Sale and rent back - a market study

Annexe A - Consumer survey

Prepared for the OFT by Carol Goldstone Associates

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1 EXECUTIVE SUMMARY

Background and methodology

1.1 This report details the findings of a qualitative study into the experiences of consumers entering into or seriously considering a Sale and Rent Back (SRB) arrangement. The qualitative research was supplemented by an Omnibus survey covering around 8,000 respondents.

1.2 The main qualitative element consisted of 47 depth interviews with consumers, 30 of whom had completed an SRB arrangement, and a focus group with professional advisers who dealt with SRB customers.

Omnibus findings

1.3 Just one per cent of those interviewed had investigated SRB to the extent of speaking to provider and/or getting a quote. Six out of ten members of the public (61 per cent) have heard of SRB while the remainder (38 per cent) have not.

1.4 The data suggests that around 372,000 households have made enquiries about SRB of which around one in five (53,000) have completed a transaction. Two out of three decided not to go ahead. The remainder have not yet decided whether to proceed or not.

1.5 Around half of those who had made enquiries (53 per cent) had spoken to nobody about SRB other than an SRB adviser (including some who had not spoken to anybody – for example by exploring SRB on the web). The remainder were slightly more likely to seek professional advice (37 per cent) than speak to friends and family (25 per cent).
Respondent background and financial circumstances

1.6 From the qualitative research, those entering into an SRB arrangement or considering one were of all ages but tended to be in their 50s or 60s. Subsequently, only a minority had young children.

1.7 At the time leading up to the SRB transaction, many were out of work and living on benefits, the remainder were in relatively low paid jobs. The properties that were the subject of the SRB arrangement were generally small houses or flats and were seldom valued at more than £200,000.

1.8 Most of those considering SRB were deeply in debt. This had sometimes built up over a long period but was more often the result of events such as ill health or redundancy. Others were not yet in debt but expected that forthcoming mortgage changes would leave them unable to pay at the new rate. A very small number were exploring SRB as a means of equity release.

1.9 While the total debt varied from a few thousand pounds to six figure sums, a common feature was that the individual felt the situation was out of control and that he or she could not pay off their debts from income. Some were in imminent danger of repossess. The mortgage was most likely to be in arrears although many also had other creditors including loan, credit card and utility companies.

1.10 Few had taken professional advice and many were unaware which creditor(s) they should prioritise. Those who approached mortgage companies or the local council tended to find them unhelpful.

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1 Please note that whereas Section 1.2 refers to the findings of the Omnibus research, all other sections of the summary refer to the qualitative research. Because of the way in which it was compiled, the qualitative sample is not representative of the SRB market but does include all types of customer.
SRB and alternative options

1.11 Some individuals had not explored alternatives to SRB while others had looked at some options such as equity release, quick sale or remortgaging – although seldom more than one or two. Circumstances were usually such that consumers felt that they could not be dealt with by any means other than SRB bankruptcy or repossession – and SRB was often considered the better course of action, especially since it meant that no house move would be necessary.

1.12 Consumers had seen SRB advertised in national and local papers and on the television. Others became aware through fliers pushed through their door. A small number had seen press articles about the product. Word of mouth was less common but SRB was suggested in a few instances by professionals such as solicitors or council staff. Very occasionally, customers had been targeted by the SRB company – for example, where the SRB firm identified potential clients from court lists of repossession hearings.

1.13 While some consumers researched a number of companies (generally on the net or over the phone), others opted for the one they had seen advertised or had been told of. Internet searches did not always lead consumers to honest companies as some organisations which consumers experienced serious difficulties with were described as having the most inviting websites. Only one respondent sought referees from her chosen company.

1.14 A small number of companies operate in many parts of the country but many were small organisations, sometimes run as a family business.

The SRB journey

1.15 Initial contact was most usually a telephone call from the potential seller. A variable amount of information was provided over the phone, some companies sent literature to prospective clients. Nearly all quickly followed up this initial contact with a home visit.
1.16 In exceptional cases, customers were pressurised to the extent that the entire deal was completed and signed at the first home visit. More commonly, a number of visits were required to complete the transaction. Varying amounts of information were provided at the first visit to reassure the customer that this would be in their best interests. Only a minority presented both the positive and negative aspects of SRB transactions.

1.17 Most salesmen had a very empathetic manner, designed to reassure customers and engender trust. Not all customers found this reassuring – some were looking for a more business like attitude.

1.18 While some salesmen provided a great deal of pertinent information, others were more reticent, in particular, failing to mention some of the charges that subsequently appeared on the final account.

1.19 Sellers were nearly always left with a firm impression that they would be able to remain in their home for as long as they wished and this security was a critical factor in persuading customers to proceed with a transaction.

1.20 Few were told that the deal was on the basis of an assured shorthold tenancy.

1.21 House valuations and/or market rents were sometimes given at this first meeting although most companies did not discuss these figures until after the valuation of the property had been done. Other critical aspects of the deal that were not always discussed at the first meeting were the percentage of the house value that would be received, the number of months rent that would be retained and other retentions such as a 'security fee' – sometimes repayable after a fixed period, which could be as long as ten years – or a 'deposit' in case the seller wished to buy the property back.

1.22 Valuations and solicitors were generally provided ‘free of charge’. Some companies recommended solicitors who worked within the same practice as solicitors employed by the SRB company.
1.23 Where customers were aware of the value of their home, they sometimes found that the valuation was significantly below what they expected. For example, in one extreme case the valuation provided was £70,000 less than the £175,000 expected by the customer. This lower figure was used in the calculation of what they would receive.

1.24 Although better transactions moved through with sellers aware of the costs involved, many were surprised by additional costs at completion. Other practices found were sudden drops in the property valuation (often at a critical time such as immediately before a court appearance) or an unexpected increase in the rent to be paid.

1.25 A retention of money to pay a period of rent was quite common and was sought sometimes by SRB providers and sometimes by sellers. Some sellers were not happy with the retention of money but, some individuals on benefit were anxious to keep their level of saving below the benefit threshold.

1.26 Some transactions were completed without the seller having the opportunity to read the contract. These were generally cases where sellers felt pressurised by the SRB provider. In a number of cases, the seller was not given a copy of the contract to keep.

**After sales service**

1.27 Satisfied sellers reported that all had proceeded as they had been advised. Rents were increased only slightly each year and home improvements were made by the new landlord.

1.28 Not all satisfied sellers were aware of the total cost of their transaction. However, all of this group considered that they had done the right thing and were relieved that they had paid off their debt.

1.29 All sellers interviewed in this study had reduced debts as a result of the transaction. Nonetheless, some sellers' experiences were very negative, not only due to unexpected charges at completion but from post-sale practices. Amongst the problems encountered were: failure by the SRB provider to pay the mortgage on the property, very large and unexpected
rent increases at the end of the first period, continued demands for money to settle old debts, and the property being sold on without the tenant being told but the old landlord continuing to collect the rent. These factors sometimes resulted in the tenant being evicted or choosing to leave their home.

1.30 Although some respondents had rejected SRB because of its bad press or because their circumstances had changed, it was more common for the rejection to be because the terms offered - the price to be paid for the house and/or the rent to be paid - did not suit the customer. Some would have been paying rent in excess of the mortgage which they could not afford.

Good practice and bad

1.31 Although there are undoubted problems for many consumers with their SRB transactions, some were satisfied with their transaction. A number were convinced that there is a market for this product as they considered it the best way to meet their specific circumstances.

1.32 A number of good practices identified by consumers were found including provision of well presented information packs and clear contracts in plain English clearly detailing fees and all costs.

1.33 Amongst the bad practices about which respondents thought that consumers should be warned were unreasonably low house valuations, lack of information about fees, charges and levels of rent, excessive (and sometimes unexpected) retentions, with no security, and lack of information about their home’s ownership (such as whether the house was on a mortgage or had been sold on to a third party).
2 INTRODUCTION

Background

2.1 The Office of Fair Trading (OFT) is the UK’s consumer and competition authority. OFT has recently launched a market study looking at Sale and Rent Back (SRB) arrangements. SRB consumers are usually in financial crisis and may be facing repossession of their homes. A quick sale of the property is agreed at a discounted price to the market value. SRB consumers are able to stay in their homes as a tenant usually under an assured shorthold tenancy which may provide no long term security guarantee in terms of duration of tenancy or rent rates.

