

Paying The Mortgage ?

A Systematic Literature Review of Safety Nets for Homeowners

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In response to the increasing requirement for public policy to be evidence-based, the Economic and Social Research Council (ESRC) has funded a programme of research projects to examine how evidence based policy can be generated in a number of social policy areas including public health, housing, education, and the criminal justice system. Beyond developing the evidence base in policy areas, a key aim of the programme is to develop and refine the methodologies required for the identification, appraisal and synthesis of evidence.

Systematic reviews, developed in the education field, have been commonly used for assessing the benefits of health interventions. However the method is at a developmental stage within social and public policy. This systematic review is intended to demonstrate how the method of systematic reviewing can be applied to a complex policy area. The review has sought to collate and synthesise current evidence relating to interventions that are intended to support mortgagors in financial difficulties, and to determine 'what works'.

Sustainable homeownership is a key housing policy goal. Owner occupation is a diverse tenure, and mortgagors are exposed to a range of risks that may result in a loss of income, including unemployment, relationship breakdown, sickness or an accident. Current safety net provision relies on both public and private provision to assist homeowners who are unable to work. There is some concern that the present public-private partnership does not cover the range of risks that mortgagors may face in meeting mortgage commitments. The review considered four 'safety nets' for mortgagors in unforeseen financial difficulties: Income Support for Mortgage Interest (ISMI), Mortgage Payment Protection Insurance (MPPI), other types of private insurance and flexible mortgages.

Review Methodology

A systematic review aims to provide a comprehensive and unbiased summary of available evidence on a given topic. This is achieved by the use of a clearly defined search strategy to ensure that an extensive range of potential sources of evidence is explored. In addition the use of explicit criteria to appraise the quality of the evidence ensures that only robust evidence is synthesised in the production of the final review.

A review protocol was drawn up at the outset of the research detailing *a priori* decisions about the selection and appraisal of studies, the search strategy, and data synthesis methods. The review process was also guided by an Expert Panel with members from regulatory bodies, government agencies, consumer organisations, and academics specialising in safety net research and review methodologies. The full report presents a detailed account of the review process.

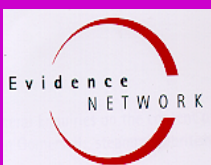
The question addressed by the review was:

How effective are public and private safety nets in assisting mortgagors in unforeseen financial difficulties to avoid arrears and repossessions?

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Public and private safety nets were defined as formal interventions that offered financial assistance and came into play when income was lost. A set of study selection inclusion and exclusion criteria specified the geographical scope of the review (UK), as well as the date of studies (1988 onwards), the type of study design to be sought, and quality appraisal methods.

A detailed search strategy was devised. Eighteen electronic databases and internet sites (trade associations, regulatory authorities, government departments, academic institutions and the trade press) were searched. Thirty one experts were consulted by letter. Key journals were hand-searched. The reviewers also used the extensive resources of the Council of Mortgage Lenders/ Building Society Association library.

The search process produced 2221 references. Once duplicate references were removed, 1832 studies remained. Of these, 765 were generally relevant to the review. Once the specified inclusion criteria were applied, 43 studies remained. Of these, 22 studies met the quality criteria and finally entered the review. Information was extracted from each study in a uniform manner, using a series of questions related to the structure, process (access and delivery issues) and outcomes of the interventions. The data were synthesised according to this format, to provide a narrative account of the findings.

Income Support for Mortgage Interest: key findings

Twelve of the twenty-two studies included in the review examined the effectiveness of the ISMI safety net, either exclusively or, in the case of five studies, alongside MPPI. Only four of the studies were conducted following the introduction of the ISMI 1995 restrictions.

Structure of safety net

- Only a third of mortgagors would qualify for ISMI due to the means-tested nature of the benefit; however ISMI covers a wider range of eventualities than private insurance (e.g. relationship breakdown).
- The vast majority of ISMI claimants (and a higher proportion in the late 1990s compared to pre-1995) experience shortfalls in their ISMI payments; the single largest reason for this is the Standard Rate of Interest being lower than the interest due to the lender.

