Long Term Safety Nets to Protect Mortgage Borrowers

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Foreword

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The recent financial crisis has focussed the attention of all lenders on the need to be understanding and sympathetic when dealing with borrowers facing mortgage repayment difficulties. Many borrowers are encountering difficulties through no fault of their own, often as a result of reduced income or loss of employment.

Following the formation of a Coalition Government in the Spring of 2010, it became clear that a number of the temporary schemes put in place by the previous Government, were likely to face reduced funding as the Government grappled with the important task of tackling the national deficit.

The need for a safety net when things go wrong is incredibly important and yet, according the Association of British Insurers, only 18% of mortgages had a Mortgage Payment Protection Policy in place in 2007. The challenge is therefore to get the balance right between private and public sector safety nets, but how do we do this?

Currently, some might argue that the scales are tipped too heavily into the public sector and there is perhaps a mistaken assumption by many home-owners that if they encounter problems that the Government will assist them.

Public perception of payment protection policies has no doubt been undermined by the accusations of mis-selling. The private sector needs to find a way of overcoming this and of providing products that meet the needs of consumers and gives confidence that the product will cover them in their time of need.

The economic downturn has further underlined the importance of individuals ensuring that they have a means of protecting their income, should they find themselves without a job, unable to pay their mortgage and meet other financial commitments.

We believe that now is the time to carry out a holistic review of the safety nets available to protect borrowers in difficulties, from both a public and private sector perspective. The BSA commissioned John Howard to investigate the current landscape regarding the provision of long term safety nets, and to suggest ways in which it could be improved.

This report reflects the views of the author, and not necessarily the views of the association. I hope that the challenges identified and the possible solutions provided can be the subject of detailed discussions amongst all stakeholders and Government departments. I believe that we all have a shared responsibility to create an improved system that works better together in the future. Not an easy task, but without doubt an important one.

Section 1

Introduction

I have been asked to investigate the present safety net schemes that exist for borrowers who fall behind on their mortgage and face having their home repossessed. Prompted by the severe economic downturn and the risk of further difficulties ahead for home owners, this report sets out the pre-existing public and private schemes along with those introduced by the previous government in 2008/9 and explores possible approaches for the future.

The severe economic downturn led the previous government rapidly to change the existing schemes, and to introduce new schemes to provide support to borrowers facing repayment difficulties. The new Coalition Government has now embarked on an accelerated deficit reduction programme and has signalled that public funds available to help stretched homeowners will decrease.

After setting out the protection available across the private and public sectors and examining their effectiveness the report outlines possible reasons why take up of private provision is so low, whether a compulsory scheme would be appropriate, and how shared ownership might enable repossession to be bypassed keeping people in their homes but as tenants.

This report will form the basis of discussion between the many stakeholders in the sector and government departments to bring about a significantly improved system for the future.

The main reasons for repossession are job loss or reduced hours, relationship breakdown, illness and increased mortgage payments. In this report I have opted to divide these causes into two groups.

The first group consists of those people who had an unaffordable mortgage at the outset. They borrowed a sum which was always going to put them in a precarious position, who have not managed their finances well and may have been pushed into repossession by taking on further debts or when their mortgage repayments increased after an introductory deal. Research suggests this group represents between 10 and 20% of the total.

The second group are those people for whom their mortgage was affordable at the outset but some intervening event has caused their income to fall below the point where they can keep up repayments. This is by far the majority making up 80% to 90% of the total.

There are four ways to protect people and enable them to stay in their homes if they can no longer afford to pay their mortgage:

1. Private Insurance
2. Public insurance in the form of state benefit payments
3. Flexible Tenure enabling homeowners to become renters of their property
4. Lender Forbearance

This report looks at each of these in turn and will encourage discussion between the many stakeholders in the sector and government departments with the aim of bringing about an improved system for the future.

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Section 2

The Background and Economic Environment

Although the recent financial crisis has abated, the UK runs the risk of a future dip in economic activity, which along with increased mortgage interest rates could put many home owners in a perilous position.

Until the crash the UK had experienced a period of extraordinary growth in all asset classes and in particular property. Substantial inflows of money from China and the Far East were invested with institutions that then had substantial cash to lend.

With a finite pool of good quality borrowers (people who were deemed at low risk of defaulting on their mortgage payments) many lenders, especially those operating in the sub prime markets, found new business by lending to increasingly risky borrowers:

- *"This resulted in relaxed lending criteria, increased risk-taking and lending decisions based, to a considerable extent, on the underlying collateral, without undertaking a proper assessment of the consumer's ability to repay the sums lent."*

  Speech by Lynda Blackwell FSA 20 October 2010

Building Societies Association research suggested around 10% of arrears cases were due to over-commitment when the loan was taken out. The FSA believes the figure was a little higher:

- *"We mapped affordability at the point of mortgage sale, based on the income declared on the mortgage application against the mortgage payment at that time and an average level of expenditure. We found that a significant minority of borrowers - 16% - may not have had sufficient income to cover mortgage payments and an average level of expenditure.*

  Speech by Lynda Blackwell FSA 20 October 2010

Some lenders, like Northern Rock, were providing 125% mortgages. Self cert and fastrack mortgages made borrowing fast and easy.

Property prices rose significantly, as more buyers came into the market.

In 2007/8 the economy braked violently as the sub prime market in the US crashed, threatening to bring down with it a number of banking institutions. Only aggressive intervention by national governments worldwide stabilised the situation. Many high street banks were caught out with substantial numbers of loans at risk.

The UK government was concerned that such a sudden correction in the economy could lead to increased job cuts and the risk of a major rise in mortgage repossessions. Its response was to amend existing support and introduce new Government support schemes.

But take up of the Mortgage Rescue Scheme has been limited. Latest figures (from September 2010) from the Department for Communities and Local Government (CLG) show a total of 980 households have been helped by the scheme since January 2009.

But according to FSA figures 81,762 properties were repossessed and sold during this period (Q1 2009 to Q2 2010).

In addition the Sale and Rent back industry claims that it helped as many as 20,000 people avoid repossession in that period.

This would take the total of households that faced repossession to 100,000. So the Mortgage Rescue scheme may have helped as few as 1% of the total of those people who had to give up ownership of their home because they faced the possibility of court action.

But even this is not the full story. Many people sell, in a hurry, to avoid trouble in the first place.

The Survey of English Housing between 1993 and 2007 shows court-ordered and voluntary possessions account for only 44% of all cases where a borrower had to give up their home due to mortgage payment problems. 56% were sold as preventative action, either to avoid getting into arrears or to repay arrears.

