only two into social renting. However, this evidence does support the broader assumption that private renting could be quite a common outcome and social renting far from universal.

Notwithstanding the above, we assume that the first and most important scenario, both in terms of frequency and in terms of cost, is being accepted as owed the main homelessness duty and allocated accommodation in the social sector.

Cost of homelessness acceptance and provision of social housing (Bi)

We estimate the administrative cost of dealing with a homeless acceptance case at £4,000, based on England-wide revenue outturn spend on homelessness of £232m divided by 59,000 acceptances (2007-08). We also assume that there is some regional variation in this, with higher figures in London, although we do not have specific data on the size of this difference.

We estimate the marginal cost of temporary accommodation over one year at £5,300, based on the difference between social and market rent, and allowing for the somewhat higher rents characteristic of TA leasing. Again, these figures vary regionally, with higher figures (over £9,000) in London

We estimate the up-front cash grant cost of a new social unit at £72,700 (53 per cent grant rate on same capital value), based on recent data from HCA and Wilcox (2009) on average characteristics of the new affordable rent programme [in practice new social units may cost more than £137,000, and the grant rate may be different]. Using DCF modelling for new social provision with typical rent levels and M and M

[26] These data include all priority need groups nor just those relevant for eligibility for the MRS.

allowances, there appears to be a net deficit of £29,500 up to year 30 on such provision, which would need to be added to the cost (unlike the net surplus situation on intermediate rent provision in MTR). However, there may be a case for also including an offsetting surplus figure of £12,800 representing the residual value of net rents post-year 30 to defray this cost to some extent, although this lies outwith the 30-year agreed horizon. So the true cash cost of a social unit is £89,400 after these adjustments (with considerable regional variation).

However, we argued above that the relationship between increased homeless acceptances and new provision of social rented housing may be rather small, with a baseline assumed rate of 10 per cent. On this basis, the cash impact of an increased homeless acceptances resulting from repossession not prevented on SHG expenditure and associated housing association surpluses/deficits would be only about £10,000.

The cost of HB to the rescued household living in social renting would be £33,700 (NPV over 30 years); taking only the first 15 years would reduce this to £21,100.

We argue that account should also be taken of the displacement effect of the extra homeless households on other households who might otherwise have accessed social housing, especially given that very few extra units are provided in response to increased homeless acceptances. The public sector cash cost of this displacement is primarily through the fact that quite a lot of these displaced households would otherwise live in the PRS and would there be eligible for LHA at the higher prevailing levels related to market rents. The amount counted is the extra HB (market versus social rent based) times the proportion of displaced households assumed to go into/remain in the PRS (rather than be potential new households not formed), taken as 45 per cent (informed by CORE data and S.E.H. data). This displacement cost is estimated at £7,500.

Our first estimate of the cost of alternative Bi on a cash public spending basis is £60,700. This is well below the comparable cost of the MRS option Ai (£96,500), suggesting that MRS is marginal, or not very good VFM for the public purse in the narrow sense. The main reason for this 'poor' result is that we assume, on the basis of some evidence about marginal relationships, that the extent to which new provision of social housing is increased in response to an increase in homeless acceptances is very limited. If one extra social unit was built for every two homeless acceptances, then the 'cost avoided' by MRS would rise to £98,200. This would marginally exceed the MRS costs (and certainly so once social costs were brought to account). Another way of looking at this is to say that the 'break-even' rate of new provision per extra homeless acceptance would be 44 per cent.

Assessing the costs avoided over only 15 years, using the first (cash) approach, reduces the costs avoided figure to £44,100. This is well below the equivalent MRS cost figure (£107,300), suggesting poor value-for-money even if all cases avoided homeless acceptance and allocation of social housing.

The resource cost approach to the cost of the principal alternative (homeless acceptance and allocation of social housing) also makes quite a large difference to the costs of the alternative (which would be a cost avoided, or benefit, from using MRS). The resource cost of the unit of social housing is a larger figure of £79,500, which pushes the total cost of this option up to £122,400, including the same HB figures as previously used. This alternative would therefore be 35 per cent more costly than MRS, a financial 'benefit' in this context, making MRS seem quite good VFM. Assessing the option over 15 years would reduce the absolute magnitude of the figures, by about half, to £77,000 which still comfortably exceeds the comparable figure for costs of MRS (£57,200). Therefore, it is clear that the resource cost approach paints MRS in a more favourable light, because it takes account of the opportunity cost of all of the social units used, rather than only looking at the marginal cost of new provision and displacement.