Accessibility and acceptability of ISMI

- Studies show that mortgagors were generally unaware or had poor knowledge about the ISMI system.
- Overall, qualitative studies indicated some support for a state system, though some felt that the state should not help homeowners purchase a capital asset, whilst others felt the same assistance should be available to renters as owners.
- Early qualitative work indicated that some people were resistant to making a claim due to the stigma involved in receiving benefits.
- Whilst there was broad support that ISMI should be subject to some restrictions, there was also a belief that provision should be flexible to circumstances where possible. There was little or no support for the nine-month waiting period for ISMI.

Delivery of ISMI

- Those receiving ISMI typically had a poor understanding of the nature of the support that they were receiving.
- Overall studies revealed that the system of Mortgage Interest Direct (MID) was supported by both mortgagors and lenders. Despite some administrative teething problems, a number of benefits of MID were identified including easier money management for mortgagors.
- In 1998, only a small proportion of IS/JSA claimants (and a smaller number of ISMI recipients) had been able to use an insurance policy to manage the ISMI waiting period.
- The interface between claiming ISMI and MPPI was reported as being complicated and difficult by claimants.
- There was evidence that although claiming ISMI was relatively straightforward, there were some administrative and communication problems especially where claims were complex. However, the claiming process appeared to be smoother in later studies than earlier ones, suggesting an overall improvement in administrative procedures over time.

Outcomes

- The introduction of Mortgage Interest Direct was generally considered to have had a beneficial impact on arrears management and possessions (due both the higher levels of payments and lender forbearance), however this was based on lender and claimant assessments rather than robust data collected over time.
- Overall, lenders and insurers felt that the 1995 ISMI changes were likely to have had a negative, if not major, effect on levels of arrears and possessions. It was felt that the real impact would be observed in a recession.
- Modelling of court action data suggested that possessions were slightly higher by 2000 than they would have been under pre-1995 rules, but that changes in court policy had mitigated the negative impact of the reforms.
- Survey data (from non-identical surveys of borrowers) indicate that the proportion of ISMI claimants experiencing arrears has increased, from approximately a fifth in the early 1990s to about a half of all claimants in the late 1990s. In 1998, a higher proportion of post-October 1995 ISMI claimants, than pre-October 1995 claimants, had arrears due to the ISMI gap. However, overall, pre-October 1995 claimants were slightly more likely to be in arrears.
- Receipt of ISMI generally acts as a constraint on moving home; however mobility is obviously high amongst those households experiencing repossession.
- The evidence of ISMI as a work disincentive was mixed; whereas some people felt financially safer while on benefits, others pursued work opportunities due to a desire to work and other non-financial related reasons.
- Qualitative studies identified the emotional and personal impact on households of difficulties in paying the mortgage.

Mortgage Payment Protection Insurance: key findings

Eleven studies addressing the effectiveness or some aspects of the effectiveness of MPPI in preventing arrears and repossessions were entered into the review. All of the studies were undertaken in 1995 or later.

Structure

- The predominant form of MPPI is ASU (combined accident, sickness and unemployment), although some insurers allow these elements to be unbundled.
- Stand-alone policies tailored to individuals are relatively unusual.
- Many circumstances which can lead to arrears (income loss or reduction due to relationship breakdown, giving up work to become a carer) are not covered by MPPI.
- Average costs of MPPI cover appear to be falling slightly.
- Similar MPPI products are being offered at very different prices.
- MPPI premiums are rarely adjusted for individual risk.
- MPPI is an expensive product for consumers and government; a large proportion of the premium does not go towards paying claims and a chain of organisations take a share of the profit.
- Cost of premiums is a disincentive to some, particularly low income mortgagors; however the decision to take out MPPI is mediated by a range of factors of which cost is only one.