Anecdotal evidence supported by court data suggests that repossessions have been capped because of increased leniency on the part of lenders. But one of the main techniques used by lenders is to postpone payments, which undoubtedly helps homeowners in the short term but the money due must eventually be repaid and is often running up additional interest in the meantime.

- *Increased levels of unemployment in the downturn along with other unpredictable factors have led to a significant number of households having difficulty with meeting their loan repayments. Shelter estimates that there are already five million homeowners who can't afford any rise in repayments without the risk of repossession while the FSA says 46% of mortgage borrowers are overstretched.*

  Speech by Lynda Blackwell FSA 20 October 2010

Professor John Muellbauer of Nuffield College, Oxford, **(DP7986 Modelling and Forecasting UK Mortgage Arrears and Possessions September 2010)** has created a set of models for future repossession and arrears forecasts. In all the scenarios repossessions in 2010 are lower than in 2009 but then increase. His central model predicts repossessions reach 60,000 in 2013. This is largely due to assumed increases in interest rates.

So what should we do to help borrowers avoid repossession in the future? The schemes introduced by the previous Labour administration are due to come to an end just as Professor Muellbauer predicts repossessions will start to rise again.

Now is the time to review the existing schemes and plan a structure for the future.

Section 3

Financial Help for Homeowners

The existing schemes for borrowers who fall on hard times are many and various. In fact so complex is the web of state support and so confusing the private sector schemes, most people will need advice when considering them. The Coalition Government has now announced plans to simplify state benefits, which could reduce their number and make the system simpler to understand but in the private sector there still are a bewildering number of protection products from which consumers have to choose.

3.1 Private Sector Insurance

Many people are persuaded to take out one of the following insurance products when they sign up for a mortgage or they may have obtained one when purchasing other financial products. As a purchase linked to a specific product these policies are often sold without taking an overview of an individual's overall circumstances leading to gaps in the total coverage that person holds.

1. Payment Protection Insurance (PPI)
2. Critical Illness Insurance/ Cover (CIC)
3. Permanent Health Insurance (PHI)/Income Protection (IP)
4. Mortgage Indemnity Guarantees Insurance (MIG)
5. Mortgage Payment Protection Insurance (MPPI)/ Accident, Sickness and Unemployment Insurance (ASU)

The risks that these policies are attempting to cover are loss of income due to redundancy, sickness or injury. There are almost limitless variations in the cover provided. They vary as to whether they cover a specific expense, such as mortgage payments, or simply replace overall income. They are further sub divided by whether they pay out for a fixed time period or potentially until retirement or death. This makes for an immensely complex landscape of products, given different names by different providers, presenting consumers with a bewildering array of choices.

Research by the former Office of the Deputy Prime Minister found that 40% of mortgage borrowers had no cover in place at all. **(Homeowners Risk and Safety-Nets. ODPM 2004)**

Private sector products include:

3.1.1. Payment Protection Insurance (PPI)

These policies relate to specific unsecured loans and only meet obligations under them (eg credit card payments).

3.1.2. Critical Illness Insurance or Cover (CIC)

Critical illness insurance provides a lump sum payment if the policy holder is diagnosed with a specified illness and as a consequence is unable to work. The policyholder may use the lump sum in whatever way they wish, so the lump sum could be applied to a mortgage.

3.1.3. Permanent Health Insurance (PHI)/Income Protection (IP)

PHI policies provide a regular tax free income to a policy holder if they are unable to work for a prolonged period due to sickness or disability but not usually redundancy. Policies usually pay out until the holder returns to work, pays the mortgage off or retires or for a specified limited period. The amount of cover is usually based on a percentage of the policy holder's salary. This regular income can be used to meet mortgage payments but will affect claims for Support for Mortgage Interest.

3.1.4. Mortgage Indemnity Guarantee Insurance (MIG)

It is sometimes required as part of a mortgage offer, this type of insurance is different in that it pays out to the lender rather than the borrower when, on repossession, there is a shortfall on the mortgage. This helps to release borrowers who must sell up, from the debt that might still exist after the property is sold even though the borrower remains liable for the outstanding debt.

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3.1.5. Mortgage Payment Protection Insurance (MPPI)

This is the most common form of protection for homeowners, sold to them when taking out their mortgage. The usual arrangement is that cover is provided that will meet mortgage repayments for a specified period of time, usually 12 months, but some pay out for up to 24 months. Policies vary but will cover one or more of redundancy, sickness or injury. Policies may not pay out immediately but many then provide 'back to day one' cover.

Take up is not widespread. At the end of June 2008 just 17% of householders had taken out MPPI and not all these policies covered unemployment and ill health. **(ABI/CML 2009)**

Possible causes for poor take up are the additional cost and perceived poor value for money, along with the belief held by some that they are simply not at risk. **(Ford et al, 2004)**.

Many other people appear to have been put off taking MPPI because of historic bad publicity about payment protection insurance generally. **(Ford et al, 2004)**.

I would also add to this that consumers may not take out cover because of the bewildering choice of products available. Past behavioural research has demonstrated that people given too many choices may make no choice at all. (Research by Iyengar and Lepper showed 30 per cent of participants offered a choice of 6 variations of a product bought one, compared with just 3 per cent of participants offered 24 different variations. "When Choice is Demotivating" 2000)

Costs of MPPI at present are around £7 a month for each £100 a month of mortgage repayment. Premiums are likely to rise though if unemployment begins to increase to any significant extent. Generally premiums are reviewed by insurers every twelve months, so they can go up and down.

In the past some policies have been of poor value and missold to those who have later found the small print precluded a claim. One of the problems with these policies is that they often don't cover all eventualities and when the householder takes out the policy they cannot foresee what life events will cause them to have repayment difficulties.

The test comes perhaps many years down the line when they attempt to make a claim and discover the event that has occurred falls into one of the exemptions they were happy to accept at the outset.

This leads inevitably to suggestions by customers that insurers avoid liability by relying on the small print.

Typical exemptions include riding on a motorcycle, dangerous sports or occupations, working as a professional sports person, or any injury or condition related to normal pregnancy, stress, backache or which the claimant had prior to their application for cover, AIDS related conditions and conditions due to drug and alcohol abuse.
In the ODPM survey 28% of mortgage borrowers agreed with the statement that insurance companies never pay out, and an identical number said they avoid taking out insurance whenever they can.