However, the discussion above assumes that option Bi would apply to all MRS cases. That is in practice unlikely, and our central assumption is that only 55 per cent of cases would have had this outcome. We therefore have to consider the other possible outcomes, in terms of their costs and their likelihood of occurring.

Alternative option private renting (Bii)

This option is assumed to apply to 18 per cent of cases. Here the main cost is the outgoings on LHA based on market rents. We use the same market rents as estimated for the actual MRS properties as an indicator of likely rent levels. We use the same time profile of HB eligibility assumed for the MRS cases (85 per cent falling to 50 per cent), although in practice people going into this route might be less likely to be in this income category. This gives an NPV of £68,700 over 30 years or £42,900 over 15 years. This is somewhat below the cost of the homeless acceptance option, as well as below both estimates of the MRS cost.

Alternative option remain owners (Biii)

This option is assumed to apply to 22 per cent of cases. It is assumed that for a household seriously considered for MRS to remain an owner-occupier, either their circumstances have to dramatically improve or they receive help through other routes. We illustrate the latter by modelling help through either the SMI route or the HMS route. Eligibility for SMI is restricted to those on IS/IBJSA with limited savings, which we assume is only 70 per cent of the cases eligible for HB; In addition we allow for the 3 month waiting period in year 1 and, most importantly, that SMI eligibility would only be available for up to two years.

HMS basically subsidises up to 70 per cent of mortgage payments from six months to 24 months, but only in the event of default or loss arising through occupiers failing to meet a payment plan or being unable to recover after two years (HMS is discussed further below).

Because the SMI is time limited, this only has a small NPV cost, estimated at £4.5. HMS is a short term subsidy and is only coasted at £3,400 (assuming no equity is available to reduce this sum and recognising that only non-SMI cases could be eligible). It is not clear what proportion of this category of case would in practice draw on this.

Alternative option household dissolves (Biv)

This is assumed to apply to five per cent of cases (a low figure seems reasonable given that these are priority need households, i.e. mainly families). It is assumed that there are no public costs associated with this option, which would typically involved household members returning to live with parents, other relatives, or other unrelated people in other households. In practice there might be social costs associated with this, as there would be with the outcome of homeless acceptance.

Overall weighted costs and benefits

The overall costs of the alternatives to MRS may be combined by weighting with their relative probability of occurring. The weights are the tenure proportions explained above (55/18/22/5). This gives a weighted value of costs avoided (financial benefits) of £47,500 under the cash flow approach, but £81,400 under the resource costing approach. For the 15 year time horizon the costs saved ('benefits') would be £33,700 or £51,800. These can then be compared with the weighted net costs of the MRS provision (both MTR and MSHE). Table 9.1 in the main text shows the comparisons, including the main components, both for England overall and for the three broad regions, under both the cash and resource bases. This table also summarises the relative value of benefits and costs using a benefit/cost ratio.

Even allowing for other options, the story remains dominated by the 'dominant' options (GMTR at intermediate rent, homeless acceptance and allocation of social housing). The relative costs of MRS versus the alternatives depend on the approach to costing social or intermediate rental housing provision. A cash flow approach suggests that MRS is not good value for money, in narrow public spending terms, because its cost of £92,500 exceeds the costs saved of £47,400, giving a benefit/cost ratio of 0.51 and a net NPV cost of £45,100. However, a resource cost approach changes the picture considerably suggesting that MRS would cost only £87,000 but would save costs of £81,400, giving a benefit/cost ratio of 0.92 and a net NPV cost of only £5,500. On the 15 year comparison, the cash based BCR falls to 0.31 but the resource based BCR holds up at much the same level of 0.92.

Homeowners Mortgage Support

The VFM assessment of HMS is structured in a similar fashion to that for MRS, and is also set out in Schematic form in Appendix D. The cost side of the equation is quite different from MRS, however. Since what is offered is a guarantee relating to outcomes after two years, there is no initial outlay (other than some administration and money advice) by the Government. Costs for the Government arise in the negative outcome scenario where the homeowner does not recover financially, defaults and leaves the Government with its guarantee on the debt shortfall relative to market value, including rolled up interest charges. This shortfall has to be met to a level of 80 per cent, with either no or limited equity recovered from the owner. The theoretical cost liability for the Government has therefore to be assessed for a typical range of cases, and will depend on the initial level of debt relative to value, the level of payment agreed (depending on current income), interest rates, and movement in house prices over the two-year duration of the guarantee. The actual cost outcome for the Government will depend on the relative incidence of households failing to recover from the supposedly 'temporary' income shock within that time period, along with (in certain cases) any incidence of further failure to maintain reduced payments during the interim period.

