

# **BUILDING AN EFFECTIVE SAFETY NET FOR HOME OWNERS AND THE HOUSING MARKET UNFINISHED BUSINESS**

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This report evaluates the options for market and policy reform to provide an effective safety net for individual home-owners and for the UK housing market as a whole.

The government is looking to end temporary support measures for home-buyers introduced during the economic and housing market downturn but there has been no progress on agreeing a more effective safety net for the future. This research highlights two key options for providing this, which balance out risks, responsibilities, roles and costs. The report aims to inject some momentum into the reform process. It examines:

- the experience with arrears and possessions in the current downturn, and the factors that have contained possessions levels;
- the limitations of the current home-owner safety net, and any reliance on the voluntary take up of mortgage payment protection insurance;
- the recognition that mortgage arrears are an unavoidable feature of home-ownership – however prudent the mortgage-lending regime;
- the current thinking of the government, industry and voluntary sectors on possible options for reform.

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# EXECUTIVE SUMMARY

This project was commissioned to review recent developments concerning the home owner safety net and to follow up the Joseph Rowntree Foundation Housing Market Taskforce's recommendation that further work was necessary in this area.

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## Recent developments

Although current arrears and possession levels are low by historical standards despite the continued economic downturn, much of this is due to a range of measures put in place by government, the Bank of England and lenders, some of which are temporary and due to be removed over the next 12 to 18 months. These include:

- a bank base rate of 0.5 per cent and the Funding for Lending scheme;
- extensions to the state's Support for Mortgage Interest (SMI) regime (shorter waiting period and inclusion of higher-value homes);
- a funded mortgage rescue scheme helping owners in difficulty become tenants in their own home and thus avoid eviction; and
- extended forbearance and increased loan modifications by lenders.

Research for the Department for Communities and Local Government suggests that possession rates would have been more than 20 per cent higher without government policy support through the temporary improvements to SMI, and lender forbearance in the form of recapitalising arrears into new loans (Aron and Muellbauer, 2012). However, this same research also suggests that possession levels will rise over the next three years to 50,000 in 2015.

It is clear government and lenders are aware of a likely upturn as a consequence of temporary measures ending and the continued unwinding of the credit crunch. Other issues currently dominate, though – for example government is focused on reconfiguring SMI as part of its new Universal Credit system, and is also considering a number of options to further cut SMI expenditure in the years ahead. There are not, however, any more wide-

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ranging government proposals for reforms to create a more comprehensive and effective safety net.

## Options for reform

The full report sets out a number of options for reform (including doing nothing) and focuses on two options (covered in this summary) that could provide a more effective and durable safety net for the years ahead.

The most effective scheme would be a compulsory new state and private sector partnership, along the lines of the 'SHOP' (Sustainable Home Ownership Partnership) scheme advocated in previous JRF reports – see *Developing safety nets for home-owners* (Stephens, Dailly and Wilcox, 2008) <http://www.jrf.org.uk/publications/developing-safety-nets-home-owners>.

SHOP would be a fund to which borrowers, lenders and the government would all contribute. It would replace the state safety net and private insurance for all new home owners and people who switch their mortgages

This could be modified by making longer-term benefit payments a charge on the property. As this would offset some of the costs of the scheme it could also extend its scope to cover support to home owners who are on low incomes and in and out of work.

However, the SHOP scheme would need to be compulsory, not least to comply with European Union (EU) state aid requirements, and there is a question about whether this can gain the necessary political support, especially while levels of mortgage arrears and possessions remain relatively low compared with the early-1990s economic downturn. An alternative approach, which might be less politically challenging, would be to build on recent developments in automatic enrolment, as a half-way house between a voluntary and compulsory scheme.

Under this approach, new borrowers would be automatically enrolled into an insurance scheme, with provisions for an opt out where they could show that they have resources of their own to weather a period of income loss. This would permit the SMI scheme to revert to a longer period of delay for households subject to the risks covered by the insurance scheme (accidents, sickness and unemployment).

While not compulsory, this approach would comply with EU competition requirements as there would be no state aid for the insurance scheme, and SMI support would not be conditional on households entering into the insurance scheme.

The authors also recommend that a measure of lender forbearance should also be a structured part of the future safety net, with a period of delay before any households qualify for either insurance or state benefits.

They also recommend that longer-term means-tested support should become a charge on the owner's home, provided that there is a sufficient level of owner equity. In effect the safety net would operate as a three-stage process over time, as shown in Figure 1. This would operate equally for the SHOP and automatic enrolment/SMI options.

The authors do not make fixed recommendations about the duration of these stages, as there is some scope for negotiation on this between the interested parties. In particular, the extent of the period of forbearance would need to be agreed with the Financial Services Authority (or its successor) and incorporated into a revised regulatory framework for lender actions on arrears and repossessions.

The timing of the stages will also have a bearing on the costs of both the subsequent insurance and benefits scheme. A longer forbearance

**Figure 1: Stages in the safety net**

Home owner safety net		
Stage 1 Forbearance	Stage 2 Insurance/ benefits	Stage 3 Benefits/ charge on property
x months	y months	z months

period would reduce both benefit and insurance costs. Equally, an earlier introduction of the third stage would substantially reduce benefit costs, as in the great majority of cases those costs would be reclaimable at a future date. This would in turn avoid the need for the fixed two-year time limit on SMI support that now applies to Jobseeker's Allowance claimants.

If longer-term SMI claims were recoverable by a charge on the property it would also be possible to consider extending SMI to households in low-paid work, rather than just for those claimants who are unemployed or otherwise economically inactive. This would remove the 'zero hours' rule proposed for SMI as part of Universal Credit and provide more effective support for home buyers who suffer an adverse change of circumstances that leads to a loss of earnings, rather than complete unemployment or economic inactivity.

The most recent estimates for SHOP are that the combined scheme would cost £2.7 billion, of which £2.1 billion relates to the insurance part of the scheme, and £0.6 billion relates to the benefit part of the scheme. These estimates are, however, based on a short period of delay (three months) in respect of insurance costs, and no delay before benefit payments are made to households claiming as a result of an uninsurable change of circumstances. They do not make any provision for recovery of the costs for longer-term benefit claims. There is consequently potential for reducing either the overall costs of SHOP, or the complementary automatic enrolment and SMI scheme.

Both approaches address the issues about balancing risks, roles, responsibilities and costs between the three parties – lenders, borrowers and government.

Under the new Financial Services Authority regulatory regime there are much clearer rules to ensure prudent lending, including the requirement for robust income assessment. Under the SHOP proposal, lenders would be recharged a proportion of the scheme costs based on the claims made against the scheme by their borrowers. Under the auto-enrolment insurance approach, the lender's prudence would be reinforced by the risk assessment required for the purposes of the insurance cover.

New rules on insurance selling (in response to the concerns about mis-selling of wider forms of payment protection insurance) prevent voluntary insurance sales when a mortgage is sold. Automatic enrolment could take two forms:

- a single, centrally administered insurance scheme operated by a new public-private partnership, in a similar fashion to the insurance element of the SHOP scheme; or
- lenders could provide the insurance as an integral element of their mortgage product, so that it is not separately sold. This would leave

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lenders to balance the costs arising from their own practices on risk assessment, against the competitive pressures on mortgage pricing.

## Conclusion

The authors argue that action needs to be taken now so that a new structure can be put in place to underpin home buyers and the housing market and in so doing help the wider economy.

They consider that both the SHOP and auto-enrolment/SMI options have potential merits as the basis for reform. Without action and with the ending of temporary safeguards we are likely to see rising levels of arrears and possessions in the years to 2015. This in turn will act as a brake on economic recovery and any rise in consumer confidence.

Given that both the government and lenders have now begun to consider the future it makes sense for these proposals to be developed in detail in a collaborative process with them. All parties have found it difficult to progress this agenda, not least in a period where other issues dominate and arrears and possessions remain relatively low. However there is widespread recognition that real risks remain and that action should be taken. This suggests a willingness to move forward if the right kind of framework can be put in place.

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# 1 THE CURRENT HOUSING MARKET CONTEXT

This report is being written during a period of considerable uncertainty in the UK housing market in general and around home ownership in particular. Home ownership is falling as a proportion of all households and house prices have been falling in both nominal and real terms. With the consequences of the global financial crisis still working their way through the banking system, along with continued recession in many parts of the UK, the pressures on mortgaged home owners have been considerable albeit mitigated by the unprecedented low interest rates many mortgage holders are paying.

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Indeed without these historically low rates (Bank of England base rate has remained unchanged at 0.5 per cent since 5 March 2009) many more home buyers would be in difficulty, given rising unemployment and reduced incomes. Arrears and possessions rose in the downturn but the latest figures suggest a continuing gradual fall in the number of home buyer possessions. In the first quarter of 2013 there were 8,000 new possessions building on annual figures of 38,100 in 2010, 37,300 in 2011, and 33,900 in 2012 with a forecast outturn for 2013 of 35,000 (CML, 2013). Arrears have also eased down with 157,900 borrowers with arrears at 2.5 per cent or more of the balance at the end of June 2012 compared with 161,400 at the end of 2011. The Council of Mortgage Lenders (CML) has forecast 35,000 possession cases in 2013.

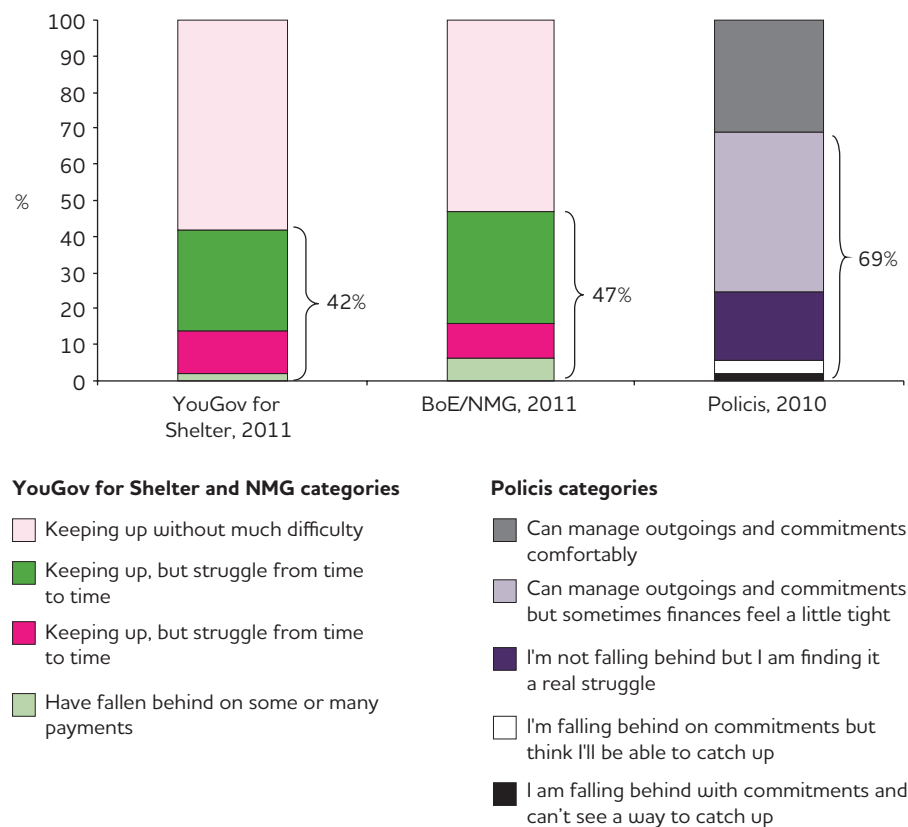
The Prudential Regulation Authority (PRA) collects data on both regulated and unregulated mortgages as part of its mortgage lending and administration return (MLAR), although the basis of collection is different

