



EXECUTIVE SUMMARY

**Exiting Unsustainable Homeownership:
Understanding current practice and the
potential of Assisted Voluntary Sales**

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Background

1. With the onset of the housing market downturn in 2008, mortgage lenders increased the extent of their forbearance towards borrowers in arrears. These changes were underpinned by a number of influences including: Government interventions; regulatory pressures; business considerations and low interest rates. As a consequence mortgage arrears and possessions during this market downturn have, in comparison to the 1990s, been limited, with efforts directed towards retaining people in their homes wherever possible. Three years on, with the labour market and housing market remaining slow, and with some reduction in state support for home owners, regulatory and business pressures now mean lenders are, to a degree, reassessing their forbearance policies and practices. There is a growing concern that a significant number of borrowers with entrenched mortgage arrears will be at risk of possession as lenders reassess the sustainability of some mortgages.
2. There is an emerging debate about the ways in which borrowers with unsustainable mortgages can be helped to make the transition from ownership to renting, including help with selling their property on a voluntary basis. There is an assumption that, for borrowers, the emotional and financial distress typically associated with possession is likely to be lessened by an assisted sale and exit. There may also be reputational and business benefits for lenders in supporting sales, particularly in minimising the losses arising from negative equity.
3. Little is known of the extent to which support with voluntary sales is available, the form such support takes or the outcomes of sales for borrowers and lenders. The objectives of the research were to consider the content of the schemes, commonly termed *Assisted Voluntary Sales*, the extent of their use in the market, various parties' experiences of the schemes and the outcomes achieved.
4. The study comprised in depth qualitative interviews with :
 - 44 borrowers or former borrowers who had exited (or were in the process of exiting) home ownership in a range of ways(including via Assisted Voluntary Sale)
 - Eight advisers and staff responsible for homelessness in 11 local authorities
 - 10 lenders drawn from across the mortgage market
 - Four asset managers who operate some of the lenders' AVS schemes
 - And an on-line survey of residential mortgage lenders.

Research Findings

The decision to leave home ownership

5. The decision to exit homeownership is a complex one, in large part influenced by affordability considerations, but also dependent on the type of forbearance measures offered, the borrower's family situation, health and other factors such as previous experience of homeownership and renting. Borrowers can, and often do, take the initiative about exiting, but it may also be brought about by lenders ceasing to forbear and/or pursuing compulsory possession, or articulating their willingness to allow time for a sale. Housing and debt advisers also often play a role in setting out the range of options available to borrowers in serious debt, including, where necessary, helping a client to recognise that their position is unsustainable.
6. Once borrowers have recognised the likelihood of having to exit, they may try a number of different ways to achieve this. The interviews make clear that there is no one route to a voluntary sale, assisted or otherwise, or to a possession, either compulsory or voluntary. Consequently, and irrespective of the final exit route, households seeking to exit have far more characteristics in common than differences between them. The research confirmed that the identification of suitable, alternative housing is a key factor that can affect the implementation or acceptance of a particular route out.

Assisted voluntary sales

7. Lenders have always been able to support an exit by giving a borrower time to sell their property rather than face possession. The online-survey shows that additional support with the selling process is now sometimes offered. There is a range of support and no one industry model but the term 'Assisted' or 'Supported' voluntary sales has emerged from within the industry to signify this development. The 'schemes' remain poorly defined and currently indicate a range of lender behaviour in the market. Nonetheless, these new approaches are designed to provide a more structured or planned transition between owning and renting than offered by possession.
8. The range of support offered by lenders is illustrated in Table 1. Support ranges from simply being given time to sell through to the provision of additional support (for example, with agents' fees) to an approach that provides support within a more formal process involving the use of an asset manager to co-ordinate and progress the sale. The emerging consensus is that AVS denotes something more than 'just time to sell' but beyond that there is a wide range of practice under the umbrella of AVS.