The 'benefits' side of the VFM equation is much more similar to that for MRS, namely it is about the 'costs avoided' in the probably adverse outcome of repossession proceeding. These include the costs of homeless acceptance and allocation of social housing, HB, or LHA in the case of those moving into private renting. In the adverse case where the Government actually incurs the cost implied by its guarantee, then these costs of supporting alternative accommodation have simply been deferred for two years. In the best case scenario, where the homeowner fully recovers, there are as noted no public costs incurred by the scheme. For some of these cases, the 'breathing space' provided by the scheme may make the difference between defaulting and being accepted as homeless , with its attendant costs, and managing to get through the crisis. For other cases, it is likely that they would have managed to get through the temporary income shock and retained their home, probably aided by forbearance (outwith HMS) obtained from the lender. This group may be regarded as 'non-additional' cases of positive outcomes – they would have happened anyway – but they do not really represent a 'deadweight cost' as the guarantee based scheme means that no public cost is incurred. However, there is a further positive perspective on this group, which may be reflected for other households not formally going through the HMS scheme. It may be argued that the package of measures including HMS has encouraged the lending industry generally to offer more generous/'enlightened' standards of forbearance. This issue is discussed further elsewhere.

Counterfactual scenarios

To assess the impact of the HMS, it is necessary to identify what outcome would have happened for a representative group of eligible households, without HMS, and then to predict what outcomes will happen for that group if supported by HMS. It seems that there are two dimensions to predicting outcomes, which are not closely related. Firstly, there is the likelihood of the income shock proving to be temporary, or turning out to be a longer term affair. This may have some demographic correlates, and may relate to cyclical or regional labour market conditions. We essentially assume that this probability is independent of the availability or otherwise of HMS[27]. Secondly, there is the likelihood of households, in the event of default, being accepted as homeless and allocated social housing, as opposed to going into private renting or dissolving. The availability of HMS will certainly affect the timing of such moves, and may also affect the mix.

We do not have any real data on the first of these, the prospect of income recovery. In discussion with CLG, we established, firstly, that there was expected to be a high probability of default (say around 80-90 per cent) without HMS (or equivalent forbearance). Secondly, it was suggested that, with HMS in place, there was expected to be a significantly improved outcome but that there was still a considerable risk of default at the end of the guarantee period. It was agreed that a central assumption should be of 50 per cent success. This implies that the probability of substantial income recovery over two years is 50 per cent, and this gives us a fix on one of our two key propensities.

For the second set of probabilities, concerning the routes followed by households experiencing default (or anyway exiting from owner occupation), we draw on the probabilities established for MRS cases above, but modify these to reflect the somewhat different profile for HMS households, many of whom may not be priority need category households. In addition, the targeting of HMS means that these households have typically not lost all income and become eligible for SMI.

The resulting distribution of outcomes assumed in our baseline assessment is shown in Table c.1. It must be emphasised that these figures are essentially judgements. The figures in the first row derive from the assumptions agreed with CLG regarding overall success and the implicit level of income recovery. The figures further down the table are informed by the analysis of tenure outcomes for previously repossessed or voluntary exit households derived from S.E.H. However, they have been modified, relative to the assumptions used for MRS, to reflect the considerations set out in the previous paragraph. Thus, fewer are entitled to the homelessness duty while a somewhat larger proportion go into private renting or dissolve, and fewer remain as owners without HMS.

Table C.1 Baseline assumed distribution of outcomes with and without HMS

Outcomes	With HMS	No HMS
Income recovers, remains OO	50%	20%
Income recovers, homeless, SR		15%
Income recovers, leave/evict, PRS		15%
Income flat, no payments, homeless, SR	10%	20%
Income flat, defaults in 2yr, homeless SR	20%	5%

[27] In later discussion of social effects, we briefly refer to arguments about the relationship between the experience of repossession, including the possibility of residual debt, and future employment prospects.

Income flat, leave/evict, PRS	15%	15%
Income flat, leave/evict, hhd dissolves	5%	10%
Check total	100%	100%

Costing the HMS guarantee

Some scheme data have become available very recently, including information from which the levels of equity cover (if any) for the HMS cases can be assessed. A general descriptive profile based on 32 cases is presented elsewhere. For the purposes of this VFM assessment we are interested in the extent of liability at the end of two years if sale or default occurs at that point. This is calculated as the increased shortfall from the interest payments reduction over this period, and interest incurred on this amount, less any equity available at year 2 to defray this. The amount involved, shown as average values in Table C.2, depends upon the extent of the payment reduction (which depends on post-shock income), the interest rate, and any change in house price over the two years. To reflect the latter uncertainty, we show figures for different price changes, taking zero change as our central case. The HMS scheme then pays 80 per cent of this shortfall.