2.2 Some concern has been expressed by stakeholders (such as mortgage industry representatives, consumer groups, Peers and MPs) that some consumers entering into SRB arrangements are making misinformed choices or being exploited.

2.3 Due to these concerns, the OFT commissioned some qualitative research into this industry, with the specific objective of understanding consumers’ experiences of the SRB market.

2.4 Carol Goldstone Associates (CGA), an independent research agency specialising in research amongst vulnerable groups, was commissioned to undertake this research and this document details our findings.

Research objectives

2.5 The overall objectives of the research were:

- to understand the nature and (if possible) the scale of SRB
- to understand consumer benefits and detriments.
2.6 Secondary objectives were:

- to investigate factual information about the consumer’s background
- to examine details of the SRB agreement entered into
- to explore consumers understanding of their SRB arrangements
- to determine the circumstances leading the consumer to enter into a SRB agreement
- to consider the alternatives to SRB the consumer considered, whether the alternatives were understood, and what advice was sought
- to learn how consumers choose an SRB company
- to consider the sales process, for instance, what information was given to the consumer by the sale and rent back firm and the consumer’s frame of mind during this process
- to examine the subsequent experience, whether consumers were satisfied with the arrangement and the reasons why/why not.
3 RESEARCH METHODOLOGY

Introduction

3.1 The main elements of the research programme included:

- in-depth interviews with consumers who had been through an SRB arrangement or who had seriously considered it (or were still considering it)
- focus group with professional advisers
- quantitative research using an Omnibus for maximum reach to provide some quantitative measures about the scale of SRB.

In-depth interviews

3.2 A total of 47 interviews were completed with people who had been through or who had seriously considered an SRB arrangement. Those who had made only cursory enquiries were not eligible for interview for this phase of research.

3.3 Because there was no database of eligible individuals and SRB arrangements are still uncommon, respondents were difficult to identify and were found through a number of different sources. The sources and number of respondents from each are listed below:

<table>
<thead>
<tr>
<th>Source</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>People who had contacted the OFT directly</td>
<td>11</td>
</tr>
<tr>
<td>Clients of Citizens’ Advice</td>
<td>2</td>
</tr>
<tr>
<td>Clients of National Debtline</td>
<td>1</td>
</tr>
<tr>
<td>Respondents interviewed in the Omnibus phase (see below)</td>
<td>2</td>
</tr>
<tr>
<td>People contacting local authorities</td>
<td>4</td>
</tr>
<tr>
<td>Enquirers/customers sourced from SRB firms</td>
<td>21</td>
</tr>
<tr>
<td>People responding to advertisements placed in local papers by CGA</td>
<td>6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>47</strong></td>
</tr>
</tbody>
</table>

Two firms provided contact details of their customers or individuals they had received enquiries from. Some enquirers were outside the firm’s area of operation and had ultimately gone with other companies.
3.4 The total number of interviews completed was limited by the difficulty in locating eligible respondents. However, the objective was to include both good and bad experiences. It was anticipated that respondents sourced through companies were more likely to be satisfied with their SRB arrangements than others – especially those contacting OFT, or advice providers, to complain about their SRB buyers.

Overall, the breakdown of respondents was:

- Completed SRB arrangement: 30
- Still considering entering into arrangement: 10
- Considered but rejected arrangement: 7
- **TOTAL**: 47

3.5 A single topic guide was prepared for all respondents, with specific modules for those who had completed or who had rejected an arrangement. A copy of the guide is appended to this report. Fieldwork was undertaken between 24 July – 2 September 2008. Interviews were conducted across the whole of the United Kingdom (England, Scotland, Wales and Northern Ireland).

**Focus group**

3.6 One focus group was held in Birmingham with seven professional advisers from National Debtline and Citizens’ Advice. Group participants were all advisers who had been involved with clients wishing to discuss SRB arrangements. The topic guide for this group was amended from that used for the depth interviews.

3.7 Findings from the focus group have been consolidated with those from the depth interviews.

**Omnibus**

3.8 In order to obtain an indication of the prevalence of SRB, a number of questions were placed on the GfK NOP omnibuses completed during August. A total of 8,000 omnibus interviews were completed. The
question module is appended to this report. Findings from the Omnibus research are provided in Chapter 4.
4 OMNIBUS FINDINGS

Source of awareness

4.1 Omnibus respondents were provided with the following definition of SRB: Sale and rent back consumers are those who have sold their homes to a provider who then allows them to stay on in their homes by becoming a tenant and renting the property.

4.2 Very few people had ever explored SRB - just 1 per cent of the sample had contacted an SRB provider, had obtained a quote and/or had spoken to a professional adviser such as a solicitor about SRB.

4.3 Those who did make contact with the providers were from class C1 and C2, for instance, individuals who are primarily in supervisory and clerical (C1) or skilled manual work (C2).

4.4 Overall six out of ten people had heard of SRB. These tended to be from the middle age group (35 – 44 years). In comparison, nearly four out of ten (38 per cent) had never heard of the term.

<table>
<thead>
<tr>
<th>Q1. SRB arrangements</th>
<th>SEX</th>
<th>AGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>F</td>
</tr>
<tr>
<td>BASE (All):</td>
<td>7899</td>
<td>371</td>
</tr>
<tr>
<td>%</td>
<td>0 %</td>
<td>%</td>
</tr>
<tr>
<td>Never heard of SRB</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Heard of SRB – no enquiries made</td>
<td>61</td>
<td>64</td>
</tr>
<tr>
<td>Heard of SRB - approached a provider</td>
<td>0.9</td>
<td>1</td>
</tr>
<tr>
<td>Heard of SRB - spoken to a solicitor / other adviser</td>
<td>0.3</td>
<td>-</td>
</tr>
<tr>
<td>Had a quote from a SRB provider</td>
<td>0.6</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Those making enquiries can be multi-coded so figures may add to over 100%
Enquiry stage

4.5 Of those who had made an SRB enquiry, one in three had taken things further, 14 per cent had completed an SRB arrangement and another 5 per cent were in the process of doing so. One in eight (12 per cent) were still considering whether to go ahead but two out of three (66 per cent) did not go ahead for various reasons such as ‘the quote was too low’ or ‘the arrangement did not suit them’.

<table>
<thead>
<tr>
<th>Q.2 What stage did you reach in your enquiries?</th>
<th>All making enquiries</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE (All making enquiries)</td>
<td>119</td>
<td>7899</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Been through a SRB arrangement</td>
<td>14</td>
<td>0.2</td>
</tr>
<tr>
<td>In the process of going through SRB</td>
<td>5</td>
<td>0.1</td>
</tr>
<tr>
<td>Still considering an arrangement</td>
<td>12</td>
<td>0.2</td>
</tr>
<tr>
<td>Did not go ahead - quote was too low</td>
<td>12</td>
<td>0.2</td>
</tr>
<tr>
<td>Did not go ahead - other conditions did not suit you</td>
<td>13</td>
<td>0.2</td>
</tr>
<tr>
<td>Did not go ahead - whole package did not suit you</td>
<td>41</td>
<td>0.7</td>
</tr>
</tbody>
</table>

4.6 Based on 24.7 million households in the UK, this suggests that the number of households who have explored SRB is around 372,000 of whom around 53,000 have actually proceeded with a transaction. (This figure should be treated with some caution because of the low base from which it is derived.)

Sources of advice

4.7 Those making enquiries were asked whether or not they had taken advice from anybody about SRB. Over one in three (36 per cent) reported that they did not speak to anybody about SRB arrangements and a further one in four (23 per cent) spoke to an SRB provider. (It is assumed that those reporting that they did not speak to anyone have either explored SRB over the web or meant that they had not spoken to anyone other than an SRB provider.)

4.8 Just under half of enquirers (47 per cent) had spoken to someone other than an SRB adviser, most of whom (37 per cent) had spoken to a
professional adviser. Advisers approached included solicitors (13 per cent), the local CAB (11 per cent) or debt advisor (3 per cent), 16 per cent spoke to another professional body. One in four enquirers had taken advice from family and friends.