ODPM research found that only 39% of MPPI policies covered accident, sickness and unemployment, which suggests that more than half of householders were not covered for all eventualities. **(Homeowners Risk and Safety–Nets. ODPM 2004)**

One advantage of MPPI is that it is not included in the claimant's income calculations for tax and means tested state benefits like Job Seekers Allowance and Support for Mortgage Interest whereas Income Protection policies are taken into account for assessing entitlement to SMI.

With widespread criticism of PPI insurance generally, doubts about whether these policies will pay out and significant advertising of the governments 'mortgage rescue' schemes, some homeowners may have felt that the state would be more likely to come to their aid if they got into trouble.

However the low number of householders qualifying for the government schemes compared

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to the number of repossession and sale to rent cases, shows this is not necessarily the case.

3.2 Employer Support

Apart from the private sector solutions to the risks of sickness, injury and unemployment, there are support schemes run by employers provided as part of job contracts. These may well be group versions of the private provision listed above.
The main ones are:

3.2.1 Employee Benefits
3.2.2 Unemployment Insurance
3.2.3 Statutory Sick Pay

3.2.1. Employee benefits

Usually a version of Permanent Health Insurance paying an income if the employee cannot work for specified health reasons. Commonly providing a period of full pay, followed by a reduced amount for a specified time. The income can be applied as the employee requires and can be used for mortgage payments.

3.2.2. Unemployment Insurance

Regular income paid on redundancy. Provides a specified percentage of gross income. Payments may be limited to particular expenditure.

3.2.3 Statutory Sick Pay (SSP)

Statutory sick pay is paid by an employer to employees who are unable to work due to illness for a period of up to 28 weeks. It is paid to the employee in the same way as their wages. A useful stop gap for someone who becomes ill to meet mortgage payments.

The ODPM study found that in 75% of households with a mortgage at least one person was entitled to employee benefits for ill health allowing them to receive full pay for a set period, followed by a period of reduced pay.

Just over 75% of borrowers were entitled to statutory redundancy pay based on employment for at least two years with the same employer.

3.3 State Support

The Coalition Government has now announced a radical shake up of state run benefit schemes. Faced with a substantial budget deficit these plans previously flagged by the present Work and Pensions Secretary Iain Duncan Smith, aim to simplify the system but are now also a route to reduced costs for the state.

The following are the existing benefits, several of which, under the government's plans, will be replaced by a Universal Credit.

3.3.1. Income Support for Mortgage Interest (ISMI or SMI)
3.3.2. Tax Credits,
3.3.2. Unemployment Benefit

3.3.1. Income Support for Mortgage Interest

Support for Mortgage Interest is the main state benefit to help with mortgage payments. SMI is paid to eligible mortgage borrowers to meet the interest on their mortgage (up to a mortgage value of £200,000). Before receiving any payment the claimant must wait 13 weeks after their eligibility to certain state benefits is established. (This was reduced during the recent crisis from 39 weeks). This has not only assisted borrowers who suffer a sudden drop in income but has also encouraged lender forbearance because lower levels of arrears are built up in the 13 week period, making it much more likely that the householder can eventually recover their position.

From October 1, the Coalition Government has decided to change present arrangements so that in future the standard interest rate paid to claimants will be the Bank of England published average mortgage rate, currently 3.66% the previous rate payable was 6.08%.

SMI is currently helping 225,000 households with their mortgage payments.

In its analysis of the recent crisis the Centre for Housing Policy Research, Summary Number 244 August 2010 says:

- *"A majority of household respondents were not eligible for help from the state safety-net, Support for Mortgage Interest, (SMI) as many households who had lost income still had one person in employment, or were self-employed and had difficulty meeting the criteria for support."*

- *"Where relationship breakdown was the key driver of arrears there was no eligibility for SMI as typically borrowers did not experience a loss of income* (but increased costs).

- *"However, while those in receipt of SMI could address their mortgage arrears, additional, unresolved secured and unsecured debts remained a pressure to leave the sector. The majority of households moved initially into the private rented sector."*

3.3.2. Tax Credits

Tax credits are payments from the government. A person responsible for at least one child or young person may qualify for Child Tax Credit depending on their income. A person in work but on a low income, may qualify for Working Tax Credit. Qualifying Claimants may be entitled to both types of tax credits. **(Source : HMRC)**

3.3.3. Unemployment Benefit

People who are out of work are entitled to a number of different benefits. The two main benefits, Jobseekers Allowance and Employment and Support Allowance, are designed to cover living expenses.

There are two kinds of Jobseeker's Allowances.

1. Based on how much National Insurance a person has paid in the previous 2 years, and lasts up to 182 days. This is called 'contribution-based Jobseeker's Allowance'.

2. Based on the claimant's income and savings and is called 'income-based Jobseeker's Allowance'.

To qualify for Jobseeker's Allowance a person must be looking for work, have savings less than a certain amount, be able to work for at least 40 hours a week, have paid enough National Insurance on their income, be over 18 and under State Pension age, have a 'jobseeker's agreement', not be in education, and live in Great Britain. **(Source : Job Seekers Guide)**

Employment and Support Allowance replaces Incapacity Benefit and Income Support that is paid because of an illness or disability for new claimants from 27 October 2008. The maximum that can be paid out to a single person is £96.85 per week. **(Source : Directgov)**

We have reached a position of enormous complexity, with a mish mash of state and private schemes usually offering incomplete protection from sudden life events.

The object of state protection is to provide a safety net of last resort for those who fall on hard times and have no other means of support. The present government faced with a substantial budget deficit and concern about welfare dependence, is now determined to simplify these schemes and reduce the cost to the state.

There is no similar pressure to simplify private sector provision especially while state support exists. State support is of course a form of insurance to which everyone in work contributes and there is clearly a tension here in that individuals may feel that paying for additional private insurance is unnecessary.

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Section 4

The Government Schemes introduced in 2009 and other recent market solutions

In response to the fears of widespread home repossessions the government took a number of steps designed to help people to stay in their homes.

1. They reduced the waiting period for Support for Mortgage Interest from 39 to 13 weeks, whilst also raising the capital limit that would be covered to £200,000. For further details see the previous section
2. The Mortgage Rescue Scheme was introduced in Jan 2009 under which local authorities can arrange for a property to be bought outright and rented back to the former owner via 'Mortgage to Rent'; or for a share of the property to be purchased under the 'Shared Equity' scheme.
3. The Homeowner Mortgage Support Scheme began in April 2009 which enables borrowers to defer a proportion of their mortgage interest for up to two years. Participating lenders had a government guarantee of payment if the borrower defaulted

4. In addition the authorities put pressure on lenders to exercise 'forbearance', in other words take a more lenient approach to arrears and using other techniques to ease the position of borrowers. This can include measures such as extending the term of the mortgage, converting the mortgage to interest only payments, or simply giving borrowers a break from paying anything, rolling up what was owed into the total debt.

