Safe as houses?

Strengthening the UK's mortgage safety net

Scott Corfe
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Jake Shepherd

SMF Social Market Foundation

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ABOUT THE AUTHORS

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Scott Corfe joined the Social Market Foundation in 2017 and is our Research Director. As well as managing the SMF's research team, he authors research on a wide range of topics including consumer markets, taxation, low pay, housing and technology.

Before joining the SMF, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research. Scott's expert insights are frequently sought after in publications including the Financial Times, the Guardian, the Times and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

Amy Norman

Amy joined the SMF research team in April 2020. Prior to joining, Amy worked at an education charity advising on the delivery of the free schools policy and challenges across the academies sector. Amy holds a MSc in International and Social Public Policy from the London School of Economics and Political Science and a BSc Hons in Sociology and Anthropology from Oxford Brookes University, where she conducted social research on wellbeing econometrics, school choice and economic migrants.

Jake Shepherd

Jake joined the SMF research team in March 2020, having previously held research roles across the public and social sectors. He was last employed as a Research Analyst for the Office for National Statistics and before that he was a Research Assistant at public service reform think tank New Local Government Network. Jake holds an MA in Social Research from the University of Leeds and a BA in Sociology from Manchester Metropolitan University.

ABOUT THIS REPORT

This report explores the topic of mortgage safety nets in the UK. It analyses the Office for National Statistics' Wealth and Assets Survey to provide a detailed account of household wealth alongside a range of other variables such as income, housing tenure and demographics. The latest available WAS data cover the time period 2016-2018.

This analysis is supplemented by polling commissioned from Opinium for the SMF, which surveyed 2,000 mortgage-holders in February 2021.

FOREWORD FROM THE SPONSOR

COVID-19 has had an unprecedented impact on both our society and our economy, the long-tail effects of which are likely to affect us all for months and years to come. How we respond as government, business and society together will shape the future of our nation.

Whilst we've been seeking to contain the pandemic, protect the NHS and save lives, we have also seen record levels of household savings and paying down of debt. But the averages conceal the stark and, frankly, frightening chasm between those with secure incomes and work, and those facing the reality of unemployment and financial insecurity. The first group have found it difficult to spend their income; the second group have found it increasingly difficult to make ends meet, notwithstanding the huge amount of support provided by government and the financial sector to businesses and individuals throughout the crisis.

Building societies and banks have provided over 2.2 million mortgage payment deferrals since the start of the pandemic. Whilst it is hugely reassuring that the majority of those borrowers have returned to repaying their mortgages, once government support, such as the furlough scheme, comes to an end we face the prospect of unemployment rising sharply and the risk of home repossession could become a reality for many households.

It is during times like these that the most vulnerable in society need to be protected, and so it is now more important than ever to find new solutions to help vulnerable homeowners – whether they are dealing with temporary or longer lasting financial difficulties. This is not just about the humanity of our nation. In my view there is a real economic and societal imperative in helping as many homeowners and families as possible to have a home which is financially sustainable for them, even if that includes transitioning to more suitable housing arrangements.

Lenders, regulators and the government already provide support to struggling homeowners, but more is required, and more needs be in place ready for a downturn in the labour market.

This independent report finds that modifications to existing support schemes, such as Support for Mortgage Interest, could be implemented fairly quickly and provide much needed additional support. New schemes are also discussed, which involve all stakeholders working together to help the most vulnerable homeowners in the UK. Indeed, there is not one single solution for all of those in need. A range of different options will be required to support homeowners facing very different circumstances, but all will require flexibility and compassion.

Building societies were founded to help people to have a place to call home and that is still our priority today. That is why, at this crucial time, the Building Societies Association has funded this research by the Social Market Foundation. Our hope is that the findings in this report stimulate further debate among all stakeholders that help create real, positive futures for those whose prospects are currently pretty bleak.

Robin Fieth, Chief Executive, Building Societies Association

EXECUTIVE SUMMARY

In this Social Market Foundation (SMF) research paper, we explore the topic of "mortgage safety nets" – support for mortgage-holders in the event of loss of income or employment. We consider the economic case for their existence, the UK's policy history in this space and the policy landscape in other countries. We also consider the implications of the Coronavirus crisis for home repossessions, and the extent to which mortgage safety net policy might need to evolve as a result. The report concludes by setting out some principles that should inform future policymaking in this space.

Key findings

Financial resilience among mortgage-holders in the run-up to the pandemic

- **Our analysis of the Wealth and Assets Survey (WAS) suggests that, prior to the Coronavirus pandemic, about 770,000 households were in a financial position that would leave them vulnerable to repossession in the event of a loss of income.** These individuals did not have sufficient financial wealth to cover mortgage payments for a period longer than three months.

770,000

households were in a financial position that would leave them **vulnerable to repossession** in the event of a loss of income

- **Across household income quartiles, the absolute number of such households is greatest in the middle two quartiles, reflecting lower rates of homeownership among those in the bottom quartile.** When just looking at mortgage-holders, the proportion of vulnerable households is much higher among lower income groups – about one in six (16.7% of) mortgage-holders in the lowest income quartile would be unable to pay more than three months of mortgage payments using their financial wealth.

- **By age group, the greatest number of vulnerable mortgage-holders is among those where the reference person[i] is aged 35-44 and 45-54.** Collectively, these two groups account for about 61% of all households that would struggle to pay their mortgage for more than three months in the event of a significant shock to their income.

- **The North West of England had the greatest number of households vulnerable to repossession (102,387) followed by the South East of England (102,104).** The North East of England had the greatest *percentage* of all households (5.1%) and mortgage-holding households (15.2%) that were vulnerable to repossession on our definition.

[i] The concept of a Household Reference Person (HRP) was introduced in the 2001 Census (in common with other government surveys in 2001/2) to replace the traditional concept of the 'head of the household'. In a couple family, the FRP is chosen from the two people in the couple on the basis of their economic activity (in the priority order: full-time job, part-time job, unemployed, retired, other). If both people have the same economic activity, the FRP is identified as the elder of the two or, if they are the same age, the first member of the couple on the survey form.

- **Almost the entirety of mortgage-holders vulnerable to repossession (92%) in 2016-18 were households where the reference person was either an employee or self-employed.**
- **Our analysis of the WAS showed that households where the reference person was employed in retail or manufacturing accounted for a large share of all households vulnerable to repossession** – about a quarter (26%) of the 770,000 vulnerable households we estimate to be vulnerable. With the latest labour market data showing these groups also seeing some of the greatest increases in unemployment, this gives reason to believe that the pandemic could push a significant number of mortgage-holding households into financial difficulty.

Financial resilience among mortgage-holders during the pandemic

- In a February 2021 Opinium survey of 2,000 mortgage-holders commissioned as part of this research, **three in ten (30%) said that their household savings had increased since the Coronavirus pandemic, with a similar proportion (29%) reporting a decrease**.
- **Mortgage-holding households on lower incomes were more likely to report declining savings since the pandemic – close to half (46%) of those with household incomes of up to £20,000 said that their savings had declined, with just one in ten (11%) in this group reporting increased savings.** Lower earners were also more likely to report that their incomes had declined since the pandemic, further suggesting that Coronavirus has increased the number of financially vulnerable households.
- **Some 14% or mortgage holders in February 2021 said they lacked the savings to cover even one mortgage payment**. Three in ten (30%) could pay their mortgage for no more than two months.
- **These figures are notably higher than those suggested by our analysis of the (pre-pandemic) Wealth and Assets Survey.** In part, this is likely to reflect the negative impact of the pandemic on financial resilience among some groups. It is also likely to reflect households taking into account other costs, beyond mortgages, when answering the survey question. Given other ongoing expenses, such as food and energy bills, the ability to make mortgage payments from savings is further undermined.
- **Across the whole survey sample, the average amount of time that individuals felt they could cover mortgage payments from household savings was six months.** Younger individuals and those in lower income households reported lower average times. On a regional basis, London reported the highest average duration (6.6 months), while the West Midlands (5.1 months) and Wales (5.3 months) reported the lowest.

29%

of mortgage-holders reported **decreased** savings during the pandemic.

3 in 10 mortgage holders reported they could not pay their mortgage for more than two months

46%

of households with incomes up to £20,000 reported declining savings since the start of the pandemic.

The UK's mortgage safety net

- **The UK's government-backed mortgage safety net has been eroded in recent years,** leaving a number of households potentially vulnerable in the event of an economic downturn.
- **Support for Mortgage Interest (SMI) has shifted from a grant to a loan that is expected to be repaid, plus interest.** This is despite survey evidence suggesting that this move will cause financial distress for some households. DWP-commissioned polling from Ipsos MORI found that generally, respondents believed the perceived effect of the SMI loan would be negative – over one in three existing SMI claimants (38%) expected it would make their mortgage interest less affordable.[1]
- **Once Universal Credit is fully rolled out by 2024, tax credits will cease and SMI will only be available to claimants entirely out of work.** This could be detrimental to households suffering pay cuts but not outright job losses during the current Coronavirus-induced economic downturn.

Mortgage safety nets in other countries

- On the whole, **it is difficult to find an example of a country with a fully coherent mortgage safety net policy** and, with the available evidence, it is difficult to argue that one country is setting the "gold standard" that others should follow.
- We note, however, **there are a diverse range of approaches to mortgage safety nets, which may provide lessons for developing policy in the UK**. This includes:
    - **Australia allowing early access to pension wealth in the event of severe financial hardship.** To do this, a person must be in receipt of benefits payments from the state for at least 26 weeks consecutive weeks, and that they are unable to pay for "reasonable and immediate" family living expenses.
    - **Hungary setting up a National Asset Management Company (NAMC)**, providing an avenue for debtors to sell their homes and take on a renting option instead.
    - **The US Hardest Hit Fund,** which introduced direct subsidies to help aid mortgage payments and transitions to alternative tenure.

Considerations for policymakers

With these issues in mind, we think there are a number of useful avenues that could be explored for refining the UK's mortgage safety net.

Refining the UK's mortgage safety net

1. **Enhancing "private safety nets"**
2. **Bolstering "social" safety nets through replacing SMI loans with a time-limited grant**
3. **Introducing an enhanced Assisted Voluntary Sale (AVS) process**
4. **Introducing more flexible tenure options**

1. **Enhancing "private" safety nets** through:

   A) **Encouraging wider (but not mandatory) uptake of mortgage payment protection insurance.** We are reluctant to suggest that the right approach here would be a mandatory insurance scheme, not least because of legacy of insurance misselling in past years which has impacted the reputation of such products. However, bought and sold correctly, and with a price-competitive market for products, such insurance could play a key role in preventing repossessions.

   B) **Adopting the approach of Australia, and allowing individuals to draw on pension wealth in a case of extreme financial distress.** The ability to do this should, in our view, be subject to strict criteria – given the risk of pensions becoming perceived as emergency savings, and the risk of replacing a "home repossession problem" with a "lack of pension income problem" in older age. Nevertheless, for some segments of the population, drawing down pension wealth might be an appropriate last resort option.

2. **Bolstering "social" safety nets through replacing SMI loans with a time-limited grant,** as recently proposed by the Centre for Policy Studies sponsored by the Joseph Rowntree Foundation. This would ensure that those suffering a temporary loss of income receive support for housing costs during a period of hardship, without the risk of building up further financial issues from having to take on an additional loan.

   Beyond a period of grant payments, treating SMI as a loan and making the benefit time-limited may be justified. This is not just because of costs to the state but, where individuals are likely to be suffering a permanent or long-lasting loss of income, the best option may be to encourage them to consider a change of home or change of tenure within the same home.

   The waiting period for receiving SMI should also be reduced to 13 weeks. Our analysis has identified a significant number of households with limited financial resilience, for whom the current waiting period of 39 weeks could lead to significant financial distress.

3. **Introducing an enhanced Assisted Voluntary Sale (AVS) process, which could include:**

   A) Removal of early repayment charges (if applicable) to help sell a property before the mortgage term ends.

   B) Cash payments towards rent or deposit on new rental property.

   C) Providing cash payments to help homeowners to make necessary improvements to their home to help a sale

   D) Where equity in the property is available, lenders could provide a cash advance of this equity to help the household

   E) Assistance with estate agent fees on sale of their property

   F) Government taking a second charge on the property, which could be advanced to the homeowner to help towards rehoming them. When the lender sells the property, the money is repaid to the government, and any leftover goes back to the borrower

4. **Introducing more flexible tenure options.** Some households would benefit from a new form of tenure in which a freehold is held by a new trust entity, with trustees being the lender and the householder. In contrast to shared ownership, individuals could increase or decrease their ownership stake by incremental amounts rather than large equity shares (e.g. 25% steps).

   Such an approach would make it easier for individuals to find a balance of mortgage and rent payments that works for them. It might also be useful in circumstances where the property market is particularly illiquid, with lengthy average times to sell a home. Individuals could rapidly shift tenure by selling to their lender.

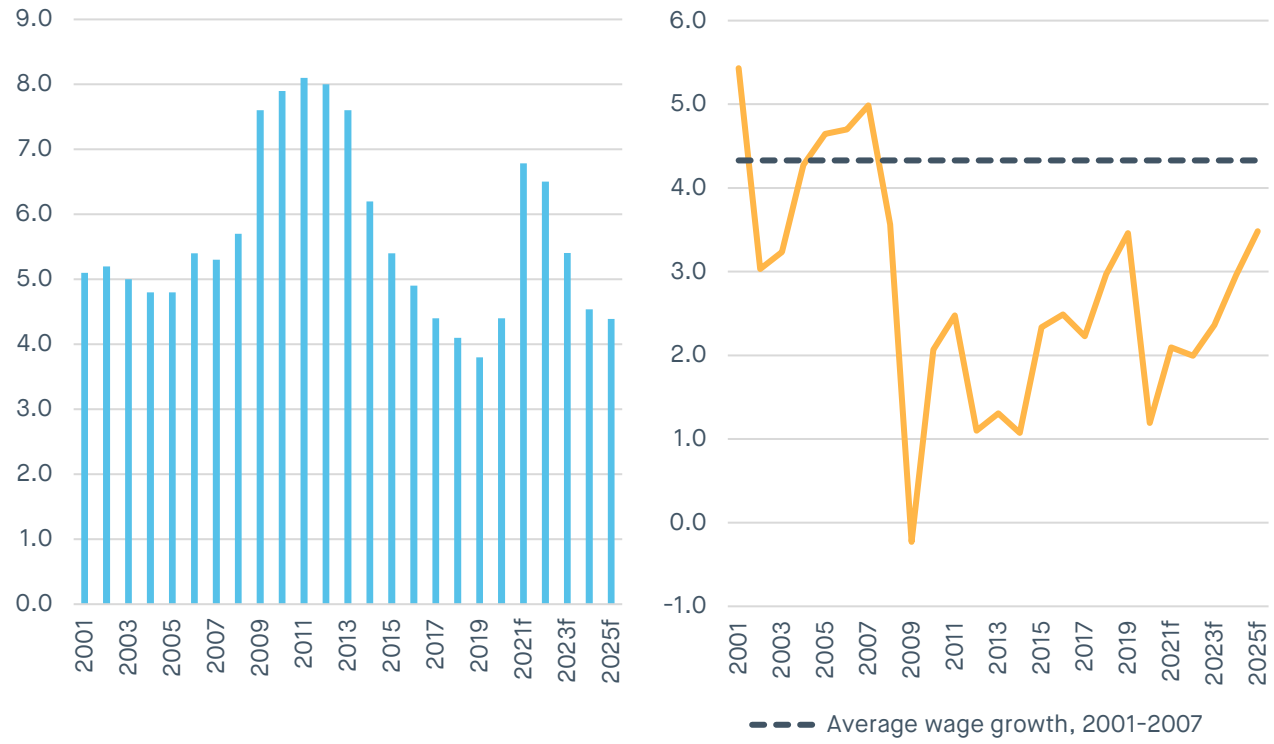
CHAPTER ONE – INTRODUCTION

The Coronavirus pandemic has had a profound impact on the UK economy. Compared with the end of 2019, GDP remains about 9% lower,[2] while the number of employees has declined by over 800,000.[3] Further, many believe that the true effect of the pandemic on jobs is yet to come. Jobs are currently being propped up by the Government's furlough scheme as well as other support measures for business – raising the prospect of rising unemployment as these schemes are wound down.

One reason to expect this is that the pandemic might not just have a temporary effect on some parts of the economy, but a permanent one. As the SMF has noted in previous research,[4] we expect that the Coronavirus pandemic will accelerate the decline of store-based retail and lead to a more rapid shift to hybrid homeworking models for office-based employment – with implications for jobs in city centres such as London that were previously highly dependent on commuters as a customer base.

The latest forecasts from the independent Office for Budget Responsibility (OBR), published alongside the 2020 Spending Review, show that the unemployment rate is set to stand at close to 7% in 2021, up from 3.8% in 2019 – amounting to close to a million fewer individuals in work. Even as unemployment starts to fall back, employee earnings growth is expected to remain very weak by historical standards over the coming five years, continuing the trend seen since the financial crisis.

Figure 1 and Figure 2: UK unemployment rate, % (left-hand chart); and annual employee wage growth, % (right-hand chart)



Source: ONS, OBR forecasts

Mortgage-holders and the Coronavirus pandemic

Amid a challenging labour market, one area of concern is the potential impact on homeowners, and the risks faced by mortgage-holders in the event of loss of job or reductions in income. As with prior economic downturns, a rise in home repossessions seems likely – albeit with something of a lag this time around due to the amount of support for jobs and measures aimed at preventing homelessness during the pandemic.

Government, regulators and the financial services industry have taken steps to prevent home repossessions to date, with a range of temporary measures. This includes the Financial Conduct Authority (FCA) banning repossessions until 1st April 2021 and lenders offering pandemic-related mortgage repayment deferrals of up to six months, commonly referred to as a mortgage payment holiday. The deadline for applying for a repayment deferrals is currently 31st March 2021 and all payment deferrals must end by 31 July 2021.[5] As such schemes are withdrawn, repossessions could start to increase – with data in this research suggesting a significant number of households are vulnerable to the economic shocks caused by the pandemic.

There is an important role for policymakers in preventing a substantial and economically damaging rise in home repossessions over the coming months and years. This is because, rather than being a matter for just borrower and lender, repossessions involve costs to the state and society more broadly. A study by Shelter identified several costs incurred by local and national government in the immediate event of loss of home, including advice and support, costs associated with homelessness applications and provision of temporary accommodation. Depending on the complexity of the case, loss of home can entail short-term costs to government running into thousands of pounds, as well as an ongoing increase in housing benefits.[6] Longer term issues associated with loss of home include poorer educational attainment for children as a result of homelessness.[7]

A recent study by academics at Stanford University, based on data from the United States, found that loss of home was associated with housing instability, reduced future rates of homeownership, higher rates of financial distress and, for some, increased likelihood of divorce and increased likelihood of moving to neighbourhoods with lower average incomes and school test scores.[8]

The societal costs of repossession provide a case for having government-backed "mortgage safety nets" in place and indeed these are a feature of policy in both the UK and elsewhere. But, in the UK case, the safety net was being eroded in the years leading up to the pandemic. Support for Mortgage Interest (SMI), designed to provide financial support for mortgage interest payments, had been converted from a benefit to an interest-bearing loan. Further, the transition to Universal Credit was and is reducing support for those on lower incomes struggling with mortgage payments. This leaves the prospect of a very limited safety net by 2022, despite there being reason to expect a challenging situation as far as jobs and household finances are concerned.[9]

Having said that, it is important to stress the objectives and limits of mortgage safety nets in the blunt form of direct financial support for mortgage costs. While such safety nets may be an appropriate response to households suffering a temporary financial setback, for those facing more long-lasting losses of income policy needs to focus on helping them transition to more financially sustainable housing arrangements – whether that be through downsizing or a change

of tenure to shared ownership, privately rented or socially rented accommodation. Rather than keeping individuals in a financially unsustainable form of housing, the focus here should be on avoiding a messy repossession process, which may hold detrimental implications for a household's financial wellbeing – for example through the deterioration of one's credit rating. Furthermore, a disruptive repossession process can be detrimental to mental health, family stability and also educational outcomes for children – as discussed earlier.