<table>
<thead>
<tr>
<th>Q3. Did you get advice from anybody about SRB?</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE (All making enquiries)</td>
<td>119</td>
</tr>
<tr>
<td>Friends/ Family</td>
<td>25</td>
</tr>
<tr>
<td>CAB / (Citizen’s Advice Bureau)</td>
<td>11</td>
</tr>
<tr>
<td>Debt advisors</td>
<td>3</td>
</tr>
<tr>
<td>SRB providers</td>
<td>23</td>
</tr>
<tr>
<td>Solicitor</td>
<td>13</td>
</tr>
<tr>
<td>Other professional adviser</td>
<td>16</td>
</tr>
<tr>
<td>Did not speak to anybody</td>
<td>36</td>
</tr>
</tbody>
</table>

Satisfaction with SRB

4.9 Of the very small number who had completed a SRB nearly two out of three (63 per cent) were satisfied with their decision and 30 per cent were dissatisfied.

<table>
<thead>
<tr>
<th>Q4. Satisfaction of decision for SRB consumers?</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE (All proceeding)</td>
<td>24</td>
</tr>
<tr>
<td>Very satisfied</td>
<td>21</td>
</tr>
<tr>
<td>Satisfied</td>
<td>42</td>
</tr>
<tr>
<td>Dissatisfied</td>
<td>13</td>
</tr>
<tr>
<td>Very dissatisfied</td>
<td>17</td>
</tr>
<tr>
<td>Unable to decide</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: treat with caution. Very low base
5 RESPONDENT BACKGROUND AND FINANCIAL CIRCUMSTANCES

Introduction

5.1 This chapter examines the background of respondents and their financial circumstances. In particular, it explores the nature of debt which respondents had and examines the reasons that they were in that situation.

Respondent background

5.2 Those interviewed for this study included both men and women. Where the householders were a couple, we often interviewed the two of them together. Those interested in and going through SRB arrangements were most frequently in the age range late 40s to early 60s although the youngest of those we interviewed were in their early 30s and the oldest were in their mid to late 70s.

5.3 In line with the age profile, only a small number of respondents had young children living at home. A number of respondents were divorced women living alone or with their children.

5.4 Some respondents were working. These tended to be in lower paid jobs – typical work included low paid clerical work, retail work and caretaking. More usually, the household was dependent on benefits and/or pensions. As discussed in the next section, it was quite common for those interested in SRB to have stopped work because of ill health (either their own or another member of the family) and in these cases the major source of income was typically Incapacity Benefit, Disability Living Allowance and Carers Allowance. Some unemployed people received Job Seekers Allowance and Income Support.

5.5 While some benefit recipients seemed to be in receipt of all entitlements, the information provided by some respondents suggests that they were not receiving everything for which they were eligible. For example, not all had explored whether they might be able to get mortgage interest
paid or Council Tax Benefit from their local council. Some benefits are designed to protect vulnerable people from increasing debt, failure to claim benefits meant that these individuals were moving into a spiral of worsening debt. In other cases, delays in obtaining appropriate benefits – especially Council Tax Benefit – had resulted in bailiffs being called in.

5.6 For many respondents, the home that was the subject of SRB was the first that they had owned. Quite a few – although by no means all – had been purchased from the local Council under Right to Buy. The property had often been the respondent’s home for many years, often the first marital home, and the place where children had been brought up. Subsequently, most people had a strong emotional attachment to the house as well as to the area.

5.7 The majority of these homes were relatively modest properties – flats or small houses – and very few owned properties valued at much more than £200,000.

Financial circumstances leading up to SRB

5.8 Respondents were asked to describe their financial circumstances in the period leading up to their first exploration of SRB. With a few exceptions most individuals had been falling further and further into debt and some described their situation as dire.

5.9 There were a number of reasons why individuals found themselves in a poor financial situation. An event was the most common cause, in particular bad health. A number of respondents had been forced to give up work because of their own ill health while others had sick relatives (generally a child or partner) who needed a high level of care. Divorce was also a common problem for a number of women who were suddenly living off a much reduced income and others had been made redundant and had been unable to get back into work quickly. Less commonly, individuals described financial situations where they had made ill advised decisions (for example, running an unsuccessful business) or had been 'unlucky' with financial matters. There is also no doubt that a few were
financially naïve, overspending with little thought about how they would manage to pay their bills.

'My son was suffering very badly with obsessive compulsive disorder at the time. ...But to make himself feel better he wanted things all the time, so we progressed from sweets, bags of crisps, to videos, to Xboxes, to PlayStations.'

Female, acceptor

5.10 In a small number of cases, people had got into debt or their debt had been exacerbated by apparent mis-selling of mortgages and related products.

'We went with this estate agents in Greenock and he sold us a bum deal when we got the mortgage. He made us take out everything. We were paying, it was something like £700 a month, because he’d like the full building insurance, and he had us on the ISA, and on something else as well. ...The more things that he can get you to take, the bigger his percentage he gets. Everything, aye. Everything that we didn’t need.'

Female, acceptor

5.11 The total amount owed was very variable – respondents reported total debts varying from just a few thousand pounds up to many tens of thousands of pounds. The critical similarity across most respondents was that regardless of how large the debt was, they felt that it was out of control, was generally getting worse and that they could not see a way out of their difficulties.

5.12 The most common problem was mortgage arrears. As a consequence of this, a number of respondents had been taken to court – sometimes a number of times – as the mortgage company applied for a repossession order.

5.13 Although the mortgage arrears were most usually the single largest debt, most respondents had also built up other debt. Credit cards, council tax
and utility bills were most frequently mentioned. As the total debt increased and creditors became increasingly active in their attempts to get their bills settled, there was increasing anxiety on the part of the respondents. In a small number of cases, individuals had also borrowed money from family members – generally their parents although siblings and respondents’ children were also mentioned as having helped out financially.

5.14 Very few respondents took advice at this stage – either from professional advisers or from friends and family. Most tried to deal with the situation on their own, sometimes because they were ashamed of their situation.

'I was quite a proud man really at the time and I tried to fight it until the end and I didn’t take advice and yeah, I regret it now.'

Male, Acceptor

5.15 Some adopted an attitude of doing nothing, hoping that the situation would somehow come right with no action from themselves. Most, however, did make some effort to put things in order. A common response was to pay the creditor who ‘shouted loudest’, no matter who this was. Professional advisers in the focus group noted that those in such a situation will often be unaware of which debts should be prioritised.

5.16 Mortgage companies, when approached, were generally reported to be unhelpful. This may be because some individuals did not talk to these companies when they first started moving into arrears but was not always the case.

'Northern Rock said that they would only start taking action after I got two months in arrears, after I got two months in arrears then they will start taking action, and that was it really, quite abrupt. They’ve not said, oh we’ll help you or take your time, we’ll put it all on at the end. I was going to get nothing really. …The thing which I found rather ironic was about six months after I’d sold it I got a
letter from a Northern Rock debt counsellor, can we come round and see you? I thought it’s a bit late now, do you know what I mean. '

Male, acceptor

5.17 Local councils were similarly considered to have offered little in the way of tangible advice to those who spoke to them about Council Tax arrears. A small number had tried to arrange to pay back creditors over a period. However, generally they were unable to maintain payments since if monthly income could not meet regular outgoings, they were not able to pay higher instalments to repay additional amounts owing.

5.18 A small number had sought independent advice. Citizens Advice was the organisation most frequently mentioned at this stage although a small number of respondents commented that they were unable to use the local Bureau because it was only open during their own working hours. Respondents varied in how helpful they had found the advice. Critically, even where advice was taken, those who subsequently went on to consider SRB arrangements were unable to get themselves onto an even financial keel.

5.19 A small group of respondents had not been in debt at the time that they first explored SRB. As will be discussed in greater detail below, some of this group anticipated debt in the future (for example, because a fixed rate mortgage was due to end and expected to be replaced by a much higher monthly repayment). Others chose to explore SRB because they perceived it as a form of equity release and they perceived it as a form of retirement planning.
6 SRB AND ALTERNATIVE OPTIONS

Introduction

6.1 This chapter starts by looking at the options that respondents chose to explore as an alternative to SRB. It then discusses the source of awareness of the product and the ways in which individuals chose which SRB companies to approach.

Alternative options to SRB

6.2 Respondents fell into one of two groups. The first group had considered no options other than SRB while the second group had explored alternatives.