The accepted wisdom is that lender forbearance has played a much bigger role in suppressing repossession than any of the other schemes.

> *"Very few people fitted the qualifying criteria (for the Government schemes) but what made the difference was forbearance by lenders who were prepared to let borrowers stay in their property even when that meant significantly reduced payments. For example we had one case where the borrower was paying £350 per month on their mortgage. We explained that he had lost his job and had massive negative equity. The lenders were prepared to reduce his payments, without an end date,to £100 a month."*
>
> Nick Pearson, Paymex Group, Debt Solutions Company.

4.1 The Mortgage Rescue Scheme (MRS)

This was a £285m package aimed at keeping some of the most vulnerable families in their homes to avoid the trauma of repossession. MRS operates through a partnership of local authorities, Registered Social Landlords (RSL), lenders and debt advice agencies.

The scheme has two elements:

1. The 'Government Mortgage to Rent' option which involves a Registered Social Landlord (usually a housing association) purchasing the homeowner's property, enabling the household to remain in the property as tenants on an assured shorthold tenancy, paying an intermediate rent. The householder receives 97% of the property's market value and pays rent 20% less than the market rent in the area; and
2. The 'Shared Equity' option which involves a Registered Social Landlord providing a loan to the homeowner to enable the homeowner's monthly mortgage payments to be reduced.

But the limits on the Mortgage Rescue Scheme are tight. The homeowner must be at risk of homelessness as a result of mortgage repossession AND fall within a priority need category. All of the following qualifying criteria need to be met:

- they have discussed all hardship options with their mortgage lender
- they have received a letter from their lender telling them that they intend to take possession of the home
- their property is worth under £235,000, although in some cases there may be exceptions
- they have a joint income of less than £60,000
- they are in a priority need category - child expected, dependant child(ren), elderly (over 60 years of age) or are a vulnerable adult under the terms of the homelessness legislation
- In certain circumstances households in negative equity (up to 120% loan to value) who meet the above criteria could also apply under this scheme.

The Mortgage Rescue Scheme was expected to help up to 6,000 households across the country avoid repossession over a two year period. The Government subsequently set up a £20million local authority Repossessions Prevention Fund to provide small loans to homeowners when appropriate to help them avoid repossession.

But take up of the Mortgage Rescue Scheme has been limited as mentioned previously and appears to have helped only 1% of the total of those people who had to give up ownership of their home because they faced repossession

The Department for Communities and Local Government evaluation of the MRS undertaken by the Centre for Housing Policy gave examples of MRS cases:

- *"The borrower's 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."*

The CLG also analysed the levels of unsecured debt on credit cards and the like, held by people who had successfully joined the scheme:

- *"The average level of unsecured debt was £16,566, but 27 per cent.... had unsecured debts of £20,000 or more. Ten per cent had unsecured debt over £40,000."*

This might suggest that even though housing costs had been reduced, householders were still facing difficulties with other debts, which might mean they then fell behind with any rent they should pay. At the time of the CHP 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)"*

In its original cost benefit analysis of the scheme CLG calculated that MRS could just about pay for itself:

- *"There will be savings to the exchequer from reduced numbers of repossessions, Temporary Accommodation (especially in high demand areas) and Housing Benefit (HB). Also, Registered Social Landlords will benefit from rent and assumed future staircasing up of rescued households. These benefits are valued between £195million and £390million. Finally, there will be wider social benefits from families being able to remain in their own homes. Estimated exchequer cost of around £200m. In addition to this, there are potentially more administration costs to Local Authorities."*

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The July 2010 evaluation of Mortgage Rescue by CHP gave evidence from interviews with some of those who had been helped by the scheme:

- *"MRS was repeatedly considered to be a "lifeline" or a "lifesaver" 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 disruption to their children's education, secured their place in their neighbourhood and provided an immense sense of security and relief."*

- Former borrowers: *"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."*

- *"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."*

4.2 Homeowners Mortgage Support

This scheme allows eligible homeowners to defer up to 70% of their monthly mortgage interest payments for up to two years with the borrower paying the 30%. The government then gave the lender a guarantee covering 80% of the deferred interest which will be paid if the borrower defaults and the lender suffers losses through repossession. The government estimated 42,000 households would be helped over two years.

From April 2009 to July 2010 the Homeowners Mortgage Support Scheme had only helped 34 people, although research showed it had had a positive impact on lender forbearance practice and mortgage arrears management. **(Source : CLG)**

BSA Research Understanding Mortgage Arrears (August 2009) said that:

- *"The HMS scheme has been criticised for being overly complex for both borrowers and lenders. Most building societies have decided not to formally offer HMS and all instead support the BSA's Customer Commitment for borrowers in arrears* (BSA 2009)."

In its survey 70% of building societies claimed MRS and HMS had had no impact on their arrears management and that the schemes added nothing extra to their existing approach to forbearance.

4.3 The Coalition Government's Welfare Reforms

The Coalition Government has now announced its plans for sweeping welfare reform which would affect the various existing housing support arrangements. The Consultation document produced in July 2010 proposed a Universal Credit which would combine most of the other benefits for the unemployed. The discussion document says that Universal Credit could include the following elements of support, as appropriate:

- basic income replacement for single people and couples similar to the rates of Jobseeker's Allowance, Income Support and Employment and Support Allowance;
- help with mortgage interest and other housing costs currently available through those benefits;
- help with rent and council tax currently provided through Housing Benefit and Council Tax Benefit; and
- extra help for families in place of Child Tax Credit.

The consultation went on to mention the linkages with other forms of support:

- *"Another example is Government support for the provision of affordable housing and sub market rents. We recognise the imperative to increase the supply of new homes, including new affordable homes, and to ensure sustainable funding for the affordable homes that we already have."*

The coalition has now announced (October 2010) that the social housing budget will be cut by around 50% and that council housing for life will be phased out. They have set a target of 150,000 new affordable homes, albeit tenants will be charged nearer the going market rate.

4.4 Sale and Rent Back

The private sector has also seen enormous potential here by providing a product which serves a similar 'Mortgage Rescue' purpose. Sale and rentback schemes buy a home, often paying all the associated fees, and then rent the property back to the house-holder. Some firms offer clients the option to purchase the property back at some later time. These schemes do not allow for a sale of part of the equity but they do allow people to stay in their homes.