In this research paper, we explore the topic of mortgage safety nets – the economic case for their existence, the UK's policy history in this space and the policy landscape in other countries. We consider the implications of the Coronavirus crisis for home repossessions, and the extent to which mortgage safety net policy might need to evolve as a result. The report concludes by setting out some principles that should inform future policymaking in this space.

The structure of the report is as follows:

- **Chapter 2** examines the financial situation of mortgage-holders in the UK and explores the implications of the Coronavirus pandemic for homeowners.
- **Chapter 3** provides an overview of the UK's mortgage safety net – both past and present.
- **Chapter 4** examines mortgage safety nets in other countries.
- **Chapter 5** provides policy conclusions informed by the preceding analysis.

CHAPTER TWO – FINANCIAL VULNERABILITY: THE CASE FOR A MORTGAGE SAFETY NET

Mortgage-holders account for a significant share of all households - about a third (30%) according to the English Housing Survey.[10] In absolute terms, this amounts to about eight million households across the UK.

The financial situation of these households varies significantly, with some much better placed to withstand economic shocks than others. To understand such variations in financial resilience and identify groups at greatest risk in the current pandemic-related economic downturn, we have undertaken an analysis of the Office for National Statistics (ONS) Wealth and Assets Survey (WAS). The WAS provides a detailed account of household wealth alongside a range of other variables such as income, housing tenure and demographics, allowing us to categorise mortgage-holders. The latest available WAS data cover the time period 2016-2018.

The number of financially vulnerable mortgage-holders

An important gauge of financial resilience among mortgage-holders is the extent to which households have sufficient financial reserves to cover mortgage costs in the event of either loss of jobs or reduction of income. With this in mind, we used WAS data on monthly mortgage payments and net financial wealth[ii] to measure the number of months' worth of mortgage payments that an individual could cover by drawing on their financial wealth. We believe this is a useful gauge of likely resilience in the event of a household suffering a significant, negative shock to their income (e.g. in the form of a pay cut or redundancy).

For the purpose of this analysis we define a household as being **vulnerable to repossession** if their financial wealth covers no more than three months of mortgage payments. In practice, households face other costs beyond mortgages, so everything else held equal they are unlikely to be able to cover mortgage costs for a full three months from financial wealth alone.

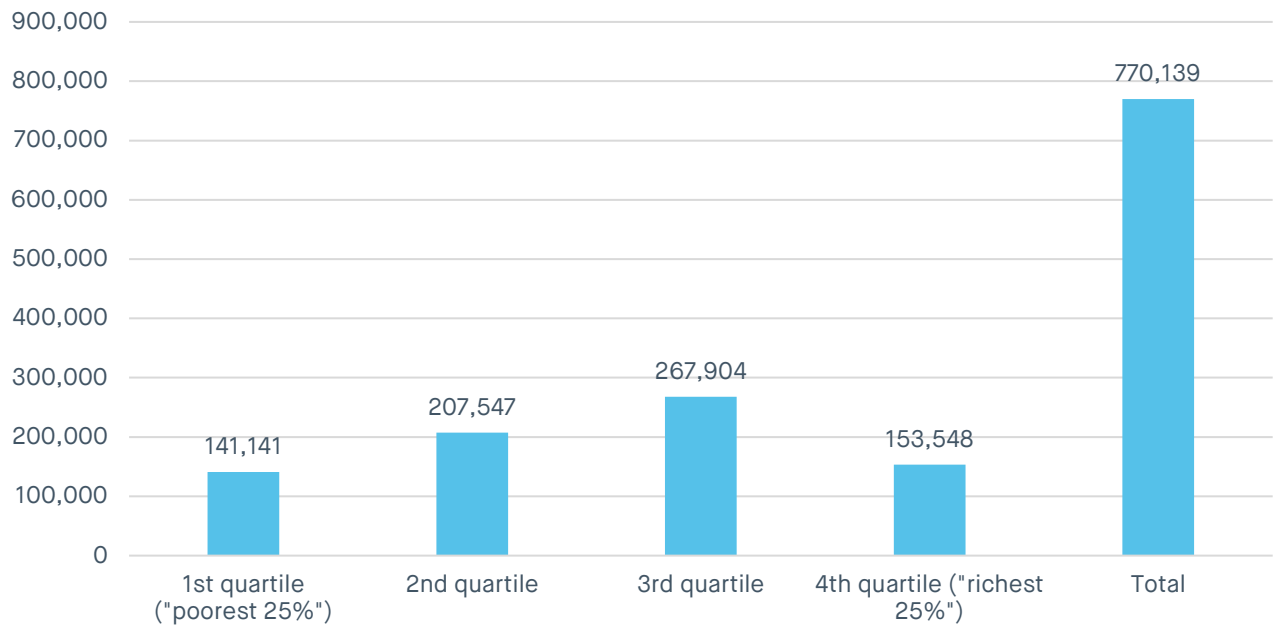
Absolute number and variations by income group

Across all households in the United Kingdom, our WAS analysis suggests that about 770,000 were vulnerable to repossession in 2016-18. This amounts to about one in ten (9.6% of) households with mortgages in the UK, or 3% of all households (i.e. including those without mortgages). Of these 770,000 households, about two fifths (43%, 330,000 households) had no more than a month's worth of mortgage payments in terms of net financial wealth. This suggests there are a significant number of households with very limited financial resilience, who would face significant distress in the event of a loss of income.

[ii] Net financial wealth is the balance of financial assets over financial liabilities. Financial assets include funds in savings accounts, shares and pension funds. Financial liabilities include debts secured against property, largely residential mortgages, and unsecured debts, such as overdrafts and unpaid balances on credit cards. Non-financial wealth largely includes the value of the sector's holdings of property and buildings.

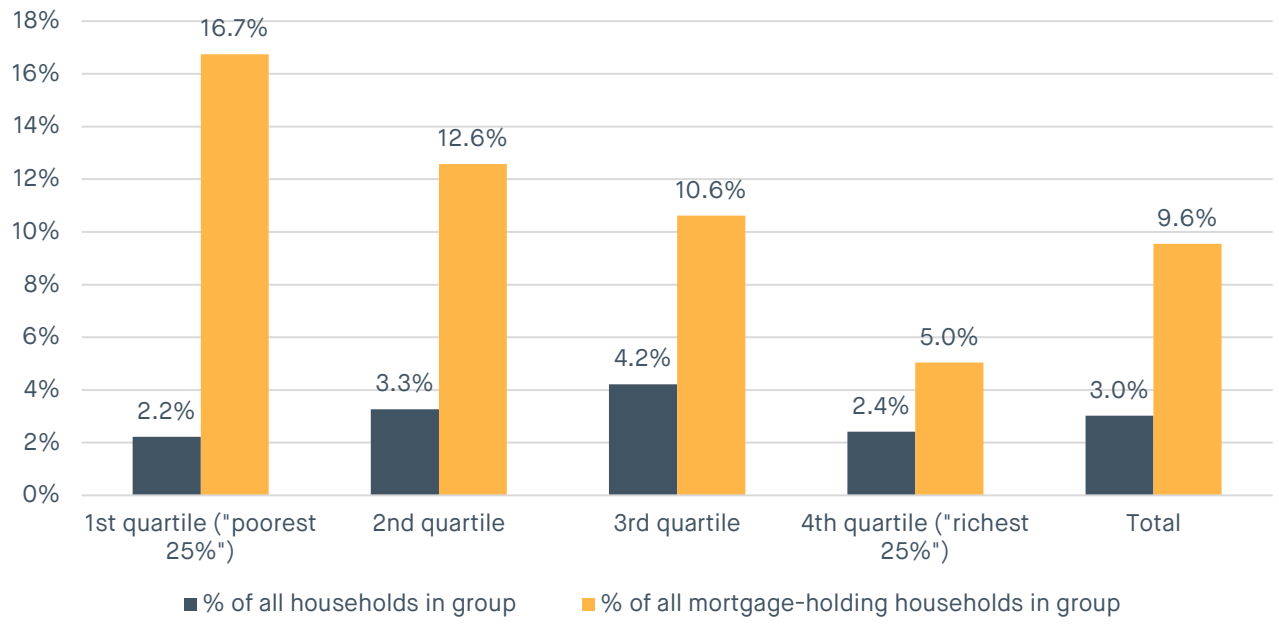
Across household income quartiles, the absolute number of such households is greatest in the middle two quartiles, reflecting lower rates of homeownership among those in the bottom quartile. When just looking at mortgage-holders, as one would expect the proportion of vulnerable households is much higher among lower income groups – about one in six (16.7% of) mortgage-holders in the lowest income quartile would be unable to pay more than three months of mortgage payments using their financial wealth. This compares with one in 20 (5.0%) among those in the highest income quartile.

Figure 3: Number of households vulnerable to repossession, by net income quartile



Source: SMF analysis of Wealth and Assets Survey 2016-18

Figure 4: Percentage of households vulnerable to repossession, by net income quartile



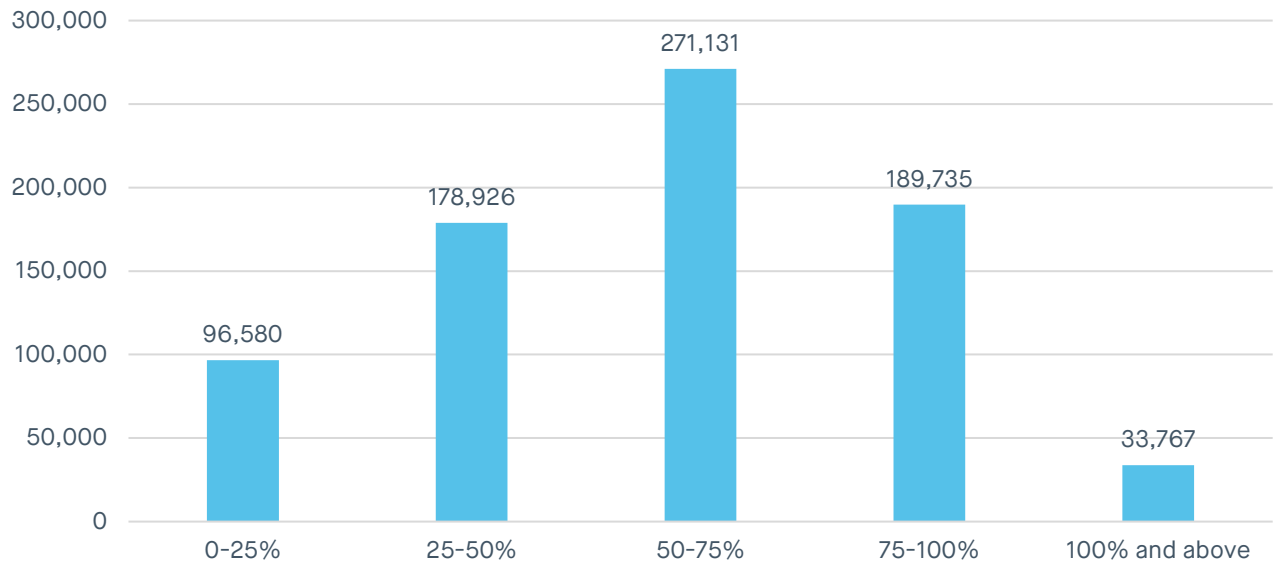
Source: SMF analysis of Wealth and Assets Survey 2016-18

Vulnerability by outstanding debt

One consideration is the variation in financial resilience by the size of outstanding mortgage debt, in relation to home value (loan-to-value, LTV, ratio). Our analysis suggests that about a quarter of those vulnerable to repossession have LTV ratios of between 75 and 100%, with a further 4% having an LTV ratio of 100% or more.

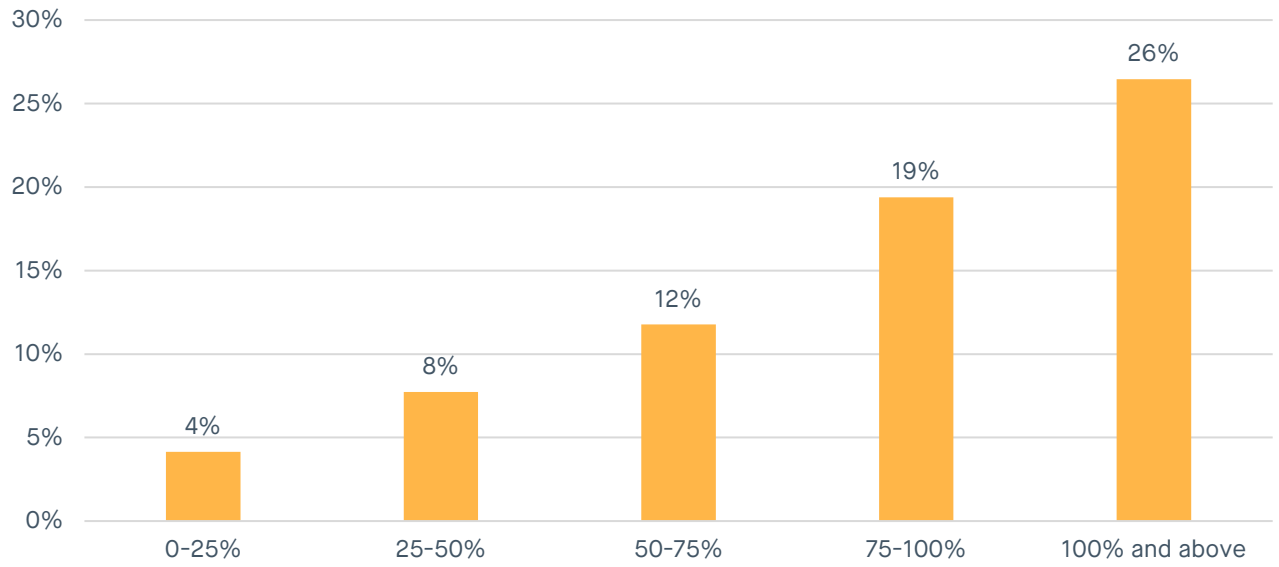
While 4% of those with an LTV ratio of less than 25% are vulnerable to repossession, this rises to just over a quarter (26%) of those with an LTV of 100% or more. This group is of particular concern given the limited options for them to resolve financial distress – e.g. from sale of home.

Figure 5: Number of households vulnerable to repossession, by LTV ratio



Source: SMF analysis of Wealth and Assets Survey 2016-18

Figure 6: Percentage of mortgage-holding households vulnerable to repossession, by LTV ratio

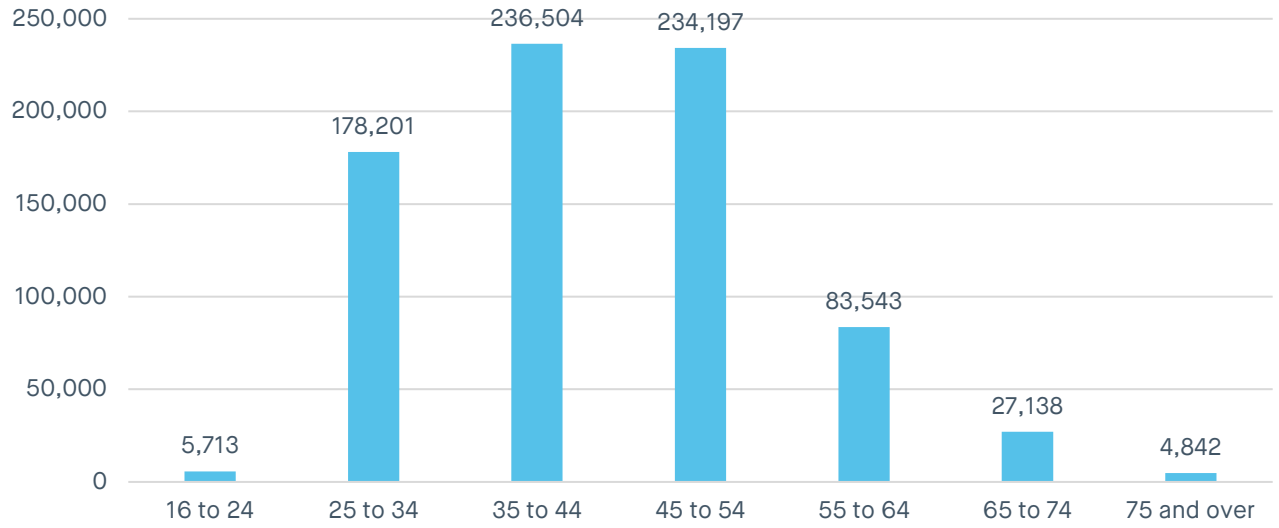


Source: SMF analysis of Wealth and Assets Survey 2016-18

Vulnerability by age group

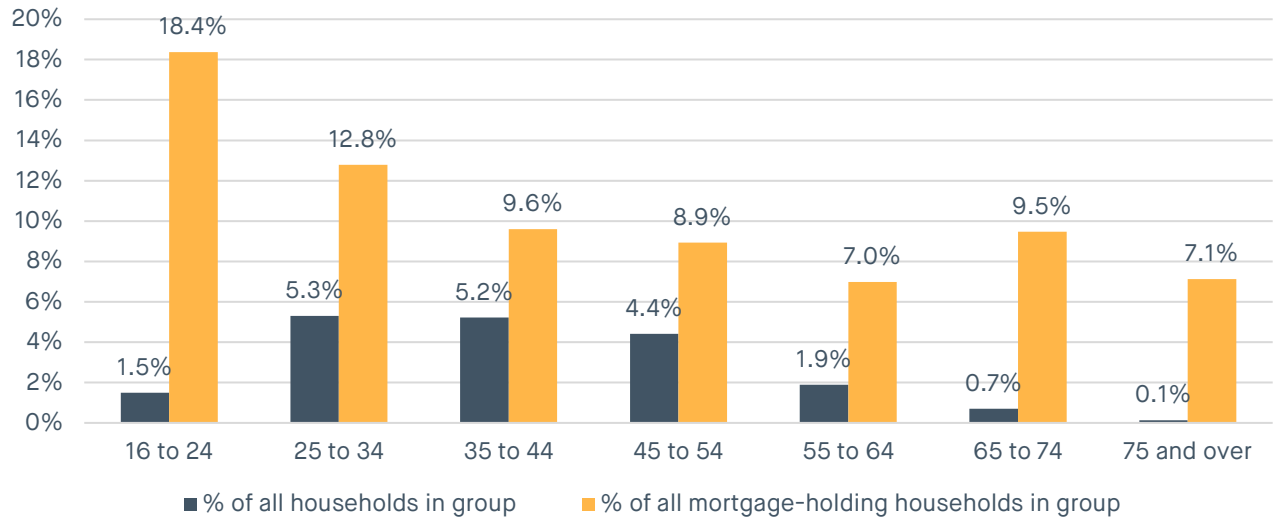
By age group, the greatest number of vulnerable mortgage-holders is among those where the reference person[iii] is aged 35-44 and 45-54. Collectively, these two groups account for about 61% of all households that would struggle to pay their mortgage for more than three months in the event of a significant shock to their income.

