

Focus on...

Right-to-buy owners struggle to keep their homes

Managing debt in the financial crisis: survey results

By *Marie Burton, Senior Policy Advocate, Consumer Focus*

Mortgage repayment problems and having additional loans secured on their properties are likely to leave right-to-buy owners at increased risk of losing their homes, according to a new survey commissioned by Consumer Focus.

The survey of nearly 1,800 mortgage holders in Britain found right-to-buy homeowners are:

- twice as likely as non-right-to-buy homeowners to have had problems paying their mortgage in the last three months
- 50 per cent more likely than others to have additional mortgages or loans secured on their homes.

This suggests they are more likely to face losing their homes from repossession (although no official statistics monitor this issue).

Struggling with payments

Nearly one in ten (eight per cent) of right-to-buy homeowners had difficulty paying their mortgage over the last three months, compared to less than one in 20 (three per cent) of non-right-to-buy mortgage holders. The results of the survey also indicated that those who had bought under right-to-buy were more likely to have missed at least one mortgage payment in the last three months.

Second mortgages/secured loans

Six per cent of right-to-buy homeowners with mortgages had at least one other mortgage or loan secured on their home; compared to only four per cent of non-right-to-buy mortgage holders. This indicates that right-to-buy owners may have used their homes more than other homeowners to subsidise their income.

There are no official statistics of repossessions broken down on the basis of first or second charge lending. However, according to figures provided by the Finance and Leasing Association, the number of properties taken into possession by their members on the basis of second charge lending was 1,558 in 2008, an increase of 33 per cent on 2007.

Nearly two million people have used right-to-buy

By August 2008, more than 1.8 million people had bought their homes from local authorities or registered social landlords under right-to-buy in England alone.

Our survey found that a greater proportion of black and minority ethnic households (15 per cent) were right-to-buy mortgage holders than white right-to-buy homeowners with mortgages (nine per cent).

Especially vulnerable

A recent Citizens Advice report '*Set up to fail*',¹ found that, among their clients with mortgage or secured loan arrears, borrowers who had bought their homes under right-to-buy were especially vulnerable to irresponsible lending practices. The report characterises these borrowers as people on low incomes, with limited financial knowledge and 'often also vulnerable', due to reasons of 'mental health, physical disability, literacy or language difficulties'. It also refers to former tenants who had bought under right-to-buy who were not aware that housing benefit would not be available to pay their mortgage.

Recommendations

Central Government and local authorities

Consumer Focus is aware of the various measures taken recently by the Government to help homeowners at risk of repossession. It is too early to comment on the effectiveness of these measures, although AdviceUK, Citizens Advice, Money Advice Trust and Shelter have already raised concerns about eligibility criteria for the Mortgage Rescue Scheme causing problems for their clients.² The criteria include a requirement that the applicant is in priority need³ and that the value of the property is below the maximum limit for the local area.⁴ Clearly, it is essential that these criteria do not exclude those most in need of help.

We recommend the Government undertakes a national campaign targeted at right-to-buy and other vulnerable homeowners to raise their awareness of the help and advice that is available. This should be supported by an information line and website to direct people to help and advice in their areas.

Debt advice providers are reporting a huge increase in demand for their services. Local advice agencies need additional funding to give the advice and assistance that right-to-buy and other homeowners in difficulties will need to resolve their housing difficulties.

Local authorities and housing associations will know which homes in their area were bought under right-to-buy. They should consider undertaking targeted publicity, aimed specifically at former tenants who have bought under right-to-buy to raise awareness of the availability of help and advice for those in difficulties meeting their mortgage and other debt payments.

¹ Set up to fail, Citizens Advice, December 2007

² Mortgage and secured loan arrears: Adviser and Borrower Surveys April 2009, AdviceUK, Citizens Advice, Money Advice Trust and Shelter

³ For example, a household that includes someone who is pregnant, has dependent children, or is disabled, elderly or vulnerable for some other special reason is in priority need

⁴ Since 1 May 2009, applicants in negative equity have been able to apply to the scheme

Early intervention could save the homes of many vulnerable consumers and their families and help them avoid a great deal of upset and distress. In addition, keeping families in their homes should have considerable costs savings for central and local Government, for example, by reducing the numbers needing emergency homelessness assistance and seeking council or other social housing.

Regulators

The Financial Services Authority (FSA) and Office of Fair Trading (OFT) have a responsibility to ensure that lenders operate fair and reasonable practices in the management of arrears and their treatment of consumers in default. Lenders should be made aware of the particular difficulties that right-to-buy consumers may experience and be given guidance on the appropriate support for consumers.

Consumer Focus believes additional safeguards are needed to protect right-to-buy homeowners from inappropriate lending. This includes amending the FSA and OFT's rules to impose additional stringent requirements on those who lend to right-to-buy owners in terms of responsible lending practices and their conduct in relation to borrowers in default. Their lending procedures should include a requirement to make and record a thorough assessment of affordability. This should be in respect of all mortgages and secured loans advanced on right-to-buy properties. Citizens Advice makes a similar recommendation for the strengthening of the FSA rules in '*Set up to fail*'.

There should also be a requirement that anyone who wants to buy their home under right-to-buy receives independent advice on the financial and legal implications of the transaction. This should include clarifying the financial and legal differences from a full council or housing association tenancy such as more affordable rents, housing benefit entitlement, rights to repairs and long-term security of tenure.

For the courts

Whatever penalties the FSA or OFT impose on lenders that do not treat consumers fairly, the borrower's home will still remain at risk. Therefore court rules should be amended so that, where a lender has lent money irresponsibly, failed to operate a fair and reasonable arrears management policy, has broken regulatory requirements and/or has not followed the requirements of the pre-action protocol, the lender's ability to repossess the property should be severely curtailed.

Monitoring

This situation clearly needs further monitoring. Official statistics should be collected to show data on repossessions in relation to right-to-buy homeowners and second charge lending.

Consumer Focus will be doing further work in this area over the coming months to ensure that the interests of disadvantaged consumers remain at the forefront during the financial crisis.

Notes

The survey was part of a face-to-face omnibus survey conducted by TNS over two consecutive weeks in March 2009 and April 2009 (27/03/09 – 07/04/09) and one week in May 2009 (1/05/09 – 05/05/09).

Total number of respondents: 4,238

Total number of mortgage holders: 1,738

Total number of mortgage holders who had bought under right-to-buy: 185

The government has introduced a number of measures to help consumers whose homes are at risk as a result of the financial crisis. These include:

- The homeowner mortgage support scheme: under this scheme homeowners having financial difficulties due to a reduction in income or unemployment are able to get their mortgage payments reduced for up to two years while they recover their income or get a new job. This is a voluntary scheme and subject to eligibility criteria
- A reduction in the waiting period for Support for Mortgage Interest from 39 weeks to 13 weeks (which came into effect on 5 January 2009)
- A mortgage rescue scheme: this consists of a shared equity scheme where a housing association provides a loan to reduce the homeowner's mortgage payments and a mortgage to rent scheme where the housing association pays off the entire loan and the homeowner becomes the housing association's tenant
- An agreement with a group of major lenders to wait at least three months before initiating possession proceedings
- A new pre-action protocol in mortgage possession proceedings
- Increased funding for free court duty desks in possession cases and free debt advice