6.3 Few of those who considered SRB had looked at more than one or two (at most) of the range of alternatives that might be available to them. As few took advice about their situation, either from professional organisations or from friends and family, they were relying on their own resources to discover what options they had. Several respondents noted that the depression and anxiety that accompanied their financial problems made it difficult to think clearly or to know what was the most beneficial route for them.

6.4 However, all options explored during the interviews had been investigated by a small number of respondents. These options included those actively explored by respondents and others initiated by lenders and included change of mortgage, negotiating a remortgage, discussing repayment options with the current lender, repossession, equity release, becoming bankrupt and making efforts to sell the property either through standard procedures or through a quick sale.

6.5 Several respondents had looked at their mortgage situation and, as noted above, a few had approached their mortgage lender. A number had completed fixed term mortgages and the new offers were at a far less favourable rate. Very few had been able to negotiate repayment options and, in the small number of cases where this had been done, it had
failed to resolve the situation because their overall financial situation was too grave for rescheduling to be a viable option. Rather than approach their lender (an option which was rejected by several respondents as being too unlikely to succeed), several families had turned to another lender for a second mortgage or had changed lenders to try to reduce repayments. Such changes of lender were usually to smaller companies rather than the major lenders.

6.6 Another option which some families explored was the opportunity of selling their home in order to release equity and pay off their debts. However, this was not a viable option for everybody. Some people had debts that exceeded their equity (in which case SRB was also not viable) or which would leave them too little to find an alternative home. Indeed, some were aware that by selling their home, their local Council might treat them as intentionally homeless and would be unwilling to house them. In such cases, their low credit rating would mean that renting in the private sector would require large deposits and several months rent in advance – money they would not be able to raise.

6.7 Even where selling appeared to be a possible route out of debt, those subsequently exploring SRB were generally unsuccessful with the sale. In some cases this was because their home needed significant renovation – property repairs and improvements tended to be impossible when there were large debts – or, more recently, they could not sell because of the start of the credit crunch. A quick sale had been explored by a very small group of respondents – especially where time pressure was exerted through impending court dates. This had generally been rejected because of the low sale price offered. One respondent had tried to arrange a quick sale but had eventually dropped out of the potential sale - firstly because it was taking the same amount of time as a standard sale and secondly because as completion finally approached, the offered price was reduced by £20,000.

6.8 Equity release had also been explored by a small number of respondents. For those who were still only in their 50s, this was not seen as a favourable option. Typically, only about 25 per cent of the house’s value
would be offered by the equity release company and this was not sufficient to encourage the option to be pursued.

6.9 One option seldom considered was bankruptcy, even though the professional advisers perceived this as the best course of action for many people who are in insurmountable debt. Some had never considered the option and others were put off by its perceived stigma. Bankruptcy was seen as a threat made by banks and other mortgage lenders and respondents generally perceived it to be the worst possible option. One respondent, acting on advice from Money Helpline, did go bankrupt but later got into debt again.

6.10 To many of those considering SRB, its overwhelming advantage was the opportunity to remain in their home. Although this was sometimes due primarily to the emotional tie, others had more practical reasons for not wishing to move. Those with children of school age were particularly concerned not to disrupt their children’s schooling. Another respondent had a husband who had suffered brain injuries as a result of a car accident. She could not face the problems that would ensue if she tried to move her husband from his familiar surroundings.

'My husband’s really too ill to move at the moment, it would be so stressful for him, [moving] just wasn’t an option really'.

Female, acceptor

6.11 Pet ownership was another reason for wanting to stay in their home – a number of respondents had several pets which they though they were unlikely to be able to take with to a rented property.

6.12 Overall, however, only a small number of those exploring SRB had investigated other options in more than the most cursory way. The more common scenario was that they had perceived no way out of their financial dilemma before they had learned of SRB. Lack of consideration of other options included both those who went through an SRB arrangement and those who did not, in other words choosing not to proceed with SRB was not a result of making a careful evaluation of the
options available – many simply did not proceed because they could not afford it.

Source of awareness of SRB

6.13 The most common source of awareness of SRB was advertising in newspapers (local or national) and on television. National newspapers mentioned included the Daily Mail and The Sun. Television advertising was identified as being on day time TV and on sports channels. Although some respondents recalled seeing such advertising before it was relevant to their own situation, it was more usual for it to be noted the first time only because it was seen as a possible solution to the respondent’s financial difficulties. Several respondents had learned of SRB through flyers pushed through the letter box and, in some cases, these were the companies that they approached.

6.14 A small number of individuals had become aware of SRB through other sources. A few had read articles about the product in the press and had then made a point of learning more about it. In a small number of cases, individuals who had been listed in court papers were approached directly by individuals interested in entering into an SRB arrangement with them.

6.15 One individual had learned of SRB through the mortgage lender’s solicitor at his repossession hearing.

>'After we’d been into the courts and we had a reprieve, [the mortgage lender’s solicitor] took me over to one side and said, do you know about these other certain routes that you can actually go down? Because we’d been to court about three or four times just trying to get a reprieve … once the snowball starts going it’s very difficult to get back and it was actually him who was acting for our mortgage company that’s actually directed me into the situation of sale and rent back.'

Male, acceptor

6.16 Another occasional source was friends and family. This was not a common source of awareness because of the tendency of some
individuals to keep information about their bad financial situation secret from everyone they knew. Because they were reluctant to tell people close to them that they were in difficulties, a possible source of help and advice was closed off. Several of those with the most difficult stories to tell were, in hindsight, very regretful that they had not shared their problem with those close to them.

Selection of SRB companies

6.17 The amount of research undertaken by individuals contemplating SRB varied enormously. A number of respondents researched the subject as thoroughly as possible through the internet in an attempt to identify trustworthy companies. As will be seen later, this strategy was not always successful as several of the worst cases were associated with companies whose web-site was described as being inviting and (apparently) straightforward.

6.18 However, although the web site might appear attractive, on probing, respondents reflected that the amount of hard information provided was rather sketchy. Several appeared to indicate that the company belonged to a trade association and/or was registered with the FSA. Again, based on closer questioning of respondents, it appeared to moderators that such organisations tended to be careful with their wording so that they did not actually make false claims.

6.19 Others had seen advertisements for more than one company and were therefore aware that competitive offers could be explored.

6.20 However, although a number of individuals did contact two or three different organisations and obtained competitive quotes, it was more common for an enquirer to follow up only one company. This might be the one that had the best web site or, from a brief exploratory phone call, the company or agent that appeared the most sympathetic. Only one respondent attempted to check out the company she had chosen by asking for, and checking with, a number of referees.
'She gave me the phone number of people that have been renting off her for like 12 years, so I actually phoned them up and spoke to them.'

Female, acceptor

6.21 Although some respondents did attempt SRB arrangements with more than one company, it was usual for such approaches to be made consecutively – the second company would only be asked for a quotation when negotiations with the first company broke down. Very few entered into discussions – even on a preliminary basis – with more than one company at a time.

SRB companies

6.22 The SRB companies themselves varied significantly in nature. A number of respondents for this study were provided by two companies. These two companies both cover large areas of the country and operate through a franchise operation with different 'directors' working different areas. Only one other company was named by a number of respondents and all of those having dealings with this company reported very negative experiences (see Chapter 7).

6.23 Many of the other companies mentioned by respondents were very small organisations – seemingly family firms, very often – which had entered into only a small number of SRB arrangements. Their methods of working varied a great deal and while some were obviously trying to provide their customers with a reasonable service, others apparently used less ethical practices.

6.24 While some respondents believed (at least initially) that their home was being bought for cash, it was more usually the case that the SRB company was taking out a mortgage on their home. This sometimes became evident only when the respondent, by now a tenant in their home, was threatened with eviction. As they were unaware that their home was mortgaged, this threat was particularly unexpected. This will be discussed in more detail later in this report.
Reasons for exploring SRB

6.25 As already noted, most of those interested in an SRB agreement were in a great deal of debt. Indeed, in many cases, respondents felt desperate by the time they contacted the SRB company. Several described graphically how they were at real risk of repossession, even to the stage of having the bailiffs at the door. For such families, entering into an SRB arrangement was seen as their only option to avoid repossession and a bleak and unknown future.