Figure 7: Number of households vulnerable to repossession, by age of household reference person



Source: SMF analysis of Wealth and Assets Survey 2016-18

Figure 8: Percentage of households vulnerable to repossession, by age of household reference person



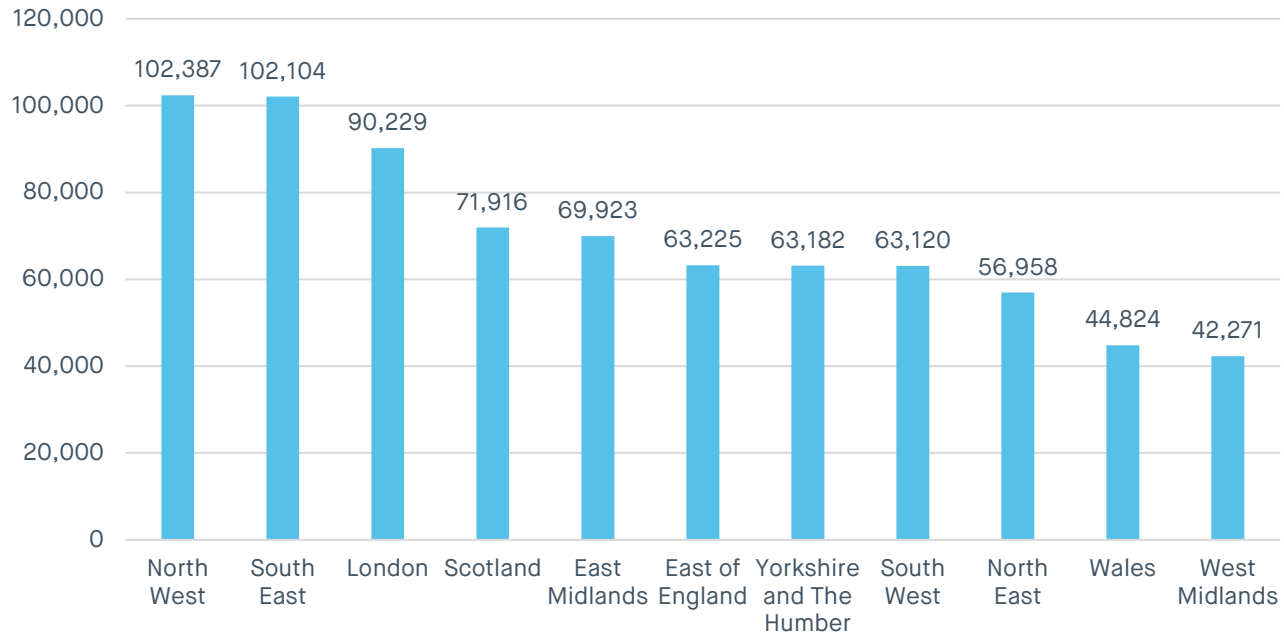
Source: SMF analysis of Wealth and Assets Survey 2016-18

[iii] The concept of a Household Reference Person (HRP) was introduced in the 2001 Census (in common with other government surveys in 2001/2) to replace the traditional concept of the 'head of the household'. In a couple family, the FRP is chosen from the two people in the couple on the basis of their economic activity (in the priority order: full-time job, part-time job, unemployed, retired, other). If both people have the same economic activity, the FRP is identified as the elder of the two or, if they are the same age, the first member of the couple on the survey form.

Vulnerability by region

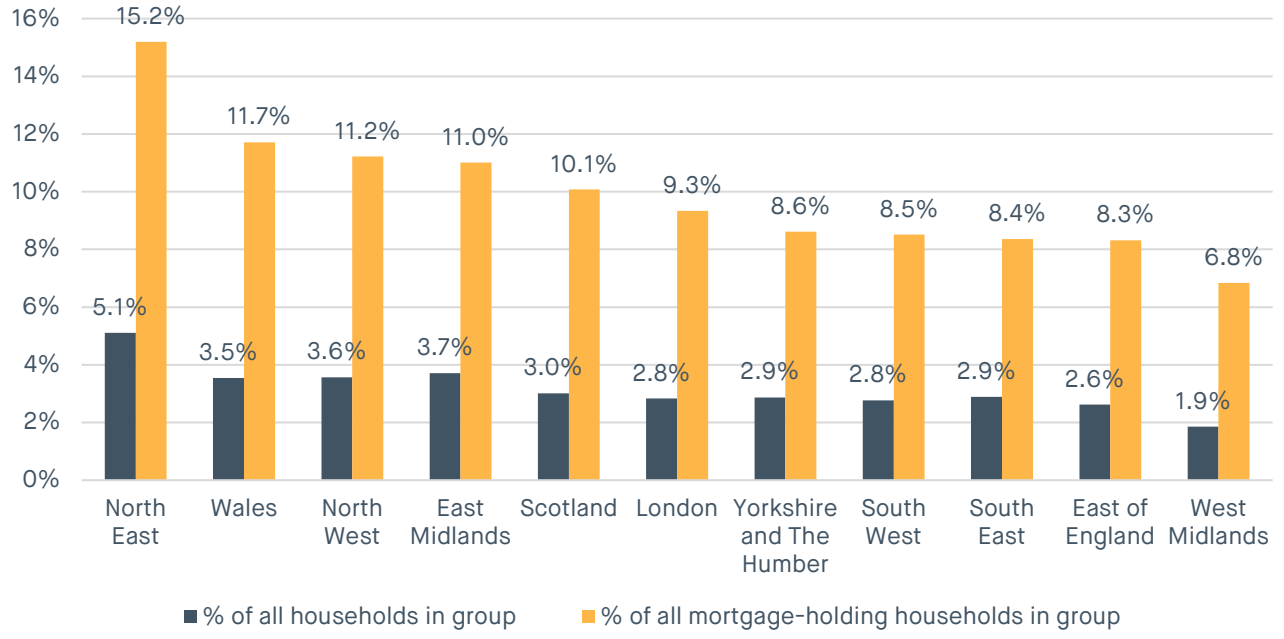
The North West of England had the greatest number of households vulnerable to repossession (102,387) followed by the South East of England (102,104). The North East of England had the greatest *percentage* of all households (5.1%) and mortgage-holding households (15.2%) that were vulnerable to repossession on our definition.

Figure 9: Number of households vulnerable to repossession, by region



Source: SMF analysis of Wealth and Assets Survey 2016-18

Figure 10: Percentage of households vulnerable to repossession, by region

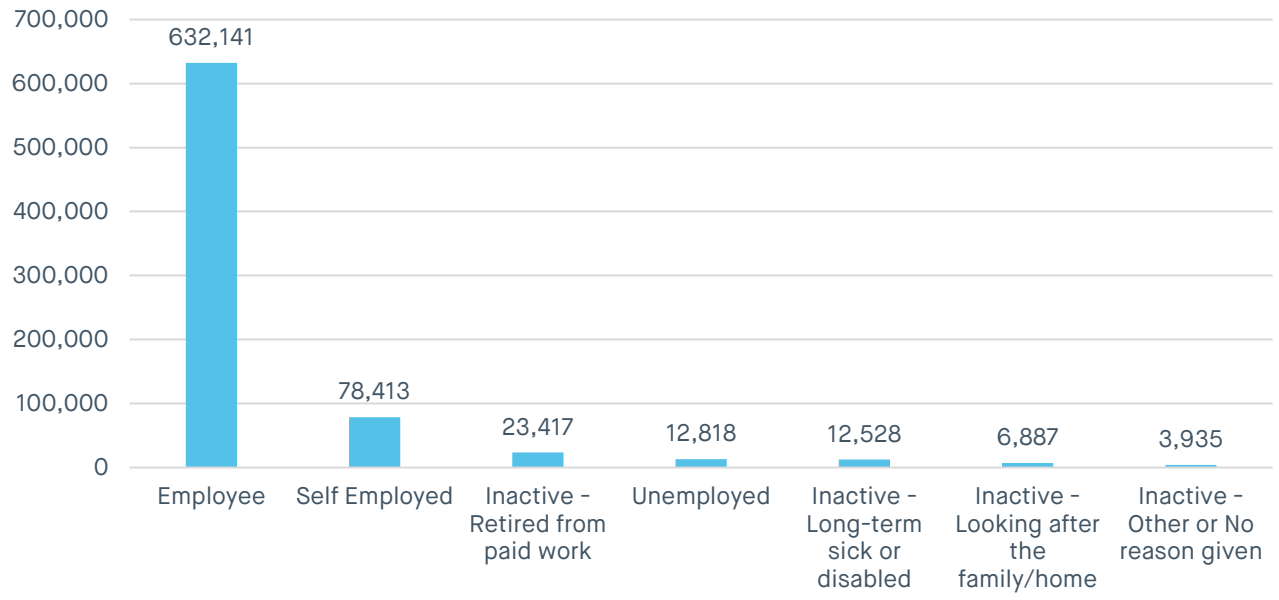


Source: SMF analysis of Wealth and Assets Survey 2016-18

Vulnerability by labour market status

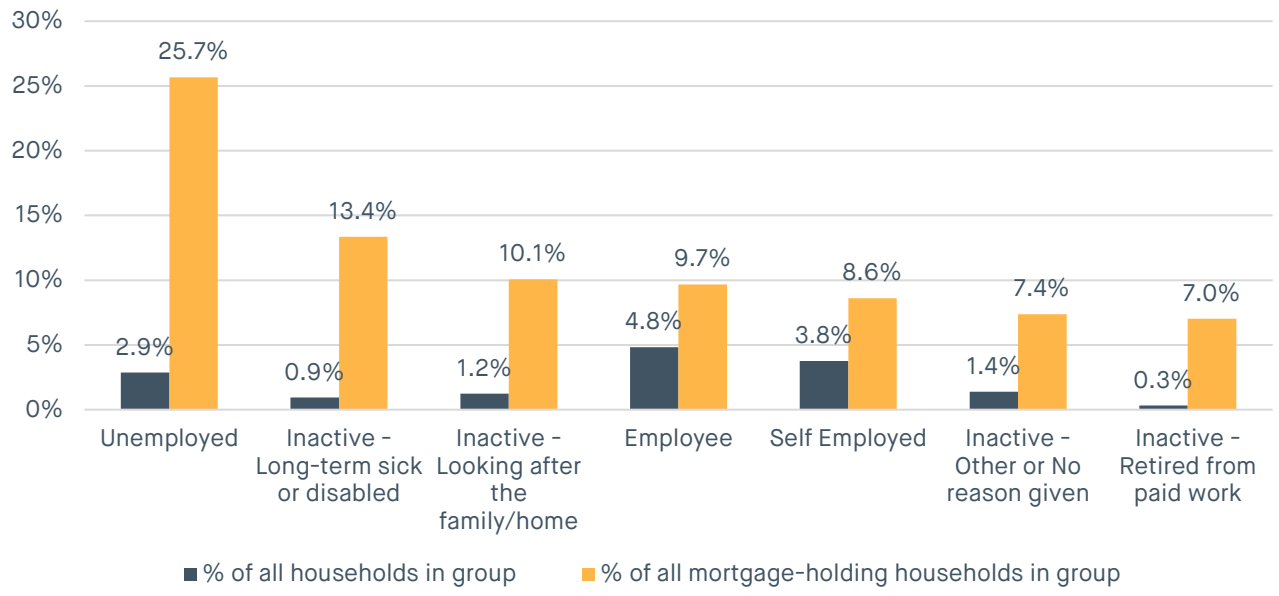
Almost the entirety of mortgage-holders vulnerable to repossession (92%) in 2016-18 were households where the reference person was either an employee or self-employed. In the context of the current Coronavirus-induced economic downturn, this suggests that prior to the current crisis there were a significant number of working households that would be financially vulnerable in the event of loss of job or reduction in income; about one in ten (9.7% of) mortgage-holding households where the reference person was an employee fitted into this category.

Figure 11: Number of households vulnerable to repossession, by economic status of household reference person



Source: SMF analysis of Wealth and Assets Survey 2016-18

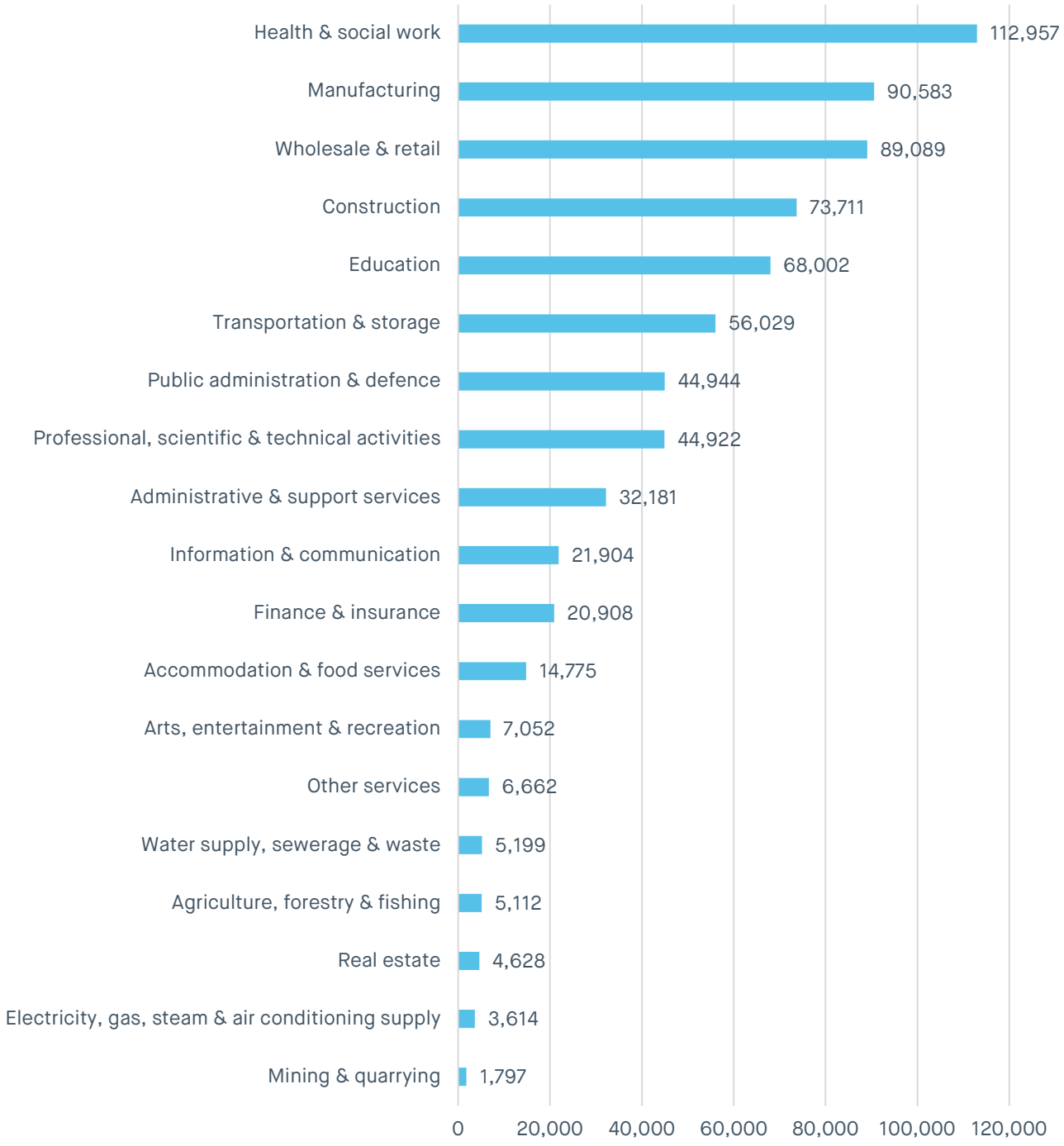
Figure 12: Percentage of households vulnerable to repossession, by economic status of household reference person



Source: SMF analysis of Wealth and Assets Survey 2016-18

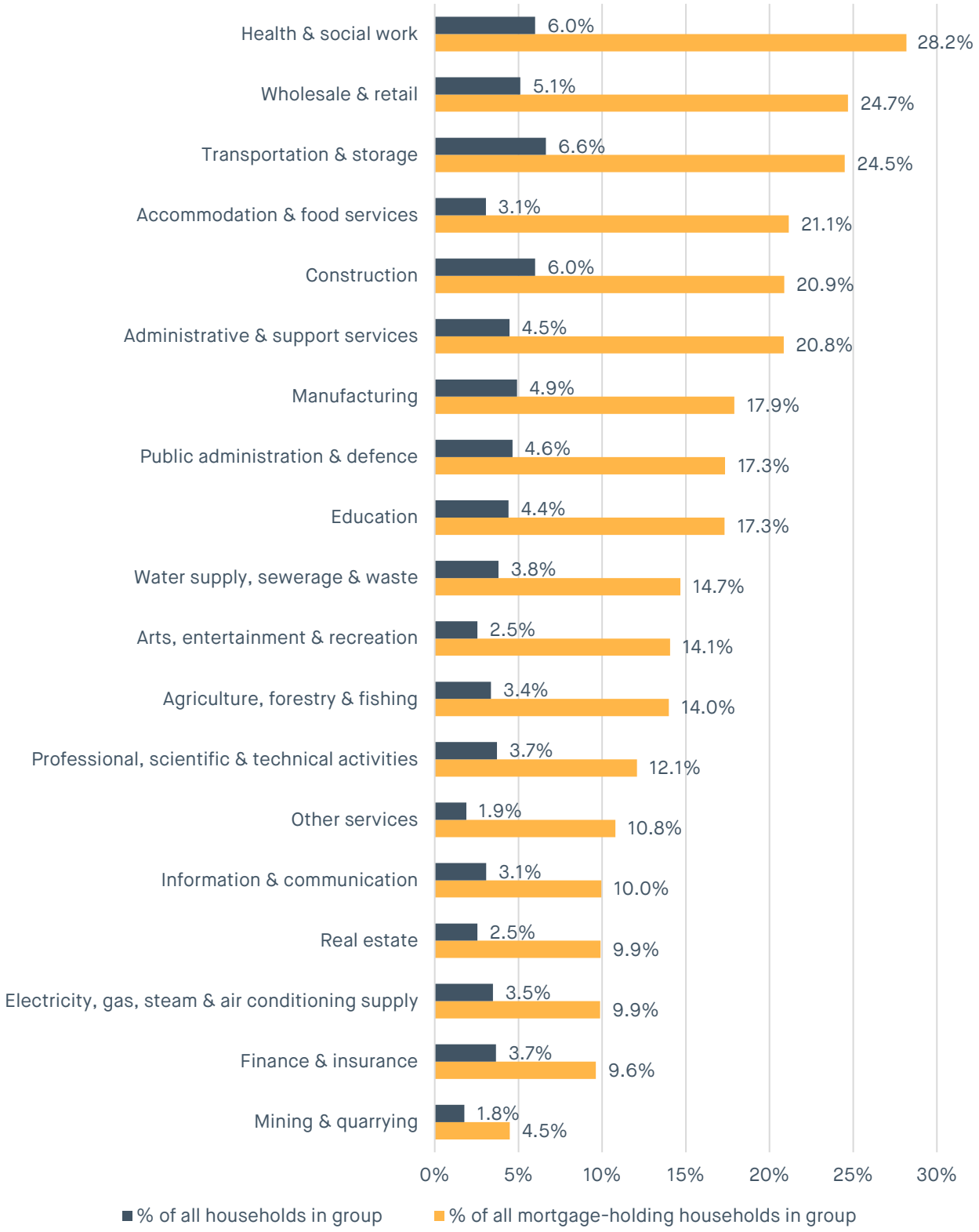
Segmenting the analysis by industry of employment of those in work, we note some variation. Households where the reference person works in health & social work, manufacturing or wholesale & retail had the greatest number of households vulnerable to repossession in 2016-18. Although low wages are pervasive in the accommodation & food services (hospitality) sector, it contains a low absolute number of households vulnerable to repossession – reflecting low rates of homeownership in this group.