from that of the CML (being based on loan accounts rather than borrowers). On regulated loans to individuals the data shows a slightly different picture; Q4 2012 new arrears cases were down on Q3 and the total number of loans in arrears in Q4 was 2.11 percent of loans. The number of new repossessions fell to 7,836 in the fourth quarter down from 8,521 in Q3 and the numbers in a formal arrangement dropped from 83,825 in Q3 to 80,464 in Q4. The numbers in a temporary concession fell from 15,425 in Q4 2011 to 14,121 in Q4 2012. The MLAR return also gives details of the number of loan accounts with a temporary concession and a formal arrangement. The proportion in a temporary concession fell from 5.27 per cent of the total number of loan accounts in arrears to 3.85 per cent and those in formal arrangements rose from 29 per cent to 30.46 per cent, so roughly one third of loans in arrears (roughly 46,000) are in an arrangement of one sort or another (e.g., reduced payments or a shift to a cheaper product) while a further 8,787 cases had their arrears capitalised.

Thus although the trends are generally moderately positive, and annual repossession levels have not risen to the peak levels experienced in the 1990–1992 downturn, there is clearly still considerable pressure inside the system; for example, a recent *Which?* survey suggests that 25 per cent of home buyers are worried about having their homes repossessed (*Which?*, 2012). Figure 1 from the datapack published alongside the FSA's (2012a) policy statement on the Mortgage Market Review highlights the views across three surveys published since 2010.

This sense of underlying vulnerability is amplified when considering the scale of continuing activity by government (and lenders) to provide short-

**Figure 1: Extent to which mortgage borrowers are struggling to keep up with their payments**



Source: FSA, 2012a



term support to the housing market in order to mitigate the ongoing effects of the credit crunch. These measures include:

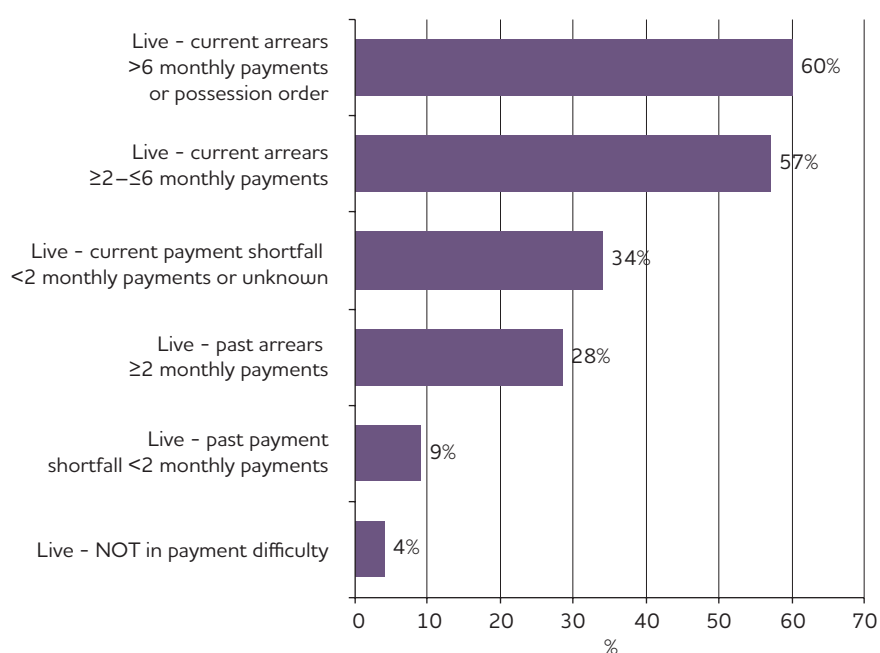
- the mortgage rescue scheme
- the home owner mortgage support scheme (now closed to new cases)
- improved access to SMI
- new court procedures (the pre-action protocol) requiring mortgage lenders to follow certain steps before possession is granted.

The lending industry has also developed stronger forbearance procedures including loan modifications and assisted moves, not just in response to the downturn but also in part in the light of the FSA's new regulatory requirements (MCOB 13) and the pre-action protocol now governing court actions for possessions.

While evaluations of previous downturns have also stressed the important role of lender forbearance in containing possession levels, it is not entirely clear that the adoption of stronger forbearance procedures has actually resulted in more effective forbearance action. Figure 2 below from the (2012a) FSA review splits out forbearance by the scale of arrears. It suggests that some 40 per cent of those in six or more months in arrears are not in forbearance. The datapack also highlights the use of interest only as a forbearance technique: 'From our data on forbearance provided to borrowers with a record of missed payments, around 30 per cent involved a switch to interest only wholly or in part' (FSA, 2012a, p. 42).

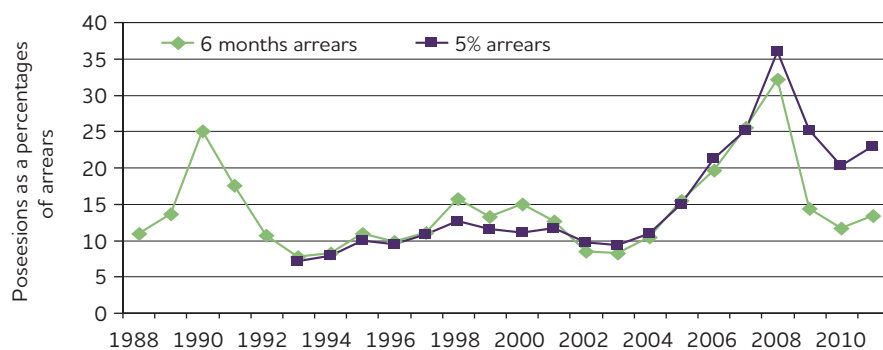
Indeed, taken on their own possession rates as a function of arrears levels have been rather higher in the current downturn (see Figure 3). Possessions as a percentage of arrears levels in the previous half year peaked as 25 per cent in 1990, but peaked at 32 per cent in 2008. However this does not take into account formal lender arrangements in which arrears are rolled up into a recapitalised mortgage. Where those arrangements are maintained for six months or more the past arrears no longer appear in the data. While the FSA provides data (FSA, 2012a) on these formal lender arrangements, showing

**Figure 2: Provisions of forbearance on regulated mortgages, by type of account performance**



Source: FSA, 2012a

**Figure 3: Repossession to arrears ratio higher in the current downturn**



Note: Repossessions as a percentage of arrears in previous half year

Source: Authors' calculations based on CML data

that 27 per cent of regulated loans in arrears are being managed through formal arrangements in Q4, 2013, we do not have equivalent data for the last downturn.

However it must be recognised that many of the measures currently in place are temporary and there is growing recognition that action needs to be taken to create a more effective safety net for the future. There are a number of looming threats including:

- An increase in mortgage interest rates
- Pressure to move borrowers from interest-only loans to capital and repayment loans, as well as the ending of loan deals which pre-dated the downturn
- Changes to the SMI rules and the ending of other temporary measures/schemes
- Further slowing in the economy and rising unemployment
- Negative equity and the limits this poses on restructuring strategies
- Not a threat, but the need to move and thus remortgage

The Department for Communities and Local Government (DCLG) recently published an updated arrears and possessions analysis and forecast by Aron and Muellbauer (2012). The forecasts of arrears and possessions (including voluntary possessions) to 2015 use the typically somewhat optimistic economic scenarios based mainly on data from the Office for Budget Responsibility (OBR). Aron and Muellbauer take into account not only variables such as economic conditions and forecast levels of negative equity, but also changes in loan quality and forbearance rates, and take account of the impact of government policy measures, including the policy stance on SMI. In particular they estimate that without government policy support through the temporary improvements to SMI, and lender forbearance in the form of recapitalising arrears into new loans, possession rates would have been more than 20 per cent higher than has actually been the case – and that is with what might turn out to be optimistic economic scenarios.

Aron and Muellbauer forecast 36,000 possessions in 2012; a figure that is more in line with the outturn level in the first half of the year and likely to be the 2012 outturn and well below the CML forecast. However, in their main OBR-based forecast they then see possession levels rising over the next three years to 50,000 in 2015. The key factors in that rise are higher unemployment and higher levels of negative equity. The sensitivity of the forecast to the underlying economic forecast is well illustrated by taking an alternative Oxford Economic's forecast; this still suggests that possession

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levels will rise in the coming years, but more slowly to some 43,000 in 2015 (Oxford Economics, 2012).

The common theme from these forecasts is that possession levels are likely to rise, even on the assumption that there will be no weakening of government support for SMI over that period. This forecasted persistence of relatively high possession levels over an extended period highlights the pressures in the system and the potential importance of measures to put in place a more enduring safety net for home owners in place of the current limited and indeed 'temporary' measures.

At the same time it is important to acknowledge that the government has been active in trying to manage down both arrears and possessions. Low interest rates and all the measures taken around the mortgage market and arrears and possessions have been hugely important in this and the impact is evident in terms of the current trends. But as will be evident from the sections that follow we face the prospect of a diminishing safety net during a period when the aftermath of the credit crunch is still working through. We also run the risk that the policy responses are driven more by public expenditure questions than a proper review of the safety net and its significance in the light of reshaping housing and mortgage markets, later entry into home ownership and a restructured economy with a greater reliance on short-term contracts, part-time work and more volatile incomes.

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## 2 THE SUPPORT FOR MORTGAGE INTEREST SCHEME

Support for Mortgage Interest (SMI) is a payment made by the Department of Work and Pensions (DWP) to home buyers with little or no paid employment. The scheme has been in existence for several decades but has been subject to considerable change over time.