Homeowners can use the cash to settle their existing mortgage and any other outstanding debts.

Many consumers facing repossession or large debts have found Sale and Rentback attractive because it appears to be a simple way out of trouble. Firms claim to be quick; some companies promise to complete in a week. Firms also emphasise that neighbours need not know what is going on because the family can stay in the same home and children can continue to attend the same school.

Some of these schemes have attracted a lot of adverse publicity. In the worst cases homeowners were only receiving 50% to 60% of the real value of their home and were then evicted after a six month tenancy.

The Chartered Institute of Housing gave an example of a typical deal involving a property worth £100,000 which might be sold for £70,000. The subsequent rent may be set at £500 per month as against a market average in the area of £550 and an original mortgage payment of £600. Critics say that the effect of these transactions can be that homeowners are selling their property for less than it is worth, only to be paying rent to meet the new owner's loan, be it a company or an individual.

There is little reliable data on the size of the industry. However the Office of Fair Trading says it is likely that there are upwards of 1,000 firms, together with an unknown number of non-professional landlords, who had conducted about 50,000 transactions to October 2008.

Following bad publicity and lobbying by groups such as Shelter, the FSA now regulates all private sale and rent back schemes. The system for regulation was introduced on 30 June 2010.

Companies must check whether the scheme is likely to be affordable and appropriate for applicants. The system requires that:

1. The tenancy offered must have an initial fixed term of at least five years.
2. There are also new rules on what happens if the applicant gets into rent arrears after the sale:
3. Eviction should always be the last resort - all other options should be considered first.
4. Householders may not be entitled to housing benefit.

A sale and rentback scheme modified to reflect the particular circumstances that borrowers facing repossession face may be worthy of further consideration to allow borrowers to remain in their home.

4.5 Lender Forbearance

In 2007, with the threat of increased repossessions on the horizon, the Financial Services Consumer Panel discovered that many judges hearing repossession applications were unaware of the FSA's rules requiring that specific actions were taken before lenders took home owners to court and were granting repossessions in circumstances where lenders had not followed the FSA's requirements. A new Mortgage Pre-Action Protocol, reflecting the FSA's rules, was drawn up by the courts. As a result, the number of possession orders dropped significantly:

"The court actions data show a dramatic drop in the last quarter of 2008, confirming the forbearance policy shift by lenders. This was undoubtedly related to the Mortgage Pre-action Protocol. It is likely that part of the effect of the policy shift was to postpone possessions, though the magnitude of this effect is unknown.

(Source: "Modelling and Forecasting UK Mortgage Arrears and Possessions." Janine Aron, Department of Economics, Oxford & John Muellbauer, Nuffield College, Oxford July, 2010)

Forbearance has helped many households but in most cases the deferred payments will have to be paid at some point in the future and will have attracted additional interest payments in the meantime. And for some people forbearance is simply putting off the inevitable and may be against their best interests:

"One lender has been happy to forego payments completely for months at a time. This may sound good but the debt is rolled up, actually making the borrower's position much worse. In some cases it is more sensible for borrowers to face reality and make some hard choices."

Nick Lord, Money and Policy Advisor.

It does provide flexibility though and for home-owners who stand a very good chance of restoring their income, it provides a valuable breathing space.

Section 5

A Future Approach - Can we keep people in their homes?

The latest recession seems to have produced a number of changes in policy brought about by a new political reality. For example in the Northern Rock collapse government and regulators were forced to acknowledge that depositors with a major bank could not be allowed to lose money. The government recognised that queues outside branches of the bank would only stop when deposits were guaranteed.

Governments also seem to have recognised that large numbers of mortgage repossessions are also now politically unacceptable.

The FSA as regulator has also now taken a clear stand by insisting that all lenders only use repossession as a last resort and this position has been reinforced through the Mortgage Pre-Action Protocol.

So is it possible to reach a viable position whereby nobody is thrown out on the street against their will? Some people will always opt to leave but should we try to ensure that those who want to remain in their home are able to do so?

5.1 The cost of repossession

When a property is repossessed a complex procedure is played out. The lender must go to court to recover possession; a costly process. They will have already made a provision in their accounts for any loss that may be incurred on the sale of the property. A typical assumption is that they will get only 70% of the property's value back. An increase in these 'value write downs' weakens the lender's financial position. In an economic downturn this further undermines confidence in individual institutions and in the market more widely.

With their property repossessed, the former owners have the distress and expense of moving out of their 'home' and finding other accommodation. Some may fall back on the local council, who then have the cost of providing a new rented home, although the CLG say they have found very little increase in demand for social housing from repossessed households.

Alternatively, the former owners find rented accommodation and claim benefits (at a cost to the state) to cover the rent.

This all adds up to a significant cost to the lender and the state to dispossess a homeowner. It does beg the question whether this money could have been better spent paying to keep the defaulting owner in their home.

The write down in the value of the property alone can be substantial. As an extreme example of the cost to a lender of repossessing a property take a house valued at £100,000 with a mortgage of £100,000. On sale some lenders will assume, after all costs of selling as a repossessed property, they will recover just £70,000, incurring a loss of £30,000.

If the homeowner has a mortgage with repayments of 6% per annum the total annual mortgage interest payment is £6,000. So the loss to the lender alone would have covered the mortgage repayments for 5 years. A lot can happen in 5 years: a new job, resolved family troubles, a property boom.

Section 6

Possible Solutions

The Government's recent spending review has squeezed state assistance for those in difficulty paying their mortgage and the existing state 'rescue' schemes are due to an end over the next two years, public sector spending cuts are likely to lead to more job losses and lenders will soon be reaching the limit of their forbearance. There is a likelihood that repossession figures could start to rise again. How can we prepare for that outcome and in any event can we create a simpler and more coordinated approach to keeping repossessions as low as possible?

The FSA is proposing to be much more explicit about the standards lenders must meet when deciding if a borrower can afford a mortgage. Government is anxious that repossessions are as low as possible. Repossessing a home has significant costs for borrowers and lenders as well as central and local government. Is there a more cost effective system which would keep people in their homes? A number of possibilities present themselves including:

1. Forbearance
2. A more substantial Mortgage Rescue Scheme
3. Sale and Rentback
4. An Income Insurance requirement

6.1. Forbearance

Forbearance by lenders and maintaining low interest rates have been the two most effective actions through the present crisis helping to keep homeowners in their homes. Both must inevitably come to an end.

Most forbearance by lenders has the effect of increasing the borrower's debt. At some point lenders will have to give way and try and recover this from the borrower. Whether the borrowers will be in a better position to pay is open to question. This may simply have delayed repossession rather than permanently dealing with it.

