Mortgage to Rent and Homeowners at risk

Shelter Scotland Homeless Prevention
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Overview

- The Scottish Mortgage to Rent scheme
- Main findings of evaluation research http://www.scotland.gov.uk/Publications/2008/12/11115931/0
- Recommendations - developing the scheme
  - other measures
- Wider market considerations

Mortgage to Rent Scheme

- Scotland pioneered this from 2003 – but low key till recently
- 'Mortgage Rescue' - helps owners threatened with repo to remain in home as social tenant
- SG funds & operates; pays subsidy to social landlord
- Budget and scope recently extended (SE form)
- Few directly comparable schemes elsewhere (until recently!)
- Fills a gap in patchwork of safety nets
- Partly aimed at homeless prevention but quantitatively small
- Wide support for scheme but criteria could be wider
(key ones are value limit & requirement to be under threat)

MTR Take-up & Outcomes

- 400 applics p.a., 140 successful;
- Locally uneven demand, not wholly explicable by market/demographics
- High take-up from poorer areas incl ex-RTB – older than typical problem homeowner
- c.8% of repo's; < 1/3 of homeless rehoused following repo [but only tiny % of all homeless]
- Demand expected to rise in crunch/recession
- Half on low income (HB); slightly above ave disability or BME
- Inadequacies of ISMI & MPPI revealed
- ¼ of applics (1/2 of non-settled) had problematic outcome
  - e.g. can't find landlord; already evicted; lenders won't cooperate; continuing affordy probs

Trends in Homeowner Problems

Table 2.4. Trends in the Number of Households in Receipt of ISMI (1993 = 100)

Year	England	Wales	Scotland
1993	100.0	100.0	100.0
1994	94.4	97.1	109.1
1995	88.8	91.2	109.1
1996	80.2	85.3	104.5
1997	66.9	73.5	90.9
1998	58.5	64.7	90.9
1999	53.5	61.8	86.4
2000	48.3	55.9	86.4
2001	44.5	52.9	90.9
2002	40.9	50.0	90.9
2003	39.1	50.0	90.9
2004	34.9	58.8	68.2
2005	37.5	50.0	113.6
2006	36.3	47.1	109.1

Source: Calculated from *UK Housing Review*, Table 112a

Table 4.8: Households buying with mortgage in severe or moderate financial difficulty by year (% of all owner occu

Data year	Severe Fin Diff	Moderate Fin Diff
1999	0.28%	1.87%
2000	0.23%	2.09%
2001	0.15%	0.87%
2002	0.22%	0.93%
2003	0.05%	0.23%
2004	0.15%	0.87%
2005	0.14%	1.10%
Total	0.18%	1.13%

Source: Scottish Household Survey

Geography of (Homeowner) Debt

Table 4.10: Households buying with mortgage in severe or moderate financial difficulty by Mosaic neighbourhood type
(percent of all owner occupiers)

Mosaic groups (10)	Severe Fin Diff	Moderate Fin Diff
High income areas	0.03%	0.57%
Middle income owners	0.12%	1.57%
Low income owners	0.25%	2.07%
Better-off council	0.21%	2.95%
Disadvantaged council estates	0.66%	3.94%
Families in council flats	0.80%	3.21%
Renting singles	0.46%	3.23%
Singles and flats	0.33%	2.15%
Country dwellers	0.32%	1.37%
Institutional areas	0.28%	1.53%
Total	0.26%	1.98%

Source: Scottish Household Survey

Table 4.3: Number and Percentage of MTR Applications and Mortgaged Ov Authority

Local Authority	Freq-uency	MTR Percent	Cumul-ative %	Owners w/mort Percent	Ratio
North Lanarkshire	187	12.6	12.6	6.0	2.12
Glasgow City	154	10.4	23.0	8.8	1.19
South Lanarkshire	123	8.3	31.3	6.4	1.30
Fife	93	6.3	37.6	6.8	0.93
North Ayrshire	89	6.0	43.6	2.5	2.36
Edinburgh City	80	5.4	49.0	8.4	0.65
West Lothian	76	5.1	54.2	3.4	1.53
Aberdeen City	62	4.2	58.3	4.0	1.05
Midlothian	62	4.2	62.5	2.3	1.81
Dumfries & Galloway	54	3.6	66.2	2.3	1.60