In addition, for cases where even the reduced payments are not made during this period, there is an additional amount of shortfall, up to a maximum shown at the bottom of the table, which may be deducted from any remaining equity. The 'adjusted' shortfall shown in the final column is after this adjustment is made, in those cases where it applies, as well as the 80 per cent In view of the small number of cases in this sample, we do not attempt to estimate differing values for different regions.

Table C.2 Average Government liability on sale after two years by price change

Government Liability @ 2 years - shortfall over base value by price change	**Price Change**	**Shortfall**	**80% of shortfall**	**80% of adjusted sf**
	0%	8,830	7,064	8,489
	-10%	11,694	9,355	9,422
	10%	4,139	3,311	4,844
	20%	2,114	1,691	1,987
Current Value Assumed	0%	8,830	7,064	8,489
				adj for non-
Addn shortfall if payments missed @ 2yr		9,184		payment

Table C.2 suggests that the average shortfall in the base case with no change in prices would be £8,800, with the Government liable for 80 per cent of this (£7,100). If prices fell by 10 per cent, this liability would rise to £9,400, while if they rose by 10 per cent it would fall to £3,300. A 20 per cent rise would bring it down further to £1,700. If households failed to make their reduced payments during the HMS period, this would raise the liability to £8,489, with a range between around £2,000 and £9,500 depending on price changes.

This suggests that HMS is a cheap scheme for the Government, compared with MRS. However, this is not the whole story. As with MRS, it is necessary to account as well for the HB and LHA costs incurred by some households, according to the routes which they follow, including some households incurring such costs sooner or later even when benefitting from HMS. These calculations are undertaken in a similar fashion as for the MRS assessment, but allowing for the fact that in some cases these only kick in after two years. The details are shown in schematic form in Appendix D.

Appendix D

Value-for-money schematic models

VALUE FOR MONEY FRAMEWORK				Amended		
ENGLAND				Ave Values		
MORTGAGE RESCUE SCHEME	**"COSTS"**			HCA RSL monitoring returns		
			Risk/prob-			***Comment***
	Type	***Duration***	***ability***	***NPV30***	***NPV15***	***Comment***
Course of Action Option A						
Household goes into MRS						
Sub-option Ai Govt Mortgage to Rent			95%			
Costs						
Administrative Allowance	Cap			4,500	4,500	
Grant to Provider (RSL)	Cap			90,564	90,564	Actual ave
Housing Benefit	Rev	6 mth-indef	85%/50%	54,929	34,341	@ interm rent
minus future value of xtra SR unit avail				-53,519	-18,930	RSL surplus/res val
Alt Resource Cost (Econ Subsidy)				31,209	18,341	Mkt-Int Rent
Sub-option Aii Shared Equity			5%			
Costs						
Administrative Allowance	Cap			4,500	4,500	
Grant to Provider (RSL)	Cap			50,893	50,893	Actual ave
Provider Input				20,184	20,184	Actual ave
Revenues						
EL charge & redemption				-36,526	-14,943	Rules-based

Staircasing/sales receipts	Rev	indef	Low %	-21,456	-14,403	Forecast
Net cost Aii SE				17,595	46,231	
Total Costs of MRS						
Total Cost GMTR (cash)				96,474	110,475	
Alt total cost Resource Based				90,638	57,181	
Weighted cost incl SE (cash basis)				92,530	107,263	
Alt wtd cost incl SE (resource based)				86,986	56,634	
BCRs				0.52	0.32	
				0.94	0.92	

VALUE FOR MONEY FRAMEWORK contd				Amended		
ENGLAND				Ave Values		
	"BENEFITS"			HCA RSL monitoring returns		
	Type	**Duration**	**Risk/prob-ability**	**NPV30**	**NPV15**	**Comment**
Alternative Course of Action Option B						
Household not rescued						
Sub-option Bi Evicted, Accepted as						
Priority Homeless			55%			Assumption informed by S.E.H. data
Costs						
Administrative Cost of Process	Rev			4,000	4,000	England £232m/59,000;