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In 2009 the DWP introduced a range of changes to SMI in response to the downturn (see DWP, 2009). The impact assessment demonstrated the likely beneficial impact of these measures, and it was evident from the DWP's 2011 report *An evaluation of the January 2009 and October 2010 arrangements for SMI: The role of lenders, money advice services, Jobcentre plus and policy stakeholders* that they had been important. However, the report based on qualitative interviews highlighted the following:

- SMI was still poorly recognised and understood by borrowers but lenders argued the SMI changes underpinned their willingness and ability to forbear and not seek possession.
- The standard interest rate cut in October 2010 reduced the effectiveness of SMI, with more borrowers facing shortfalls. Lenders, money advisers and Jobcentre Plus staff all expressed concern about the rate change and the short timescale for implementation given. This left borrowers and lenders with little time to plan. All lenders had a preference for payment of SMI at actual rate but otherwise argued for a more gradual adjustment.
- Although it was accepted that paying SMI at average rate causes problems, it argued there are administrative difficulties and potentially perverse incentives for lenders' rate setting if SMI was paid at actual rates.

- The impact of the two-year limit on SMI for Job Seeker's Allowance (JSA) claimants introduced in 2009 is now materialising although they are only around 4 per cent of the SMI caseload. The DWP impact assessment suggested that only 27 per cent of JSA claimants remained after 26 weeks and only 3 per cent after 104 weeks. It was suggested that there was little scope for any action for borrowers without employment other than possession.
- The report recommends a rethink of the two-year limit for JSA claimants. It suggests consideration should be given to minimising further financial difficulty for borrowers who exit home ownership, along with better identification of long-term JSA cases and the development of more imaginative approaches to their housing futures.
- Lenders reported willingness to forbear, but growing shortfalls, tighter regulatory requirements and a sluggish economy are contributing to potential changes in forbearance practices.
- The report proposes further thought on delivering 'soft exits' from home ownership for borrowers who find it unsustainable. This could include assisted voluntary sales, enhancing rather than curtailing mortgage rescue, and an enhanced version of SMI that would take small equity stakes in the property.

Finally it was recognised that SMI is inefficient in preventing homelessness as it does not cover other secured loans over and above the eligible mortgage costs. The report recommends a debate about what the appropriate scope of SMI should be and this has now begun.

## Government proposals for SMI reform

Reflecting the growing agenda around SMI, in late 2011 the DWP issued an 'informal call for evidence' on Support for Mortgage Interest (SMI) supported by an impact assessment.<sup>1</sup> The call for evidence indicated the Government 'is committed to continue providing [SMI] in future, to assist those owner occupiers who qualify for this help to remain in their homes and avoid repossession as far as possible' (DWP, 2011b) but it still wanted to improve the cost-effectiveness and administration in the medium to long term.

The main areas on which DWP sought views were:

- **Putting a charge on property** Government did not believe it was fair to pay SMI indefinitely to pensioners and those with long-term disability without recouping some of the costs (54 per cent of SMI claimants are 60 or over). It suggested that in exchange for supporting someone to live in their own home whilst they are on benefit for long periods, the best approach would be to put a charge on their properties to recoup the SMI paid. Under this approach, typically long-term claimants would be entitled to claim SMI for two years. Claimants would then be given a choice at the end of their two years to continue to receive SMI in return for a charge on their property. The charge could be repaid at any time. The charge on the property would be recouped at the point of sale or when a claimant dies, subject to sufficient funds remaining after the outstanding mortgage had been paid off. The DWP would recoup the actual SMI paid, interest on that amount and an administration charge.

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- **The standard interest rate** Government rejected paying SMI at actual rates, citing increased costs and errors encountered when this was last in effect (prior to October 1995). Government considered alternative approaches that are 'likely to involve additional administrative burdens for mortgage lenders' (DWP, 2011b), including having a system of two or three standard interest rates which would be linked to average rates of particular mortgage products such as tracker, fixed rate or standard variable rate or having a system of paying claimants' contractual interest rates, subject to a cap, whereby mortgage lenders commit to notifying the DWP of changes in rates within set timescales.
  - **Mortgage interest direct** Government wanted to ensure that the experience of Universal Credit claimants mirrored that of other families who are in work as far as possible, in order to make the move into work (and eventually off benefits) as smooth as possible. As such, government's starting position was that people should manage their own budgets in the same way as households in work. The call for evidence proposes removing direct payments to lenders for most working-age claimants and asked what 'exceptional situations' would merit its retention for some.
  - **The treatment of home improvement loans** Government proposed a move towards a simplified approach, allowing all loans for housing-related expenses, subject to exclusions such as loans for debt consolidation and non-housing-related expenditure such as cars, holidays, business and personal loans. This could involve introducing a cap equivalent to a percentage of the eligible home improvement loan(s).
  - **Linking rules** Government proposed retaining the 12-week linking rule (linking waiting periods and periods of entitlement to housing costs within 12 weeks of each other as continuous) and the 52-week linking rule (linking periods of entitlement to housing costs together where a claimant lost SMI because they enter work) from October 2013. However, government planned to remove linking rules where a claimant is in training or their mortgage payment protection insurance (MPPI) policy exceeds their benefit entitlements.
  - **Time limiting** Government proposed that from October 2013 everyone receiving income-based JSA and the equivalent group in Universal Credit would be subject to the two-year rule regarding SMI payments.
  - **Waiting period and capital limit** The 13-week waiting period and £200,000 capital limit are in place until January 2013, and from that point the government wished to return to a 39-week waiting period and £100,000 capital limit. It sought views on the effect that the current waiting period and capital limit have had in preventing repossessions.
  - **Out of work definition** The government proposed that SMI should only be available to out of work claimants. Under the current Income Support and JSA rules claimants can work for up to 16 hours while still remaining eligible for support through those schemes, including help through SMI. This 'zero' hours work ruling will thus remove SMI support from some existing claimants.

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The government has subsequently:

- Published draft regulations on Universal Credit
- Confirmed it will continue to pay SMI at a standard rate (although leaving open exploring the actual rates issue further) and to pay it on a monthly basis (rather than weekly)
- Clarified the 'work' definition for home owners to be eligible for SMI. It has proposed a 'zero' hours rule for those eligible for SMI as part of the Universal Credit regime, in contrast to the 16-hour rule that applies for current out of work benefits.
- Agreed to retain Mortgage Interest Direct
- Indicated it will remove linking rules
- Indicated it is still considering whether to bring to an end the current temporary capital limit (£200,000) and waiting period (13 weeks not 39).

There has clearly been substantial activity around SMI with meetings between HM Treasury, DWP and DCLG and industry. It has been the subject of debates at the Treasury-led Home Finance Forum (a regular lender/ consumer/ government meeting) while the Joseph Rowntree Foundation Task Force report on housing market instability put considerable emphasis on developing the safety net (Stephens, 2011). SMI is very evidently in play and as we have shown above a number of quite radical and important shifts in policy have been aired.

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## 3 INDUSTRY REVIEW OF HOME OWNER SAFETY NETS

In 2010 the Building Societies Association (BSA) launched a report by John Howard, the former chair of the Financial Services Authority's (FSA) Financial Services Consumer Panel, into *Long Term Safety Nets to Protect Mortgage Borrowers* [www.bsa.org.uk/docs/LTSNs.pdf](http://www.bsa.org.uk/docs/LTSNs.pdf). This report examined the economic environment which had caused many home owners to fall behind in mortgage payments, the help available to those struggling to meet payments and recent schemes introduced by the government and industry.

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A second report followed in 2011 titled *Long Term Safety Nets: Government, Industry and Professionals' Views on Support for Borrowers Facing Repayment Difficulties* (BSA, 2011a), which set out the views of a range of stakeholders, including contributions from government, industry, debt advice charities and other notable housing figures [http://www.bsa.org.uk/docs/LTSNs\\_industryresponses.pdf](http://www.bsa.org.uk/docs/LTSNs_industryresponses.pdf). Later that year a third report was published, titled *A joined-up approach to helping mortgage borrowers* (BSA, 2011b). The report set out a number of solutions which it argued can work together to form a long-term safety net to protect mortgage borrowers [http://www.bsa.org.uk/docs/publications/helping\\_mortgage\\_borrowers.pdf](http://www.bsa.org.uk/docs/publications/helping_mortgage_borrowers.pdf).

The main recommendations were as follows:

- Government should pursue a drive to increase the take-up of insurance which would help to meet mortgage payments and the payments on other debts.
- Mortgage lenders, government and other stakeholders should undertake a feasibility study of organisations that might be disposed towards



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purchasing shares in consumers' properties and the vehicles that they could use to do so.

- Industry should keep a watching brief on the sale and rent-back sector as regulation (introduced in 2010) beds in to determine whether it can play a future role in the safety net. The FSA should publish statistics on a regular basis on the size and make-up of the sale and rent-back market.
- Government should consider options for different lengths of tenancy agreements in the private rented sector.
- The forbearance options and process offered by unsecured lenders should be considered by government as part of the overall review of the regulation of consumer credit.
- Lenders should encourage borrowers to seek independent debt advice and ensure that they have had a full opportunity to do so before offering forbearance.
- There should be increased sharing of information between first and second charge lenders before either begins repossession proceedings.
- SMI should be reformed to extend its availability, pay interest at the rate paid to the lender and offer support for those accessing it long term.

The evidence suggests that while government might recognise these tensions and has moved on some fronts, e.g., the sale and leaseback market, there is still limited appetite to consider the long term, especially given current low levels of possessions and the pressures to reduce public expenditure. At the same time there is recognition that the current situation is heavily conditioned by low interest rates and should these change then the pressures will increase, especially if the drift down in nominal and real prices continues across much of the UK. Our assessment of the recommendations from the BSA is that all are worthy of consideration and that there are a number of modest but important changes that can be made to ease pressures around the overall safety net, but that the core arguments on extending insurance and enhancing SMI sit somewhat uncomfortably with current realities

The sale and leaseback market is a good case in point about how in the absence of a clearly defined and understood safety net the market identifies opportunities around home owners in difficulty which subsequently prove to be less than desirable or effective.

During the height of the most recent downturn there were numerous sale and leaseback companies offering to help borrowers with mortgage payment problems by buying the home and then renting it back for a fixed period of time. The FSA began regulating this area on an interim basis on 1 July 2009 and a full statutory regime applied from 30 June 2010. The FSA has now banned exploitative advertising and high-pressure sales techniques and prohibited the use of emotive terms like 'fast sale', 'mortgage rescue' and 'cash quickly' in promotional literature. It has introduced a 14-day cooling-off period to give consumers more time to make decisions and has banned cold calling as well as prohibiting firms from dropping promotional leaflets through letter boxes. It has also brought in rules to ensure consumers have a security of tenure for a minimum of five years, introducing an affordability and appropriateness check to give more back-up to consumers. Most recently it has issued a consumer leaflet warning of fraud in quick property sales. [http://www.fsa.gov.uk/consumerinformation/product\\_news/mortgages/distressed-property-sales](http://www.fsa.gov.uk/consumerinformation/product_news/mortgages/distressed-property-sales)

In a similar vein it should be recognised that while sub-prime lenders account for a high proportion of possession cases (Stephens and Quilgars, 2007; FSA, 2012a) this is not surprising as they provide a remortgaging

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option for households that have already faced financial difficulties, i.e., are sub-prime. They are not, however, typically a source of mortgages for new entrants to owner occupation in the UK, as was the case in the much more extensive sub-prime sector in the US. One of the problems for households using this sector, however, is that in the event that they qualify for SMI they are likely to have a mortgage interest rate some way above the standard rate and thus still face a shortfall on their payments.