Accessibility and acceptability

- Large numbers of borrowers with MPPI have taken insurance because prompted to do so by lenders or financial intermediaries rather than because they have actively sought insurance cover.
- Financial intermediaries give customers varying introductions and explanations of MPPI, which affect take-up levels.
- There are a number of groups of borrowers who are either excluded from MPPI cover, or eligible only under certain terms and conditions, notably the self employed, those on temporary work contracts, those with pre-existing health conditions, and those with poor work histories.
- The choice of MPPI products offered to consumers is severely limited.
- Evidence suggests that there is not a linear relationship between perceived or real insecurity and take-up of insurance cover.
- Consumers with negative attitudes towards insurance generally are unlikely to take out MPPI whatever their perceived risk of being unable to meet mortgage commitments.
- Among those who have MPPI, positive attitudes towards the product are related to whether any claims made have been successful or not.
- Consensus from a sample of financial intermediaries indicates that MPPI is not seen by intermediaries as providing value for money.
- Public attitudes consider private insurance to be expensive and restrictive.
- Consumer understanding of MPPI is not sophisticated.

- It has been estimated that between 40% and 50% of mortgagors would benefit little from MPPI, as they have sufficient savings or other household income to cover mortgage payments.
- MPPI take-up has seen a modest growth since the 1995 ISMI changes. One study estimated that 1 in 5 of all mortgagors, but 1 in 3 of mortgagors taking out a new mortgage in 1995/1996, had MPPI.
- Take-up is higher among certain groups, and seems likely to be related to MPPI marketing strategies (which target new mortgagors for example), although there is no evidence of adverse selection.

Delivery of MPPI

- On average less than 4% of MPPI policyholders submit claims
- Approximately 40% of claims made relate to unemployment and 60% to accident and sickness.
- Lenders report that 80% of claims are successful. Reasons for claims being unsuccessful include: pre-existing medical conditions; claims being made too early (which are subsequently successful); and borrowers not meeting the criteria for the policy (suggesting some policies have been missold).
- Claiming processes can be problematic.

Outcomes

- Only two studies directly addressed the impact of MPPI on arrears and repossessions.
- A survey of mortgagors in arrears reported that 13% of those in arrears had MPPI, but only 1% had made a claim on their policy.
- Four out of five households making successful claims avoid arrears. Arrears usually occurred during the wait period, and when the time-limited cover came to an end.
- Almost one third of people in arrears, and one third of people experiencing possession would have been eligible for MPPI, as they had experienced circumstances that might have led to a claim.

Other insurances: key findings

Only three articles on the effectiveness of other private insurances were included in the final review, two on Critical Illness (CI) insurance and one on Permanent Health Insurance (PHI).

Structure

- The majority of Critical Illness insurance is written as 'accelerated' life cover, and is often sold alongside mortgages.
- Qualitative interviews revealed that policyholders were happy with a 'one size fits all' Critical Illness policy, but were concerned about time limits contained within policies (re: qualifying periods and time allowed to claim).
- Permanent Health Insurance was a complex product with a range of eligibility requirements and different options for cover.

Accessibility and acceptability

- There were a number of ‘triggers’ to taking out cover. The role of a financial advisor was key to influencing CI take-up and often the only source of information for potential consumers. Some consumers were active in the process of seeking specific cover; others were more passive – taking the cover as part of a wider package often involving the mortgage.
- Customers made some calculations about when to take out cover and what cover would be most appropriate; existing customers considered that potential policyholders might be put off by the cost of policies, by lack of awareness of cover and little or no perception of risk.
- An insurance, rather than a tax based, system of income protection was regressive, especially for younger people, women and disabled people.
- Overall, there was little evidence on consumer attitudes, but one qualitative study revealed a wide variation in views on private protection generally, and CI in particular.
- Qualitative interviews revealed a very poor level of knowledge amongst CI policyholders of the detail of their cover.

