Main Findings

- Mortgage to Rent has been a unique scheme with few directly comparable international examples, although equivalent schemes are now being started elsewhere in UK.

- The UK mortgage sector has offered more choice but higher risk than other comparable countries; while Scotland with its less mature home-ownership market has seen higher use of safety nets and repossessions.

- There is general support for the intention of MTR, as a last resort mechanism aimed at preventing homelessness, but some questioning of targeting in terms of stage of intervention and value limits.

- MTR has helped around 140 households per year to remain in their homes, reducing repossessions in Scotland by an estimated 8%. This represents up to a third of those accepted as homeless due to repossession, although this itself is only a small fraction of the overall homeless cases.

- MTR cases tend to involve older households living in cheaper dwellings, often former Right to Buy homes. Some local variation in takeup cannot be easily accounted for and may reflect differential promotion of the scheme.

- Half of households interviewed had experienced some job loss, yet only a third had payment protection insurance and only one in six received Income Support, underlining the limitations of existing safety nets.

- Settled cases were generally happy with the outcome, but MTR only succeeds with half the households who apply, with nearly half of the remainder having a negative outcome, for a range of reasons including inability to find a landlord, lenders unwilling to cooperate, or applying too late.

- Applicants and stakeholders are generally complementary of the way the central MTR team operates. The main problems centre on delay, which adds to stress and arrears, and suggestions are made to tackle this including use of framework agreements with landlords and a single survey.

- Multiple, secondary debts are very common, affecting a majority of cases. These are widely cited as the immediate cause of problems, and for creating additional problems in attempting to resolve the situation.

- The average subsidy cost per case is relatively high, comparable to the cost of new low cost home ownership units, and there is a case for looking at a range of other possible options to meet the same objectives at lower cost, including shared equity and intermediate rent models.
The Research

This report describes the results of research commissioned by the Scottish Government to evaluate the national Mortgage to Rent (MTR) Scheme in Scotland. This is a form of ‘mortgage rescue’ scheme which helps people who are in danger of having their homes repossessed to stay in their home by selling it to a social landlord (normally a housing association or local authority) and remaining in their home as tenants of that social landlord.

The research aimed to provide a comprehensive evaluation of the MTR scheme as it has operated since 2003, addressing a range of detailed issues about its operation as well as broader questions about its role, contribution and cost-effectiveness. A range of methods have been used including literature and policy review, international comparisons, analysis of secondary datasets, interviews with key stakeholders, audit of case files and qualitative interviews with households applying to the scheme. The research fieldwork was carried out by a team from two Universities and an independent social researcher between March and August 2008.

Policy Review

The UK mortgage system gives wide access to lending products but allows more risk, with private insurance expected to cover this risk. Arrears and possessions appear to be relatively higher in the UK than other comparable countries, particularly for non-prime lending, and they appear to be higher in Scotland than in the rest of the UK.

It is hard to find any directly comparable schemes to Mortgage to Rent (MTR) in other countries. The nearest existing comparable schemes differ in their context, aims and mechanisms used and coverage achieved.

The review suggests that home-ownership in Scotland differs from the rest of the UK, with a less mature home-ownership sector, and more recourse to state safety and repossession. As across the UK, there are concerns about the adequacy of existing safety nets and mortgage regulation. The MTR scheme fills a gap in safety net products for homeowners.

MTR is intended to prevent homelessness arising from mortgage problems and repossessions and it does do this to some extent. However, the scheme does not feature strongly in many local authority homelessness strategies.

MTR can be seen as part of a broader strategy, alongside other legislation, to improve security in the housing market, but also as a component of strategy to counter financial exclusion and poverty-debt problems.

The particular model used emphasises social housing as the solution and serves to increase the stock and quality of social housing. Although this is not necessarily the only way assistance could be provided.