Figure 13: Number of households vulnerable to repossession, by industry of household reference person. Data just for employees and self-employed reference people



Source: SMF analysis of Wealth and Assets Survey 2016-18

Figure 14: Percentage of households vulnerable to repossession, by industry of household reference person. Data just for employees and self-employed reference people



Source: SMF analysis of Wealth and Assets Survey 2016-18

Financial vulnerability and the Coronavirus pandemic

The preceding analysis was based on WAS data from 2016-18. The economic and societal impact of COVID-19 has shaken up household finances significantly, raising questions around the extent to which the themes identified in this analysis are still relevant to 2021.

At a national level, the household saving ratio – the share of income saved – stood at close to 17% in Q3 2020, up from 6% in the same quarter of 2019.[11] However, this increase in saving is unlikely to be true across the entire UK population and a number of surveys have tried to understand what is happening to financial resilience among specific demographic groups during the pandemic.

A theme emerging from these surveys is that the pandemic is having a very varied impact on household finances. A significant number of higher earners have seen their finances improve over the past year; remote working has allowed individuals to remain employed while benefitting from reduced commuting costs. The closure of non-essential retail and hospitality for much of the past year has also driven up savings rates, given the reduced number of places in which to spend money. In contrast, lower earners have been more affected by job losses in sectors such as retail and hospitality. They are also less likely to be able to work remotely[12] – and as such have not seen a boost to savings from reduced commuting expenditure.

For example, the Bank of England's 2020 "NMG" survey found that 28% of those surveyed had accumulated additional savings as a result of the pandemic, while 20% had depleted their savings. The accumulation of savings was greatest for high-income households, with 42% of high-income employed households saving more during the pandemic, compared with 22% of low-income employed households. The reported income of households that had increased their savings was 45% higher on average than households that had decreased their savings, and their reported holdings of deposits were over three times greater.[13]

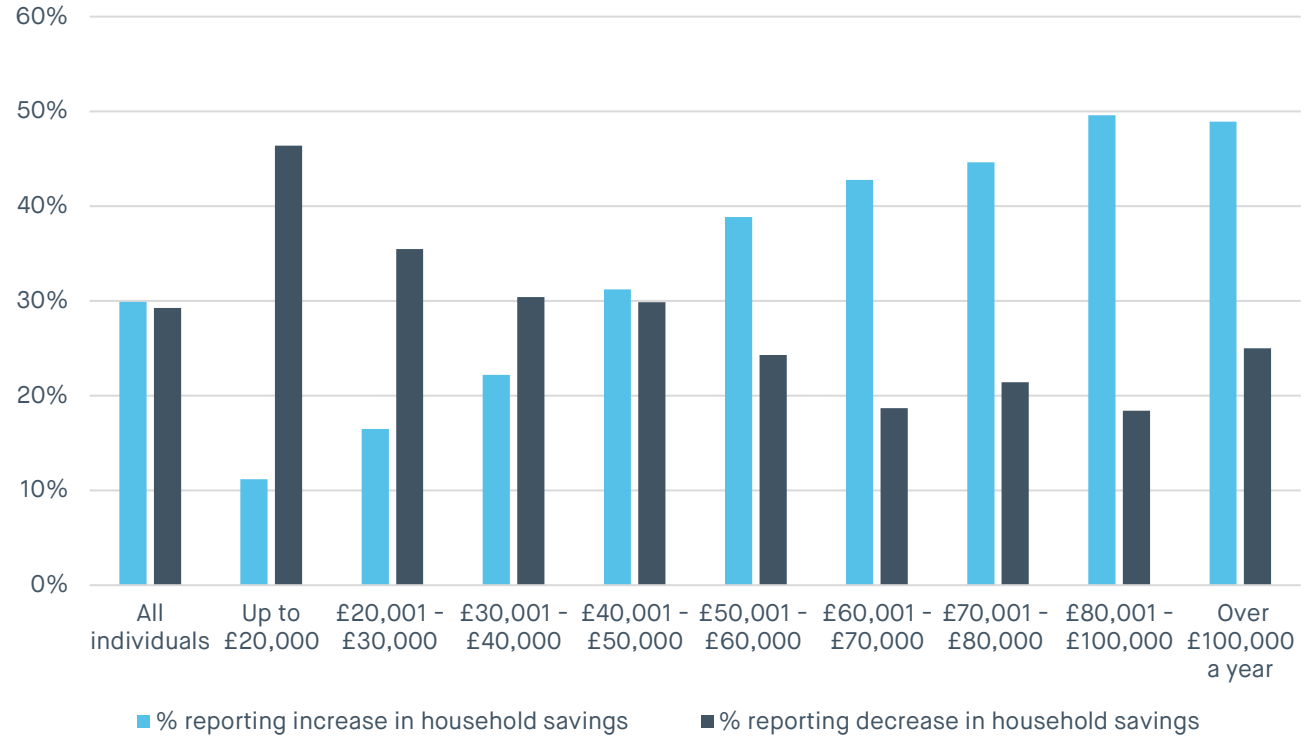
SMF-Opinium survey of mortgage-holders

Similar findings are found in a February 2021 Opinium survey of 2,000 mortgage-holders, commissioned for the Social Market Foundation as part of this research. Across the whole sample of mortgage-holders, three in ten (30%) said that their household savings had increased since the Coronavirus pandemic, with a similar proportion (29%) reporting a decrease. Those on lower incomes were more likely to report declining savings since the pandemic – close to half (46%) of those with household incomes of up to £20,000 said that their savings had declined, with just one in ten (11%) in this group reporting increased savings. Lower earners were also more likely to report that their incomes had declined since the pandemic, further suggesting that Coronavirus has increased the number of financially vulnerable households.

Figure 15: % of mortgage-holding individuals reporting a change in household income since the Coronavirus Pandemic, by annual household income

Source: Opinium survey of 2,000 mortgage-holders, February 2021

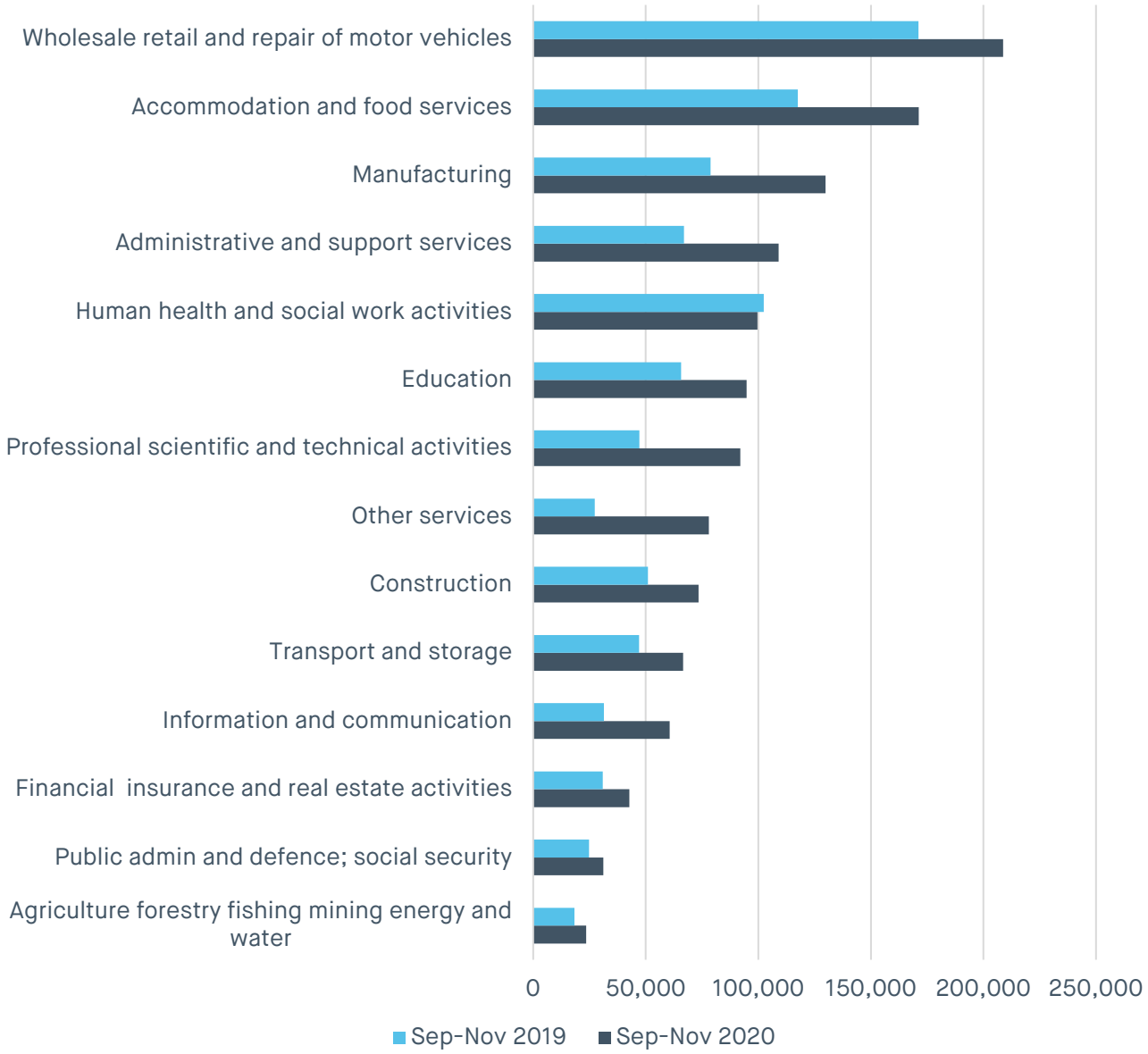
Figure 16: % of mortgage-holding individuals reporting a change in household savings since the Coronavirus pandemic, by annual household income



Source: Opinium survey of 2,000 mortgage-holders, February 2021

The latest labour market data from the ONS highlight the extent to which job losses in recent months have been concentrated in particular sectors of the economy. Looking at unemployment by industry of last job, there were increases for all industries except human health & social work between September to November 2019 and September to November 2020. The largest increase was for those previously employed in accommodation and food services, up 54,000 on the year to 171,000. The second-largest increase was for those previously employed in manufacturing, up 51,000 on the year to 130,000. In September to November 2020, the highest unemployment level across all industries was for those previously employed in wholesale, retail and repair of motor vehicles, at 209,000.

Figure 17: UK unemployment by industry of last job (aged 16 years and over), not seasonally adjusted, September to November 2019 and September to November 2020



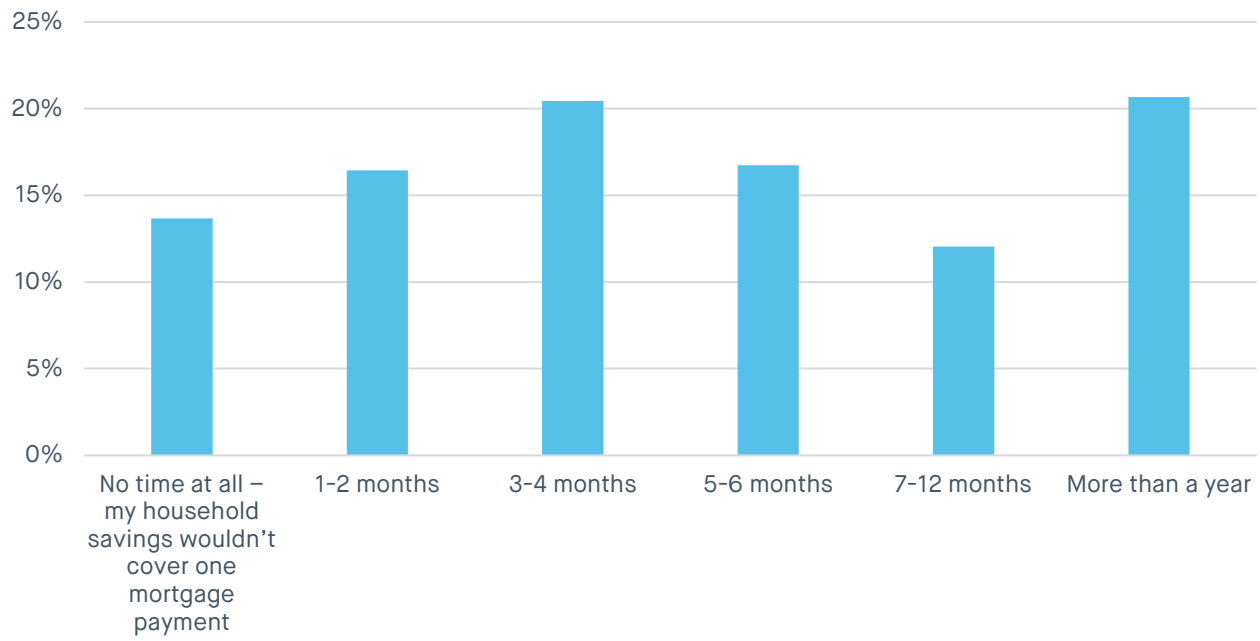
Source: ONS Labour Force Survey

Our analysis of the WAS showed that households where the reference person was employed in retail or manufacturing accounted for a large share of all households vulnerable to repossession – about a quarter (26%) of the 770,000 vulnerable households we estimate to be vulnerable. With the latest labour market data showing these groups also seeing some of the greatest increases in unemployment, this gives reason to believe that the pandemic could push a significant number of mortgage-holding households into financial difficulty.

In the Opinium survey, we asked individuals how long they thought they could pay their mortgage using just their household savings – for example in the event of job loss. Excluding those that "did not know", 14% said they lacked the savings to cover even one mortgage payment. Three in ten (30%) could pay their mortgage for no more than two months.

These figures are notably higher than those suggested by our analysis of the Wealth and Assets Survey. In part, this is likely to reflect the negative impact of the pandemic on financial resilience among some groups. It is also likely to reflect households taking into account other costs, beyond mortgages, when answering the survey question. Given other ongoing expenses, such as food and energy bills, the ability to make mortgage payments from savings is further undermined.

Figure 18: How long do you think you could pay your mortgage by using just your household savings?



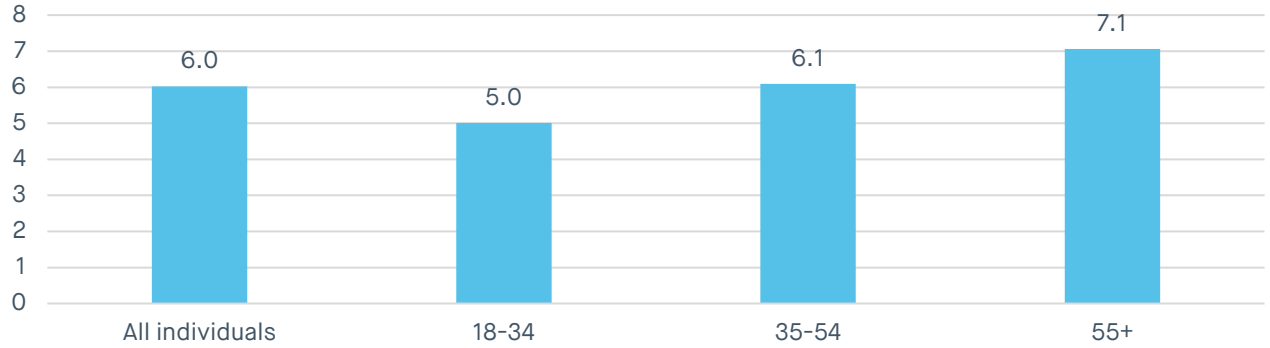
Source: Opinium survey of 2,000 mortgage-holders, February 2021

Across the whole survey sample, the average amount of time that individuals felt they could cover mortgage payments from household savings was six months. Younger individuals and those in lower income households reported lower average times. On a regional basis, London reported the highest average duration (6.6 months), while the West Midlands (5.1 months) and Wales (5.3 months) reported the lowest.

Figure 19: How long do you think you could pay your mortgage by using just your household savings? Average duration in months, by household income group

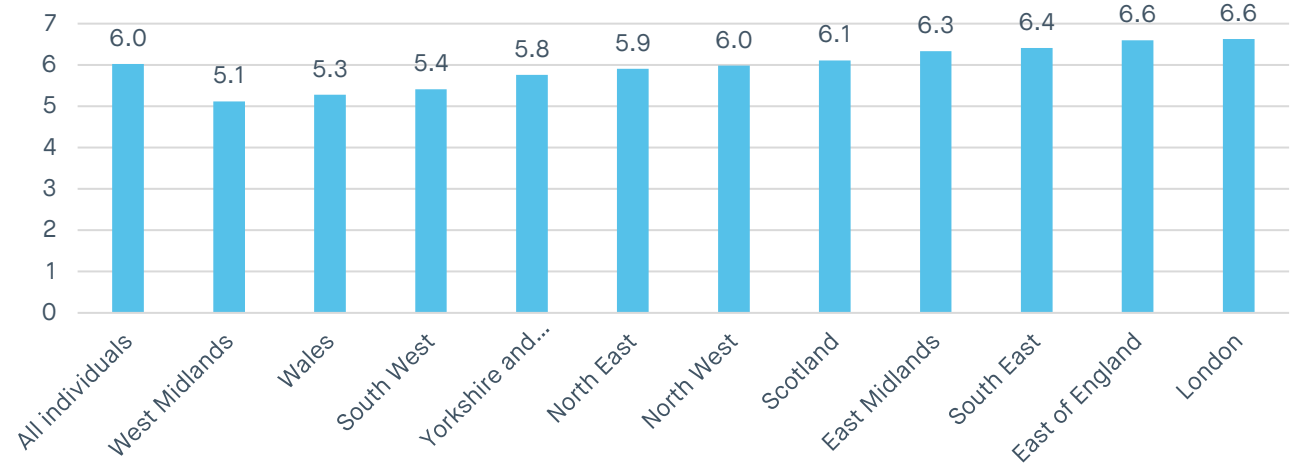
Source: Opinium survey of 2,000 mortgage-holders, February 2021

Figure 20: How long do you think you could pay your mortgage by using just your household savings? Average duration in months, by age group



Source: Opinium survey of 2,000 mortgage-holders, February 2021

Figure 21: How long do you think you could pay your mortgage by using just your household savings? Average duration in months, by region



Source: Opinium survey of 2,000 mortgage-holders, February 2021

Summary

This chapter has used official data sources to understand the extent to which, leading up to the pandemic, mortgage-holding households had sufficient financial resilience to withstand a significant shock to their income – for example in the event of loss of job or a cut to pay. We have also explored the extent to which emerging data from the pandemic suggest that less financially resilient households have been more likely to be affected in terms of loss of income or reduced ability to save. This includes through new survey research commissioned as part of this project.

