

Practitioner article

Mortgage to Rent

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Shelter

Mortgage to Rent

Back in June the Scottish Government announced its plans to extend mortgage rescue provision by launching a Homeowners' Support Fund to deliver £25 million of Government help for those at particular risk of repossession. Here, we ask Mike Crozier to explain Weslo Housing Management's pioneering work in mortgage rescue and their current role in the national Mortgage to Rent scheme.

Background

Weslo Housing Management is a company limited by guarantee, with charitable status, which owns and manages 2100 houses in West Lothian and Bo'ness. In 1996 we introduced our own flexible tenure scheme which allowed Weslo to buy a property from an owner who was experiencing financial difficulties. The owner would then become a tenant and rents were typically 40 per cent higher than social rents due to the absence of grant funding. The tenant could then buy back the property at a later date if they wished for the same percentage of market value as we paid for it. Under this scheme we acquired 43 properties.

We have participated in the national Mortgage to Rent scheme (MTR) since its inception in 2003. Since that time we have received 43 applications. Of these 25 have successfully settled, 12 have been withdrawn and 6 are in progress. 25 transactions have settled at value of just over £2 million utilising £1.5 million of grant funding from the Scottish Government. The average valuation has increased from £62,600 in 2004 to £115,000 in 2008. Grant subsidy from the Scottish Government for these properties has increased from £56,700 in 2004 to £77,845 in 2008. Applications have principally been from residents in West Lothian and Bo'ness but there have been two from outwith the district: one in Edinburgh, which has settled, and one in North Lanarkshire, which was withdrawn.

The application and approval process

There is a fairly standardised process to be followed for applications. Once the details are received from the MTR team a joint visit is undertaken by Weslo's Housing Manager and Technical Officer to:

- check family circumstances
- inspect general house condition
- determine potential suitability as a tenant
- identify specific repairs required and estimated costs
- arrange for electrical and gas inspections to be carried out

In addition, a local reference rent is established, which is in line with similar social rents for properties in the area. These details are then returned to the Government's MTR team

within 14 days. It then takes a further 14 days for these details to be processed by that team and a formal offer is then issued. The offer letter details:

- market value
- purchase price
- repairs subsidy
- purchase subsidy
- possible shortfall, if any.

The offer letter is then signed and returned to the MTR team, within one week, who check it and then pass the case to solicitors to undertake the conveyancing for the transaction. The case then either settles or fails to conclude for some reason. The timescales for the last part of this process are much more difficult to predict. The timescales from initial application to conclusion vary from 9 weeks to 59 weeks with the average being 19.5 weeks.

Who is eligible?

Applicants must be in mortgage difficulty and in danger of having their home repossessed. It is also quite common for applicants to have other debt or indeed multiple debts. In many cases applicants are found to have had other secured loans on the property for a variety of purposes, for example: to start a new business, to carry out home improvements, to consolidate existing loans, to lend money to other family members or to buy 'luxury' goods. Sometimes debt is triggered by a major change in individual or family circumstances, for example: the failure of a business, loss of employment, long-term ill health problems, an accident or disability, or a relationship breakdown. Applications may be withdrawn because suitable payment arrangements have been made with the lender, or the applicant fails to respond to the solicitor or to the MTR team's correspondence. There may also be a change or reversal in their circumstances. There are cases where the excess repairs are unable to be funded, or where major structural work is required due to, for example, unauthorised alterations to the property.

Potential barriers to the MTR Scheme

The problems of multiple debt or the complexity of the case can affect the financial viability in many instances and this can involve the requirement for other loans to be discharged by lenders. As a result timescales can be longer, which increases costs for the applicant who is already in financial difficulty. There can also be higher than normal legal fees for conveyancing due to multiple debt and the complex problems this produces. MTR cases are seldom straightforward conveyancing transactions! From the landlord's point of view it is important to budget for potential increased legal costs. In some cases there may

have been unauthorised alterations carried out. This can lead to problems with the cost of remedial work and having to obtain retrospective local authority consents. The landlord should accept technical recommendations in these cases and be prepared to manage the risk as far as possible.

Repair costs

There are often excessive repairs costs due to the property having been neglected. Very often these costs are above the repairs subsidy of £6,000 which can lead to a reduction in, or the complete removal of, any equity in the property. One solution to this is for landlords to consider providing a shortfall fund to assist in these circumstances. Weslo has a rolling fund of £20,000 to assist in such cases and at present £13,000 of the fund has been used in order to make cases viable. On occasion, the house itself is in poor condition and has not been looked after properly by the owner. In these circumstances the landlord must make a decision on the person's suitability as a tenant. It is our view that a sympathetic view should be taken in these cases as there are very often extenuating circumstances which may have contributed to the problem in the first place. In such circumstances we will give the applicant the opportunity to improve the condition before making a final decision.

Conclusions

Mortgage to Rent, whilst not without its difficulties, is without doubt a very successful scheme and has allowed a large number of families in West Lothian to remain in the family home and avoid the distress and stigma of repossession and homelessness. It also means that there is less pressure on the Council's already overstretched homelessness services. Landlords should however note that excess repairs can be a problem and consider setting up some form of shortfall fund to assist with this. There can also be abortive costs when an application is withdrawn or simply does not conclude. Some of these costs can however be recovered from the Scottish Government. There may also be longer legal timescales due to the complexity of many of these cases. However, on the plus side, as well as families being allowed to remain in the family home, properties will have been brought up to a good repair standard. It is also financially advantageous to Weslo, as a landlord, to participate in the Mortgage to Rent scheme. The tenancies that have been created as a result of MTR have been conducted well and all tenancies are still in place with no major difficulties attached.

Further information

The Scottish Government has commissioned a research report evaluating 5 years of the national Mortgage to Rent scheme, which will be published in November 2008.

You can find out more about:

Mortgage to Rent

- Weslo Housing Management at: <http://www.weslo-housing.org/>
- the Mortgage to Rent Scheme on the Shelter website at http://scotland.shelter.org.uk/getadvice/advice_topics/paying_for_a_home/mortgage_a_rears/mortgage_to_rent_scheme

If you would like any further information, please send an email to **practicescotland@shelter.org.uk** in the first instance.