6.26 A small number, however, were interested in SRB for other reasons. There were two main groups, neither of which included more than three or four respondents. The first group were individuals who were not yet in debt but who anticipated that they would be in the near future. This group were currently unable to live within their income or were struggling to do so. With fixed rate mortgages due to end within a few months and new rates expected to be outside their means, they had similar motives to those already in debt except that the threat to their well being was a little further in the future.

6.27 The second group were interested in SRB as a form of equity release. Of those falling into this category, two were men in their late 50s/early 60s who, because of their age, had been disappointed at the amount of equity they would obtain through a conventional equity release scheme.

‘If I [continue paying the mortgage] up to 68 all right and I’ll own the home. But it’s just a load of bricks and mortar basically. I’d rather have the money. I’m not in any financial difficulties at all but for my purposes it’s the least equity. I could go to an equity release company, say like Norwich or somebody like that, but they only release 15 per cent or 20 per cent. I’d rather release the lot and put the money in a bank, enjoy it, the interest I’d get off that would more than pay the mortgage and pay the rent back. I’ve got a good job anyway, I earn good money, so why not use it? I’ve got no wife, no children, who would I leave it to?’

Male, considering
6.28 Of the other two cases where equity release was the objective, one was hoping to be able to buy a retirement bungalow more cheaply because he was a cash buyer and the other, an elderly couple, wanted to help their children buy their own homes.

6.29 In neither of these latter cases had the respondent done detailed calculations to compare their situations if they did or did not sell their property. For example, the individual interested in a retirement bungalow had made predictions about the likely (reduced) value of his current property in the future and compared this with the price he could get by selling it now. Although he was aware how much rent he would need to pay in the period he was renting his current home, this appeared to have been omitted from his calculations.

6.30 It is worth noting at this point that many of the consumers exploring SRB were not financially literate and in some cases – although less often in households dealing with illness or sudden redundancy - it was their inability to deal with financial matters that had led to their predicament. A number of these consumers appeared to have failed to ensure that they thoroughly understood the figures involved and relied on the good will of the provider to ensure that they were being given a reasonable deal. Few had their figures checked over by a third party – and those going through the arrangement were particularly unlikely to have done so.
7 THE SRB JOURNEY

Introduction

7.1 This chapter examines the typical 'SRB journey' – the process which those undertaking SRB agreements go through. The chapter first looks at the initial meeting with the potential client – including the type of information provided at that stage and covers the range of approaches which respondents have gone through. It also includes a section exploring subsequent meetings and identifies the key features that customers look for.

7.2 All types of experience are included here. The next chapter will unpick differences between 'good' and 'bad' experiences to identify what can and does go wrong for the consumer.

Initial contact with SRB company

7.3 With a few exceptions, the initial contact with the SRB company was by telephone although a small number had made email contact through the company web site. The amount of information provided in this call varied a great deal. At the extremes, some companies provided no telephone information at all but just took contact details and arranged for a salesman to visit the customer. Others were prepared to give a great deal of initial information, describing how the process would work and outlining the various steps in the procedure. A few sent company literature in the post. Most fell between these two extremes – sometimes restricting the telephone information because callers made it clear that they wanted to arrange a home visit.

7.4 Typically, however, a certain amount of basic information was exchanged at the initial telephone call. The experience of this respondent, who spoke to three companies, was representative:

'Yeah, they were all more or less the same. How much is your property worth? How long have you been there? How much equity do you think is in it? How much they would take. How long I’d lived
there? And then it was just basically how long it would take them if they were interested, from the start to finish would take about three months [except one Provider] said they can do it within four weeks.’

Female, acceptor

7.5 Where the initial call was taken by a receptionist, respondents were sometimes asked for their address. By the time the salesman called back, it was evident that he or she had checked the location and was able to discuss the property. Exceptionally, the salesman would provide a property valuation over the telephone during this initial call.

7.6 Unless the respondent turned down the offer of a visit (for example, because they wanted to consider the situation in more detail), the telephone call was followed up by a visit from a salesman – usually very quickly. These salesmen were typically described by the respondents as very smooth talkers with a very persuasive manner. They were generally described as being ‘empathetic’ and the troubled seller felt that this was a trustworthy person who would guide them out of their financial plight. While many of the salesmen were so described, those who eventually provided customers with the worst experiences were certainly able to provide a very plausible manner during this initial home visit in order to charm their customers. Indeed, more than one respondent had made a final decision as to which company to choose because they liked and trusted the individual who visited them at this stage. However, not all customers found this approach reassuring. A small number complained of the ‘slimy’ nature of the salesman and were more reassured by a salesman with an approach considered to be more business-like.

7.7 As noted, the visit itself followed on from the telephone call. It should be reiterated that by the time of this first visit, some respondents were on the verge of repossession and, from their own descriptions, were in a state of high emotion and extremely vulnerable.

7.8 The typical salesman would go through the procedures with the customer, describing the steps that would be required, the likely time
While most salesmen took things more slowly, in a very small number of cases, the entire transaction was completed at this very first visit. No opportunity was given to these respondents to think about the finer details or the implications of what they were doing. Often, too, in these cases, the seller was given no written paper work to keep. In one case, the buyer both signed the contract and witnessed the signature of the sellers. The sellers had not read the paper that they signed and had taken the buyer’s word as regards the value of the property, the market value of the rent and the overall costs to them of the entire transaction.

'We both signed it being naïve, trusting people, we didn’t read it.'

Male, acceptor

In another case, the sellers had signed a paper at the first visit, not realising that this had been the sales contract.

'But we’re still saying that we only signed the fixtures and fittings. But according to [the solicitor], we signed a short term lease'.

Male, acceptor

The individuals themselves generally ascribed their willingness to sign papers without reading or understanding them as a combination of the plausible and convincing manner of the salesman, their high state of anxiety because of their financial circumstances and the belief that this transaction would be the end of all their financial troubles. They described salesmen as being adept at their craft and deliberately giving their customers no time to consider:

'We didn’t realise what he was doing at the time. He was talking all the time, and he kept on about all these different figures and slipping the papers, and sign this, take that, sign this, take that. And then everything was kept, so he got us that muddled, we didn’t really know what we were doing.'
Male, acceptor

7.12 Another respondent had shaken hands on a 'gentleman's agreement' with the intended buyer at this first meeting. When he subsequently wanted to pull out because the agreed purchase price was dropped, the buyer threatened him with proceedings on the basis of the verbal agreement. This was not followed up but caused the respondent a long period of anxiety.

7.13 Few respondents had signed away their homes so quickly. By the end of this first meeting, many customers had a good idea of the process and were prepared to proceed on the basis of what they were told. Some salesmen discussed house values and market rents at this stage but others said that this would have to wait until the appropriate checks and valuations were completed. However, only a minority of salesmen discussed both the positive and the negative aspects of SRB with their prospective customer.

7.14 One feature that was common to all was the fact that respondents were all assured that they would be able to remain in their home for as long as they wished. For most respondents, this was an indefinite period as their desire to stay for the foreseeable future was an important feature of the SRB product, others anticipated staying in their home for a more limited time – a small number anticipated moving within the next couple of years.

7.15 Most respondents were left with the firm impression that their tenancy would be unlimited. A few salesmen did explain to the seller that they were only allowed to offer a short term assured tenancy but promised that this was a 'formality' and that, in reality, they would be able to stay indefinitely.

7.16 For those who proceeded on to complete an SRB agreement, these assurances provided them with the security they were wanting. However, the lack of legal backing was a reason for some individuals to choose not to proceed as they anticipated future problems with extending the lease.
7.17 Rents were usually, although not always, touched upon during this first meeting. Future rents, however, were less frequently part of this discussion. Where respondents asked how the rent would change over time, they were usually told to expect change in line with inflation.

7.18 A number of other issues were also commonly raised at the initial meeting. Firstly, it was common for sellers to be told that they would not have to pay any charges. Valuations and solicitors would be provided 'free' by the buyer. Very few pointed out that the cost of these professionals would come out of other fees that the company would take.

7.19 Other aspects of the fee structure were the subject of more variation in terms of what sellers were told. Some salesmen made clear that the seller would be offered only a fixed percentage of the value of their house while others were promised that they would receive the full value. This was sometimes a critical selling point if the respondent had considered more than one company.