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# 4 THE NEW MORTGAGE MARKET REGULATORY FRAMEWORK

This is the fourth housing market downturn since the early 1970s and although it has some of the characteristics of previous epochs there is much that is new and more difficult this time. As is evident from research the market was trending downwards before the 2008 crash, reflecting the growing market tensions from the mid-2000s onwards (Whitehead and Williams, 2011).

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Access to home ownership was already becoming more problematic as a result of house prices for first-time buyers doubling in the first seven years of the new millennium (Whitehead and Williams, 2011). While this was predominantly a response to low interest rates and sustained economic growth, there were also issues around unrestrained credit growth, and particular concerns about the insecurity of mortgage advances in excess of the value of the dwellings being purchased, some exceptionally high loan-to-income ratios, and 'self-certificated' mortgage advances whereby lenders did not robustly review the adequacy and security of new home buyers' incomes. All these issues were fully reviewed in the FSA's (2012) Mortgage Market Review, and the final rules under which the market should now operate were published on 25 October 2012 (<http://www.fsa.gov.uk/static/pubs/policy/ps12-16.pdf>). The regulatory responses to the downturn have been wide ranging and significant with respect to the operation of the mortgage market and its capacity to respond to new situations. Lenders have been required to increase their regulatory capital and liquidity to deal with volatility and overall levels of risk in the system. There has been a strong presumption against high loan to value (LTV) mortgages although the final policy statement and rules do not prohibit them as some had feared. Although there has been some edging up on LTVs from the low point at 75 per cent maximum there are still relatively few 90 per cent and 95 per cent products on the market. This means that households already with a high LTV mortgage will find it difficult to move, although the transition rules (covering how to deal with existing borrowers under the new rules) do attempt to address this. Lender forbearance has increased alongside a number of government-backed schemes but again, in regulatory terms, holding onto accounts in arrears

is likely to become a more expensive process and the borrower's risk is increased over time because of the accumulated arrears.

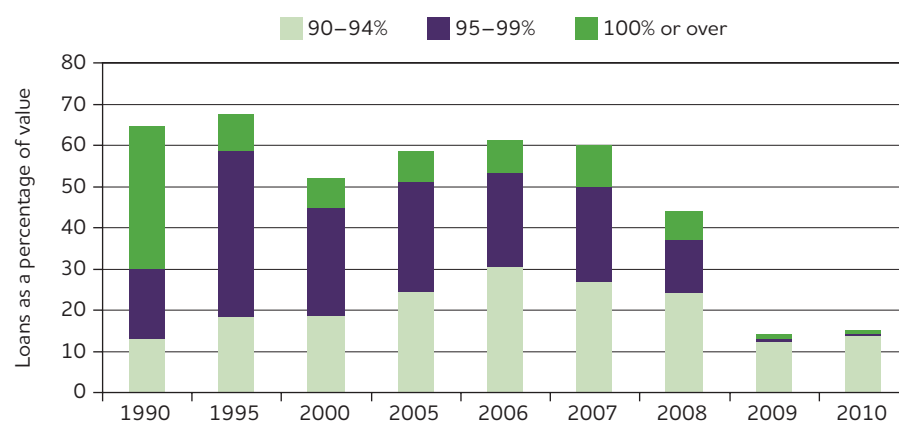
However there is a policy debate to be had about the appropriateness of this much tighter regulatory framework for the mortgage market, both in terms of the FSA's remit to ensure that the mortgage market operates more prudently as well as the overall policy stance towards supporting (or restraining) access to home ownership. Indeed, Lord Adair Turner, the current chair of the FSA made the case for such a wider debate to set the framework for the future mortgage market regulatory framework (Turner, 2010); however, in reality that debate has not occurred, at least in the public realm.

Rather there has been a rather uncritical acceptance of the case for a much tighter regulatory stance on the implicit (or explicit) view that there excesses in the pre-credit crunch mortgage market were a significant factor in its instability and volatility leading in turn to failures and households having to exit the sector. While the FSA has clearly made the link between inappropriate lending and borrowing and arrears and possessions it has offered little explicit commentary on the safety net agenda.

Moreover the evidence on excess is rather mixed. While average loan to income ratios did rise markedly over the decade to 2007 (at 3.12:1), and were far higher than at the peak of the 1990 cycle (when they were just 2.21:1), it must be seen in the context of substantially lower interest rates. Taking these into account the average first-time buyer mortgage payments as a percentage of their incomes remained lower in 2007 (24.6 per cent) than was the case at the peak of the 1990 cycle (26.9 per cent) (Pawson and Wilcox, 2012). In addition first-time buyer mortgages requiring only limited deposits have been a constant feature of the mortgage market since it was deregulated some three decades ago (Figure 4). The total proportion of first-time buyer mortgage advances with deposits of less than 10 per cent of the purchase price was lower in 2006 and 2007 than both 1990 and 1995.

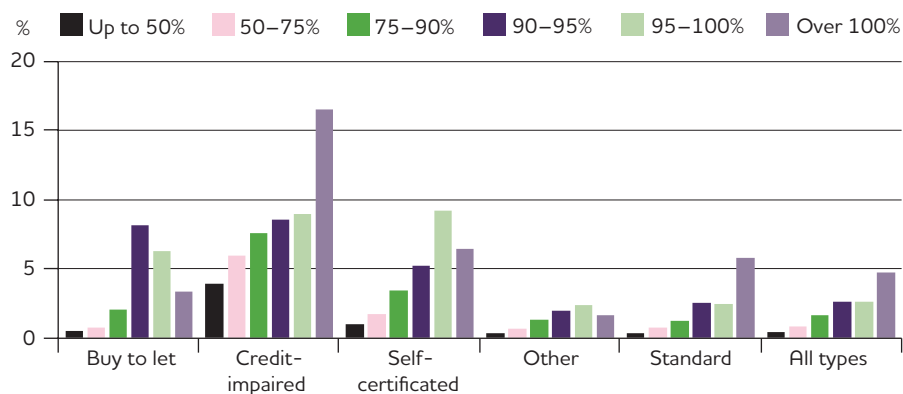
Indeed the FSA's own analysis of the mortgage books for 12 major lenders in 2007 found only a very limited relationship between levels of loan to income (LTI) and LTV ratios and the incidence of mortgage defaults in 2008. The highest levels of mortgage defaults were most strongly associated with credit-impaired and self-certificated mortgages, with much less of any association with LTV or LTI ratios (and there had been a sharp increase in the number of these loans, reflecting in part a weakening of credit standards). Only in the case of 'standard' mortgages with an LTV *in excess of* 100 per cent were default rates at a level approaching those for credit-impaired and self-certificated mortgages (Figure 5).

**Figure 4: Availability of first-time mortgages for first-time buyers**



Source : UK Housing Review 2011/12; data from Regulated Mortgage Survey

**Figure 5: Mortgage default rates by LTV and type of mortgage advance**



Source: FSA, 2012a

For standard mortgages there was no clear association between LTI ratios and default rates, with the default rate for mortgage advances with an LTI between 2.5:1 and 3.5:1, greater than that for advances with higher LTI ratios, including the small number of advances with an LTI ratio in excess of 5.1. As with the analysis of LTV ratios the principal finding was the much higher default rates associated with credit-impaired and self-certificated mortgages, and the rather higher default rate associated with buy to let mortgages (which made up 12 per cent of loans outstanding in 2011 but 17 per cent of repossessions (FSA, 2012a)).

This more tempered view of the extent and character of excesses in the pre-credit crunch UK housing market is reflected in a number of evaluations undertaken by or for the Council of Mortgage Lenders (CML 2010a, 2010b, 2010c). These point up the serious issues around the evolution of the mortgage market and the potential impact of the Mortgage Market Review, while cautioning against being unduly negative regarding the current level of exposure, not least to interest rate risk and also to interest-only products. The CML report (2010a), perhaps not surprisingly, argues the ‘evidence suggests that fears of an affordability and repayment crisis are overdone’. Although it is true that most households at risk have been able to cope and that many with interest-only mortgages will be able to fully repay their loans at term end (CML 2012a, 2012b) it is evident there are real challenges and exposures already present in loans that are outstanding. The FCA (Financial Conduct Authority) has now published its interest only thematic research (GfK, 2013; Experian, 2013). It has estimated that 1.3 million interest-only loans owing £111 billion are due to be repaid over the next nine years. While most of these borrowers will repay the loans, the combination of high LTV borrowing, negative equity and flat or falling house prices may mean that they will end up with insufficient equity to buy another home. As part of the Mortgage Market Review the FSA reviewed mortgages with a term of five years taken out between April 2005–September 2006 and, of these, 19,000 were interest-only. All were due to be paid off by the end of December 2011 and as at March 2012, at least 34 per cent had not paid off but had extended their term.

These are important factors in considering safety nets and the response to any downturn, as the management and containment of what is seen to be unacceptable levels of risk in the issuance of new mortgages is clearly linked to the policy framework required to manage those mortgages when things go wrong.

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## 5 RISKS AND DEFAULTS IN THE CURRENT MARKET

As noted earlier, despite the downturn, levels of mortgage arrears have remained at relatively benign levels compared with the last downturn, although there are considerable uncertainties hanging over the prospects for the economy and the housing market in the coming years, and the central forecast is for the position to worsen in the years to 2015 (Aron and Muellbauer, 2012). The economy drives employment and, in turn, this conditions arrears and possessions, subject to safety nets. Having already carried the overhang of pressures from 2007 for some years there are clearly questions as to how the safety net in all its facets can sustain this.

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In that context the FSA *Retail Conduct Risk Outlook* published in March 2012 (FSA, 2012c) with mortgages ranked 11th of their 15 top retail conduct risks over the next 12 to 18 months. The report noted:

the combination of very low interest rates and lower unemployment relative to the 1990s recession has so far limited the impact of the financial crisis on arrears and repossessions levels, although there are some signals that repayment difficulties may start to materialise again in 2012 and the level of arrears is higher in some parts of the UK.

And then:

Work undertaken by us (for the Financial Policy Committee) indicates that between 6 per cent and 8 per cent of mortgages are currently

subject to forbearance of different types. Our data shows that the level of forbearance provided by lenders has remained relatively stable in 2011, although there have been some changes in the type of arrangements reached with consumers. Permanent transfers to interest-only arrangements and term extensions have decreased significantly, while the use of payment reductions has increased.