A significant increase in interest rates will also start to squeeze homeowners who have little or no margin of income over expenditure.

Forbearance has undoubtedly been a valuable tool in the downturn. It could only be a more significant and sustainable method of 'mortgage rescue' if the Government were prepared to underwrite the costs to lenders, including in some cases the write off of the rolled up interest and/or capital payments in a similar way to the Homeowner Mortgage Support programme.

However forbearance does create significant moral hazard. Aron and Muellbauer point out it is worth bearing in mind the potential consequences of easing worries about mortgage payments when so many people have other debts as well:

- *"The knowledge that lenders and courts are exercising forbearance makes borrowers less concerned about the risk that a rise in their arrears levels will induce possession. For example, borrowers with this belief may pay off credit card debt before mortgage debt, or may cut back less on other household expenditure."*

Forbearance will continue to be a solution for some distressed borrowers but it could be attractive to integrate strategies for forbearance with income insurance, shared ownership and sale and rentback.

6.2 A more substantial mortgage rescue scheme

The Government's Mortgage Rescue Scheme was limited and required social landlords to take over ownership from a troubled home owner. Could a similar scheme be made much more widely available? As mentioned before lenders face significant costs to repossess a home owner, who is often rehoused with state subsidy. Is there potential for the owner to remain in their home but as a tenant, at the same or even less cost to the lender and the state?

Getting off the housing ladder, like getting onto the housing ladder, is a major step. One way of helping distressed home owners off the housing ladder, without moving home, is to switch from owning to renting the same property.

Making this owning/renting transition more incremental could help home owners in arrears by providing an easier transition back to renting. This incremental change can be achieved using flexible tenure:

- *The ability to change tenure both 'down' and 'up ' the housing ladder could support community stability, reduce the need for emergency interventions, and tackle poverty and its associated problems (down) as well as supporting achievement of individuals' housing aspirations and access to housing wealth (up)."*
  Flexible Tenure: A discussion paper April 2010.
  The Chartered Institute of Housing

Today buyers are expected to have saved a significant deposit to put down on a house and they have to steel themselves for the psychological challenge of moving home and the responsibilities of property ownership. Those who are on the bottom rung of the property ladder and can no longer pay the mortgage find it an equally big step to get off again. The transition can be made more gradual using flexible tenure. This is already done on the buy side under "Shared Ownership" schemes. This could also provide a solution to the upheaval and distress of repossession.

6.2.1 Shared Ownership

A number of shared ownership schemes are already operational, with the Government (through the Homes and Communities Agency) offering a number of schemes as do a number of local authorities and builders.

Under shared ownership schemes, instead of buying a property outright, the homeowner buys a share of the property, with another organisation (typically a housing association) owning the remainder. The homeowner has a mortgage for the proportion of the property that they own (with them making payments to a lender in the normal way) and they then make rental payments to the organisation that owns the rest of the property.

For those in difficulty paying their mortgage, could a similar scheme run in reverse? The owner could gradually relinquish their interest in the property until, if they were unable to retrieve the situation, their interest fell to zero and they became a full tenant, paying rent.

Unfortunately shared ownership purchase schemes appear to have been hampered by a lack of enthusiasm amongst lenders and indeed the capital requirements placed on building societies make their participation extremely difficult.

For a buyer the benefits of shared ownership schemes are said to be:

1. Less deposit is required than with an outright purchase
2. The buyer only needs to secure a mortgage of 25-50% of the purchase price
3. Monthly costs can be up to 50% less than buying a property outright
4. First time buyers with a household income of less than £60,000 are eligible for a Part Rent Part Buy scheme.
5. As the homeowner's income increases, they can choose to buy a greater percentage of the property
6. Each scheme is completely different. The property can range from a penthouse to a 1 bed apartment to a 5 bedroom house.

If this process was to run in reverse it could benefit someone facing repossession. But it does raise the following questions:

1. If we assume the householder has a 100% mortgage and they are now in arrears could a scheme which moves them to part own part rent reduce their monthly costs?

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2. If their straightened circumstances continue could they be brought more comfortably to a position where they give up any interest in the ownership of the property but continue in their home as tenants?
3. And who could purchase a share from them and become their landlord for a part of the equity? In the existing schemes Registered Social Landlords have performed this function but could lenders who are threatening repossession find this an attractive alternative?

The previous government's Mortgage Rescue Scheme introduced in Jan 2009 went some way towards this. The scheme has two elements:

1. the 'Government Mortgage to Rent' option which involves a Registered Social Landlord (usually a housing association) purchasing the homeowner's property, enabling the household to remain in the property as a tenant on an assured short hold tenancy, paying an intermediate rent; and
2. the 'Shared Equity' option which involves a Registered Social Landlord providing a loan to the homeowner to enable the homeowner's monthly mortgage payments to be reduced.

As explained previously local authorities arranged for a property to be bought outright, usually by a housing association, and rented back to the former owner via 'Mortgage to Rent'; or for a share of the property to be purchased under the 'Shared Equity' scheme. The owner gets 97% of the property's market value and pays rent 20% less than the market rent in the area. This could form the basis of a sale and rent back scheme as outlined in Section Four.

A number of other organisations run their own similar schemes. The Joseph Rowntree Housing Trust organised its first 'staircasing down' case in 1989 and up until 2007 they had made similar arrangements in 84 cases at a cost of £2.3 million as against receipts of £2.6 million from householders purchasing equity in their properties.

The Trust has given a number of useful examples:

1. A couple with two children in which the wife falls seriously ill. The husband gives up work to look after her, the wife dies and he continues to look after the children. The house reverted to full rental.
2. An elderly couple owning 50% of their home in a rural area needed to access equity to replace their car. They staircased down to 25% ownership.
3. An owner had a 50% share, most of which had been bought with a lump sum but part was covered by a mortgage. Changed circumstances meant she could no longer pay the mortgage. Her share was reduced to 40% to enable her to pay off the small mortgage.

In her report for the Joseph Rowntree Fund, *"Shared ownership and shared equity: reducing the risks of home-ownership?"* Christine Whitehead acknowledged that Shared Ownership and Shared Equity schemes could play a part in reducing the risks of repossession:

- *"There are also important risks associated with the nature of the housing asset - particularly its scale and its specificity - which mean that all households investing in housing may benefit from risk sharing and diversification products. Shared Ownership and Shared Equity can help address both these types of risk* **(Caplin et al,1997; 2003)**."