						regional variation
TA leasing or excess rent subsidy	Rev	1 yr	1.2	5,265	5,265	Regional variation
Housing Benefit while in TA	Rev	6 mth-indef	High %			see below
Additional provision of social unit	Cap		10%	10,223	9,767	x is marg new prov per hl accept
HB as ongoing social tenant	Rev	6 mth-indef	65%	33,680	21,056	
Displaced household in need			45%			y is propn of marg need group in PRS 45%
- excess LHA/HB while in PRS indefinitely	Rev	z*y*(1-x)%	65%	7,506	4,054	z is propn of marg need group on LHA 65%
Alt Resource cost of social unit				79,500	46,721	Mkt-Soc Rent
Subtotal Cost option Bi				60,674	44,142	
Subtotal Alt Resource Cost Bi				122,445	77,042	
Sub-option Bii Evicted or vol sale,						
into PRS (incl priv sale-leaseback)			18%			Assumption informed by S.E.H. data
Costs						
LHA costs	Rev	6 mth-indef	85%/50%	68,662	42,926	
Sub-option Biii Remain as Owner Occ			22%			Assumption informed by S.E.H. data
Support with mortgage interest	Rev	3mth-indef	70% of HB elig	6,312	6,312	Got to be elig for IS/IBJSA nonwkg no assets
HMS payment for forebearance	Rev	6mth-2yr		3,368	3,368	Assumed liability non-SMI cases
Sub-option Biv Household Dissolves			5%			Go back to parents/relatives
						No obvious public costs
Total Benefits (Costs Avoided)						

Weighted Total Cost of Alternatives (cash)				47,859	34,134	
Wtd Total Cost of Alt's Resource Based				81,833	52,229	

VALUE FOR MONEY FRAMEWORK					
ENGLAND					
HOMEOWNERS MORTGAGE SUPPORT	**"COSTS"**				
	Duration	***Risk/prob-ability***	***NPV30***	***NPV15***	
Course of Action Option A1					
Household goes into HMS					
and recovers		50%			
Costs					
No public costs			0		
Course of Action Option A2	Discount				
Household goes into HMS	factor 2 yr				
does not recover, defaults on payments	0.890	10%			
Costs					
Missing payments extra liability			1,269	1,269	
Capitalised loss paid by govt			6,287	6,287	
Cost of homelessness - cash basis			73,874	57,343	
Cost of homelessness - resource basis			95,497	62,718	
Course of Action Option A3					
Household goes into HMS					
does not recover, defaults & homeless at 2yr		20%			
Costs					
Capitalised loss paid by govt			6,287	6,287	
Cost of homelessness @ 2yr - cash			65,748	51,035	
Cost of homelessness @ 2yr - resource			84,992	55,818	
Course of Action Option A4					
Household goes into HMS					
does not recover, exits to PRS		15%			

Costs					
Capitalised loss paid by govt			6,287	6,287	
Cost of LHA in PRS			61,109	38,204	
Course of Action Option A5					
Household goes into HMS					
does not recover, exits to dissolve		5%			
Costs					
Capitalised loss paid by govt			6,287	6,287	

VALUE FOR MONEY FRAMEWORK contd					
ENGLAND					
HMS	**"BENEFITS"**				
	Duration	***Risk/prob-ability***	***NPV30***	***NPV15***	***Comment***
Alternative Course of Action Option B					
No HMS					
B1 Evicted Now, Accepted as Homeless					
		35%			
Costs					
Administrative Cost of Process			4,000	4,000	England £232m/59,000
TA leasing or excess rent subsidy	1 yr	1.2	5,265	5,265	Regional var
Housing Benefit while in TA					see below
Additional provision of social unit		10%	10,223	9,767	x is marg new prov per hl accept
HB as ongoing social tenant - recovers	2-3 yr	15%	6,732	6,732	
HB as ongoing social tenant - not recover	indef	20%	40,149	27,525	
Displaced household in need		45%			y is propn of marg need group in PRS
- excess LHA/HB while in PRS indefinitely	z*y*(1-x)%	65%	7,506	4,054	z is propn of marg need group on LHA

Alt Resource cost of social unit			79,500	46,721	
Subtotal Cost option B1			73,874	57,343	
Subtotal Alt Resource Cost B1			95,497	62,718	
B2 Evicted Later, Accepted as Homeless	Discount				
not recovering income	factor 2 yr	5%			
Admin & TA costs 2 yr later	0.890		8,246	8,246	
Addn provision social unit + displacement			15,778	12,301	
Addn provisn resource cost later			70,755	41,581	
HB as social tenant later	indef		35,732	24,497	
B3 Evicted or vol sale,					
into PRS (incl priv sale-leaseback)		30%			
Costs					
LHA costs if recover income	2-3 yr	15%	13,724	13,724	
LHA costs if no recovery income	indef	15%	68,662	42,926	
B4 Remain as Owner Occ		20%			
recovering income					
No public costs					
B5 Household Dissolves		10%			Go back to parents/relatives
not recovering income					No obvious public costs
No public costs					
Weighted Total Cost of Alternatives Cash			33,833	25,344	
Wtd Total Cost of Alt's Resource Based			57,790	37,911	

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