And finally they also drew attention to the particular issues associated with interest-only mortgages:

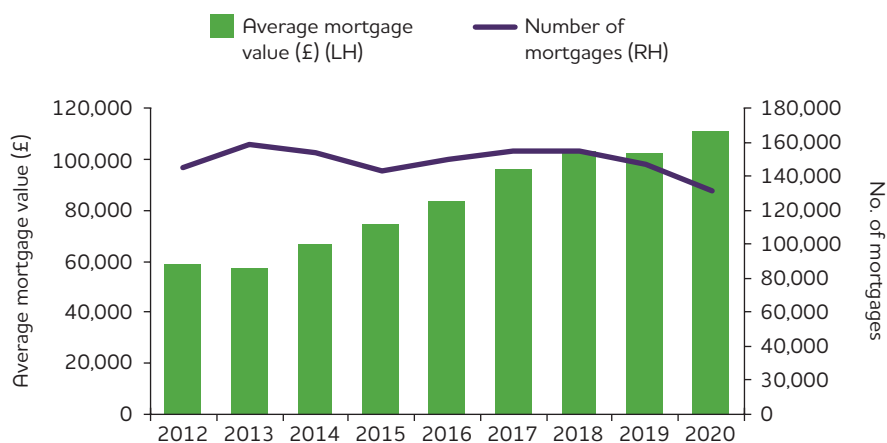
Many UK lenders have a sizeable book of interest-only mortgages, a substantial portion of which are due to mature in the next five to 15 years. For a variety of reasons, borrowers who took out interest-only mortgages may be unable to repay the full amount of the capital balance at maturity. Borrowers may have entered into interest-only mortgages relying on repayment strategies that have not materialised due to changes in personal circumstances or wider social and economic trends.

Figure 6 shows how the issue builds over the next few years.

The latest of the Bank of England's regular household survey (2000 households) looking at their financial position was published in the *Quarterly Bulletin*, December 2011 (<http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb110402.pdf>). This suggested that credit conditions remained tight and that households were experiencing a financial 'squeeze' (Figures 7 and 8).

Figures 7 and 8 show that there has been a small decline in levels of exposure to high loan to value mortgages, but some 4 per cent of all mortgagors have secured mortgage debts exceeding the value of their dwelling, i.e., they are in negative equity. It should be noted, however, that these figures reflect the falls in house prices post 2007, as the numbers of mortgage advances that were for more than 100 per cent of the property value were very small, even at the height of the pre-credit-crunch period. The survey for the Bank of England also covered the extent of households unsecured debt, with a quarter of all households with debt repayments representing more than 10 per cent of their gross (pre-tax) incomes, and more than one in ten with debt repayments representing more than

**Figure 6: Projected volumes and average balances of interest-only mortgage maturities**



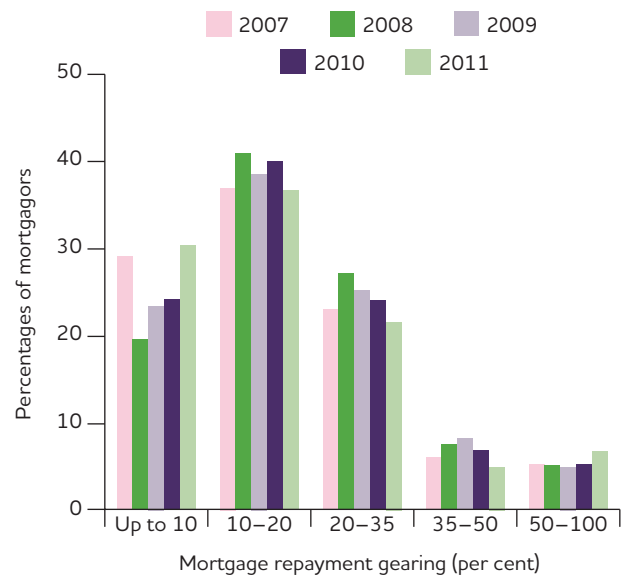
Source: CML, 2012a

**Figure 7: Distribution of LTV ratios on mortgagors' outstanding secured debt<sup>a</sup>**



Note: <sup>a</sup> Mortgage debt from the NMG Consulting survey captures only mortgage debt owed on households' primary residences  
Sources: NBM Consulting survey and bank calculations

**Figure 8: Mortgage repayment gearing<sup>a,b,c</sup>**



Notes:  
<sup>a</sup> Mortgage repayments gearing is calculated as total mortgage payments (including principal repayments)/gross income.  
<sup>b</sup> Calculation excludes those whose gearing exceeds 100%.  
<sup>c</sup> Reported repayments may not account for endowment mortgage premia.  
Sources: NBM Consulting survey and bank calculations

20 per cent of their gross (pre-tax) incomes. In a clearly related measure some 30 per cent of all households considered that these loan repayment commitments represented either 'somewhat of a burden', or a 'heavy burden' on their household expenditures. Other reports, including the evaluation of the mortgage rescue scheme, have also highlighted the significance of unsecured and other non-housing debt as additional problematic factors within the budgets of households with mortgage difficulties.

Notwithstanding the continuing trends in mortgage debt repayments in 2012, the Council for Mortgage Lenders estimated that at the end of Q2 2012 there were 719,000 households (or 10 per cent) in negative equity in the first quarter of the year, and that around 20 per cent of all borrowers, including those in negative equity, had equity of 10 per cent or less. By type of borrower the analysis indicated 20 per cent of first-time buyers might be in negative equity. This suggests some improvement from the last estimate in Q1 2011, reflecting both the modest rise in house prices during the last 12 months, and also a continuing degree of debt repayment during this period, with borrowers taking advantage of low rates to overpay their mortgages.

The Bank of England tracks housing equity withdrawal and their latest figures (Q2, 2012) suggest it had fallen by some £9.8 billion, but that it was not associated with an increase in repayments of secured debt. Rather, they suggest that the reduction was a product of the fall in transaction levels (see Table 1). Indeed mortgage statistics indicate that capital repayments have continued at a relatively flat level for some years (Bank of England, 2011). This evidence, alongside that from the Bank of England NMG survey evidence of households under pressure, suggests that the risks from high mortgage gearing will not be rapidly eroded.

Interest rates hold the key here, and if there is little prospect of official rate rises through 2013 or 2014, it is possible that the end of Funding for



**Table 1: Housing equity withdrawal (HEW) and lending secured on dwellings, seasonally adjusted**

	LPQ	HEW (£m)	HEW as a % of post-tax income (%)	Secured on dwellings			
				Change (£bn)	Growth rates (%)		
					1Q	1Q (ann)	4Q
		BE92	B3VH	VTVJ	VTYF	VTYG	VTYI
2011	Q2	-10,187 <sup>a</sup>	-3.9 <sup>a</sup>	1.8	0.1	0.6	0.6
	Q3	-8,603	-3.3	2.0	0.2	0.7	0.6
	Q4	-8,678	-3.3	3.1	0.3	1.0	0.8
2012	Q1	-9,617	-3.6	3.5	0.3	1.1	0.8
	Q2	-9,829	-3.6	1.3	0.1	0.4	0.8

Note: <sup>a</sup> Values from 2011 Q2 onwards are based on estimated data for one of the components (DLXV). Further details available from ONS on request (gcf@ons.gov.uk).

Source: Bank of England, 2011.

Lending Scheme in early 2014, or the Eurozone pressures, could both result in higher rates.

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## 6 PREVIOUS APPROACHES TO CONSTRUCTING A SAFETY NET FOR HOME OWNERS IN THE UK

The UK's approach to the safety net has differed over time and also from other countries. For many years access to home ownership in the UK was somewhat restricted with a requirement for high deposits. This changed in the post-war period as the demand for home ownership rose and competition to lend increased. Local authority mortgage lending became an important part of the market (reaching around 15 per cent of annual borrowing in the 1970s) and notably at higher loan to values (LTV) and on cheaper, less traditional properties.

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Following the departure of local authorities from the mortgage market post the UK's International Monetary Fund crisis in 1976, and the deregulation of the financial markets at the end of the decade, mainstream lenders began to move into higher LTV lending, normally backed by a mortgage insurance indemnity guarantee (MIG). This policy was paid for by the borrower but was in favour of the lender. It did, however, ensure the lender would offer a higher LTV loan.

The housing market downturn in the period 1989 to 1991 saw a rapid escalation in mortgage possessions, rising rapidly from around 15,000 in

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1989 to 45,000 in 1990 and over 70,000 in 1991. This triggered a major collapse in house prices and a sharp rise in MIG claims (UBS Phillips and Drew, 1991), with the insurers facing claims of around £1.65 billion in 1991 and £1.25 billion in 1992 (although some 10 per cent of the market was probably self-insured). With annual premiums totalling around £235 million, repossessions were a serious cost to the insurers (estimated at around £4 billion for this period, with lenders arguing they lost similar amounts; UBS Phillips and Drew, 1991). Insurers blamed lenders for poor lending while lenders argued that many of the policies were poorly specified and hard to claim against.

Government was forced to intervene and it moved to allow Income Support for Mortgage Interest (ISMI) payments being made by the state on behalf of out of work home buyers to be paid direct to lenders in exchange for lenders developing forbearance and mortgage to rent schemes to help keep households in their homes. This began a partnership between government and lenders around a home ownership safety net, which was then tested by the 1995 changes to ISMI when government moved to require a nine-month waiting period before payments could be received and at a standard rate of interest. As part of the same announcement the government also argued that home buyers should all take out mortgage payment protection insurance (MPPI) to cover the risks of being unemployed or being out of work through ill health or an accident (see Kemp and Pryce (2002) for a useful overview). In 1997 agreement was reached with the government to create a Sustainable Home Ownership initiative with the aim of increasing MPPI take-up to 50 per cent of all borrowers (a figure arrived at through research related to those who could, or could not, sustain payments for a defined period; Whitehead and Holmans (1999)). A partnership steering group comprising lenders, insurers, government departments, the Bank of England and consumer groups was set up to oversee the initiative.

In practice, with a growing economy and rising employment it proved difficult to increase take-up to the level desired. It peaked at a little under 25 per cent of all mortgages in 2003, although the proportion of new first-time buyers with insurance did rise at one point to 46 per cent (with 36 per cent of all new mortgages covered by insurance) (CML Statistics). MPPI policies were rewritten as part of an agreed framework that set a benchmark for the industry and effort was made both to increase sales and improve the payment performance of the product. Some lenders offered MPPI free with their mortgages. The work was refocused in 2002 – away from a core concern with increasing the take up of MPPI, then, in 2007, the OFT announced it was investigating the entire payment protection insurance market with a view to referring it to the Competition Commission, which it subsequently did. The referral and the publicity around PPI led most lenders to withdraw from the MPPI market. From April 2012 the point of sale of insurance with a mortgage was prohibited by the Competition Commission and insurers expect the decline in sales that has taken place in recent years to intensify. In 2012 mortgage insurance sales by banks and building societies made up some 15 per cent of sales, down from 40 per cent in 2011.