MTR Operation

- Scheme not widely known to public
- Central admin appropriate/effective, but..
- Major problem of timescales/delays (27 wks) (-> ^ debt)
- 2 surveys; multiple secured loans; provision of info/communic
- ***Multiple secondary debts*** in majority of cases
  - trigger problems – complicate (/prevent) solution
- Irresponsible lending and borrowing in many cases - but also bad luck/loss of job/illness/etc
- Lenders v. variable; sub-prime not necess worst
- Money advisers have to be involved (a side-benefit) – CAB most freq
- Self-denial by clients – failure to talk to lender early
- Failure to find landlord v common also

The secondary debt problem

"Almost inevitably there are other debts. It can be if your income's dropped, so it's not just because of multiple debts, but there very often are, (the) usual debts such as Council Tax, but I must admit multiple and other debts are usually the problem as they've tried to get out of it by taking on other loans...

"It comes back to irresponsible lending; we're finding more and more that the actual securities on the house outweigh the actual value. Basically what's happening is that they've been lending on the assumption that the property is gaining in value. That's fine if you look at it on a long term basis, but people's circumstances can change very quickly in the short term. After being so willing to give money out on a secured loan, they are then quick enough to come back in and say they want their money back. They don't discuss in general proposals for repayment but apply for eviction. " (Advisor)

Individual Responses to Payment Difficulties

- Bury head in sand, hope it goes away (mistake)
- Talk to mortgage lender, seek re-scheduling of payments (good response from most main lenders, secondary lenders less good)
- Claim on MPPI (most don't have it; many small print exclusions)
- Claim on ISMI (9 mth wait, got to be unemployed, interest only etc)
- Sell house, move to cheaper or rent (more difficult in downturn, negative equity, currently v diff; more diff for people with complex debts – 'credit impaired')
- Sell house to private 'sale & leaseback' agency (lose 15-20% of value, high rents, no security)
- Get Govt/RSL to buy your house (alias MTR – nice if you can…)
- Throw in the keys (auction sale value low; you still have the residual debts)
- Go bankrupt (better option for harder cases, but lose control)

Overall Assessment of MTR

- It works; successfully imlemented
- Most participants & stakeholders positive
- Scheme cost modest in total but high per unit =: HAG for new LCHO unit (£58K)
- Difficult to quantify benefits
- Broadening scope (e.g. MTSE, ^ val limit) would raise numbers and cost – intermed rents, leasing might reduce cost
- 'Last resort' mechanism – other (earlier) measures more important, incl reducing ISMI wait, forebearance (MRA), money advice, better enforcement of MCOB & CCA
- Private sale/leaseback schemes heavily criticised.
- Areas of concern: delays; finding landlords

MTR Recommendations

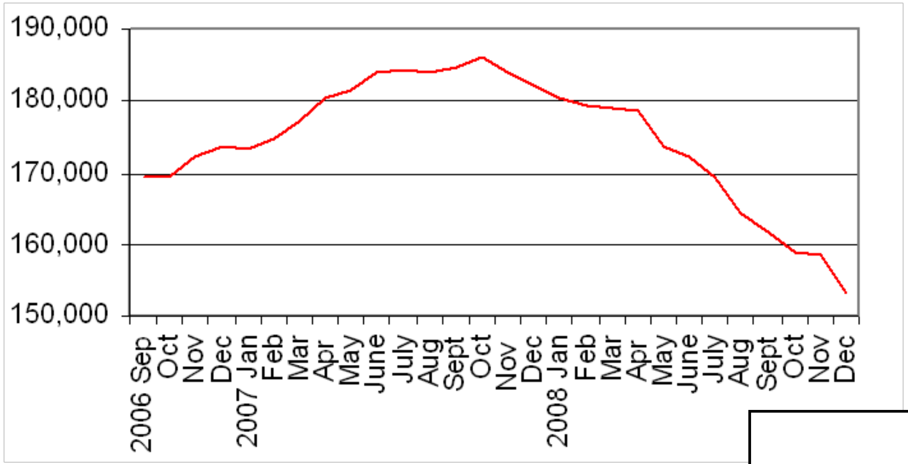
- Strengthening safety nets
  - improve ISMI, esp less wait (√) - compulsory partnership insurance ('SHOP') - Tax credits
- Coordinate & strengthen regulation incl CCA
  - protocols for lenders & courts
- Better prevention thru earlier advice, intervention, s.11, fin educ,
- Income (level & loss) elig criteria; pre-qualification; other rationing criteria
- ^ value limits + intro MTSE & MTIR options (dep on income)
- Get more LA's to participate
- Framework agreement for landlords; single survey
- Grievance procedure