Stakeholders and applicants are broadly positive about the objectives and the criteria/targeting of MTR. The two main areas questioned are the requirement for legal action to be imminent, and the ‘below average’ property value test. Both of these reflect the ‘last resort’ character of MTR.

Demand, Takeup and Outcomes

The MTR scheme has built up to a level of about 400 applications per year, of which just under half are successfully settled, the majority of the remainder being ineligible. The geographical pattern shows uneven take-up between localities which can only partly be explained by demographics of population at risk, and suggests varying promotion and knowledge of the scheme.

Eligible demand tends to be strong from poorer areas which formerly had a lot of social housing, including former Right to Buy (RTB) properties, and is generally greater in urban central Scotland. MTR applicants are older than typical homeowners in financial difficulty.

MTR cases may in many instances avert homelessness, however mortgage default only represents a small fraction of total homeless applications (1.5%). MTR has helped around 140 households per year to remain in their homes, reducing repossessions in Scotland by an estimated 8%. This could represent up to a third of the number of households rehoused as homeless due to mortgage possession in Scotland. People are not currently turned away from the scheme through lack of money for grants, but many are ineligible and in many cases a social landlord cannot be found.

Nearly half of cases are on low income and likely to require Housing Benefit, although this proportion has been falling. MTR clients are slightly more likely to have a limiting disability or illness and the proportion of Black and Minority Ethnic households also appears higher than expected.

MTR properties are relatively low value and many are ex-RTB homes, including many flats and terraced houses. More than half were built in the period 1950-75, with few pre-1919 or recently built. The quality profile of MTR properties is generally reasonable and in line with what would be expected.
Half of households interviewed had experienced some job loss, yet only a third had payment protection insurance and a quarter of these had difficulties claiming, while only one in six received Income Support for their mortgage costs. Thus, the well-known limitations of these safety nets contributed to the demand for MTR.

The most popular alternative considered by MTR applicants was seeking social housing, followed by selling and then re-mortgaging. MTR was preferred chiefly because it enabled them to stay in the same property with security, although many felt they had no alternative. The most common reasons for not trading down were financial difficulties/arrears, lack of cheaper property, and low income.

Most settled cases felt relieved to have gone through MTR, although a minority had some regrets (with hindsight) that they had not sold on the open market. Half of settled households said they would have been homeless or repossessed without MTR, while others would have had to sell and faced some housing difficulties.

MTR only ‘succeeds’ in half of cases. 40% of remaining cases had reasons which were broadly favourable, at least in the short term. 15% fall into intermediate categories. However, 45% of non-successful cases are more problematic, including 19% for whom no social landlord could be found, 13% where lenders/creditors are unwilling to cooperate or accept a shortfall, and 6% already evicted. A third of the unsuccessful applicants interviewed continued to experience affordability problems, while others were ‘treading water’ or awaiting court action.

Operation of the Scheme

There are some limitations in the evidence base from the MTR administration system due to some design limitations, lack of information being collected on key factors like income, and failure to use standard codes for key variables such as reason for ineligibility or withdrawal.

The general public is not well aware of MTR. Information about MTR should be made more widely available in the context of improved information about the need to seek advice early in cases of debt.

Most applicants found the application process easy, and both applicants and stakeholders are generally complementary of the way the central MTR team operates. The centralised administration is seen as advantageous. While communication is generally viewed positively, there is some room for improvement.

Cases generally go through a common sequence of stages, although the complexity of these varies between cases. Actual timescales for the process typically exceed targets by a considerable margin, with the average settled case taking 27 weeks.

Although the MTR team commission a Scheme 2 survey, most social landlords carry out their own survey to assess repair cost. This duplication causes delay and complications over repair costs. A framework agreement approach to the main participating landlords in each area might help with this issue as well as the problems with delay and finding landlords.

Multiple securities and inhibitions are a further major cause of delay, and further delay often leads to increasing levels of arrears. There may be scope for a code of practice for lenders to improve this process.