The partnership steering group discussed at length how it might be possible to link MPPI with ISMI (subsequently Support for Mortgage Interest (SMI)). The assumption was that private insurance or personal means would provide the short-term cover for those unable to make mortgage payments. In reality insurance only covered some risks (and was underwritten at the point of claim rather than point of sale thus exposing some households to

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the risk that their cover would not be available), while SMI only covered those who were out of work rather than with reduced incomes – the safety net as such was ‘full of holes’ (Ford et al., 2005).

The downturn in 2008 showed this to be the case with government moving to reduce waiting periods from 39 weeks to 13 and to increase the value of the mortgage covered by SMI to £200,000 from the £100,000 where it had remained for some years despite a period of intense house price inflation. It created a home owner mortgage support scheme whereby lenders were indemnified against defined losses for providing extended forbearance to borrowers who met various conditions and who had been given a full advice process. The scheme lasted around one year and helped only 62 families, albeit that some 30,000 households entered extended forbearance arrangements with their lenders outside of this scheme. While the terms of the scheme were so tightly drawn it did not prove to be attractive to lenders, the official interim evaluation did consider it to provide reasonable value for money (excluding the scheme set-up costs) for the small number of households concerned (Wilcox, et al., 2010).

A mortgage rescue scheme which helped buyers to become renters or shared equity holders was also introduced. This proved rather more popular, and in the period to the end of March 2012 it had enabled just over 4,000 home owners to remain in their homes (HCA, 2012). The scheme continues to operate and is probably seen as a useful and more permanent policy instrument by both lenders and government. The official interim evaluation found that the scheme had some fairly substantial initial capital costs, and in overall cash public expenditure terms the unit cost was £45,000 per household (as a 30-year net present value). However the evaluation also found that in resource terms the scheme cost no more than the likely costs to government that would result from the households being repossessed. It also suggested that savings could be achieved relative to the costs incurred in the initial years of the schemes operation (Wilcox, et al., 2010).

However, despite all its limitations, SMI is by the far the most significant government intervention providing direct support to home owners in financial difficulties with their mortgage. In overall terms the numbers supported rose to just shy of 250,000 in 2010/11, with a sharp rise in the numbers of Job Seekers Allowance (JSA) claimants receiving SMI following the shortening of the waiting period for eligibility. However subsequently the numbers of claimants have begun to ease back and is forecast to fall to 213,000 by 2015/16 (DWP, 2011). In cost terms SMI costs peaked at £560 million in 2009/10 and are forecast to fall to £402 million in 2011/12 before rising again to £453 million by 2015/16.

The availability of in-work tax credits is also important for home owners, particularly in the absence of any in-work benefits to assist home owners with their mortgage costs. Tax credits provide a partial cushion for home owners who suffer a substantial drop in their incomes from employment, such as when one partner loses his or her job while the other remains in work. The levels of income provided through tax credits are sufficient to permit a household to cover a modest mortgage, while leaving them with a disposable income above the levels of baseline welfare benefits such as JSA and Income Support (Wilcox, 2003).

More recently, in response to the credit crunch, there has been some activity in the private insurance market, with a number of schemes being considered and offered on the market. However to date no statistics have been published on the extent to which such insurance schemes are being taken up, and the impression is that the take-up of such schemes is at a very modest level. These schemes include forms of mortgage indemnity

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guarantees that offer protection to lenders (and in some cases also to borrowers), MPPI-type cover which is now really income protection, and forms of mortgage rescue such as allowing households to rent the home they were previously buying. A recent product development would see a slight premium added to the cost of the mortgage which then pays for an insurance product to cover payments. The FSA and the OFT have now issued joint guidance on payment waivers which opens the way for the use of this product (FSA/OFT, 2013).

We have also seen the development of an assisted voluntary sales process (Wallace et al., 2011) which flowed out of work on unsustainable home ownership: (<http://www.york.ac.uk/media/chp/documents/2011/exitingHO.pdf>). In this process, lenders work with borrowers to secure a sale to a landlord and to keep the family in their home. A number of lenders now have these schemes in place with the asset management companies that typically handle their the lenders' re-possession sales.

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## 7 SUPPORT FOR LOW-INCOME HOME OWNERS IN OTHER COUNTRIES

While there are many examples of measures in other countries to provide support for home owners in financial difficulties, they are typically on a very limited scale. This is partly because some countries have smaller and more stable home owners sectors (Boelhouwer et al., 2010), and partly because many countries have far more generous underlying unemployment benefits than the UK (Eardley et al., 1996), and as a result welfare and insurance schemes to provide direct support for housing costs are less significant.

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While housing allowance schemes in many other countries, such as Finland, France, Germany, New Zealand and Sweden, are open to home buyers in an out of work on broadly the same terms as for tenant households, they are nonetheless typically limited in the level of support that they provide (Wilcox and Sutherland, 1997). In the Nordic countries, for example, overall housing allowance expenditures were equivalent to just 0.1 per cent of gross domestic product (GDP) in Norway, and 0.6 per cent of GDP in Sweden in 2002 (Lujanen, 2004), compared with some 1.2 per cent in the UK (Pawson and Wilcox, 2012).

While details vary, support is usually structured either to provide help with a proportion of housing costs above a 'standard' level and up to a ceiling level or by reference to a maximum housing cost to income ratio (Kemp, 1997). In New Zealand, for example, housing allowance payments are based on 70 per cent of costs above a threshold level of 25 per cent of the

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household income, with some additional allowances for child support and subject to maxima based on household size and location ([www.Oecd.org/els/social/workincentives](http://www.Oecd.org/els/social/workincentives)).

Other countries have worked to support home owners through other schemes, the most common form being MIG-type cover to increase access to high loan to value loans and also some form of modest support to make interest payments if the recipient is unemployed. In Australia it is possible to draw down funds from the compulsory superannuation scheme to prevent the home being sold by the lender, although this is not a right.

With the global financial crisis we have seen a number of countries either expand existing support schemes or introduce new support measures. The Netherlands has extended the scope and liberalised the terms of the loan facilities available under their national mortgage guarantee. However this support is limited to a maximum of three years, and must subsequently be repaid. The Flemish Government has removed the income limits on eligibility for its free of charge housing costs insurance scheme.

Spain introduced a new scheme in 2009 to provide support to unemployed home owners for a period of two years, for mortgages of up to 170,000 euros. All the support provided has then to be repaid over the following 15 years (Boelhouwer et al., 2010).

Other countries have adopted loan rescheduling/write off strategies, most notably the US where a number of schemes are now in place (see [http://portal.hud.gov/hudportal/HUD?src=/topics/avoiding\\_foreclosure](http://portal.hud.gov/hudportal/HUD?src=/topics/avoiding_foreclosure)) including a Home Affordable Modification programme, aimed at reducing payments, a Home Affordable Refinance programme and a Home Affordable Unemployment programme which provides up to 12-months support with payments. The evidence suggests US lenders have moved far further than UK lenders in terms of the spread of solutions they offer borrowers in difficulty. Clearly the scale of the downturn and the challenges to be met was of a different order in the US but lenders in the UK have not really progressed much further than extended forbearance. Loan write offs, incentives and new equity-linked products have been aired but there have been no significant moves in this direction so far. The industry, like the government, is hoping the problem will diminish over time and thus the need for new solutions is limited. This report would argue the opposite.

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# 8 FUTURE OPTIONS FOR A HOME OWNER SAFETY NET IN THE UK

This report has set out to review the options for the future construction of a safety net for home owners in the UK. As part of that process the authors have met with representatives within government, the lending and insurance industries, and also the voluntary sector. Those discussions covered not only their perspectives on current schemes and issues, but also their thoughts on possible options for reform, and the extent to which there was any governmental or industry appetite for such reforms.

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While one policy option discussed with all parties was Joseph Rowntree Foundation's proposal for a 'Sustainable Home Ownership Partnership' (SHOP), other options were also discussed in a wide-ranging review that also took into account the changing framework of the wider welfare benefits system that is currently taking place with the introduction of the Universal Credit scheme.

However, before moving on to the specifics of options that might be most applicable in the current UK context we need to begin by going back to first principles and setting out the objectives for a safety net for home owners, and the key dimensions to be considered in the construction of a safety net.

## First principles

There are a number of key principles:

- The primary objective of a safety net for home owners is clearly to provide a measure of protection against adverse changes of



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circumstances that lead to mortgage payment difficulties, which could potentially result in borrowers losing their home.

- The protection should cover risks that are predictable in aggregate; but are not predicable in terms of the individual households to which they apply. The protection needs to include safeguards against ‘moral hazard’ (a situation where a person may take risks because the costs that could arise will not be borne by the person taking the risk) and should not encourage lenders or borrowers to support the entry of high-risk households into home ownership or to lend/borrow amounts of money that are clearly unsustainable.
- The protection should also be structured so that households have continuing incentives to maximise their own efforts to resolve their difficulties, rather than relying on the protection measures indefinitely.
- The protection put in place should recognise and reinforce the shared nature of responsibilities, not least between lender and borrower but also government who sets the overall context in which both of these operate.

Thus while the primary objective of a safety net is to provide protection for households, it also has benefits both for lenders in terms of the security of their mortgage book and for governments in terms of minimising housing market disruption, particularly at times of an economic and housing market downturn.

The protection also needs to recognise that owners’ homes are not just their place of residence and the focus for their family life with all that entails, but also a capital asset and investment – and for most families their most important asset and investment.

## Safety net design issues

In that context there are various critical issues in the design of a safety net.

The first issue to consider is the range of risks to be covered by any safety net, and the extent to which they should be covered. Critically, this involves balancing the desire for as comprehensive as possible cover and its costs against the need to provide safeguards against moral hazard.

It also requires a balancing of the responsibilities between parties to contract.

The primary risks are:

- Loss of employment
- Loss of earnings
- Accidents and sickness
- Death of income earner
- Relationship breakdown

A second issue to consider is the degree of the risks to be tolerated – and to be avoided – in the regime governing the initial provision of a mortgage. All actions carry some risks, and there is an inherent risk in households committing to a (typically) 20- to 25-year mortgage when it is clear that a substantial proportion of those households will suffer some adverse changes

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of circumstance over that prolonged period, even when the initial position gives no indication that they are a particularly high-risk household.

In that sense the regulatory regime governing the issuance of mortgages is the first line of defence in the construction of a safety net for home owners. However, drawing the line in terms of which risks should be tolerated or avoided is both a difficult judgement and one that relates to broader housing policy perspectives on the role of home ownership within the overall housing market, and not just the narrower concerns about risk management.