  ‘The reason I picked [Provider] is basically because they said, you get all that’s left. In other words you get 100 per cent, we give you the 100 per cent value minus the funds that they have to pay out for this, so it sounded to me that I was getting the best deal with them that I would come out with the most money.’

  Female, acceptor

7.20 While some respondents had a clear view of what they would receive, others were unclear and, at a later stage in the process, often received a shock about the level of charges.

7.21 Another feature that was clearly appreciated by many of those in the most difficult financial situations was the offer by the SRB salesman to deal with all debts and all creditors. This promise was, of itself, sufficient to reassure some sellers and increase their willingness to complete the SRB arrangement.
7.22 At this point, some customers were given apparently dubious advice by the salesmen. For example, one respondent was told to stop paying the monthly instalments for her loan and for her mortgage.

'He said don’t worry about making any more payments now, we will be notifying your building society and the [Finance Company]. We will be notifying them to tell them that all this is going to be paid in full within a certain amount of time. So I said what you’re telling me not to pay them? So yeah, by the time the next payments due he said they’ll have had their money.'

Female, acceptor

7.23 She subsequently became deeper in debt since the loan instalments were not paid for around six months and eventually concluded that the advice had been given to increase the likelihood of her needing the SRB arrangement.

7.24 Very few of the potential sellers included in this study had changed their minds by the end of this first meeting. In some cases, the potential seller was left with leaflets after the first meeting. While these obviously described SRB in positive terms, they did give consumers a better opportunity to consider whether this would be the right move for them. Indeed, some of the leaflets recommended that sellers should take independent advice before committing themselves.

**The valuation, solicitors and rent payable**

7.25 Following the initial visit by the company salesman, the next stage was usually the visit of a valuer. Respondents fell into two main categories. The first group of sellers had only a hazy idea of their property’s value and believed that the valuer was independent and would provide them with a true value for their home, to be the basis of negotiations with the buyer.

7.26 The second group had a very good idea of the value of their home – some had obtained valuations from estate agents or had actually had their home on the market at some recent time, others were aware of the
price that similar houses fetched in their area. This group were therefore able to put into context the figure provided by the buyer’s valuer.

7.27 In comparison with their expectations, some of these initial valuations were close to those anticipated by the seller but others were significantly lower – often by around 10 per cent or more. One individual was told that the valuation was £70,000 lower than the expected £170,000 because the estate agent would have given an inflated value to provide potential buyers with a 'bargain' when the sale price was lowered.

7.28 Some respondents decided against particular SRB companies because they were suspicious of the valuer. This was especially the case when they could see that the person was attempting to minimise the property value.

'This fellow come and he was even worse than the other one to be honest. But he first of all complained that he’d had to come a long way and he doesn’t normally come in this area, and he’s just wondering whether it’s worth his while, trying to talk the house price down as soon as he come in the door you see. And then he starts walking across the bedrooms and saying there’s not enough floor space and all this. I could see through him, he was rubbish.'

Male, considering

7.29 Although some sellers received a written valuation, others received nothing in writing – they were phoned up by the salesmen and told the figure that the valuer had given. One woman was given such a verbal valuation of £175,000 and her SRB agreement was based on this figure. When she finally came to sign the contract, she found a higher figure of £200,000 had been inserted as the valuation provided by the valuer although the amount she was given was not increased. By this stage, she felt that she had gone too far to back out.

7.30 Like the property valuation, some sellers were aware of the market rent they would expect to pay on their property whereas others were content to be given a figure by the SRB company. Where the market rent was
known, most felt that the starting rent they were quoted was reasonably close. A small number of sellers thought that they were being asked for slightly below the market rent. Others, however, felt that they were being asked for far too much. More than one respondent intended to back out because of the high rent asked for, in several such cases, the salesman subsequently called back to offer a rent that was lower – drops in the range £25 – £100 per month were reported by respondents.

‘He said, you’ll be paying, the rental figure will be £675. I said, well, that’s rather high. …And he then, on the phone, he did, he said, we’ll drop it to £650.’

Male, acceptor

7.31 A number of people were asked for rents which were higher than the mortgage payments that they were unable to meet. This was sometimes the reason for rejecting the arrangement but others went ahead because they would still get their outstanding debts paid and would worry about the rent later. Some expected that they would be able to get all or some of the rent covered by benefits. As discussed later, this was seldom the case.

7.32 While the price paid for the property and the rent asked for were, for most sellers, the two most critical elements of the deal, this was not always the case. One woman, who was carer for her disabled husband, was able to get her rent paid. She was only concerned to have enough money to pay her debts. If she had money left over, she would have needed to spend it on rent.

‘Really it was irrelative how much she gave us as long as we could pay our debts off and as long as we could pay the house off. … I mean the rent she charges is £800 a month which, the money we have coming in isn’t even £800 a month. So I think I went online to look at the council website and they’ve got things online that you can punch in your incomings and outgoings and it came up that they would pay all the rent. So really it’s immaterial how much she charged for the rent.’
Female, acceptor

7.33 Most sellers, as mentioned above, were provided a solicitor within the package. This was often an attractive offer since many would have been unable to find money for a solicitor whom they had found and paid for themselves.

7.34 The apparent independence of these solicitors varied. While some individuals were invited to choose their solicitor from a short list or could find their own, others were given only one name. It was not uncommon for this to be the same solicitor that the buyer was using himself. Respondents had seldom queried the ethics of this or the impact on their rights.

7.35 In other cases, the solicitor provided was within the same firm as the buyer’s own solicitor but, according to the buyer, would act independently – a form of 'Chinese wall' appearing to be in place.

7.36 Some individuals, particularly in cases where there were subsequent problems, found it virtually impossible to get in touch with their solicitor when they needed to.

'When we got all this, ....we tried ringing [the solicitor] for advice. He was either on a course. He was out of the country. He was on holiday. Could never get hold of him.'

Female, acceptor

7.37 It often appeared to be the case that the solicitor was primarily concerned with the interests of the seller who was usually paying the fees and from whom they expected to get more work in the future. For example, one respondent contacted the solicitor to say that she wanted to pull out of the deal having not heard from the buyer for several weeks. Within twenty minutes, the buyer was on the phone to her to say that the contract would be in the post the following day. She was convinced that her solicitor had immediately phoned the buyer in an attempt to help him close the deal.
7.38 A small number of potential sellers did use their own independent solicitor, either over the whole deal or just to check the contract. One woman, for example, had her contract checked at no cost by a solicitor who was her daughter’s employer. Many, however, had no funds to allow them to do this.

7.39 Only a very small number of sellers sought independent advice at this stage such as from the local CAB. Most were confident that the appointed solicitor would work for them and that no other views need be sought about their plans. This applied both to those who proceeded and those who ultimately decided against SRB. As discussed later, their decision not to proceed was very seldom on the basis of external advice.

7.40 The only other source of advice which some respondents approached was the local council. This was generally to learn what impact the transaction would have on benefits. In practice, most councils will not pay Housing Benefit for five years to people who have sold their property and rented it back. Some respondents learned of this and took it into account when deciding what to do. Others, however, discovered only when they were turned down for benefit after selling their property. The information was seldom included in any documentation issued by SRB companies.

Later stages before transaction

7.41 The final stages in the transaction were particularly varied. For those with a smooth path to the final contract, the process typically took around three months and went through with no unexpected problems.

7.42 Some salesmen were particularly helpful. One described how her SRB salesman came to the rescue when the bailiffs were at her door.

‘And I remember the actual day actually, Brent from [Provider] was here and he went out and I said that the removal people were outside and I was crying my eyes out and I said, oh, they’re out there and he said, I’ll go out and have a word with them. I remember
him coming in he said, you are that close to, do you know, losing the house, but he dealt with it.'

Female, acceptor

7.43 Others, however, had a less happy time. One route that was reported by a number of respondents was for the offered sale price to be dropped at a crucial stage in the proceedings. In particular, this happened when sellers were due in court. If they were unable to tell the court that the sale was imminent, they were at profound risk of repossession. They were therefore faced with two unpalatable options – and acceptance of a lower price for the house was often the preferable option.

'You’re going to be repossessed in two weeks. What are you going to do? Sometimes you may have to take a hit and I think this is why some of these other companies are actually getting away with it is because you are desperate'

Male, acceptor

7.44 One justification used to explain the discrepancy was that that the original figure had been incorrect or a misprint, others were more blatant or said that they had been ‘told’ to lower the price.