Impact on Housing Market

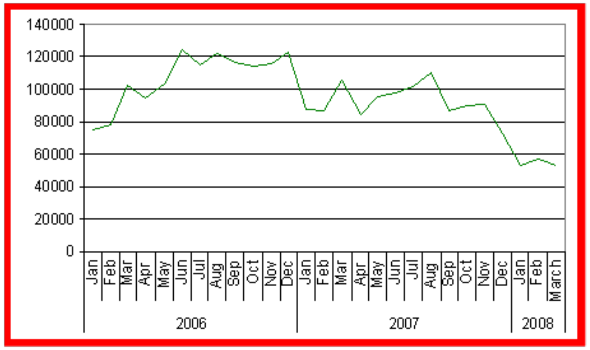
- Supply of new mortgage loans drastically reduced
- Fall in transactions, but inevitably also….
- Significant fall in prices ('market correction'), now apparent in data
- Impacts larger on certain locations & sectors
  – e.g. city centre new flats (BTL & spec demand)
  - former low demand areas (marginal, recent speculation, BTL, vulnerable sub-prime buyers)
  - up market luxury (less trade-up, city bonuses, etc)
- Lenders are rationing credit by obvious means, notably requiring much larger deposit (lower LTV ratio); probably tightening other credit conditions as well
  (therefore housing is not more 'affordable')

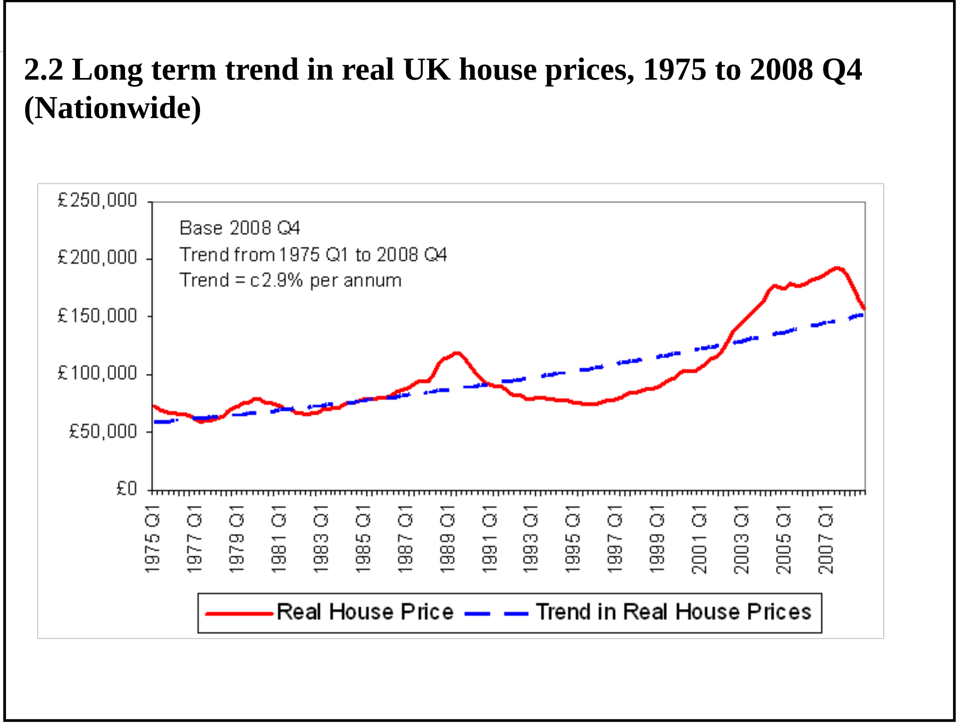
House Price Trends (UK)