Table 1 Spectrum of support currently offered to borrowers who opt to sell to avoid possession

| Not AVS | Some consider to be AVS | | More widely considered to be AVS | | |
|---|---|--|--|--|--|
| Agree sale of property with negative equity only (short sale) | Time to sell/ Withhold litigation/ Agree concessionary payments | Actively monitor progress of sale through borrower or agents /Check valuations | Offer fee assistance estate agents/solicitors. Negotiate lower fees with providers. Fees may/may not be taken from settlement figure | Appoint estate agents/solicitors. Monitor sale own staff | Refer to Asset Manager. Full services. RICS valuations, market appraisals, appoint agents, solicitors, actively progress sales |
| | | | ← Additional services: rent deposits, waive charges, case worker, debt advice → | | |
| | Informal | | Formal agreements and entry criteria | | |


9. There are no consistent criteria for entry on to lenders' AVS type schemes, but typically lenders look for one or more of: evidence that borrowers have co-operated with lenders, have arrears, that forbearance has been exhausted and so selling is a last resort (short of possession) and that third parties with interests in the property agree to a sale.
10. Lenders' rationale for pursuing a sale rather than possession was that losses arising from negative equity can be minimised by selling the property with the borrower in occupation (rather than selling an empty property following possession); the process was thought to be less traumatic for borrowers providing them with an organised exit; and that offering borrowers support met regulatory demands to Treat Customers Fairly.
11. Twelve of the 27 lenders who responded to the survey offered some form of AVS scheme, and represent 20 per cent of the mortgage market. One lender did not classify the assistance they offered to borrowers in negative equity to sell their home as an AVS scheme, but many other lenders would. Were we to include this lender, then the proportion of the market potentially covered by an AVS type scheme would be a third. Lenders with a high incidence of mortgage arrears were more inclined to offer AVS. Several lenders and asset managers were enthusiastic about AVS and saw a wider role for it in the market to limit possessions, but lenders who did not operate AVS were unsure of its merits, did not recognise a demand for such an approach or thought it was too problematic to be effective. Some lenders who offered forms of AVS nevertheless had some reservations about the approach. A number of other lenders may consider offering some support, but much work is needed within the industry to demonstrate the benefits of assisted or supported sales.
12. Borrowers overall were positive about the merits of AVS schemes. Many valued the provision of estate agent's fees as the inability to meet this cost had previously blocked their wish to sell voluntarily. They saw AVS as helping them avoid the stress and stigma associated with possession, providing a breathing space to organise alternative housing and avoid litigation.

Borrowers who were supported by their lenders reported stress related illness less frequently than the borrowers interviewed who used other exit routes.

13. Borrowers seeking voluntary exits from homeownership (including AVS) were often deterred from applying for social housing by their perception that they would not be eligible for consideration as homeless by local authority staff. Amongst borrowers who did approach the local authority for rehousing as homeless some were accepted as such and rehoused but others were not recognised as homeless, even if their continued occupation of an unaffordable home was unreasonable, or they were considered to have too much equity, or were deemed to be responsible for their own circumstances. The study suggested that the use of lenders' AVS schemes sometimes validated a borrower's application for social housing and helped local authorities recognise the situation as unsustainable.
14. Borrowers who used AVS schemes anticipated reduced shortfall debts (and this sometimes made the schemes attractive to them) but it was beyond this study to substantiate this. There are several issues that act to limit the effectiveness of AVS. There are no established routes into AVS and no single information source, with borrowers being advised, often late in the day, about the various schemes equally by local authorities, advisers, as well as lenders. There are issues about the limited information lenders offer about schemes- to borrowers and those advising them- and a lack of trust from borrowers in the process, as AVS has yet to establish itself as a legitimate exit route from ownership. The take up of AVS is very low. There is a significant drop out rate (up to 90 per cent amongst some lenders) amongst those who do opt for AVS. Borrowers can be un-reconciled to losing their home, and lenders identify a lack of borrower commitment and cooperation with the sale process as a major hurdle. Valuations can prove an obstacle as borrowers perceive their homes to be worth more than can be achieved currently.
15. A key reason why borrowers dropped out of the AVS sale process was that opportunities to secure alternative accommodation arose that they felt could not be refused. Potentially, borrowers might be more willing to stay and complete the sales if lenders' AVS offers were dovetailed with rehousing options, for example, through lenders providing deposits and rent in advance to facilitate moves to the private rented sector; or schemes being closely linked into local authority 'Housing Options' services. Borrowers could also be incentivised to complete the sale during negotiations around potential shortfall debts.

Conclusion

16. The research suggests that Assisted Voluntary Sales schemes can, potentially, be effective in delivering better outcomes for borrowers and lenders than possessions, but that significant obstacles need to be overcome for these schemes to be more widely adopted and to fulfil their potential. There is a role for lenders to demonstrate the merits of AVS approaches within the industry, to provide borrowers and advisers with sufficient information to legitimise AVS as an exit route and for lenders to work with advisers and local authorities to smooth borrower transitions into alternative housing.



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