7.45 Another practice found in more than one case was the imposition of unexpected and unexplained charges in the final settlement. A number of respondents received significantly less than they expected.

‘They took £17,000 in extortionate fees. When we got the cheque there was legal costs of £1,293.75, there was legal costs on the sale of £860.12. There’s a survey fee of £400. There was mortgage fees of £2,250. There was stamp duty of £1,500. [An] admin fee of £10,000. There was a management fee of £7,500. There was a maintenance charge of £2,000, and the first month’s rent of £650. And £21,428.98 paid to us.'
Moderator: And none of this was in the contract?

No.'

Female, acceptor

7.46 Some sellers found that once they had accepted the SRB company’s offer, progress was significantly slower than they were led to expect. Hold ups were particularly likely in cases that subsequently went sour. Things often started to move only when they threatened to pull out of the transaction.

7.47 One major difference between cases was whether or not the seller ever got to see the contract. Where the contract was provided for them in advance so that they had an opportunity to read it, most felt that plain English had been used and there was little that they did not understand. In these cases, solicitors were usually available and willing to explain any remaining jargon to the client so that they were confident about what the contract said.

7.48 A small number of sellers, however, had no opportunity to read the contract and were not provided with a copy. They were generally the cases where the buyer put them under significant pressure and, as in the case described above (see Chapter 6.1) used a variety of tactics to confuse the seller and persuade him or her to sign documents without reading them. Examples were found where the salesman became unpleasant and bullied the respondent when awkward questions were asked or, especially, if they indicated that they were like to pull out. More than one was told that they had already entered into a binding commitment even though the main contract had not yet been signed.

Special features of contracts

7.49 A number of the contracts completed had special features in them – either at the insistence of the buyer or the request of the seller. Most common were clauses relating to retention of money.
A retention of some money as payment for rent was a common addition to the contract. This might be initiated either by the buyer or, less frequently, the seller. Buyers would sometimes insist that a particular number of months rent – anywhere from six to twenty four months – should be retained as an advance. While this did not suit all sellers (some wanted to get as much capital as possible from the deal), others considered it to be helpful as they would not have to worry about rent for some time.

For example, one seller specifically asked for £10,000 to be retained. He did not expect to be able to pay the rent requested – which he described as a fair market value – and wanted to pay lower instalments. The retention was to be spread over a five year period to reduce what he paid. He reckoned that by the end of this period, he would be eligible for Housing Benefit from the local council and would therefore be able to remain in the house with the full rent split between himself and the council.

In another similar case, the woman selling the house was concerned that the amount of capital she would receive would affect her unemployment benefits. She therefore arranged that all money due to her over £16,000 (the maximum savings allowed) should be retained as rent. Her contract clearly specified the amounts allocated for each year and the date at which she would become responsible for paying rent again.

'Because I’m claiming Income Support, they wouldn’t allow me to have anything if they thought I had all the income. So I’ve actually paid my rent up, from my half of the money, my rent has been paid till, to get my money down, this is how nice they are, they’ve done this for me. They’ve got my money down for me and paid it till next year.'

Female, acceptor

For some sellers, however, the retention was not welcome. They generally were willing to pay a small number of months rent but, especially for the small number anticipating staying in the house for a
relatively limited time, they resented both the fact that they were not given all the money due and the commitment that they did not want.

7.54 In addition to holding money back for future rent, some buyers kept back a retention as a 'security fee' against damage to the property. This could vary from a couple of month’s rent to £10,000 or more. Where the retention was large, the seller had often not been told of the retention – or had been told but not how large it would be – until very late in the arrangements. Sellers felt unable to challenge the condition. Few had enquired as to whether their money was secure, for example, whether it was held in a client account.

7.55 Another form of retention was to hold a 'deposit' – sometimes of several tens of thousands of pounds – against the possible re-purchase of the property. Other buyers held back a similar amount for a fixed period – typically ten years – or until the seller moved. Sellers were often unclear why money was to be retained and for some potential sellers, this was a reason for deciding against an SRB arrangement.

"When they buy your property you don’t get all your capital. They have a retentive amount, which they give you back at a later date when you come to want to move or buy it back from them."

Female, rejector

7.56 Another rejector was concerned about what could happen to the retention if the buyer went bankrupt. In general, those proceeding with an arrangement were less worried about the retention, concentrating on the fact that their debts would be paid and they would no longer have financial worries.

7.57 A common condition was that the tenant should not sub-let the property or have non-family members living in the house although one woman was actively encouraged to take in a lodger to help her make ends meet. Of more concern to a very small number of sellers, was a clause specifying that they would not be able to have their own children or grandchildren living in the house. In one case, the seller had not been aware of this clause until the transaction was completed. After a year,
the rent was increased by 50 per cent. When he complained that this was outside the terms of the agreement, the SRB company tried to evict him because one of his sons was living at home. When this was rejected by the court, he was evicted using Section 21 of the Housing Act. He remains convinced that the ’no children’ clause had been included to increase the likelihood of his eviction from the property so that it could be sold on.
8 AFTER SALES SERVICE

Introduction

8.1 This chapter looks at what happened to respondents after they had been through the SRB transaction. The chapter is divided into three sections. The first section looks at respondents who are satisfied with their transaction and considers how the process has worked for them. The following section looks at cases where the SRB transaction was the start of trouble for the respondent, often concluding in eviction or other loss of funds. The third section gives a brief consideration of why other consumers had seriously considered SRB as an option for their financial problems but had rejected it.

Satisfied sellers

8.2 A number of respondents who had been through the SRB transaction were very satisfied with the whole process and the product. First and most importantly, their debts had been paid and, often for the first time in a number of years, they were free of debt and the associated anxieties. Some described the SRB transaction as a ‘life saver’ and had only positive comments to make about their experience. Others were more regretful but agreed that SRB had been an appropriate product for them. Regrets were largely about the loss of ownership and the fact that the children’s inheritance had gone.

8.3 A number of satisfied sellers had been through the transaction only in the last few months and were therefore still in the first year as tenants. This group had few concerns about the possibility of problems when the tenancy came to an end and were confident that the promises made – modest rent increases and continued tenancy – would be kept.

8.4 Several, however, were passed this critical stage and their experiences were still positive. Their rent increases had been modest, all had transpired as promised by the salesman and they were still in their previous home with their debts paid.
Moreover, some tenants had been extremely pleased to have had improvements made to their home, paid for by the new landlord. In line with regulations for landlords, several had had checks carried out to gas and electricity. Following on from this, one home had had a new boiler fitted and another had a new central heating system installed. A third tenant’s landlord installed a new kitchen. None of these improvements could have been afforded by the respondent while they still owned their home.

Tenants were generally liable for their own contents insurance but not buildings insurance. One respondent reported that the house had been fitted with new locks (through the landlord’s buildings insurance) when her son lost a set of keys.

However, although a number of sellers were very satisfied with their transaction and believed that it was the right thing for them, it was evident from the discussions that the steps they had taken had not necessarily been the most beneficial for them financially. Many of this group were not financially aware and were just relieved to no longer be in debt – the additional costs of SRB were worthwhile to them. Quite a few had not looked at the sums involved or made comparisons with other options.

A number had their naivety exploited. For example, one woman – keen to proceed but evicted before she could complete the SRB transaction – was convinced that her rent was to be £400 per month because this was what she had been told verbally. Her contract agreement clearly stated that the rent was £7,800 per year (for instance, £650 per month) but she had not realised that the two figures were different.

Reputable companies did recommend that sellers should obtain advice but very few followed up this recommendation.
Dissatisfied sellers

8.10 Not all those who had completed an SRB agreement had gone through as satisfactory an experience as those described above. On the positive side, none of those we spoke to reported that their outstanding debts at the time of the transaction had been left unpaid (although one customer was plagued by requests for extra money although they were sure that their debts had been paid – see page 44 below). However, a number of different things did go wrong because of what they considered to be underhand practice by some SRB companies.

8.11 In some of the worst cases, the SRB company had bought the property by taking out a mortgage. They then failed to pay the mortgage so that the lender subsequently took steps to repossess the property. The unsuspecting tenant had meanwhile continued to pay rent to the landlord and was unaware that their home was at risk.