Delivery process

- The proportion of successful to rejected claims for some types of critical illnesses was much higher than for others (for example, only 7% of cancer claims were rejected compared to 23% of multiple sclerosis claims and 57% of total and permanent disability claims).
- Qualitative information suggested that policyholders found it difficult to distinguish between different types of protection policies (e.g. MPPI, CI, PHI).

Outcomes

- There were no data available on the impact of other private insurances on arrears or repossessions.

Flexible mortgages: key findings

Only two studies concerned solely with flexible mortgages were entered into the review; both were undertaken very recently.

Structure

- Flexible mortgages products are still under development; different products offer varying levels of flexibility. Where underpayment facilities or payment holidays are on offer, these usually require previous overpayment.

Accessibility and acceptability

- Although there are no obvious exclusions, it appears that flexible mortgages are targeted at the more affluent, and more financially literate borrowers.
- Lenders consider that flexible mortgages are only useful for higher paid contract workers. Most borrowers are not considered sufficiently financially sophisticated to be able to make best use of the various ‘flexible’ facilities offered.

- Those who currently hold flexible mortgages are slightly older and more clustered in social classes A and B compared to other new borrowers, however they might not be representative of mortgagors opting for this type of product in the future.
- Those with flexible mortgages believe that flexible mortgages are a useful insurance policy against reduction in income.

Delivery

- Currently the most commonly used features of flexible mortgages are those that allow borrowers to get ahead with their mortgage.
- These products have yet to be tested through an economic downturn.
- There are several interesting 'unknowns' around flexible mortgages and their interaction with other safety nets, particularly ISMI.

Outcomes

- The potential effectiveness of flexible mortgages in assisting mortgagors avoid arrears and repossession has yet to be tested.
- Evidence suggests that those currently holding flexible mortgages who would be eligible for ISMI are not building up sufficient surpluses to cover the ISMI gap.

Conclusions

The systematic review of safety nets aimed to both test this new methodology within a social policy setting, as well as provide a robust assessment of existing research evidence in the area. Key conclusions included:

Methods

- A wide conceptualisation of effectiveness in the review meant that studies were included that presented evidence of significant policy interest on the process of delivering complex safety net interventions.
- Grey literature was of particular relevance to the review, more so than academic books and refereed journal articles. However some trade research was problematic to retrieve.
- The absence of subject indexing terms and structured abstracts in many electronic databases meant that the search and retrieval process was more lengthy than it would have been with more developed systems in place.
- Studies included in the review tended to have utilised a similar range of methods; they were mainly cross-sectional in nature and there was little use of comparison or control groups.
- The quality appraisal of evidence was a key aspect of the review approach. However, this was sometimes difficult to operationalise and further methodological developments are required in this area, as well as a requirement on authors to provide better quality information on methods used in studies.
- Synthesising evidence was also a challenge due to the complexity and heterogeneity of the interventions and research. A time-line was provided to aid the reader in interpreting the value of evidence over different time periods, and hence different policy and economic contexts.

Evidence base

- Studies included in the review were more likely to have been undertaken by some types of organisations, than others. Whilst some organisations will have more research resources available, generally there appeared to be a need for scarce resources to be better directed to high quality, larger studies. Overall, there was also an over-representation of small-scale literature reviews and summaries.
- Few studies provided evidence on the outcomes from the interventions, with studies mostly focussing on process factors. Few studies compared the experience of those who had received an intervention with those that had not. Consideration should be given to how future research can redress this balance.
- Most of the studies were concerned with ISMI and/or MPPI. There was little evidence related to the use of insurance products intended to replace income lost through ill-health, as this relates to helping borrowers pay their mortgages. There was also a lack of information on how lender forbearance and recovery practices mediate the effectiveness of other interventions in preventing arrears and repossessions. The value of flexible mortgages as a safety net remains largely untested.
- Studies rarely addressed issues of diversity within the population of mortgagors. Similarly, studies tended to focus on England or the UK and took little account of the impact of local and regional house markets.

The full report

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