Job losses to date from the pandemic have been highly concentrated in certain sectors. Two of these sectors – retail and manufacturing – had a relatively high proportion of households vulnerable to repossession in the run up to the pandemic, suggesting a potentially significant impact on repossessions as support packages for homeworkers, businesses and employees are wound down.

Against this backdrop, the next chapter of the report explores the mortgage safety nets available to households in the UK, and the extent to which they are likely to be effective in the current economic environment. The chapter also explores the history of mortgage safety net policy in the UK, and whether recent experiences provide a guide for future policy development in this space.

CHAPTER THREE – UK POLICY: PAST AND PRESENT

It is helpful to consider how the history of the UK's mortgage safety net has evolved into the provision that is currently available to mortgage-holding homeowners today.

The concept of mortgage safety nets is not clearly defined; however, at its core safety nets are intended to provide support to households who face difficulty making their mortgage payments. Most likely, this is due to a change in an individual's financial circumstances because of sickness, unemployment or reduced income. UK Finance offers a more inclusive definition that safety net provision should also cover increases in mortgage outgoings, for example as a result of increases in interest rates.[14]

Over time, the UK government's safety net has included a mixture of mechanisms, which can broadly be categorised into the following:

- **Specific mortgage support schemes** which directly relate to an individual or household's ability to meet their mortgage payments. Initiatives have included grants and loans to cover interest payments as well as further measures to help homeowners release equity from the property.
- **General welfare support** which helps maintain an individual or household's income to cover essential outgoings, including but not limited to housing costs.
- **Regulatory measures** which are often introduced after-the-fact to reduce the risk and occurrence of arrears and repossessions.
- **Advice and guidance** which allow households that are concerned about their circumstances to seek a professional opinion and discuss what options may be available with their lender.

In practice, financial help for homeowners is not only available through the state but also through private sector insurance and employers, such as through payment protection insurance (PPI) and statutory sick pay.[15] However, UK Finance also notes that while these various measures collectively form a structure that resembles a safety net of sorts, the UK has never articulated a plan nor formal safety net. [16]

Crisis mode: UK policy responses to downturns

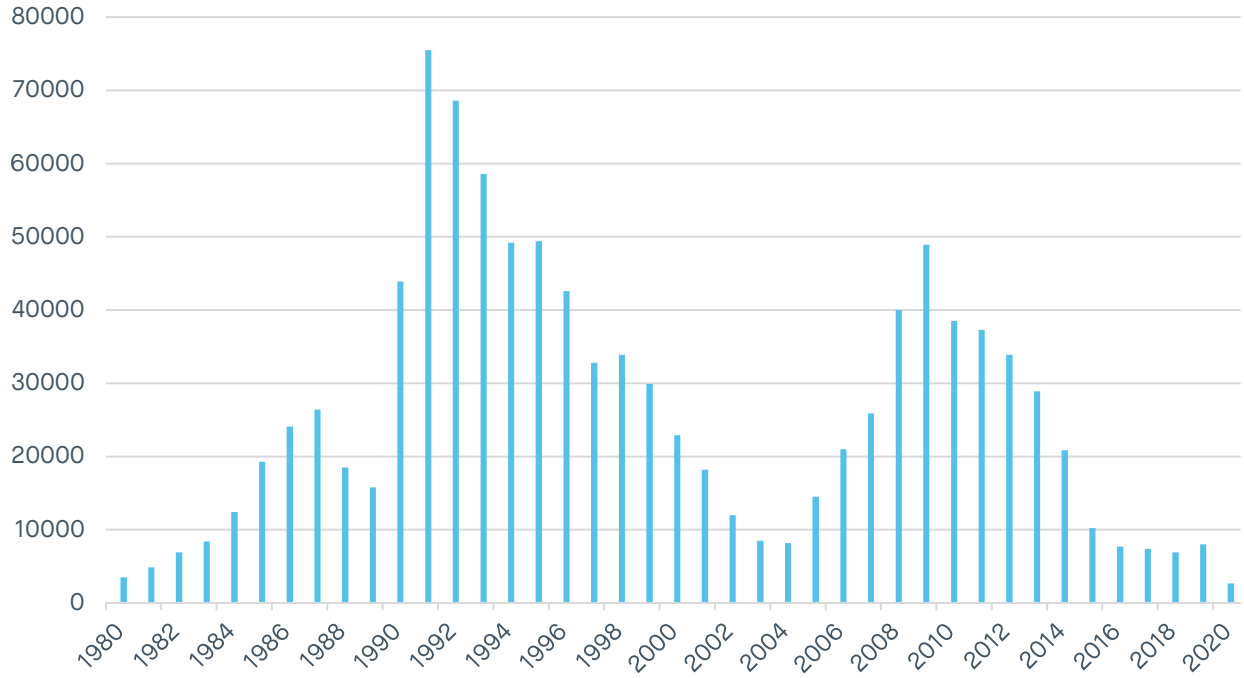
Since the late decades of the 20th Century, the UK mortgage safety net has generally pivoted between a limited 'standard' during 'normal' economic times and a package of supplementary, temporary relief measures during crises. Two significant economic events in recent history have shaped the safety net that we have today: the housing market crashes of the 1990s and the late-2000s.[17] In this section, we explore the lessons learnt from these crises and their respective policy responses.

The 1990s

In the decades leading up to the 1989 housing market crash, growing demand for homeownership was met with an expansion of the mortgage market. Throughout the 1970s and 80s, higher loan-to-value lending drew in a wider spectrum of households, which inherently brought heightened risk of homeowners falling into financial difficulty. While expanding the market enabled access for those previously unable to own a home, the inclusion of more diverse homeowners would increase the overall risk levels in relation to a housing market downturn. At

the time, this was perceived to be largely an individual's responsibility to bear, rather than the government's. However, the downturn of 1989 and the years of recession that followed led to a sharp rise in the number of households in arrears or facing repossession. By 1991, possessions had peaked at 75,500 properties, five times the figure seen in 1989 at the start of the crisis.[18]

Figure 22: Number of properties taken into possession in the UK, 1987-2020



Source: UK Finance (2020)

As a result, the UK government introduced measures to support homeowners in difficulty. Income Support for Mortgage Interest (ISMI, later SMI) was already available as a benefit for out-of-work homeowners to cover mortgage interest and some repairs and maintenance to the property. However, from 1992, the SMI element was deducted from the eligible claimant's benefits and paid directly to their lender every four weeks. The idea was that in response, lenders would exercise forbearance and develop support schemes that would avoid uprooting households through repossession, such as loan modifications and assisted moves.[19] Further revisions came and by 1995, the upper limit for SMI was reduced to a property value of £100,000 and a waiting period of generally 39 weeks was introduced for claimants under 60 before payment was made.[20] This waiting period signalled to industry that lenders are predominantly responsible for managing homeowners' payment difficulties through other means for the first nine months.[21]

Looking back, the response to the 1990s downturn could be characterised predominantly as a cross-sector approach between public and private lenders, whereby the government largely encouraged lenders to exercise forbearance. By 1997, the government introduced a new initiative that placed a greater onus on consumers to also share responsibility by taking out private insurance. The Sustainable Home Ownership initiative aimed to increase uptake of privately held Mortgage Payment Protection Insurance (MPPI) to 50% of all borrowers. This was overseen by a cross-sector steering group of lenders, insurers, government departments, the Bank of England and consumer groups. However, by the early 2000s, the uptake of MPPI was hindered by the associated criticism of PPI more broadly, due to concerns of mis-selling.

Subsequently, the sale of insurance at the point-of-sale with a mortgage was prohibited by the Competition Commission in 2012.[22]

Lessons learned

Prior to the 90s downturn, the responsibility for mortgage payment risk was presumed to fall on individual homeowners. However, the government's response, given the sharp rise in repossessions, shifted that risk, to a greater extent, onto lenders encouraging them instead to exercise forbearance to keep households in their homes and avoid the economic and social costs of possession and moving. Lender forbearance was considered crucial to containing the risk of possession and reducing rates in the mid- to late-90s, featuring in safety net policy since. However, it is worth noting research by the Joseph Rowntree Foundation (JRF) which states, *"it is not entirely clear that the adoption of stronger forbearance procedures has actually resulted in more effective forbearance action"*.[23]

The 2000s

While possessions fell throughout the early-2000s, the safety net was described as being "full of holes" in 2004 by the Office of the Deputy Prime Minister.[24] During this time, lenders sought out new business, expanding the mortgage market by lending to riskier borrowers. Reports indicate that some lenders were offering loan-to-value mortgages as high as 125%.[25] The Global Financial Crisis of 2008 brought this practice to light as the housing market crashed again and the number of households in arrears began to increase.[26]

In the immediate response to this crisis, the UK government strengthened its safety net through a greater variety of measures than seen in the previous downturn. Over 2008 and 2009, the following measures were introduced:

- **Specific mortgage support schemes** such as the Mortgage Rescue Scheme, Homeowner Mortgage Support Scheme and Repossession Prevention Fund. Additionally, changes were made to make SMI more accessible and generous.
- **Ongoing general welfare support** was available to eligible claimants in the form of working and child tax credits as well as the unemployment benefits Jobseekers Allowance and Employment and Support Allowance.
- **Regulatory measures** included Pre-Action Protocol guidance for the courts to ensure lenders take appropriate action to make repossession the last resort.
- **Advice and guidance** were provided through enhanced court desk service for those facing possession.

The details and impact of the key policies in this support package are considered below.

Mortgage Rescue Scheme (MRS)

In 2009, the government introduced this £285m support package in partnership with local authorities, registered social landlords, lenders and debt advice agencies to keep some of the most vulnerable households in their homes.[27] The scheme offered two options depending on the outcome of a local authority's assessment of the borrower's case: a government mortgage-to-rent option or a shared equity/ownership option.

The mortgage-to-rent option allowed registered social landlords to purchase the property (for 97% of its market value) and lease it back to the household as tenants on a shorthold tenancy at

a discount of 20% less than local market rent.[28] This was largely for the most vulnerable households on low-incomes with little chance of sustaining their mortgage.[29] The shared equity/ownership option was intended for those experiencing income shocks who needed help paying but were still able to make some contribution. The latter model of ownership, rather than shared equity, was considered more appropriate for those with a bigger financial gap.[30]

The evaluation of this policy and its subsequent cessation is relatively unclear. Early reviews indicate that the scheme was restrictive, and uptake was low – eligible households had to be at risk of homelessness as a result of repossession and fall into a priority category.[iv] Although, eligibility was later widened and a further £221m was allocated in 2010 to extend the scheme until 2013.[31] There was a desire among the Department for Communities and Local Government (DCLG) at the time for MRS to "become a permanent feature of homeless prevention", noted in its 2010 interim report. Calculations from the original cost-benefit analysis indicated that the MRS would pay for itself due to the economic savings from reduced repossessions.[32] However, this interim evaluation also indicated that initial capital costs were high (around £45,000 per household). In resource terms, the scheme cost no more than the likely costs of government household repossession.[33]

In May 2011, the National Audit Office (NAO) evaluation reported that the early stages did not provide value for money due to misassumptions about the level of demand, but that these concerns had been addressed.[34] Yet, the scheme was closed to new applicants in London in October 2013 and nationally in March 2014, due to expense and low uptake.[35] Upon its launch, it was expected that MRS would support up to 6,000 households over a two-year period, yet just over 2,000 homeowners completed the process by February 2011.[36] Nonetheless, it is believed that the presence of the scheme was beneficial in encouraging thousands more borrowers to speak to their lender and seek free, independent debt advice.[37]

Homeowner Mortgage Support Scheme (HMS)

The HMS was the second specific mortgage support scheme introduced in response to the 2009 Global Financial Crisis. It allowed borrowers facing difficulty to defer a proportion (up to 70%) of their monthly mortgage interest payments for up to two years. The scheme also provided an 80% guarantee to participating lenders if the borrower defaulted on the payment.[38] As a result, homeowners were protected from repossession, while being given the opportunity to stabilise their finances.[39]

However, in 2009, Citizen's Advice noted a significant disadvantage of the scheme, that homeowners would leave it owing more money than when they entered.[40] The government's own interim report also found that the policy could be potentially debt-inducing. [41]

Overall, the scheme had very low uptake and was criticised for its complexity, which justified its closure in 2011. It was reported that lenders found the applicability criteria overly complex, and thus opted to create their own comparable forbearance schemes which would be more advantageous to borrowers and more widely available. Sale-and-rent-back schemes were also

[iv] These categories include i. Discussed all hardship options with mortgage lender; ii. Received a letter from lender of intention to possess the home; iii. Property is worth <£235,000 (some exceptions); iv. Joint income of less than £60,000; v. In priority need category (child expected, dependent child, elderly (60+), vulnerable adult under terms of homelessness legislation); vi. Certain circumstances (households in negative equity [up to 120% loan-to-value] who meet above criteria).

devised by private lenders reflecting the principles of the MRS, which was followed by the introduction of specific regulation for this industry in 2010.[42]

Just 32 borrowers were enrolled onto HMS by their lender compared to the 30,000 that were entered onto their lender's own arrangements.[43] The interim report from the DCLG said that while uptake was low, the scheme had significantly influenced extent of lenders' own forbearance policies, therefore positively impacting the structure of the safety net more broadly.[44]

Repossession Prevention Fund

A £20m fund was also introduced in 2009 to support local authorities in protecting vulnerable households from immediate threat of repossession. Allocations were made based on population and levels of repossession activity per local authority. The fund enabled households at risk of homelessness as a result of repossession or eviction to claim small interest-free loans of up to £5,000. Literature reviewing this policy is relatively limited; however, it may be reasonable to conclude that it was considered effective given the Coalition Government announced a similar new £20m Preventing Repossessions Fund for local authorities in 2012.[45]

Changes to SMI

The UK government states that the purpose of SMI is "*to help owner-occupiers [claiming eligible benefits] to maintain their existing mortgage commitments so that they can remain in their own homes*".[46] To support this, in 2010, the waiting period for SMI was reduced from 39 weeks to 13 weeks for new working-age unemployment claimants. The mortgage value cap was also increased to £200,000, except for Pension Credit claimants (remained at £100,000) and the standard rate of interest for SMI support was frozen. However, a two-year limit was introduced for new JSA claimants, restricting access for the working-age unemployed.

While these measures were intended to be temporary, they largely remained in place throughout the Labour and Coalition governments to 2015 (with exception of the rate freeze), likely due to their acclaimed success.[47] The overall number of homeowners supported[v] peaked at 235,000 in 2009/10, for the first time since 555,000 in 1993. This figure then declined to 136,000 by 2015/16.[48]

In their 2017 research report on mortgage safety nets, UK Finance states that:

> *"SMI is still by far the most significant government intervention providing direct support to homeowners in financial difficulties with their mortgage".*[49]

Additionally, in a response to a DWP call for evidence on SMI in 2011, the Social Security Advisory Committee emphasised SMI's role in minimising repossession as a result of the Global Financial Crisis:

> *"There can be little doubt that SMI has played and continues to play a very important role enabling many thousands of households to remain homeowners. Its existence acts as a strong incentive to lenders to use forbearance under circumstances in which they would, otherwise, repossess a home."*[50]

[v] By SMI, for claimants of all qualifying means tested benefits (DWP).

Pre-Action Protocol and later regulatory measures

The lesson that lender forbearance was crucial to minimising possessions in the 90s downturn was at the core of the response to the Global Financial Crisis. Additionally, it was argued that there was little point in lenders pursuing repossessions and releasing additional properties into an already depressed housing market.[51]

In 2008, the Financial Services Authority regulator (FSA, now FCA) introduced requirements on lenders under the Pre-Action Protocol to begin a negotiation with borrowers in difficulty prior to taking court action.[52] Unlike many of the measures introduced in 2008, this regulation was not temporary and continues to serve as a proactive approach to manage the financial circumstances of homeowners. In a government briefing paper from November 2020, researchers recognise how these lenders' obligations played a key role in the disproportionately lower number of repossessions arising from the 2008 financial crisis in relation to arrears, compared to the 1990s.[53]

Following a Mortgage Market Review in 2013, the FCA brought about new macro-prudential policies to reduce the number of risky borrowers, in case of future downturns that would increase the risk of defaults, arrears and subsequent possessions[vi]. These policies restrict high loan-to-value and loan-to-interest mortgages and require increased scrutiny of mortgage applicants' finances. This has since become the primary mechanism for avoiding possessions – noting a shift away from formal safety nets towards a structured avoidance of risky lending.[54]

Lessons learned

The lessons of the 1990s downturn were largely applied successfully to the 2008 crisis response, emphasising the need for lender forbearance to reduce the number of possessions. This was done through both the soft power that specific mortgage schemes indirectly encouraged lenders to offer new solutions to homeowners in difficulty, as well as the hard power of regulation to make pursuing possessions a last resort action. While the specific schemes were not as successful as they intended to be, their presence in the market revealed the case for free independent advice and guidance for homeowners in difficulty. Furthermore, both crises demonstrated that liberal lending policies exposed the market to greater risk than was appropriate, making a case for stronger macro-prudential policies. However, many of these measures relate to a structured avoidance of risk, rather than a formal safety net. As a result, SMI is considered one of the few effective safety net policies in place that directly supports homeowners in difficulty.

Between crises: The 2010s

Since recovering from the 2008 crisis, the UK has seen protracted low rates of arrears and possessions. This has primarily been due to the structured avoidance of risk through macro-prudential policies that restrict risky lending, as well as low interest rates. During this time, the UK has also seen a progressive erosion of the 'formal' safety net. Most notably, this erosion has occurred through the rollback of more permanent safety net measures, such as general welfare support and SMI.[55]

Universal Credit

In-work tax credits are considered essential for many mortgage-holders who experience a reduction in income or when one partner loses their job, to make their monthly payments.

[vi] Implementing the recommendations of the Financial Policy Committee, in conjunction with the PRA.

However, once Universal Credit (UC) has reached full roll-out by 2024, tax credits will cease and SMI will only be available to claimants entirely out of work.[56] While work allowances are available through UC, these were reduced in 2015.[57]

Calculations by UK Finance show that, for example, under the legacy tax credit regime, a couple with one person in full-time work at minimum wage could cover the costs of a £123,000 mortgage and still have residual income just above Income Support scale rate levels. Under UC, they would only be able to cover costs of a £79,000 mortgage to be left with the same levels of disposable income. This variance is even greater for single-parent households. They argue that this is significant given the context of already increasing in-work poverty.[58]

SMI as a loan

Further changes to SMI also indicate an erosion of the safety net for homeowners facing difficulty. During the 2015 Summer Budget, three announcements on SMI were made:

- an increase of the waiting period from 13 weeks to 39 weeks from April 2016;
- the loan cap would stay at £200,000 (£100,000 for Pension Credit claimants); and
- from April 2018, SMI would change from a benefit to an interest-bearing loan at gilt rates, secured against the mortgaged property.[59]

The expectation is that the loan will be repaid, plus interest, when the borrower's income stabilises from gaining employment or selling their home. The previous two-year limit for JSA claimants does not however apply to the loan. The DWP provided the rationale that the existing SMI scheme was unsustainable; instead, the loan will ensure that government *"continues to mitigate the risk of repossession while providing better value for the taxpayer"*.[60] However, UK Finance argues that the loan, coupled with UC, reduces the protection of homeowners in difficulty from arrears and further debt.[61]

In 2017, DWP-commissioned polling from Ipsos MORI found that generally, respondents believed the perceived effect of the SMI loan would be negative – many reported that they *"do not like the idea of a loan"*. Over one in three existing SMI claimants (38%) expected it would make their mortgage interest less affordable.[62] Despite this, over half (58%) of the target sample[vii] said they would use the loan because they still needed help with mortgage payments and around one in five (21%) said they would have no other option.

