Sale and rent back – a market study

Annexe H - Social mortgage rescue

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Social mortgage rescue schemes
H.1 SOCIAL MORTGAGE RESCUE SCHEMES

H.1.1 Social mortgage rescue schemes operate in certain areas of the UK, including Scotland, Hereford and Wales. This annexe describes these schemes in further detail. In addition, it describes the Government's recently announced plans for the expansion of these schemes.

The Scottish Government’s 'Mortgage to Rent' scheme\(^1\)

H.1.2 The Scottish Government operates the 'Mortgage to Rent' scheme, in which a social landlord buys a property and rents it back to the owner. The scheme assisted 161 households in danger of repossession in 2007-08. A home owner can apply for assistance from the Mortgage to Rent scheme if he meets the following eligibility criteria:

- the owner has obtained advice about his financial situation
- the home is in danger of being repossessed, that is, the owner has been notified by his lender that legal action has commenced or the lender has agreed to delay or withdraw legal action to allow the application for Mortgage to Rent to be made
- all of the owners of the property agree to being considered for Mortgage to Rent
- the property is the sole or main residence of someone in the household
- there is a reason that the household has to remain in the local area
- the owner is unable to sell the home and buy somewhere cheaper locally
- the property is clear from any actions that prevent it from being sold, and

• the property is suitable for the needs of the household (for example, it is not overcrowded).

H.1.3 However, a home owner will NOT normally be eligible for assistance if:

• the owner is under 60 years old and the capital held by the owner and his or her partner is greater than £8,000 or the owner is over 60 years old and the capital held by the owner and his or her partner is greater than £12,000 (any capital in excess of these amounts, which may include capital from the sale of the house, must be paid to the scheme to contribute to its costs)

• the owner has lived in the property for less than 12 months

• the value of the property is higher than the average property value in the local area, or

• the property needs more than £6,000 worth of repairs.

H.1.4 In some circumstances, a home owner will still be eligible for assistance, for example, if there are more than five people in the household or the owner can fund additional repairs.

H.1.5 The scheme normally provides for the tenant to have the right to buy back the property after five years, although special conditions may apply in some areas or to some social landlords which mean that the tenant cannot buy the property back.

H.1.6 The Scottish Government has commissioned research, currently underway, into the effectiveness of the scheme. This research will help them decide how the scheme might develop in the future.
Herefordshire Council's 'Mortgage Rescue' scheme

H.1.7 A home owner can apply for assistance from Herefordshire Council's 'Mortgage Rescue' scheme if the following eligibility criteria are met:

- the owner must be able to finance a share of a minimum of 25 per cent in his property, either through a mortgage or equity
- the owner must be registered with 'Home Point' Herefordshire. Home Point is an organisation set up by Herefordshire Council and Registered Social Landlords (RSLs) in the County which manages a central register of those interested in finding affordable housing in Herefordshire, and
- the owner must be able to afford to purchase the property outright without assistance;

H.1.8 A home owner will NOT normally be eligible for assistance if:

- The value of the property exceeds certain maximum purchase limits, which depend on the size of the property.
- The property size is in excess of that needed for the household, plus one additional bedroom space.

H.1.9 The scheme normally provides for an RSL to purchase a 75 per cent share of the property, which is held in shared-ownership, and to charge a subsidised rent on this share. The owner-tenant has the option to purchase further shares in the property at a future date at their market value at that time. The owner-tenant is also responsible for maintenance and management of the property, although major works must be approved by the landlord.

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2 See further www.herefordshire.gov.uk/housing/shared_ownership/29060.asp.
Wales

H.1.10 The Welsh Assembly Government operates a mortgage rescue scheme with both equity share and sale and rent back options. Under the scheme Housing Associations can apply for grants to:

- Purchase an equity share in the property (usually between 30 and 50 per cent). This equity loan is repayable to the Housing Association on the sale of the property.
- Buy the property outright, usually below market value, and then rent it back to the previous home owner under an assured tenancy.

H.1.11 In 2007-8 this scheme provided funding of £850,000 and assisted 15 households to stay in their homes. In June 2008, the Welsh Assembly Government announced that it would provide an additional £5 million of funding and estimated that this could assist roughly 100 households.

Northern Ireland

H.1.12 The Department for Social Development is currently consulting on a proposed mortgage rescue scheme for Northern Ireland.\(^3\)

Government's proposed expansion to mortgage rescue

H.1.13 In September 2008, the Government announced a £200 million expansion to social mortgage rescue schemes to help 6,000 of the most vulnerable families avoid repossession. It is targeted at those families who can no longer afford their mortgage repayments, and who would be eligible for homelessness assistance.

H.1.14 Local authorities will have a major role in this scheme, assessing applications. Depending on their specific circumstances, eligible home owners will be offered one of three options:

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• **Sale and rent back:** an RSL clears the secured debt completely and the applicant pays rent to the RSL at a level they can afford.

• **Shared ownership:** an RSL buys a share (enabling the purchaser to pay off some of their mortgage) and converts the property to shared ownership by issuing a shared ownership lease.

• **Shared equity:** an RSL provides an equity loan enabling the householder’s mortgage payments to be reduced.

The level of support the RSL will offer depends on the assessment of the individual’s circumstances, which will include a review by a money adviser.