The Financial Service Authority's (FSA) new rules come into force in 2014 and are being seen by most commentators and the industry to significantly tighten access to mortgages, although the FSA argues this is an overstatement. However although the Mortgage Market Review will ensure that borrowers are more aware of the risks around their mortgages, there is little in the process which will result in borrowers better understanding what might trigger those risks and how they might be mitigated. Such a discussion would then provide a basis for a discussion around risks and the safety net, such as it is. With the point-of-sale ban on insurance or any other product being sold with the mortgage and the requirement for a seven-day cooling off period (which can only start from the conclusion of the loan agreement, i.e., some weeks after the mortgage has been sold and really when contact is reduced to the exchange of documents), the opportunities for a discussion around risks and the sale of relevant products thus becomes more limited.

A third factor is temporal. Over what period of time should the safety net operate? Is it intended to provide indefinite cover, while incorporating features to avoid perverse incentives, or should it provide only time-limited cover in respect of short-term periods of adversity, and to provide temporary respite for those households where the adverse change of circumstances is long term, and likely to be irreversible?

Increasingly the view is that if a mortgage is unsustainable over the long term then the household concerned should exit home ownership, although that raises its own set of issues including the cost of any safety net in the form of housing benefit paid to the same household as a renter.

A further critical dimension is how the safety net is to be constructed, how and by whom it should be provided, and how the costs are to be defined and covered by the three primary actors: the home buyers, the mortgage lenders and the government.

Finally it should be recognised that the construction of the safety net should involve both the legal framework governing the circumstances in which lenders can obtain possession from defaulting mortgagors, and the regulatory framework for lenders, both in terms of the issuance of new mortgages and the provisions they make to support home owners facing adverse changes of circumstance. This should mean that possession actions are only taken as a last resort, or with the agreement of borrowers who accept the need to exit from home ownership.

## **A future safety net for the UK**

As we have argued the current safety net for home owners in the UK is limited, and far less comprehensive than the equivalent safety net provided for renting households, yet both groups of households now face similar levels of 'unexpected' events. It does not cover loss of earnings in the form of any form of help with mortgage costs for households in low-paid work. There is only a limited form of indirect support through the tax credit regime, and the

higher level of earnings disregards for home owners proposed as part of the government's new Universal Credit regime.

Support for Mortgage Interest (SMI) payments for out of work households is also time limited, with a period of delay before eligibility commences, and since 2009 it has been limited to a maximum of two years duration for new claimants in receipt of income-based Job Seeker's Allowance. There is a limit on the maximum mortgage eligible for assistance, and payment is made for only the interest element of mortgage payments, at a standard rate set by the government based on the industry average.

As Table 2 shows, the provision for home buyers is quite different compared with that of renters. The distinction is based on some questionable comparisons between the two sectors, given we now have a mass home ownership market and a much expanded rental market. Blurring between the two sectors in terms of the households they cover is now substantial yet the policy stance continues to reflect past situations. Moreover, the other obvious distinction is between consumption and investment, with renters clearly only having a direct material interest at the present time while buyers have an interest in both. Rightly government has always been concerned about providing support to households to acquire assets. Again the clarity of this distinction has never been sharp, as some might argue. Mortgage interest tax relief was a significant aid to buyers and a real cost to government. More recently, with an implicit policy stance on letting house prices drift downwards in both real and nominal terms, and potentially curbing future price surges through the taxation regime, we are moving towards a world where the distinctions between sectors are even further eroded.

If the current welfare safety net is already limited it is also clear that the government both needs and wants to reduce expenditure on SMI, and is considering reverting to the longer (39-week) period of delay before out of work claimants become eligible for SMI, as well as other measures, such as making SMI payments a charge on the property.

In addition to these welfare components the existing safety net also includes the pre-action protocol governing legal actions for possession, albeit this is limited to a predominantly procedural requirement for lenders to show that they have worked through other means of resolution with defaulting borrowers before commencing legal action. While courts may make a suspended order to give owners time to recover their position if this appears feasible, their discretion is limited.

The pre-action protocol is also now complemented by the FSA's regulatory approach that requires lenders to consider a range of alternative options, and to give owners time to adjust and/or to pursue a voluntary sale, before proceeding with legal action for possession. The legal and regulatory frameworks do not, however, offer in themselves any extended protection for households that can no longer meet their mortgage payments.

**Table 2: Summary comparison of owner and renter safety nets provided by government**

	Covers reduced income	Time limited	Maximum eligible amount	Standard rate of payment	Eligible
Buying	No	Yes for new claimants	Yes	Yes	After 39 weeks
Renting	Yes	No	Yes	Set by LHA for private renters	Immediate

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The primary focus for consideration of options for a future safety net is consequently in respect of those arrangements that would assist home owners in financial difficulties, either to meet their mortgage obligations or to remain in their home as a tenant or shared owner.

It is evident from this review that the government has been responsive to changing circumstances in the home ownership market, and that the changes made to date have broadly helped, rather than hindered, the protection afforded to home buyers. The government clearly recognises that even with improved mortgage products and sales processes borrowers will face risks and that with a volatile global and national economy these can strike at home buyers across the income spectrum.

## Six options for reform

In the course of discussions with representatives from government, the industry and the voluntary sector six broad options for reform to the safety net for home owners emerged in the course of open discussions. They are:

- 1 Do nothing
- 2 Promote private insurance
- 3 Sustainable Home Ownership Partnership (SHOP)
- 4 A reformed SMI (including charges on properties)
- 5 Mortgage rescue
- 6 Combinations of the above

The advantages and disadvantages of each of these options are considered in turn below.

### Do nothing

The primary argument for this approach was that compared with the previous downturn repossessions were at a relatively low level, and were not considered to be a substantial threat to the stability of the mortgage or housing market.

This option was also reinforced by a sense that neither government nor the mortgage industry had much appetite to support major changes to current arrangements.

The limitations of this approach were, however, widely accepted. Repossessions were still at a high level and are forecast to rise, even if they do not reach the same peak annual levels as in the previous downturn. The sector would also remain exposed to the costs and risks of any further worsening of current economic conditions, and to potential future risks from subsequent economic and housing market cycles.

Inaction would also do nothing to assist or speed the recovery of the current mortgage and housing market, and the contribution this could make to wider economic recovery. It would have direct costs for the Department for Work and Pensions (DWP) in continuing with the current short period of delay before out of work claimants are eligible for SMI, and indirect costs for government/ lenders and home owners arising from the continued drag of repossessions on economic and housing market recovery.

So for all those reasons, quite apart from the continuing impact on the households concerned, there was no active support for the do nothing option although it might be arrived at by default.

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## Promote private insurance

The case for promoting the use of private mortgage payment protection insurance (MPPI) for home owners remain those that led to the policy being introduced in 1995, and taken forward through the Sustainable Home Ownership initiative (SusHo). The policy put the onus of responsibility firmly on the shoulders of borrowers, and that responsibility was reinforced by the DWP introducing a nine-month period of delay before unemployed claimants received SMI. In the current context it also clear that DWP is looking to move on from the current 'temporary' support it is providing as part of the response to the credit crunch, and a return to the nine-month period of delay for SMI is one of the options under consideration within government.

The difficulty with this approach is that despite a lot of effort by government and the industry the voluntary take-up of insurance by home buyers never reached the level required to provide effective cover across the market and create a mass market whereby the rates might be driven down (Ford and Kempson, 1997). There were issues about pricing and survey data shows a substantial measure of consumer resistance to taking out such insurance despite the improvements made to the product. There are also now reputational issues because MPPI policies have (however unfairly) been tainted by the wider official concerns about the mis-selling of PPI policies. Moreover, the DWP action in withdrawing the nine-month period of delay as a response to the credit crunch raises the question as to whether they would take similar action in another market downturn.

For all those reasons it is difficult to see that a return to a wholly voluntary approach to promoting the take-up of MPPI policies will be any more successful than last time around. There is, however, the option of taking stronger measures to promote MPPI take-up. One option would be to further strengthen the regulatory regime for mortgage issuance, so that lenders were required to ensure that borrowers had the financial capacity to weather a period of income loss. The new rules require lenders to only issue interest-only mortgages when a set of FSA-imposed conditions are met. It would seem possible to mimic this for safety net purposes whereby as part of the stress test borrowers would be required to demonstrate they could sustain their mortgage payments for a specified period of time in the event their income was disrupted. They would have to demonstrate they had considered this and put in place safeguards to deal with the situation. Unless they had sufficient savings or access to other funds this might effectively make the use of insurance compulsory for those households that do not have financial reserves or more general insurance policies they can call upon.

There would be a number of barriers to be overcome in pursuing this option. The first is the government could be seen as promoting insurance policies that have suffered recent reputational damage. This could, however, be addressed by building on the work of SusHo in setting out minimum standards for such insurance, and by clear regulatory guidance to ensure that there is open competition in the provision of insurance cover. There is also a question of insurance capacity and appetite. There are fewer than ten firms now offering this type of cover and that in itself would limit provision as well as competition around products.

If this approach was adopted and a high level of insurance cover was achieved then this would permit government to make savings by reverting to a complementary longer period of delay before out of work home owners qualified for SMI assistance.

If the primary focus here is on MPPI cover there is also a case for considering mortgage indemnity guarantee insurance, to cover both lenders

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and borrowers in the event of negative equity. This option is considered further below as a possible complementary measure to SMI reforms.

## SHOP

Joseph Rowntree Foundation's proposal for the Sustainable Home Ownership Partnership (SHOP) was developed from an appreciation of the limitations of the voluntary approach to promoting MPPI, while appreciating the potential security that could be provided by more closely dovetailing the state welfare provisions with a comprehensive standard MPPI scheme.

SHOP was proposed as a single integrated public and private sector partnership. As a central scheme it could ensure clear standards of cover and could achieve cost savings, not least by removing the costs associated with the retailing of voluntary insurance schemes. It would take SMI outside of the state administration of other welfare benefits, but would continue to be complementary to those state benefits. In a follow-up report Joseph Rowntree Foundation showed just how a SHOP scheme could be structured, taking into account the requirements of European Union (EU) competition law, and providing an updated estimate of its potential costs (Stephens et al., 2008).

The initial proposal was that costs for SMI would be shared between lenders, borrowers and the state, with broadly a third of the costs being contributed by each party. The difficulties involved under the current SMI arrangements in defining the level of mortgage payments eligible for assistance would be overcome by directly linking the contributions from borrowers to the level of their eligible mortgage.

The scheme would include an insurance component that would run for a year, which would be subject to meeting the qualifying conditions (i.e., accidents, sickness or unemployment), but would not be means tested. Alongside this the means-tested component of the scheme (based on SMI) would make equivalent means-tested assistance for out of work households that were not subject to an insurable event. The means-tested provisions would also be available after the first year, if required, for those out of work households that had initially received support through the non-means-tested insurance component of the scheme.