This is the mortgage safety net context in which the UK entered the Coronavirus pandemic.

2020: The Coronavirus pandemic response

By the beginning of 2020, the mortgage market was characterised by low levels of arrears and possessions, low interest rates, and a safety net that largely comprised preventative regulation and risk avoidance. Ostensibly, this might indicate that mortgage holders were experiencing little difficulty in making their loan payments. However, a recent survey by the FCA found that in February 2020, prior to the pandemic, a fifth (20%) of mortgage holders (3.5 million) had outstanding mortgage debt at least four times their annual household income, which was a six-percentage point increase from 2017.[63] This serves as a considerable warning sign that many

[vii] Those in the general public who are most likely to claim SMI, based on socio-economic factors.

households entered the pandemic with a sizeable mortgage and accompanying payment commitments.

The economic effects of recent public health measures will have likely exacerbated homeowners' circumstances, placing many in difficulty to keep up with payments. In March 2020, the UK government introduced temporary crisis measures to avoid rising numbers of possessions and homelessness as a result of the downturn, including:

- **A specific mortgage support scheme** of three-month mortgage payment deferrals, commonly referred to as a payment holiday, to a later date. This was later extended to six months by the FCA in May 2020.
- **General welfare support** was available to eligible claimants in the form UC and legacy benefits, with a temporary UC uplift of £20 a week. The Job Retention Scheme also maintained the majority (80%) of income for furloughed workers.
- **Regulatory measures** including a temporary moratorium on lender repossessions, extended to 1 April 2021, bar exceptional cases.
- **Advice and guidance** provided from the FCA to lenders on exercising tailored support and forbearance for homeowners in the greatest difficulty. An additional £37.8m funding was also allocated to debt advice providers bringing the 2020/21 total to £102m.[64]

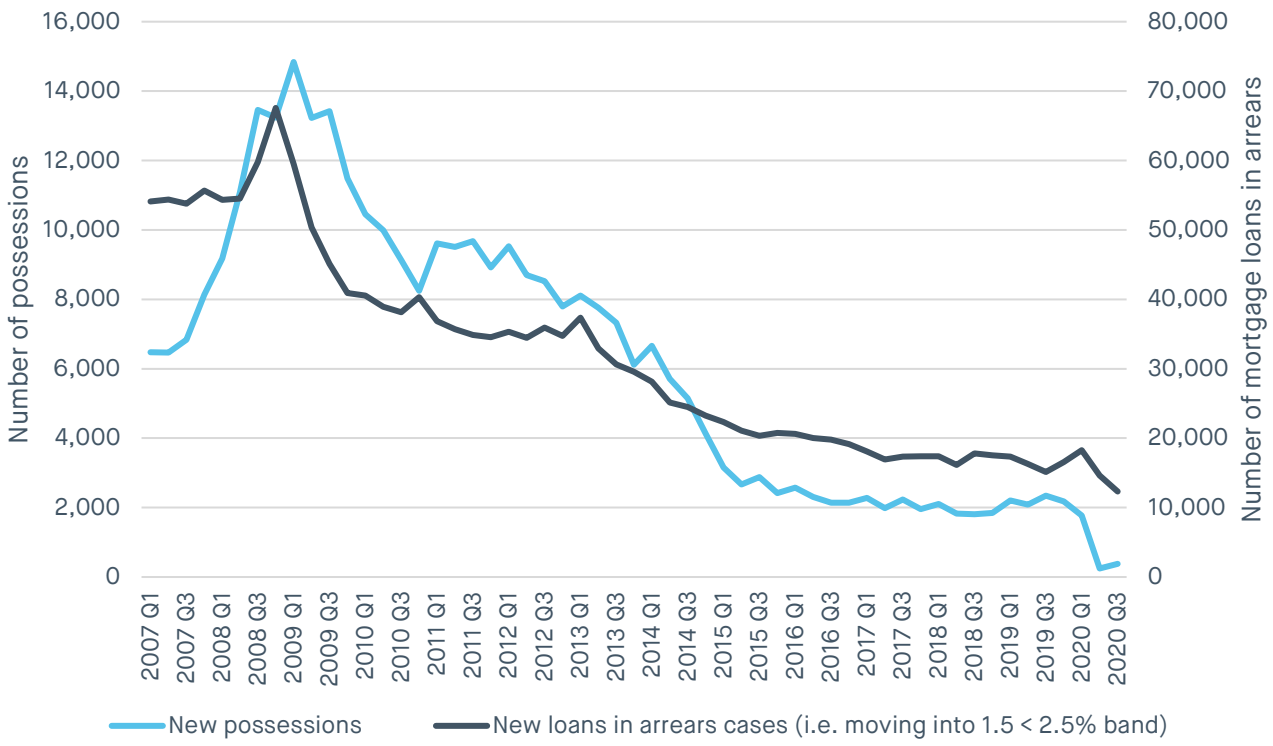
Looking back at previous crises' policy responses, this overall package of support appears to carry forward many of the lessons highlighted in this chapter. The lesson that lender forbearance is critical to avoiding rising possessions is borne out through the FCA's Tailored Support Guidance. This guidance sets out how lenders should support mortgage borrowers who continue to face ongoing financial difficulties after the six-month payment deferral, as a result of the pandemic.[65] The FCA found that the majority (67%) of those who took up a mortgage payment deferral felt their lender was sympathetic to their circumstances.[66] However, given the public health nature of the crisis, it is reasonable to bolster this guidance with further action effective immediately, such as the temporary moratorium on repossessions. It would be unfair to allow possession and eviction proceedings to be pursued even at a last resort while the Government orders large proportions of the population to stay at home during national and local lockdowns.

Seemingly, the government has also learnt that mortgage schemes for refinancing, such as MRS and HMS, are likely to be best organised and delivered by lenders, overseen by the FCA. The government would best support this by encouraging homeowners to seek advice and talk to their lenders about their options if they are concerned about facing difficulty. The additional funding for this is therefore a welcomed response. However, just two fifths (41%) of mortgage holders reported that their lender had contacted them to discuss options, such as extending payment deferrals or extending their mortgage term to reduce payments, in comparison to 50% of those who took credit payment deferrals.[67]

There is one important lesson missing from this package: SMI. As noted earlier in this chapter, research and reports from parliamentary and industry representatives recognise the effectiveness of a more generous SMI provision in previous crises. Since then, critics have warned that the shift from a benefit to a loan will reduce the level of support for homeowners.[68] Yet, the Government's crisis response has not included a reduction of the SMI waiting period, such as in 2009. We discuss policy considerations for SMI in the final chapter of this report.

Despite the affordability pressures of the current crisis, mortgage arrears had not increased by the end of Q3 2020 and repossession activity was low – see Figure 23. These figures can be attributed to the suspension of payments and possessions through the mortgage payment deferral and repossession moratorium.[69] However, these data points conceal the reality that the pandemic is taking a toll on household finances and that further hardship is likely to be on the horizon as furlough schemes come to an end. As a result, a backlog of possessions is undoubtedly building on top of the possession cases that were being pursued prior to March 2020.

Figure 23: Number of new possessions and mortgages in more than 1.5% arrears per quarter, 2007-2020



Source: Bank of England, FCA

In November, the Financial Times reported that around 2.5 million people had taken mortgage payment deferral since the start of the pandemic, but only 162,000 were still in force in October 2020.[70] The FCA found that of those who took a deferral during this time, four in ten (40%) said that they would have struggled a lot without it.[71] While the vast majority of deferred payments have since resumed, survey data of mortgage holders indicate a more adverse outlook.[72] Research from the JRF published just days before, found that 1.6 million households (a fifth of all British mortgage holders) were worried about paying their mortgage over the next three months (up to January 2021).[73] Of those in work, 890,000 expected to see a drop in earnings over the next month (November 2020), but the vast majority (85%) are not eligible for any government support with their housing costs – this is because SMI is only available to UC claimants with no other income.[74]

The moratorium on possessions is a sensible and fair policy to support mortgage holders during a public health and economic crisis, but the backlog of cases will probably have some concerning implications. Firstly, some borrowers in significant financial difficulty may be at risk of their equity eroding due to the inability of lenders to execute repossessions. Those who have not made

payments on their mortgage for a protracted period of time and have not reached a tailored agreement with their lender face increasing debt as interest builds on their mortgage. By the time possessions resume, these borrowers could see their equity share reduced, which could affect their future housing options. Secondly, once the moratorium is lifted, the courts will likely face significant capacity issues in pursuing the backlog of possessions that has developed over 2020. This means that the rate of possessions could be inflated throughout 2021 and 2022, and more borrowers could face an erosion of equity over this time.

Access to and awareness of the mortgage safety net

Prior to the Coronavirus pandemic, the 'formal' safety net saw the removal of the temporary crisis-mitigation schemes in favour of preventative regulation. As a result, SMI remains as the last pillar of a government-supported safety net. Yet, research by UK Finance finds that the move to a loan-based scheme and the rollout of UC reduces the level of security provided by SMI.[75] This is further undermined by evidence that indicates that access to and awareness of the scheme are limited.

Who can access SMI?

Accessing the SMI loan follows a similar process as other forms of benefits. When prospective claimants apply for a qualifying benefit (JSA, ESA, Income Support, UC and Pension Credit), they are asked additional questions about their housing costs to determine eligibility for SMI. However, working-age claimants will not receive the loan until after they have claimed qualifying legacy benefits for 39 weeks or UC for nine months consecutively. In comparison, Pension Credit claimants can get the SMI straight away.[76]

UC claimants are also subject to a 'zero earnings rule' for SMI, which means that claimants will lose their entitlement if they receive income from employment, tax credits, statutory sick pay or statutory parental pay. Claimants can reclaim the loan once their income ceases, but their waiting period of nine months will restart. This has been noted as one of the very few 'cliff edges' in the welfare system, whereby claimants can be left worse off if they take on work, rather than remaining unemployed.[77]

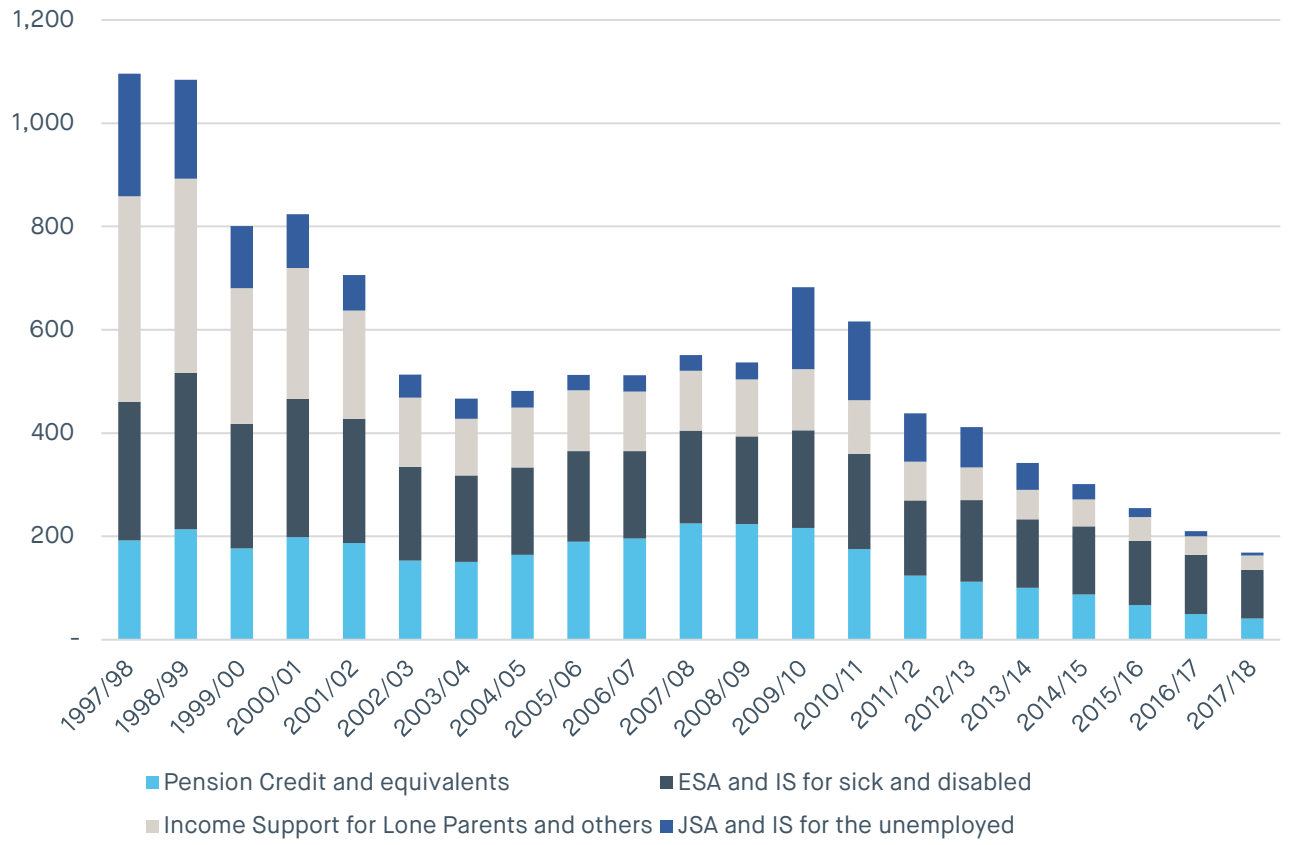
Government expenditure and caseload data show that the restrictive eligibility criteria of SMI has meant that it is largely claimed by those who cannot work (economically inactive), rather than those who are currently unable to (unemployed). As data are only available up to 2017/18, we refer here to SMI as the grant benefit rather than the loan which was not introduced until April 2018. Claimant rates for SMI were highest among the sick and disabled, followed by pensioners, then single parents and others needing income support. In comparison, those on unemployment benefits represented the smallest proportion of total claimant caseload and expenditure.[78] This reflects a government briefing note that states, *"for claimants of IS, income-related ESA and Pension Credit, SMI may be paid indefinitely"*.[79]

This finding raises further questions about the rationale for moving SMI from a grant benefit to a loan, providing these trends in claimant groups continue. Given the vast majority of claimants are likely to be in-receipt of SMI long-term, will the new loan scheme simply cause them to build further debt that they will be unable to pay off? Is it therefore in the best interest of the claimant to maintain their homeownership through government interest-bearing loans? Furthermore, is this in the interest of the taxpayer, who fronts the funding of SMI loans? Arguably, it would be more suitable for the government to support these homeowners, who face long-term difficulty in

making mortgage payments, to transition towards more sustainable housing arrangements where appropriate, such as downsizing or transferring tenure. Sale-and-rent-back or shared equity/ownership options more specifically could also enable some claimants to modify their finances or tenure while staying in the same home, which can reduce the stigma and disruption of moving.[80]

Over time, we can see an aggregate decline in spending on SMI – shown in Figure 24. This fall is most significant for unemployment benefit claimants and Pension Credit claimants. From the most recent peak in 2009/10, SMI expenditure has fallen by 93% for unemployment claimants and by 63% for Pension Credit claimants. This could be attributed to the two-year limit for new and some repeat JSA claimants since 2009, as well as changes to the qualifying age for State Pension and Pension Credit in 2010. As a result, fewer claimants of both benefit types would have been eligible to receive SMI over the last decade.[81]

Figure 24: SMI expenditure by income-replacement benefit type, £ million in real terms 2020/21 prices



Source: SMF analysis of DWP statistics

Public awareness and understanding of SMI are limited

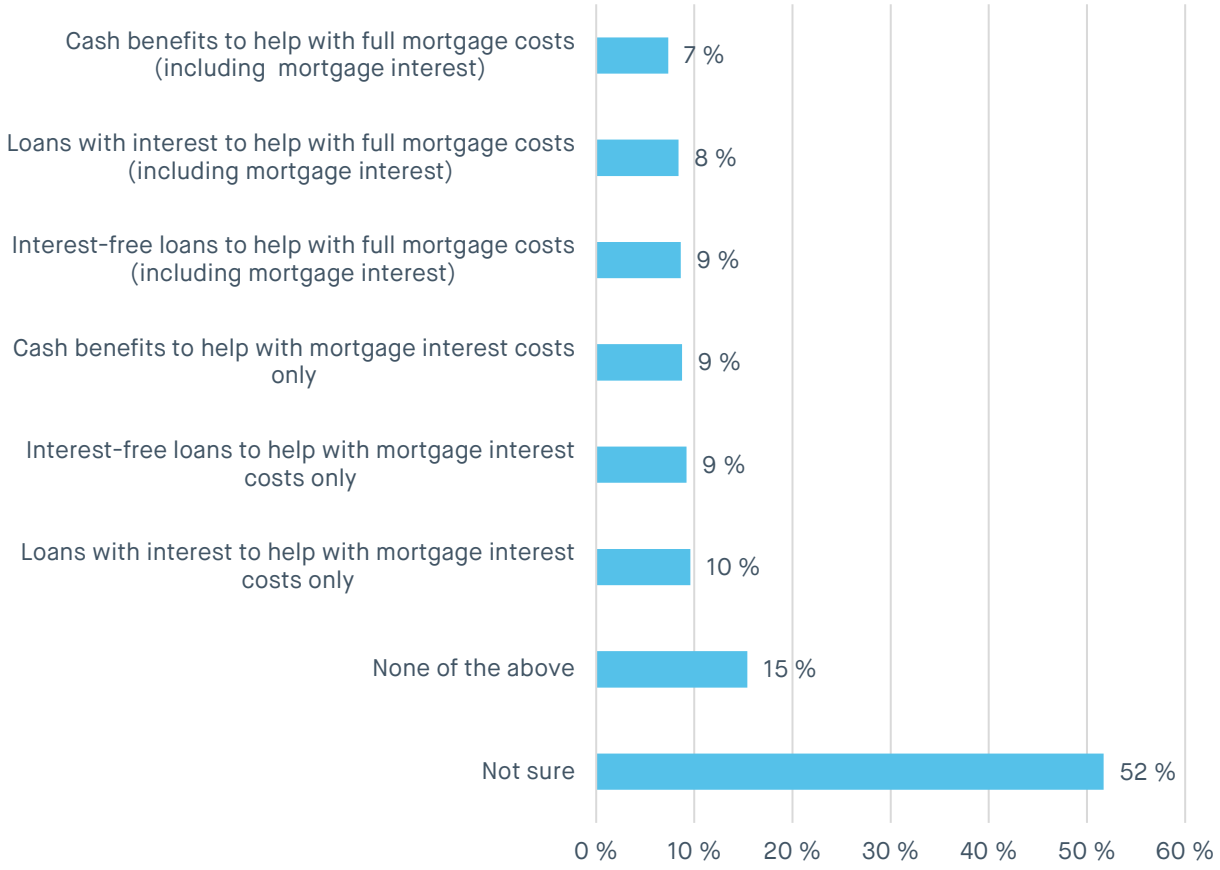
In 2017, the DWP commissioned polling by Ipsos MORI to understand the public's attitudes towards taking up SMI as a loan. The findings were significant, highlighting that knowledge of SMI is very limited among the general public, those who were most likely to take up the loan (the 'target sample') and SMI claimants themselves.