Christine Whitehead also identified a number of ways in which Shared Ownership and Shared Equity schemes could help protect homeowners from volatility in the market place:

1. *They can protect from interest rates hikes because they involve a smaller mortgage on the part of the property the homeowner is buying, the rest is rent.*
2. *They can protect against income loss because the householder has a smaller mortgage on his part of the property taking a smaller part of their income and the householder has the possibility of claiming housing benefit on the rented part.*
3. *They also protect from a fall in capital value because the owner holds a smaller part of the capital value to start with so doesn't suffer the loss on the full capital value. .*

Christine Whitehead goes on to say that recent policy caused a shift away from these products which exacerbated the recent housing market problems:

- *"In the twenty-first century, however, this approach was almost ruled out by the National Audit Office's report in 2006. This stressed that the use of Shared Ownership and Shared Equity to help people who could have purchased directly was poor value for money even though there was often no longterm subsidy involved (NAO, 2006). This pressure to move to more marginal buyers, together with increasing prices and worsening affordability, is one reason for the problems faced by purchasers in 2007-2008."*

In other words the emphasis should perhaps have been on using these schemes to ensure people could stay on the property ladder rather than helping higher risk households into property ownership.

For these shared ownership schemes to be practical and enduring Christine Whitehead identifies a number of requirements:

1. To ensure the existence of a resale market - as the objective is not necessarily to encourage staircasing to 100% (Wallace, 2008);
2. To better inform households of the potential benefits of risk sharing in particular contexts. This is likely to be easier in the current environment than in the prerecession market where buying with a mortgage was seen as a step towards a 'certain' capital gain;
3. To reintroduce shared equity products for existing housing where the risks associated with the property are generally lower;
4. To persuade Treasury, the NAO and other government agencies that the role of these products should be to fill gaps in the market that can help reduce the risk of owner-occupation, especially for lower-income households, rather than to bring riskier households into that market.

The lender might do this in partnership with a social landlord or in their own right. If the FSA's affordability requirements are a success then the numbers facing repossession will be lower in any event and will consist almost entirely of those borrowers who have faced a life event that has significantly reduced their income. In the main they have proved themselves not to be feckless and given time may recover their previous level of income.

Depending on the circumstances of the householder, the lender might take over all or a part of the ownership of the property. If the householder is seriously in debt and in arrears then the lender could become 100% owner and receive a rent from the householder. This rent may need to be subsidised by housing benefit.

The solution could be some sort of shared ownership arrangement which is as flexible as a flexible mortgage, enabling someone who underpaid in one month to lose a little of their equity stake, which they could recover if they paid a little more in the following month. There is valuable experience of shared ownership schemes especially for house purchase which could be applied to cases of 'staircasing down'

Owners on reduced income should not be obliged to take this route. Some may conclude that they do not want to stay in their old home and wish to leave. They should still have that option to leave but for many the opportunity to stay in their home, even though they will now be tenants, will be very attractive.

There is a risk of moral hazard here in that reducing the fear of losing their home might mean homeowners would be less inclined to do something about improving their financial position but this would be balanced by the knowledge that they are losing ownership of their home. Lenders do tend to feel that repossession can be a helpful tool to encourage greater responsibility.

It is clearly for lenders and government to decide if this is a route that could be viable but the costs of repossession, as described above, are already considerable and might be more efficiently applied in keeping a defaulting owner in their home.

There is also a wider systemic advantage to such a scheme in that if lenders took over all or part of the ownership of a mortgagor's property and rented it back to them this would have the effect of damping down house price volatility, because far fewer repossessed properties would come onto the market helping to support prices in an otherwise falling market.

Another advantage is that owners will continue to have an interest in the property. Lenders often find that many householders facing repossession remove fixtures and fittings and often damage the property before moving out, further reducing its value. If the property continues to be their home they will not do this.

6.2.2 A New Form of Tenure

To make such a scheme viable we may need a new form of housing tenure. This could be some sort of trust arrangement. We could envisage a Freehold held by new entity called a Home Trust with the trustees being the lender and the householder.

Past shared ownership schemes have used 25% shares of the property as the steps for owner/renters but this seems too big to allow for gradual transition up to and down from the first rung of the housing ladder. We could make those steps very small, for example taking a property of £100,000 and dividing it into 1000 equal shares divided between the owner and the lender according to the cash put in, would make each step or share equal to £100. If the tenant underpays by £100 in any month, this reduces any share they own by £100 and increases the share held by the lender by £100.

Regular adjustments would then have to be made for interest payments and for variations in value. At this stage this is merely a suggestion with no true costings. It would be up to others to do an analysis of the costs and benefits. But it does provide the possibility of a way forward, to head off impending repossessions.

Any analysis of the implications of such a scheme must also take into account some of the costs to society which are more difficult to quantify. There is no doubt that repossession is a traumatic event for any family, often leading to relationship break-down and ill health with the associated costs to the NHS and social services.

Householder who now rents a home they formally owned:

- *"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."*

The benefits to market stability would also be difficult to put a figure on. But fewer repossessions would help to underpin a fragile property market, support house prices and avoid the need for substantial loss provisioning in lenders' accounts.

One of the major malfunctions of the UK property market is its lack of liquidity but incremental ownership and a new market in shared ownership properties would help to make the market more liquid by making it easier for people to buy a property and relinquishing ownership and reverting to renting it if needs be.

In August the Prime Minister David Cameron gave support to greater flexibility in the housing sector suggesting tenants in England should get fixed-term contracts and be encouraged to move into the private housing sector if their finances improve.Reform of welfare and social housing provision could provide the perfect opportunity to address the problems faced by those whose homes are about to be repossessed. It is not enough simply to encourage new homeowners, helping existing homeowners keep their homes can have significant cost savings.

To integrate the benefits system with a shared ownership scheme which would provide a smooth track in and out of property ownership, would help to reduce the many pressures families face when they become unemployed.

6.3 Sale and Rent Back

As explained above Sale and Rent Back schemes have grown during the last downturn as the private sector's response to the problem of repossession. Is there an argument for involving lenders with these schemes so that they can offer this as a solution to hard pressed customers? The sector appears to have proved that the model is viable; could lenders provide it themselves as a new business line?

Sale and Rent Back is the 100% version of shared ownership with the former owner becoming a full tenant. Some of these schemes do allow for the tenant to buy back his interest in the property at some future time but most do not.

Lenders could partner or run similar schemes themselves to help their customers, hopefully improving the standards in a sector, some of which has a poor reputation.