Sales Transactions E & W



1.2 Nationwide - UK mix adjusted house prices





Mortgage Lending

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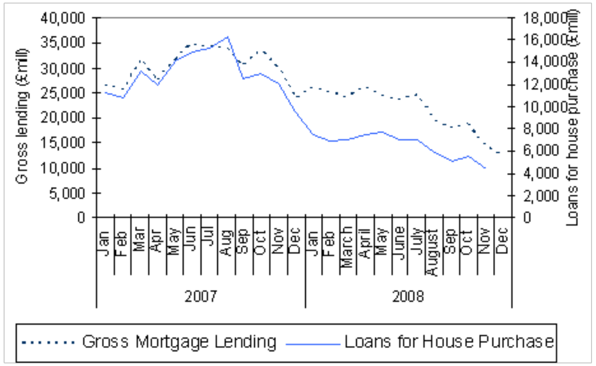
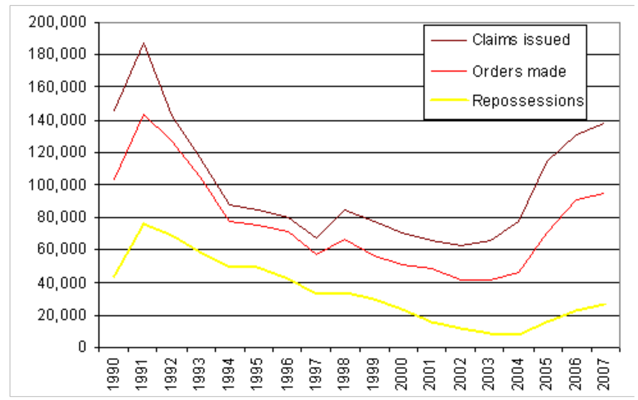
6.2 Gross mortgage lending and lending for house purchase - £mill (CML)



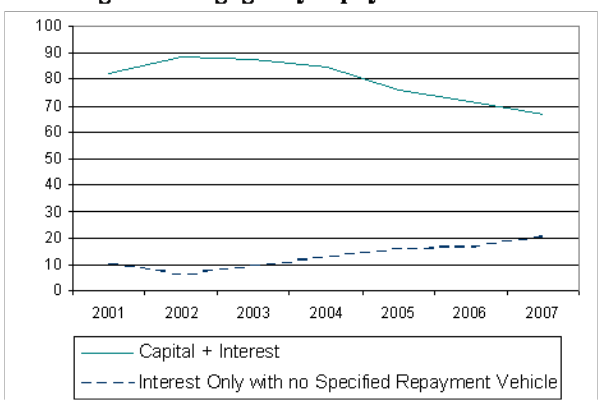
7. Repossessions



Repossessions in 2007 were 27,100, an increase of 20% since 2006 – the highest since 2000.

6.6 Repayment Method – First Time Buyers

Percentage of mortgages by repayment method



2008 Q1			
Capital Plus Interest		Interest Only – no specified repayment method	
Number	%	Number	%
36,600	69	9,500	18

The number of interest only mortgages taken out by first time buyers has increased while the number of capital repayment mortgages has decreased.

More worryingly there has been a significant increase in the number and percentage of interest only mortgages with no specified repayment vehicle, doubling from 10% in 20% in 2007.

Features of Market

- Reduced lending volume is dominant driver (not interest rates)
- Disproportionately hitting new and FTB purchase (vs remortgaging)
- But terms for some existing borrowers coming off fixed rates may imply steep increase in outgoings
- Worrying extent of interest-only loans and other ‘non-prime’ (e.g. self-certification, BTL)
- A lot of people taking out secondary secured loans, to finance wide range of things including debt consolidation
- Secondary lenders behave differently, less forebearance, different regulations, etc.

Is Scotland different?

- Some argue 'Scotland is different', less 'excess' than south, therefore less problems expected
- Some truth, but also misleading in other ways
- Levels of mortgage debt gearing tend to be lower
- But, house prices rose exceptionally, far above trend, in last 3-4 years
- Mortgage market basically the same, so current famine is bound to affect transactions and prices
- Also, more homeowners are relatively new to tenure, inexperienced, with less cushion of assets (cf. geography of problems)
- ISMI claiming rates maintained since early 1990s (whereas they fell a lot in England)
- Mortgage Rights Act made Scotland more like England