The contribution towards the costs of the scheme by lenders was proposed to be linked to the level of claims by borrowers from each lender; which would provide a financial incentive to reinforce prudent lending policies.

The main advantage of the SHOP proposal is that it would provide comprehensive cover for insurable events that dovetailed precisely with the means-tested welfare component of the scheme. It could provide the insurance-based element of the scheme cost effectively, and at the same time the insurance component of the scheme would reduce claims on the welfare component of the scheme. In a follow-up report (Stephens et al., 2008) JRF showed how a compulsory scheme could operate and meet the requirements of EU competition law.

The main barrier to acceptance of SHOP is that it would effectively need to be a compulsory scheme, applied to all mortgages (although with some possible defined exceptions, perhaps in a similar vein to the way the FSA has excluded some households from the advice regime under the Mortgage Market Review). While lenders' views on a compulsory scheme would appear to have softened in the wake of the current downturn, their acceptance of its potential benefits have not led them to actively press for the introduction of such a scheme. Nor would it appear to be the case that there is the political appetite to move forward with a compulsory scheme, not least because of

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the fear it is seen as additional taxation and thus be politically unpopular. There is, however, a possible halfway house to compulsion that might be more acceptable. A precedent here is the arrangements for automatic enrolment in pensions. This has an opt out structure, with households having the opportunity to do this every three years. It would be possible to have automatic enrolment in an insurance-backed home buyer safety net scheme perhaps focused on first-time buyers and on borrowers taking out mortgages above a certain loan to value. This would thus largely avoid imposing new costs on households that clearly would never claim but at the same time ensure a pool big enough to spread risk and drive costs down alongside active provider competition.

To comply with EU rules on state aid the insurance-backed safety net scheme would need to operate without state aid, and run parallel to the state insurance scheme, rather than being formally part of an integrated scheme as envisaged by SHOP. The most recent cost estimates for SHOP suggest that this insurance-backed scheme could have costs as low as £3 per £100 of monthly mortgage payments covered, but this could rise depending on the scale and characteristics of households opting out of the scheme.

The SHOP proposal was developed before the government's proposed the universal credit reforms of the welfare system, and its consultation on the reforms to the structure and detail of the SMI component within universal credits. However SHOP could operate alongside universal credits just as readily as it could alongside the current benefits regime.

It would also be possible to modify the initial SHOP proposal so that after a specified period the means-tested payments would become a charge on the owner's property. This would reduce the scheme costs from the total £2.7 billion estimated in Joseph Rowntree Foundation's 2008 report (Stephens et al., 2008). The potential costs of the scheme to government, lenders and borrowers would also depend on the detailed specification of the scheme, and how the costs were shared between the three parties. Against those costs SHOP would reduce the costs to lenders from arrears and forbearance, and would generate indirect savings through reducing the drag of repossessions on housing-market and economic recovery.

However, neither SMI nor SHOP provides any support for working households that have suffered a reduction in earnings, whether as a result of employment or of household changes.

As seen earlier the Universal Credit proposals would remove support for those households working for only a small number of hours, and only provide a higher level of earnings disregard as a measure of indirect support towards the mortgage costs of households in low-paid work. This issue is returned to in the discussion below of the options for reforming SMI.

### A reformed SMI

The central proposals set out by the government in their consultation paper are primarily administrative, and are set in the context of the wider Universal Credit reforms. It is clear, however, that in the medium term the government is looking to achieve savings in its expenditure on SMI, and this includes considering the option of reducing levels of SMI payments so that they cover only a proportion of the eligible mortgage interest, as well as the option of returning to a longer period of delay before unemployed households become eligible for SMI.

Both these options would clearly reduce the support given by SMI, and would in turn inevitably lead to higher levels of arrears and more pressures on lender forbearance. Both options also remain problematic for wider



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government policy while there is a continuing requirement to soften the impact of the current economic and housing market downturn.

A further option suggested in the government consultation paper is that payments of SMI could become a charge on the property (in the same way care costs can be charged against a home by local authorities). This approach would reduce the net costs of SMI, but would not necessarily involve restricting the scope of SMI. Indeed, by covering off the costs to government such an approach would also open the door to extending the cover provided by SMI. For example, if the costs are met by charges on the property then the financial case for limiting SMI support to a maximum two-year period disappears. Similarly it could open the door to consideration of extending the scheme to cover households in low-paid work, so that Universal Credit would become a fully integrated benefit for households in and out of low-paid work, for home owners as well as tenant households.

The key constraint on this approach is that it would only be practical where there is unencumbered equity in the home. Lenders would be opposed to this approach unless the government agreed to make their SMI claims a second charge on the property. The latest CML estimate suggests that some 10 per cent of home buyers (that took out mortgages after 2005) are in negative equity (CML, 2012d). Thirty per cent of borrowers since 2005 have less than 20 per cent equity in their homes, including those in negative equity, so there is not inconsiderable exposure. However it still suggests that the potential exists for covering off the costs of SMI payments through charges on the property, and has a substantial potential to reduce net costs to government while at the same time permitting the scheme itself to operate on a more comprehensive basis.

There are also practical and equitable issues that would combine to suggest that SMI should only become a charge against the property after an initial period of claim (such as one or two years). It would be administratively cumbersome to place charges on properties for the small amounts involved in relatively short-term SMI claims. And while it is reasonable to take account of the fact that home owners have a capital asset in their home, provisions for making charges should also be seen in the context of the much greater levels of support given to tenant households in equivalent employment and income conditions.

In our view charging is an option to explore further, albeit we would want to see that done within the wider context of safety nets across all tenures.

### Mortgage rescue

In some respects this is a very limited solution (as well as being a misnomer in some respects because it saves the mortgage but not the borrower), but it is the one the government has most clearly backed, albeit on a limited scale. It allows households to stay in their home although they exit full ownership. Typically they become renters although some schemes do offer opportunities to become shared owners, and in theory all can return to full ownership by repurchasing the home. Retaining occupancy by changing the cost and ownership basis of that occupancy solves some of the problems triggered by possession. Previous research has indicated most households in this situation still want to be owners (Williams and Wilcox, 1996). It has also indicated that some do not want to stay in the same home but would rather move away and put the episode behind them (Williams and Wilcox, 1996). However, not least for families with children in school, staying might be a preferable option.

A drawback of the current government-funded scheme is the substantial up-front capital costs required to enable the purchase of the dwelling, and paying down the borrowers' mortgage debt (and in many cases other debts



secured on the dwelling). This, as well as the preference of households to continue as owners rather than tenants, suggests that it would not be practical for mortgage rescue schemes in this mould to be other than a minor part in an overall safety net.

It is, however, worth exploring further both how such a scheme could be modified both to make it more possible for households to recover their position over time and to return to ownership. It would also be worth exploring options that reduce the unit costs from those of the current scheme.

### Combination

It would also be possible to develop a new scheme that combined features of several of the elements above because in part each deal with a slightly different part of the problem. A hybrid solution has merits as long as it remains simple. The evident complexity of the home owner mortgage support scheme is an important lesson here. It was over-engineered (partly because of the tensions around private interests and public subsidy) and satisfied neither borrowers nor lenders. Lessons need to be learned from that.

The various approaches can also be combined by operating in a complementary way over time. A measure of lender forbearance for limited and short-term arrears is presumed, if by varying degrees, in the private insurance, SMI and SHOP schemes. Similarly, charging against the owners dwelling for longer-term claims could operate both as part of a reformed SMI scheme or a revised version of SHOP. This is illustrated in Figure 9.

The precise time period for each element in this safety net is a matter of negotiation, and will clearly have an impact on the detailed costs for any scheme. What is important is that the various components of a combined scheme are complementary, and are dovetailed so that there are no unintended gaps in provision. The schemes and the expectations they place on lenders and borrowers also need to be reflected in a revised regulatory framework, as well as guidance to the courts on the circumstances when it is reasonable for possession orders to be granted.

The government has already begun to think about aspects of this, e.g., charging, but it has not engaged in any substantial way with rethinking the overall safety net. Similarly, lenders have moved a long way on forbearance but there is uncertainty as to next steps. The opportunity clearly exists to bring the deliberations together and to progress towards creating a new set of arrangements that will bring benefits to consumers, lenders and government and have a beneficial effect on the wider economy. It would be sensible now to make a full assessment of the costs and benefits of so doing.

**Figure 9: Stages in the safety net**

Home owner safety net		
Stage 1 Forbearance	Stage 2 Insurance/ benefits	Stage 3 Benefits/ charge on property
x months	y months	z months

See <http://www.dwp.gov.uk/docs/support-for-mortgage-interest-call-for-evidence-ia.pdf>

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## 9 CONCLUSIONS

The home owner safety net is at the crossroads. We have the prospect of government cuts in what is already a limited safety net alongside the potential for a period of significant difficulties in the housing market. The current quiescence is both a good time to review the situation but also to take action.

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The current status quo will not be sustained so we need to consider how this emerging safety net will stand the test of time. The evidence suggests it will not deal with the scale of the problems that might emerge, although over the medium to long term a better regulated mortgage market might reduce some of the risks that have to be managed at present. But events will still happen to individual households regardless of how well mortgages are sold and administered and however much reduced the scale of mortgaged home buying.

The current context would suggest a SHOP-type scheme is more aligned to current government thinking than previously. The now widespread emergence of public and private partnership schemes in general and in the mortgage market (e.g., NewBuy, First Buy) and the linked use of guarantee schemes does suggest government has moved to become more comfortable with sharing risks and benefits. SHOP is very much in tune with this direction of travel and certainly merits revisiting by both government and lenders.

At the same time the current thinking in the Department for Work and Pensions regarding a charging basis for SMI does open up thinking about whether that could be extended across all groups and not just older households or at least in combination with insurance and mortgage indemnity guarantees. The aim should be to ensure some of the shorter-term risks are managed through with passage to a charging scheme only being triggered after a period of time or amount of arrears in which both borrower and lender played an active role to manage down. This could be done by either the lender or the government covering the short-term costs and then the charging regime be put in place by the other party. There is some merit in lenders managing the charging regime as this would tie in with their first charge, although arguments can be made for the government to do this given it might also control the mortgage rescue 'exit'.

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This of course begins to take on a combination type-structure and this might in the end be the way forward with different actors involved in different layers so that the system manages down the flow of households coming through to the final charging solution. All of this suggests this can move out of the 'too difficult' and 'nice but not necessary' boxes and become an area for serious policy debate and development. There is a prize here for households and the market and the opportunity should be seized now.

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# NOTE

- 1 See <http://www.dwp.gov.uk/docs/support-for-mortgage-interest-call-for-evidence-ia.pdf>

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