6.4. An income insurance requirement

The Joseph Rowntree Foundation has suggested compulsory mortgage payment protection insurance for all borrowers. This would be jointly funded by borrowers, lenders and the Government under a system called the Sustainable Home-Ownership Partnership (Stephens, Dailly and Wilcox, 2008).

This would spread the risk of repossession across all borrowers but might lead to accusations that the risk averse are subsidising the reckless. Those barely able to afford a mortgage who get themselves into debt with other loans, could decide not to pay their mortgage knowing that the Universal MPPI would pay it for them. This would load the cost on those who were more careful. Someone made redundant may have less motivation to find another job if they know that Universal MPPI will cover their mortgage repayments.

Another valid criticism is that it could encourage more risky lending. As outlined earlier, in the boom years the major institutions had substantial cash to lend. With a finite pool of good quality borrowers, some lenders found new business by lending to increasingly risky customers.

When competition increases between lenders for higher quality borrowers, a universal MPPI scheme will make people with lower credit ratings more attractive again. This could lead some firms into a race downwards to increasingly more risky borrowers, backed by the universal MPPI scheme.

This moral hazard may not be quite so significant if the FSA's latest policy on affordability is successful. This policy aims to tighten lending criteria placing increased responsibility on mortgage providers to ensure that borrowers can afford their loan.

Defaulters in recent years can be divided into two groups:

1. Those who have taken out a mortgage on an income dangerously close to the limit of affordability, if not below it. BSA research suggests this figure is 10% of total repossessions and
2. Those who have suffered some unforeseeable life event, such as redundancy or illness, which means they can no longer keep up mortgage repayments. This group accounts for the other 90% according to the BSA research.

If the FSA's moves to tighten lending criteria are successful the 'unaffordable' group in (1.) will be excluded. At that point a universal MPPI scheme would be simply protecting homeowners from unpredictable life events. This would go some way to defusing the argument that the risk averse are subsidising the reckless and the moral hazard issue of some lenders chasing ever more risky borrowers.

What would encourage homeowners to insure against life events?

The ODPM study asked non policy holders what would encourage them to take out policies. Although 25% said that they would be more likely to buy a product if it was cheaper, the greatest barrier to them purchasing a product was "nothing would make me more likely to take insurance" which was identified as a barrier by 53% of respondents.

Long Term Safety Nets to
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The BSA report Understanding Mortgage Arrears (August 2009) concluded:

- *"….the findings suggest that there is limited enthusiasm for such products by consumers (even) if the price were to be reduced….few individuals have the full cover that they need, and are relying on the poor provision of help provided by the state for help. Against a back ground where the Government will increasingly expect people to take responsibility for their own provision of financial protection, it is clear that there needs to be a major overhaul of the safety net system in the UK."*

The BSA report identified a number of barriers preventing individuals from taking out insurance. They include:

1. Perceptions that policies will not pay out
2. Policies tend to be sold by providers with other products rather than bought by consumers
3. Individuals believe that their employer or the state will cover them
4. Individuals don't perceive a need for cover
5. Policies are too complex

I would add to this:

6. Consumers do not see the risk as warranting the cost; the poor value for money argument.
7. There are too many different types of policy making the marketplace over complex confusing.

A major weakness of the current ad hoc system of provision is that individuals buy a safety net in conjunction with a particular financial product (usually a loan). Coverage tends to be linked to that particular product, rather than the individual's overall needs, so they have only limited protection and not a complete replacement of their income if things go wrong.

The idea of a compulsory MPPI scheme is worth considering especially as pressure is put on state benefits and social housing. It seems unlikely that government would go as far as insisting that private individuals insure themselves against the possibility of ill health or job loss but government could provide incentives to encourage people to take out cover.

It would be possible in the interests of stabilising the property market for lenders to insist that all mortgages are protected by insurance, perhaps allowing those with significant equity in their property, say more than 20%, to be excluded from this requirement A requirement placed on all lenders to make MPPI a condition of the mortgage would provide a safety net.

If all lenders insisted on this then premiums could be lower and the small additional cost to home buyers of the insurance premium would slightly increase the cost of house purchase. But applied market wide this could well cause a small reduction in property prices. So homeowners would feel no worse off in the long run but would have greater protection from market volatility.

There is already a precedent for lenders requiring additional insurance protection. Mortgage Indemnity Guarantee insurance, as previously mentioned is sometimes required by lenders to cover any shortfall on a mortgage when a property is sold.

But compulsory insurance might attract accusations that consumers were being forced to buy expensive insurance (one of the criticisms of PPI). However we have an effective mortgage market with competition between a large number of providers who compete largely on price. If lenders were required to add the cost of MPPI to the monthly mortgage repayments so that the cost was reflected in the mortgage comparison tables, this would incentivise lenders to offer competitively priced MPPI. Lenders will still wish to provide the cheapest mortgage, so will naturally seek out the best MPPI deals for their customers.

But is insisting on compulsory MPPI a solution to the problem? As mentioned earlier, as a form of insurance linked specifically to mortgage payments, it does not provide complete cover for an individual who is not able to work. A householder will have many other bills to pay and they may keep up repayments on their mortgage only to run up debts on credit cards and bank loans. Then they will have to fall back on the welfare system to meet these additional expenses.

Accident Sickness and Unemployment Insurance (ASU) can be applied to any expenditure and would provide a better level of overall cover. Approximate costs for ASU at the moment are:

Age	Monthly income payable	Monthly cost of cover
30	£1500	£50
40	£1500	£65
50	£1500	£85

Figures British Insurance.

Most income protection companies offer cover up to a maximum of 50-65% of an individual's present annual salary, however claimants do not pay tax on these benefits. Most people take out insurance which will pay them around 50% of their income.

One disadvantage of this type of cover compared to MPPI is that any benefits paid under the policy will be taken into account when claiming some state benefits. If Income Protection was required when taking out a mortgage it would seem appropriate that this should not affect tax and benefits.

A further incentive to the public to take up this type of cover could be tax relief on the premium, justified by the savings made on benefit payments to dispossessed homeowners and the costs to local authorities of rehousing.

In this report I have outlined four routes to providing a safety net for homeowners faced with repayment difficulties: forbearance with state backing, improved mortgage rescue schemes, sale and rent-back schemes and compulsory income insurance. All would need evaluation to judge whether they would provide a cost effective solution. But there is no doubt that the costs of repossession are very significant and that present arrangements are piecemeal and insufficient. Any new arrangements are likely to require some form of subsidy from the State and the changes in the rules on benefits would be a good opportunity to consider a new scheme, at a time when we could be on the verge of repossession figures rising again to record highs.

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