The main lenders most commonly represented among MTR cases are leading high street banks in Scotland, but sub-prime and specialist mortgage lenders also feature strongly. The attitudes and practices of lenders appear to vary a great deal.

Multiple, secondary debts are very common, affecting a majority of cases. These are widely cited as the immediate cause of problems, and for creating additional problems in attempting to resolve the situation. Secondary lenders are criticised for irresponsible lending and an over-readiness to seek possession. In addition, many households can be seen as having overstretched themselves in taking on secondary debt, for a wide range of purposes, even though a loss of income may have triggered the crisis.

Bankruptcy may be becoming more common, particularly with the new ‘low income low assets’ route. This generally requires the sale of the home, with the MTR route being seen as particularly appropriate where values are low and there are children present.

Citizens Advice Bureaux are by far the most common source of advice used by MTR clients, although a wide variety of others are used by smaller numbers. Most applicants contact debt advice agencies before they apply to MTR, and some communicate mainly through their advisers.

On the whole, respondents felt the advice and information they received was very helpful. There were, however, a few cases where respondents believed information or advice was incorrect or unhelpful.
There is considerable evidence of ‘self denial’ by clients about the extent of their financial problems. This leads to some failing to contact their lenders until it is too late to obtain a helpful response, whereas those who approached their lenders early generally got a more sympathetic treatment. The debt retrieval practices of secondary lenders tended to be far more aggressive, although some mainstream lenders displayed a lack of flexibility.

More than 80 social landlords have been involved with MTR so far, but a smaller number are regularly active and account for a majority of cases. Most of these are housing associations, although a few local authorities have been active.

Finding landlords for MTR cases is often a challenge, and for significant numbers of cases no landlord can be obtained. Reasons for landlords declining MTR purchases vary but include problems of securing access to property, excess repair or alteration costs and location. Some local authorities and small associations had or foresaw financial limitations on participation.

Rents are currently the same as existing social tenants pay and there was little support for market rents. Most MTR tenants feel able to pay their rent without difficulty, with two in five receiving HB assistance. However, a significant minority still experience financial difficulties.

Although the average recorded repair cost is within the £6,000 limit, there are clearly very significant repairs outstanding on some properties which make them very unattractive for landlords. There were also some discrepancies inevitably between MTR and landlord survey cost estimates. Landlords see the treatment of repairs as generally fair, but not all occupiers do, and some other stakeholders also raised concerns about unnecessary or over-expensive repairs and associated delays. The full research report provides recommendations to simplify the repairs process.

**Costs, Value for Money and Alternatives**

In 2007/08 MTR cost £9.4m, comparable with some other smaller programmes in the housing and regeneration field. Widening the scheme’s scope and responding to the current market crash could both increase costs. Although property values are modest and correspond with local market conditions, these have increased. The average subsidy cost per settled case is relatively high, comparable to the cost of new low cost home ownership units. This raises questions about the value of benefits, but we can only make crude estimates for some of these items. In view of the cost consideration there is a case for looking at a range of other possible options to meet the same objectives, possibly entailing less up-front cost.

Most settled MTR cases represent good outcomes for households, with only a minority expressing regret or displaying signs of unsustainability. About half of these cases may represent a homeless case averted, while some of the remaining applicants, although not facing homelessness, may still benefit by being able to maintain social and community networks.

A Mortgage-to-Shared Equity (MTSE) scheme could provide similar benefits to MTR but at lower subsidy cost, and could be both appropriate and attractive to some home-owners at risk. However, it is clear that most current MTR clients could not really avail themselves of such an option, owing to a combination of low income, low/negative equity, severity of debts and credit history. MTSE would make more sense as a way of widening the scope of the scheme.

There is some support for widening eligibility in terms of how close to repossession households are, and in terms of raising value limits, although this would have some implications for cost and coverage.