Among the target sample, just 4% claimed to know "at least a fair amount" about SMI. For benchmarking purposes, this figure was around 41% for JSA. SMI claimants also indicated

relatively low levels of awareness, with just over a quarter (28%) claiming to know "at least a fair amount about it". It is therefore unsurprising that only 2% of the general public were aware of the changes of SMI to become a loan; this rises to just 8% for target sample respondents. The DWP states that these findings may reflect the fact SMI is paid directly to lender, with little involvement from recipients.[82]

As part of this research project, the SMF commissioned polling from Opinium on the financial vulnerability of mortgage holders as a result of the pandemic. In this survey, we also sought to test mortgage holders' awareness of the government support that is currently available to mortgage holders facing difficulty. Over half (52%) of mortgage holders say they are unsure about what government support is available to them in the event of loss of job or income – see Figure 25. Just one in ten (10%) of mortgage holders correctly identified the type of support that is currently available under the SMI loan – that being loans with interest to help with mortgage interest costs only.

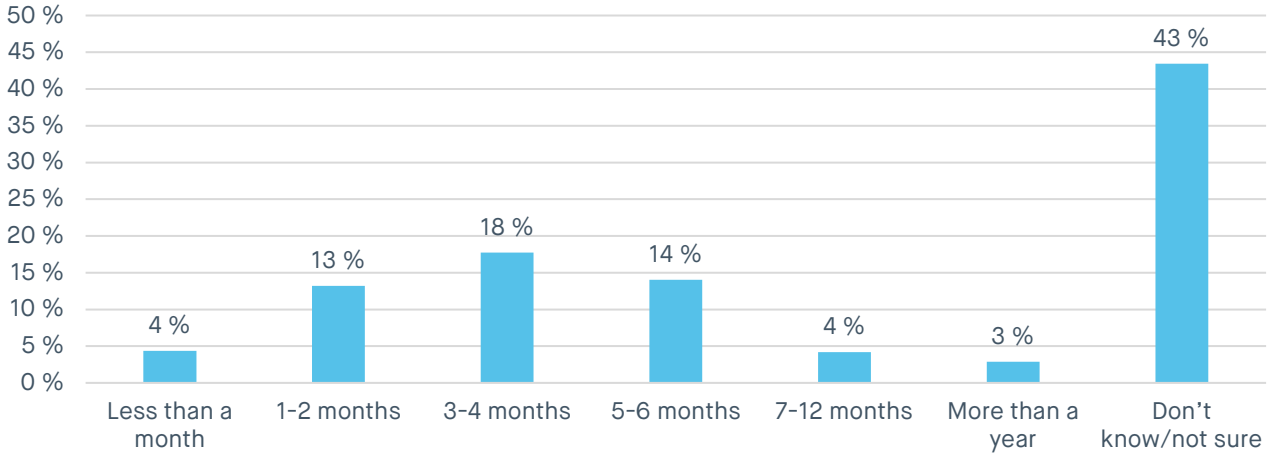
Figure 25: Awareness of government support for mortgage holders in the event of loss of job or income



Source: SMF analysis, Opinium

In line with this, just over two-fifths (43%) of mortgage holders said that they do not know how long someone has to be out of work before they can claim government support for mortgage costs – see Figure 26. On average, mortgage holders say they think that such a waiting period would take around four months, which is less than half than the actual period of 39 weeks or nine months.

Figure 26: Duration that someone must be out of work before they can claim support for mortgage costs, as reported by current mortgage holders



Source: SMF analysis, Opinium

CHAPTER FOUR – INTERNATIONAL POLICY

International approaches before the Coronavirus pandemic

In terms of how home ownership safety nets were implemented prior to the pandemic, a 2017 report by UK Finance comprehensively describes a number of different international perspectives.[83] Comparisons showed that many countries did not have mortgage-specific safety nets at all, which in some instances was an implication of more favourable general income support measures being in place. Although, other countries (including the UK) had brought in increased measures to protect those suffering from 'mortgage distress' in times of crisis – namely the Global Financial Crisis. Essentially, approaches have been highly varied.

UK Finance's analysis of secondary data from the OECD and its Affordable Housing Database showed housing policies adopted across developed world economies. We have produced an updated table of that assessment of key characteristics, through using more recent data from 2018, which can be found below. Data are not complete for all countries.

Table 1: Existing mortgage relief measures for over-indebted homeowners

Country	Measure	Description	Type
Australia	Early release of superannuation	Eligible applicants may access their retirement savings to avoid repossession of their home.	Access to advance payments
Belgium	Guaranteed Housing Insurance	Free insurance paid by the Flemish government, covering the loss of income following incapacity to work.	Cash to support mortgage payments
Hungary	National Asset Management Programme	The property is bought by the state and the loan taker stays in their home as a tenant, paying reduced rent payments.	Mortgage to rent scheme
Iceland	Payment adjustment	Individuals and creditors negotiate tailored solutions to mortgage payments	Payment adjustments
Ireland	Mortgage to rent schemes	Two schemes operate: one where people can rent their home as social housing associations tenants, and another where local councils acquire ownership.	Mortgage to rent scheme
Italy	Solidarity fund for main home loans	Allows the suspension of the payment of the loan for an entire house for 18 months, up to the value of €250,000.	Temporary postponement of payments
Japan	Modifications to repayment methods	For people with a remarkable change in economic circumstance, measures such as the extension of repayment period of reduced interest can be agreed.	Modification of loans conditions
Netherlands	Temporary mortgage reduction	Homeowners with a national mortgage guarantee, may be able to get a temporary mortgage reduction in certain circumstances.	Temporary mortgage reduction
New Zealand	Accommodation supplement	A weekly payment to assist people with low incomes who are not in public housing if they meet a cash assets and income test and is not tied to benefits.	Cash support for payments
Norway	Start Up Loan refinancing	A loan scheme for refinancing homeowners in financial distress.	Mortgage refinancing
Poland	Borrowers' Support Fund	Provides financial support to borrowers in financial difficulty and who are obliged to pay their loan.	Cash support for payments
Russia	Mortgage relief schemes	Borrowers with financial problems can postpone mortgage payments, extend terms, or reduce rates.	Variety of measure

Source: 2019 OECD Questionnaire on Affordable and Social Housing

The UK Finance report does not robustly evaluate countries' responses, it only identifies the general attitude, the kinds of income-related assistance, and regulatory changes deployed, so it is difficult to ascertain the effectiveness of approaches used. A broader review of the literature around mortgage safety nets suggests such an evaluation has not been taken elsewhere, nor is there much in the way of comparable data to allow such cross-country comparisons.

Ultimately, UK Finance says that it is difficult to argue coherent safety nets have been put into place in any of the countries it examined.

International responses to the Coronavirus pandemic

The impact of the Coronavirus pandemic upon household finances and the wider economy has been – and will continue to be – significant, at least for certain segments of society, such as those working in industries particularly impacted by the pandemic. As the virus took ahold of countries across the globe, forcing leaders to implement lockdowns, joblessness and reduced working hours have affected household income and levels of debt. But, just as chapter two of this report has highlighted, the consequences for UK households' income have been mixed, and some workers may have actually become *more* financially resilient. It therefore seems useful to look at the array of responses administered by different countries in response to the Coronavirus pandemic, and the people they have targeted.

As has been pointed out by Deloitte, mortgage debt is the largest source of debt for homeowners, and it holds significant implications for financial management and the ability of households to remain solvent, especially if wages decrease. From the perspective of lenders, residential mortgages represent significant worth, profit, and liquidity. It is therefore in the best interest of countries to maintain the vitality of the residential mortgage market, as well as the social imperative of protecting households at risk, if they are to recover from the pandemic.[84]

Published in May 2020, towards the beginning of the Coronavirus pandemic, Deloitte's report examined how countries were responding to changes in financial markets. In terms of fiscal and regulatory intervention, support for borrowers (both individuals and businesses) quickly emerged, in various forms.[85]

For instance, it was noted that South Korea's government provided consumption coupons to those on low incomes as a form of providing direct financial support to households. In terms of deferring payments, the Italian government instated a moratorium on all outstanding mortgage payments for three months. To limit the consequences of bankruptcy, the United States' CARES Act halted evictions and foreclosures for 120 days for tenants with federally-backed mortgage loans. At the macroeconomic level, developed countries such as Australia and Canada (as well as the UK) cut interest rates because of the increased risk of deflation.[86]

As the effects of the pandemic continued to deepen, in July 2020 the OECD carried out a similar assessment of its own, again examining different countries' policy responses to housing amid the Coronavirus pandemic. Providing a fuller picture of the kinds of measures governments had taken to protect mortgage holders and tenants, a wide range of emergency support interventions were detailed. Typically, this included the suspension of evictions, the forbearance of payments, and moratoria on utility payments – but in practice, the implementations of these broad approaches differed greatly.[87]

Table 2: Support for homeowners by country

Country	Forbearing mortgages	Suspending foreclosures	Supporting mortgage payments	Deferring tax	Helping banks to lend
Australia	✓				
Austria	✓				
Belgium	✓				
Canada					✓
Chile					
Columbia	✓				
Czech Republic	✓				
Denmark					
Estonia					
Finland					
France					
Germany	✓				
Greece	✓				
Hungary					
Iceland					
Ireland	✓				
Israel	✓				✓
Italy	✓	✓			
Japan					
Korea					
Latvia				✓	
Lithuania	✓				
Luxembourg			✓		
Mexico	☑				
The Netherlands		✓			
New Zealand					
Norway					✓
Poland	✓				
Portugal	✓				
Slovak Republic	✓				
Slovenia					
Spain	✓				
Sweden					
Switzerland					
Turkey					
United Kingdom	✓	✓			
United States	☑	☑			

Source: OECD (2020), DIW, Arena Housing Project

Note: ✓ indicates measure applied at national level or to all or most cases, ☑ indicates measure applicable only in some sub-national regions or cases.

In terms of the actions taken to protect mortgage-holders specifically, OECD have noted that a number of countries, including Italy, the Netherlands. the United States and the UK have introduced measures to prevent individuals from losing their homes through the suspension of foreclosures. Their data show that many more had encouraged mortgage forbearance - it was the measure most widely adopted by countries overall, with 20 countries implementing some form of it from the OECD's sample of 37 OECD member countries and 9 non-member countries.

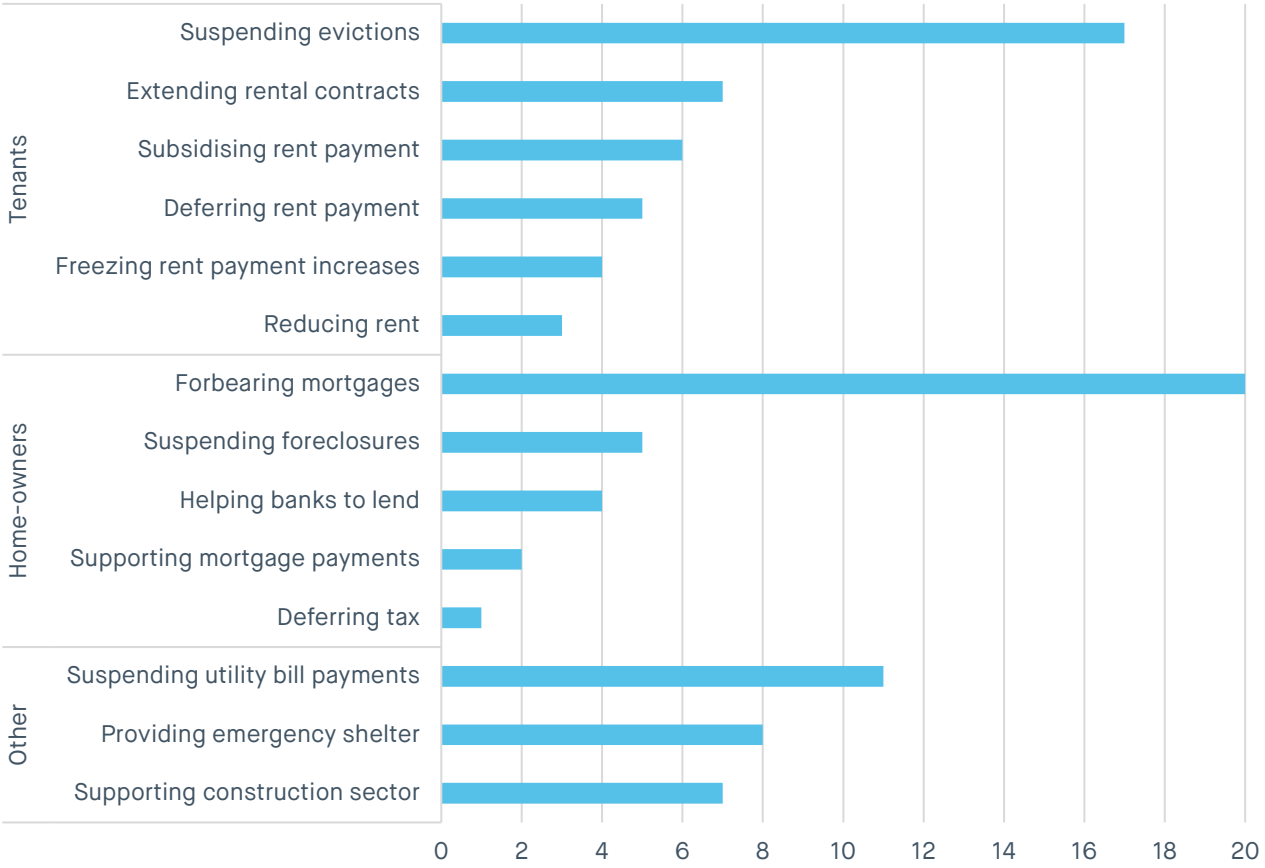
The IMF has also documented countries' responses to the pandemic, summarising their key economic responses, including mortgage policies. However, its policy tracker does not fully reflect *all* policies taken by governments - it looks at discretionary actions, and so it is likely that some safety nets are not included in the IMF's synopses. Approaches of note, as of December 2020-January 2021, include:[88]

- **Chile:** A programme worth US$1.5 billion to support members of the middle class experiencing a severe loss of income, including through treasury-backed loans, delays on mortgage payments, and mortgage guarantees for SME loans. Subsidies and unemployment benefits were also provided for the vulnerable and self-employed.
- **Costa Rica:** A minimum two-month moratorium on the payment of interest for mortgages, personal credit, credit card loans, consumer loans, and education loans for households and businesses affected by the crisis.
- **Egypt:** A guarantee fund of EGP 2 billion was set up for the mortgages and consumer loans made by banks and consumer finance firms.
- **Ireland:** Payment breaks were made available for mortgages and personal and business loans for those affected by the Coronavirus pandemic, and they will not affect borrower's credit records.
- **Italy:** Emergency packages contained a moratorium on loan repayments for households and SMEs, including mortgages.
- **Japan:** The government's Financial Services Agency asked banks to defer payments on mortgage loans, and to remove charging fees for modified mortgage loans.
- **Mexico:** Provided subsidised unemployment insurance for three months to workers that hold a mortgage with the state's Housing Institute, costing 5.9 billion pesos.
- **New Zealand:** Mortgage loan-to-value ratio (LVR) restrictions have been temporarily removed, and financial support measures, such as interest repayment deferrals, have been announced for both homeowners and SMEs.
- **Spain:** A moratorium on mortgage payments lasting three months was provided to the most vulnerable groups, including those that have rented out their mortgaged properties.
- **United States:** Federally-backed mortgage companies, Fannie Mae and Freddie Mac, announced support to borrowers by way of mortgage forbearance, the waiving of late fees, suspending foreclosure and evictions, and loan modification options.

Such policies reflect the variety of options being utilised. Below, Figure 18 shows the frequency of those different approaches being implemented. Perhaps unsurprisingly, as an emergency response that can quickly be deployed to help homeowners in the immediate term, the forbearance of mortgages was administered most. Thereafter, more housing support responses are targeted toward renters; but that is not to say that, in principle, those interventions could not

be extended to homeowners – payment deferrals, financial subsidies, and the option of loans without interest all stand out as feasible solutions for mortgage holders.

Figure 27: The number of housing support measures targeted towards tenants and homeowners



Source: OECD (2020), DIW, Arena Housing Project

Note: The sample includes all 37 OECD and 9 non-OECD countries.

International responses to previous crises

The Coronavirus pandemic has posed the largest threat to the world's mortgage markets since the financial crisis of 2008,[89] and the above section has shown that many countries have taken steps to protect homeowners. But by assessing responses to the crises of the past, including the Global Financial Crisis, taking into account the coverage and efficacy of those safety nets, it may be possible to establish a working set of principles to be implemented (or to avoid) in the future. Table 4 below shows a broad view of how some nations have responded to crises of past, including those that are country-specific (i.e. not limited just to the Global Financial Crisis) showing a wide range of initiatives:

Table 3: Interventions to crises across different countries

Country	Enabled rule changes	Direct subsidies	Required the industry to adjust	General attitude
Australia	Early release of superannuation benefits.		Consider variations in contracts when a borrower is in hardship, and remediation when hardship results in poor lending practices.	Not original responses but rules which were tightened in response to the Global Financial Crisis.
Canada	Mortgage rate renewal protection in response to higher interest rates in 1980/1.		Mortgage law strengthened consumer protection, such as with foreclosure.	Was hardly impacted by the financial crisis and produced little response.
France	A buy back scheme transferring those struggling to social housing after the 1989/90 crisis.			No concerns after the Global Financial Crisis and no changes to support.
Hungary	National Asset Management Programme; a debt management service; and prolonged moratorium on foreclosure.	Early repayment at discount rate; transfer to rent with subsidies for lowest income households.	The cost of early repayment scheme laid on banks; interest and exchange rate increases	Experienced an extreme crisis in the mortgage market and adopts a more general 'unorthodox' financial policy.
Ireland	Forbearance; deferred interest scheme; mortgage to rent scheme.	Limits to penalties for mortgage arrears; subsidy support for first time buyers.	Lenders must have established policy on addressing arrears, as well as having dedicated staff.	Experienced large problems in the mortgage market due to the financial crisis.
The Netherlands	Extended mortgage guarantee scheme.	Mortgage interest relief on debt on sale with no repayment for 15 years.	Help to lenders and mortgage borrowers through a national guarantee scheme.	Crisis was felt significantly due to negative equity and an inability to sell property in its 'dead' market.
Portugal	Modified loan conditions and postponed mortgage payments in response to earlier crisis.			Because of its response to earlier crisis it has had few problems of defaults and arrears.
Spain	Massive range of interventions at national, regional, and industry level.	Direct subsidies in Catalonia.	Industry pays the costs associated with rule changes.	Had many mortgage borrowers; politicised approaches to remediation.
Sweden	Debt reconstruction rules made more generous.		1991/2 crisis lenders renegotiated loan terms.	Not hard hit by crisis so there were no other measures.
United States	The Hardest Hit Fund was established in 2010 in 18 states and the District of Columbia.	Mortgage payment assistance and transition assistance programmes.		Problems of defaults and arrears dealt with differently across different states.