Current national administration arrangements are appropriate, as are time targets, although more could be done to speed up processes in many cases (so also reducing debt and shortfalls). Guidance to participants on what they should do, reducing the number of landlords approached, reliance on Scheme 2 Surveys, delegation within landlord organisations, and framework agreements with landlords could all contribute to this goal.
Subsidies and allowances are seen as appropriate by providers, as are the charging of normal social rents. However, we argue that the subsidy costs are high and therefore alternative models entailing higher (intermediate) rents and possibly use of private investment (e.g. using a private sector leasing model) should be explored. However, full market rent based MTR would not be a satisfactory substitute for MTR.

There is considerable evidence in this study that many of the problems presenting through MTR reflect irresponsible secondary and consumer lending compounding financial mismanagement by some households, as well as the usual contingencies of loss of income which existing safety nets do not adequately cover. MTR is a ‘last resort’ mechanism but what many stakeholders wanted to see was better preventative measures at an earlier stage. This has broader implications for regulation of lending and national insurance/safety net schemes, as well as suggesting a need for more concerted efforts at making financial advice, lender forebearance and flexibility more generally available.

Existing private sale-and-leaseback schemes are widely promoted and being taken up quite commonly, but these attracted strong criticism for their poor value, high rents and insecurity and for being promoted to vulnerable households. While there is a case for regulating these, they do not appear to be a substitute for the government-sponsored MTR.

**Overall Assessment**

The Scottish Mortgage to Rent scheme is innovative, relatively unusual and of considerable topical interest as UK and other housing markets face a turbulent time. It is best viewed as part of a package of measures to address mortgage payment and debt problems which threaten homeowners’ security and thereby prevent homelessness. The scheme is designed to act as a ‘last resort’.

The evidence from this study clearly shows that in many respects MTR has been relatively successful. It was implemented quickly and has spent its budget without having to ration help arbitrarily, while maintaining close targeting on ‘last resort’ cases. Most stakeholders welcome the scheme and generally praise its operation. Most households going through the scheme benefit significantly and regard the outcomes for them as favourable and appropriate. The administration arrangements adopted have worked well in many respects. MTR has prevented significant numbers of repossessions in Scotland and many of these cases have averted the disruption and stress of homelessness. The scheme may also have directed other households into taking and acting on financial advice which has alleviated their problems.

The evidence also shows, however, that there are a number of causes for concern. MTR only ‘succeeds’ in helping half of those who apply, and a significant proportion of those it is unable to help go on to have adverse outcomes. The ‘Last Resort’ approach conflicts to some extent with a more preventative approach, and also excludes groups who might merit support (such as cases just above the value limit where trading down is not a viable proposition). Evidence from the scheme exposes the weaknesses and gaps in the existing general safety nets for mortgaged home owners.

MTR has attracted a large proportion of households who have got into complex debt problems associated with secondary secured and unsecured lending, not all of which has been incurred for housing purposes. In the process it has further exposed great variation in practice among lenders in terms of the degree of responsibility of lending and the treatment of arrears and possessions.

It is difficult to estimate the Value for Money of MTR given the wider benefits of the scheme that cannot be given a monetary value. However, MTR is relatively expensive per case helped, and it is difficult to clearly justify this cost in terms of other public costs avoided, although there are also wider social benefits. Viewed as a national insurance scheme for homeownership it is cheap, but it is not preventing the bulk of repossessions and its impact on overall homelessness prevention is slight. The processing of MTR cases is characterised by many delays, with few cases achieving target times, and delays add to the debt problems facing households. A minority of households going through MTR express some regrets and/or criticisms of the additional repair costs imposed and their loss of remaining equity.

The recommendations put forward in Chapter 12 are designed to address these areas of concern. Their main themes are to somewhat widen coverage and eligibility while offering a range of levels of support and more refined targeting; to reinforce preventative measures; to reform safety nets and the regulation of secondary lending; to streamline and accelerate the process and minimise damaging delays; to reduce costs; to improve the flow of information and give participants realistic expectations; and to provide mechanisms for review and redress.