Source: UK Finance

International responses to the Global Financial Crisis

As well as the many different types of initiatives described above, some detailed examples of how countries responded to the Global Financial Crisis by offering safety nets to vulnerable mortgage holders can be found below. The following have been put forward for having distinct characteristics – therefore standing out as approaches that contain value for policymakers, for better or for worse.

Australia - early access to superannuation

Australia looked to navigate the stormy economic climate presented to it by the early release of people's superannuation (or, 'super'). Essentially, this means the early release of one's pension savings, which normally cannot be accessed until preservation age, in order to make necessary payments, either on 'compassionate grounds' or due to experiencing severe financial hardship. A new early release of super programme was introduced to help people deal with the economic impacts of the pandemic, but became closed for applications in December 2020.

With the former, a person can access their super early if they need to pay for: medical treatment or transport, the accommodation, care, or funeral expenses of a dependant, or make a mortgage payment to prevent the loss of a home – allowing the withdrawal of the amount needed to prevent that loss. The latter option hinges upon criteria that a person must be in receipt of income support payments from the state for at least 26 weeks consecutive weeks, and that they are unable to pay for "reasonable and immediate" family living expenses. Under severe financial hardship provision, the amount of support can be between AUD$1,000 and AUD$10,000.[90]

The immediate benefit of Australia's early access to super scheme is that it allows almost anyone to make an emergency mortgage payment if they need it – if they have enough savings. Crucially, people in financial distress may also have the option of accessing funds. The obvious downside is that an early withdrawal will impact the amount that someone will have in retirement, as well as losing the compound interest on that withdrawal,[91] whereas some people will have little to no savings at all. Having less money at retirement age could also mean that someone has to work for longer. And even if someone is eligible, it is the super fund that decides if they will release savings early. There is also the possibility of certain financial impacts, such as having to pay tax on money taken from the super, paying a super fund fee, receiving reduced child support payments, reduced income protection insurance, and reduced disability insurance cover.[92]

In terms of the overall drop of value in members' balances during the Global Financial Crisis, from their peak in 2007 to March 2009 when the market plummeted to its lowest point, superannuation assets reduced by AUD$160 billion.[93] However, this could also be perceived as a significant retention of otherwise lost expenditure by the Australian Government – and taxpayers' money – on implementing alternative safety net approaches.

More recently, an interim report on the early release of super applications during the pandemic showed that 2.45 million out of 2.54 million applications were approved – amounting to $20.1 billion in requested funds in total. By income range, 42% had earnings of $37,001 - $90,000, 24% had $18,201 - $37,000, and 12% had $1 - $18,200. In terms of request categories, 42% were approved on the basis of having seen their hours reduced, 17% had become unemployed, and another 17% were eligible for government benefits.[94]

Hungary, National Asset Management Programme

Hungary was one of the countries hardest hit by the financial crisis, due to having increased foreign exchange loans. Although it initially responded by introducing "economically necessary" austerity measures, in 2010 the newly-elected government instead turned to "mobilising its economic reserves" – and to helping defaulted borrowers. Eventually, in 2012, the National Asset Management Company (NAMC)[95] was established as an agency dedicated to aiding vulnerable homeowners.[96]

Essentially, NAMC represented a new avenue for debtors whereby they became able to sell their failing loans and take on a renting option for their home instead. Under this arrangement, the ex-owner becomes a tenant with a lease, without a fixed term, with the option to buy back the house within five years. At first, the initiative only targeted vulnerable borrowers with children, and it later became relaxed to include other at-risk groups. However, it soon became apparent that therein lied a significant problem: 30% of the families targeted could not afford the low rent introduced to them, due to pre-existing debts. Another issue is that the programme is voluntary, as both the debtor *and* the lender have to sign up.[97]

The results of Hungary's state-backed safety net have been contrasting. While the NAMC did offer a debt management service, moratoriums on foreclosure,[98] and by mid-2014 had bought 16,500 properties at 46% of the average market price to provide affordable renting solutions,[99] not all outcomes were positive.[100] Strong support was offered for those on a higher income, while lower-income borrowers were left in far tougher circumstances, simply due to lacking the resources needed to repay their debts – an aspect of the crisis the NAMC did not provide for.[101]

United States, Hardest Hit Fund

As a way of easing some of the impact inflicted by the subprime mortgage crisis, in 2010 the US Treasury introduced direct subsidies to help aid mortgage payments and transitions. Since its inception, it has evolved from being a $1.5 billion programme focused on housing finance agencies in the five states with the largest home price declines and many "underwater" homeowners, to a far broader initiative that envelops 18 states and Washington, DC and is worth $9.6 billion.[102]

Funding was given to states based upon having high unemployment rates (at or above the national average) or a decline in home prices of more than 20%. Each state's programme was designed and carried out by their own housing finance agency, and problems of arrears and defaults were dealt differently across different states. The Hardest Hit Fund programmes have therefore varied but have included policy mechanisms such as: helping owners acquire more affordable mortgages by way of principle reduction, helping homeowners transition into more affordable places of residence, or assisting with down payments.[103]

Different states have different initiatives and approaches to how they implement them. As just one example of how the Hardest Hit Fund worked in practice, a fact sheet for Washington DC describes a programme whereby eligibility is as follows: applicants must be unemployed or must have received unemployment insurance within six months of their application date *or* they must have experienced a 25% decline in income; must not have received a notice of foreclosure or be in a state of bankruptcy; mortgage balance must not exceed $729,750; and income must not exceed $128,760 in order to receive assistance. In Washington, three types of assistance were available to eligible applicants: Lifeline Assistance, a one-time payment of up to six months

mortgage delinquency; Mortgage Assistance, providing a maximum of $32,385 or up to 15 months of mortgage payments; and Restore Assistance, helping recently re-employed homeowners catch up on delinquent mortgage payments again with a maximum of $32,385.[104]

The Hardest Hit Fund has been criticised by government officials, such as in reports to Congress, as banks have not been forced to make the necessary interventions.[105] Even if banks accepted mortgage payments from the fund, they did not have to entirely dismiss a foreclosure case but could pause it. As such, people were not always kept in their homes. A result of the banks' lack of participation in the scheme is that little money has actually gone to homeowners – as of 2011, only 3% of the total budget was spent on assistance due to poor central planning and limited involvement from service providers.[106] This example shows that improved cooperation (and, if necessary, litigation) is needed between governments and banks for some safety nets to be successful.

Lessons learned

The mortgage safety net examples have their merits and drawbacks.

For example, in Australia, cash support in the form of pension drawdown stands out as an immediate, much-needed relief for mortgage-related financial distress, at no great cost to the state. However, without at least some level of state support, it is likely that some people – namely, those who do not have pension savings to turn to – will not be covered by this particular safety net. And as a supposed protective measure, the early withdrawal from the retirement pot by an individual, particularly by those that are not wealthy, seems somewhat ungenerous, and may well lead to income problems at a later age. This appears to undermine the very purpose of superannuation savings.

With the Hungarian case, the National Assets Management Programme was ostensibly installed in order to help vulnerable borrowers, effectively providing them with social housing, shifting their tenure to rental within their own home, with the option to buy back the house within five years. This proposal seems fair, providing households with security and the added comfort of not having to relocate in times of hardship. In reality, though, it turned out that a significant proportion of families could not afford the low rent offered to them, rendering the safety net ineffective - perpetuating financial distress for some but not others.

The United States' Hardest Hit Fund stands out as a fitting response to aiding mortgage-holders during times of crisis. Unlike in Hungary, the Washington example describes a programme whereby funding for payments is allocated to individuals according to the thresholding of unemployment rates, the decline in house prices by state, and an eligibility criterion intended primarily for those struck hardest. However, the success of the programme hinged upon the cooperation between homeowners, the state, and banks, and owing to that breakdown in mutual support the initiative has, to some extent, failed.

We acknowledge that these examples alone do not represent a robust comparison of approaches or their outcomes. However, when weighed up against the mortgage safety nets available here in the UK, it is possible to make some summative remarks. Earlier in our report, we identified that the British approach typically relies on less risky lending, as well as only offering temporary support in times of crisis. Although they each contain their own various pitfalls, the case studies provided above were all introduced during crises (and were arguably deployed as more purposeful, inspiring programmes in the first place) but they have also *remained available* since

– suggesting a more thorough, more ambitious attempt to protect mortgage holders. These international approaches have also demonstrated the wider range of options that are available to government, which could be considered as potential policy avenues here in the UK.

With these international lessons and principles in mind, the following chapter will look to assess the future of UK mortgage safety nets, to arrive at, and make suggestions for, the issues and approaches most in need of policymakers' attention.

CHAPTER FIVE – WHERE NEXT FOR MORTGAGE SAFETY NET?

This report has examined the state of the UK's mortgage safety net and considered the nature of the safety net in other countries. Drawing on the ONS Wealth and Assets Survey and data emerging from the pandemic, we have also examined the groups most exposed to the current economic downturn.

If UK policymakers are to redesign the UK's mortgage safety net, we believe there are four important issues that need to be considered:

1. **The need to ensure households are not "falling through the cracks".** We are particularly concerned that the transition to Universal Credit is leaving households suffering a sharp income fall (but not outright unemployment) with a very limited safety net. As noted in the report, the difference in Universal Credit mortgage support between the unemployed and those on low incomes is one of the few cliff edges in the new welfare system.
2. **The need for clarity on the objectives of mortgage safety net policy.** We are concerned that there is a lack of clarity at a governmental level around what mortgage safety nets are meant to achieve. This includes a lack of nuance acknowledging that different objectives are likely to apply to different groups.

   In particular, we believe that mortgage safety net policy needs to consider, and clearly provide, objectives for two broad groups – 1) those suffering a temporary loss of income/employment and 2) those for whom loss of income/employment is very likely to be a permanent or long-lasting situation.

   In the former case, the role of the safety net should be to see households through the temporary income shock, enabling them to remain in their homes during a difficult period. Applying the same kinds of safety nets to the latter group – e.g. in the form of SMI loans – could just be a case of "good money chasing after bad", given that remaining in a home may not be a sustainable option. For those suffering a permanent loss of income or employment, arguably the key role of safety net policy is to ensure a smooth rather than disorderly transition to an alternative housing arrangement – whether that be downsizing or shifting tenure (e.g. to shared ownership, social rented or private rented).

   Often it will not be possible to determine at the outset which of these two groups an individual or household falls into. For example, it is often difficult to establish, with certainty, whether a newly-unemployed individual will be out of work for a brief or extended period of time. In such instances, safety nets should initially assume a temporary loss of income, and perhaps then adjust as the income shock appears to be more long-lasting. For some groups, such as those suffering an injury which severely limits ability to return to work, the most appropriate focus of safety net policy should be helping the individual transition to a more sustainable housing arrangement which reflects the newfound constraints on their income. In an adjusted policy framework, there could also be options such as early pension drawdown which allow such individuals to pay off or reduce their mortgage and remain in their current home. Insurance-based solutions could also help in this regard.

   We note that lack of coherence in mortgage safety net schemes is a common theme across countries – the UK is not alone in this.

3. **The need to ensure that mortgage safety nets are equitable.** As with most aspects of policy, it is important to consider the distributional implications of mortgage safety nets – which income groups benefit the most from their existence?

   A key consideration in the UK context is the decline in homeownership rates among younger age groups in recent years. With a significant proportion of the population locked out of the housing market, there are valid questions to be asked around the equitability of taxpayer-provided support to allow homeowners to remain homeowners.

   We note from our analysis of the Wealth and Assets Survey that the greatest number of financially vulnerable mortgage holders are in the second and third income quartiles, not the lowest income quartile – reflecting lower rates of homeownership at the bottom end of the income distribution.
4. **The need to ensure safety nets do not provide perverse incentives.** One concern about the existence of mortgage safety nets is that they may incentivise mortgage-holders to act imprudently – for example, not setting aside sufficient contingency savings. If such perverse incentives are significant, government support may end up being excessive – helping not just those with nowhere else to turn, but also providing support for those that have acted irresponsibly.

With these issues in mind, we think there are a number of useful avenues that could be explored for refining the UK's mortgage safety net:

1. Enhancing "private" safety nets

To ensure that safety nets are both equitable and do not provide significant perverse incentives, there is a strong case for enhancing "private" safety nets among those that can reasonably be expected to afford such safety nets.

Perhaps the most obvious option here is encouraging wider uptake of mortgage payment protection insurance. We are reluctant to suggest that the right approach here would be a mandatory insurance scheme, not least because of legacy of insurance misselling in past years which has impacted the reputation of such products. However, bought and sold correctly, and with a price-competitive market for products, such insurance could play a key role in preventing repossessions.

Another case against mandatory insurance is that some households may simply be "self-insuring", setting aside savings that they can draw on in a financial emergency. Retaining the flexibility to self-insure alongside taking out products seems desirable, particularly in terms of ensuring that the market for insurance products remains competitive (given that consumers could always choose to abandon the products if they become too expensive).

As such, we believe that the focus of policy in this space should be on education and communication – ensuring that mortgage-holders are aware of the existence of these insurance products, and providing them with clear information and tools that they can use to assess the extent to which they are likely to provide value for money and a sound safety net, given their circumstances.

Another consideration is the taxation of insurance products in the UK, which acts as a disincentive to purchasing insurance. As the SMF has argued elsewhere, the main rate of

Insurance Premium Tax (IPT) in the UK currently stands well above what a VAT-equivalent rate would be – a result of IPT increasingly being treated as a stealth tax rather than a VAT equivalent for insurance. Reducing the main rate of IPT back to a single digit rate would incentivise uptake of private, insurance-based safety nets through lowering the cost of insurance.[107]

Another means of expanding private safety nets is adopting the approach of Australia and allowing individuals to draw on pension wealth in a case of extreme financial distress. The ability to do this should, in our view, be subject to strict criteria – given the risk of pensions becoming perceived as emergency savings, and the risk of replacing a "home repossession problem" with a "lack of pension income problem" in older age. Nevertheless, for some segments of the population, drawing down pension wealth might be an appropriate last resort option.

2. Bolstering "social" safety nets

We are concerned about the erosion of government-backed mortgage safety nets in the UK, particularly given the likely impact of the Coronavirus pandemic on the jobs market. A further consideration is the likely evolution of the housing market; 2020 saw prices propped up by a stamp duty holiday and once this holiday ends on 31st March 2021 a downturn in prices is a likely scenario. Depending on the severity of any softening in prices, this could push more households, at least in some parts of the country, into negative equity.

The shift towards making Support for Mortgage Interest a loan rather than a benefit was, in our view, the wrong one and indeed not in keeping with the spirit of the welfare system. Critically, for some groups, SMI loans may lead to further financial distress in the long run.

Broadly, we believe that a recent proposal made by the Centre for Policy Studies[108] – to replace SMI loans with a grant for the first three months – is a sound approach. This would ensure that those suffering a temporary loss of income receive support for housing costs during a period of hardship, without the risk of building up further financial issues from having to take on an additional loan.

Beyond a period of grant payments, treating SMI as a loan and making the benefit time-limited may be justified. This is not just because of costs to the state but, where individuals are likely to be suffering a permanent or long-lasting loss of income, the best option may be to encourage them to consider a change of home or change of tenure within the same home.

The waiting period for receiving SMI should also be reduced to 13 weeks. Our analysis has identified a significant number of households with limited financial resilience, for whom the current waiting period of 39 weeks could lead to significant financial distress.

3. Improving transition of tenure through enhanced Assisted Voluntary Sales

As a result of the COVID-19 moratorium on repossessions, there were just 623 repossessions from March-September last year, compared to 4,428 in the same period in 2019. There is therefore likely to be a backlog of possessions when the moratorium is lifted, on top of any increase in proceedings due to the impact of the pandemic. Alongside this, the courts' capacity to handle these proceedings is likely to remain constrained for some time.

Repossession is a costly process and can take many months, or even years to complete. It is usually in both the borrowers' and lenders' best interests to avoid this action if possible. In some

instances, it will be in the borrower's best interests for them to leave their property rather than get further into debt.

Lenders already offer assistance to borrowers who cannot maintain repayment of their mortgage, and help them transition into alternative accommodation – an Assisted Voluntary Sale (AVS). This usually includes allowing the homeowner additional time to sell, agreeing to reduce monthly mortgage payments while the property is marketed, or reimbursing some fees.

It is possible that more could be done by lenders, with support from the government, to help avoid possessions through an enhanced AVS process. This will involve working closely in partnership with borrowers and removing barriers to the sale of their home. It will always be the borrowers' choice whether or not to opt for an AVS. In many cases this additional support could be less costly, to the lender and borrower both monetarily and socially, than pursuing a repossession. For example, an AVS will not negatively impact the credit rating and the longer-term financial benefit for the homeowner.

This could include;

- Removal of early repayment charges (if applicable) to help sell a property before the mortgage term ends.
- Cash payments towards rent or deposit on new rental property.
- Providing cash payments to help homeowners to make necessary improvements to their home to help a sale.
- Where equity in the property is available, lenders could provide a cash advance of this equity to help the household.
- Assistance with estate agent fees on sale of their property.
- Government taking a second charge on the property, which could be advanced to the homeowner to help towards rehoming them. When the lender sells the property, the money is repaid to the government, and any leftover goes back to the borrower.

As discussed earlier, not only do repossessions have a negative social impact on the homeowner, but have a wider impact on society. It might therefore be in the interest of the government to support AVS payments via a specific fund, with complementary support from the lender. This additional funding could help safeguard against moving a household into inappropriate housing, or becomes at risk of homelessness.

4. Introducing more flexible tenure

Lastly, policymakers should consider their role in encouraging the creation of new, flexible tenure arrangements for those in distress, providing a better range of options for those struggling with mortgage payments.

It is important to get such schemes right, and to avoid merely replacing mortgage payment difficulties with rent payment difficulties – as seen in the case of Hungary's experience with the National Asset Management Company.

It has been argued elsewhere[109] that some households would benefit from a new form of tenure in which a freehold is held by a new "Home Trust" entity, with trustees being the mortgage lender

and the householder. In contrast to shared ownership, individuals could increase or decrease their ownership stake by incremental amounts rather than large equity shares (e.g. 25% steps).

Such an approach would make it easier for individuals to find a balance of mortgage and rent payments that works for them. It might also be useful in circumstances where the property market is particularly illiquid, with lengthy average times to sell a home. Individuals could rapidly shift tenure by selling to their lender.

Having said that, we note some practical barriers to rolling out a shared ownership solution a present. A recent report by Christine Whitehead and Peter Williams at the London School of Economics has noting a number of barriers to scaling up shared ownership, including the fact that it is perceived by some lenders to have high arrears, with individuals balancing both mortgage payments and rents. Rising house prices, relative to wages, can also make it difficult for individuals to acquire additional equity in the property.[110] Therefore, it may be difficult for those in financial distress to transition back to full home ownership under the approach we discuss above.

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