8.12 In other cases, the house had been sold on – again, without the knowledge of the tenant - so that there was a new landlord. Meanwhile, the old landlord was still receiving the rent.

'A few months later on down the line I got a phone call just as we were going on holiday. This woman phoned me and she said I’m [name]. I thought, who’s that, like and I said, yeah, but what’s it concerning? She said it’s about your rent arrears. I said, pardon. She said, your rent arrears. I says I’m sorry, you’ve got the wrong number, love. ... Apparently from all what’s come out now it sounds like they bought the house and sold it and she’s the landlord now.'

Male, acceptor

8.13 A number of complaints were made from respondents in different parts of the country about one particular company. One respondent had found that the company salesman she had dealt with had 700 County Court actions against him. Respondents reported that this company’s practices included pressurising sellers, not providing any paperwork, failing to pay the mortgage, charging excessive fees and holding back large retentions.
'He was quite forceful saying he's got to hurry it up and that. But again I know why now. Like I say, we had no time to read it, it was like, this has got to be done, just sign here, sign here, sign here. ... So I didn't [read it] because he whisked it away again'

Male, acceptor

8.14 This respondent had agreed to pay two years rent upfront but had unpleasant shocks at completion.

'When it came to completion it took a security deposit, he said, that we get when we vacate, the £40,000, yeah? And he took three years' rent up front, and then he put the rent up on the last day [from £750] to £1,250 a month basically'

Male, acceptor

8.15 The company then went bankrupt and started again using a slightly different name. One respondent was particularly concerned that the same people could continue trading.

'They went in receivership before, just before we signed, but then, a month later, the same chap, opened up another company called [revised name]. Well, how can the Companies House allow that to happen? Same office, same everything. Same man. As soon as we phoned up, got the same [salesman] on the phone.'

Male, acceptor

8.16 Respondents had lost their retentions and were, in some cases, evicted because the mortgage had been unpaid.

8.17 Although one of the worst companies mentioned, this company was far from the only company with negative practices both in obtaining the transaction and in their behaviour after the sale had gone through.

8.18 One couple said they were plagued by demands for money after the transaction had been completed. They were told that the amount of
equity was insufficient to cover their debts. Although they knew this was not the case, they initially paid the relatively small sums requested (amounting to around £3,000). When the demands got larger, they decided to move from their home. The demands then stopped, leaving them assuming that they had been the victims of a campaign to get them out of the house.

8.19 Another practice which often resulted in tenants leaving the home they had sold was a sudden and significant increase in rent. One seller was initially paying around £375 per month which increased around 5 per cent every six months for the first two years. He was eventually forced to leave the property when he was asked for an additional £100 per month which brought the rent to a level higher than the mortgage payment he had been unable to pay. The local Council pronounced it an unfair rent but were unable to help him.

'It's gone up from £325 to £475 in just over two years .. it’s a lot of money that, isn’t it really?'

Male, acceptor

Rejecting SRB

8.20 It is of interest that few of our respondents had rejected SRB because they had found a better product. In a small number of cases, the urgent need for SRB had been changed because of a change in circumstances – generally because the potential seller had obtained a job and would be able to work their way out of debt or financial difficulties. Other individuals had not gone through with an SRB arrangement because they had not been able to organise it in time – they had generally had the house repossessed and were no longer able to consider the transaction. Just two respondents had rejected SRB because they had realised the financial implications of the deal.

8.21 Most people had rejected the option because it would not work for them. The two main scenarios were that the amount offered for the house would not cover all the debts or that the amount asked for the
rent was too high – often at a similar level or higher than the mortgage payments which were more than the respondent could manage.

'They look first to see what prices are worth in that area and yes they certainly were offering close to the value of it. But the whole reason why I didn't go through with it in the end, the problem was that they rent back comparative to the area as well. And where I live rents are between, well they said they would rent back to me, this was their amount of money they said they’d looked at rents in the area and they would have rented back to me between £700 and £800 a month. That I do remember because that's my reason for not doing it.'

Female, rejector

8.22 Apart from those with changed circumstances, those who had explored but rejected SRB had most commonly sold their property on the open market and moved into private rented accommodation. This was not the solution they would have preferred as they had all been anxious to remain at their old home but was perceived as a better solution, given the SRB transaction open to them.
9 GOOD PRACTICE AND BAD – A SUMMARY OF FINDINGS

Introduction

9.1 The previous chapters have looked at the actual experiences of our respondents. In this chapter, we start by considering consumers’ views about the SRB market.

9.2 We have also drawn together some of the good practices we have found and, most importantly, some of those practices which make SRB such a negative experience for a number of unfortunate consumers.

Consumer views

9.3 Many consumers were convinced that there is a market for a well regulated SRB product. Although not everyone had exhausted all their possibilities, several of those in the deepest financial difficulty believed that they had no alternative other than bankruptcy and repossession. They preferred the SRB route, despite its cost – they could find no other product which could meet their urgent need to convert their home into cash and (unlike quick sale) allow them to remain in their home. Where the mortgage company had refused to help (or it was assumed that it would do so) a more drastic solution was required. Local authorities were often unable or unwilling to help house those who have sold their home and other forms of equity release were either insufficient or not possible. Even where the financial equation might have pointed to a different solution, SRB was a welcome option for some.

9.4 Professional advisers in the focus group were advocating SRB schemes to be run through Housing Associations and pointed to successful pilot schemes that had been run in some localities. However, as they pointed out, such schemes have tended to be expensive and are therefore able to help relatively few people. Furthermore, they have generally had very stringent criteria which would not encompass all those who have found SRB appropriate for them.
Good and bad practice

9.5 A number of examples of good practice were found although some of these could be further improved. One particularly useful document was the SRB information pack that some customers received. Those who had received and read this document felt that it gave them a fair description of the product, giving them the opportunity to take the time they needed to weigh up the pros and cons of the process. It was generally used for information about the process rather than as a marketing tool used to distinguish between providers. Several respondents noted that the documents recommended seeking independent advice (although few had followed this suggestion).

9.6 Some SRB companies neither pressurised their customers nor attempted to rush them through the transaction. In some cases, the pressure was imposed by the consumer because their home was already at risk and they needed to make fast progress if they were not to face repossession.

9.7 A couple of consumers suggested that an optional ‘cooling off’ period – already offered by some companies – should be an essential part of the process. This would have been particularly welcomed by respondents who had signed a binding contract at the first meeting.

9.8 A small number of respondents had read through their contracts in detail. Those doing so generally praised the clear English and the inclusion of all relevant financial information such as the sale price, the valuation, all charges (clearly laid out) and the rent that is to be charged. But in other cases, no copy of the contract was left with the seller and respondents remained unaware of a number of costs until after the transaction was completed.

9.9 A number of people found themselves in difficulty because they had chosen an SRB company who claimed to be providing 100 per cent of the value of the house and fees and charges were not evident.
9.10 A number of practices were criticised by respondents who felt that legislation should strengthen consumers’ rights. One suggestion was that there should be a minimum percentage of the (independently assessed) house value which SRB companies could offer. Another was that there should be an independent assessment of a fair market rent and that the rent payable should then be within specific parameters of this. Respondents were also concerned that rent increases should only be allowed within agreed limits.

9.11 One respondent had been offered alternative options – market value and market rent or lower value and lower rent. She suggested that this could be a valuable option for many SRB customers.

9.12 A number of transactions included a large amount of money held back as a retention and some respondents were very critical of this. In some cases, sellers were promised that this would be paid back at a specific time or when they left the property. The retention was also sometimes described as a deposit in case they wanted to buy the house back again.

9.13 A number of transactions included retention of money for future rent. This was sometimes a condition imposed by the SRB company or, less often, following a request from the seller. Putting aside the impact on benefits (cases were found where retention was requested to keep savings down so that benefit could be claimed), some sellers had good reasons for wanting to ensure that their rent was paid over the period immediately after the SRB transaction. Other respondents, especially those who only planned to rent the property for a limited time, were concerned that this limited their options and were worried that it was a condition of the agreement.

9.14 Based on the negative outcomes experienced by a small number, there were criticisms that sellers had not been notified that their property was being bought on a mortgage and felt that they should have been told if the mortgage had not been paid.
10 COMMUNICATING WITH CONSUMERS

10.1 At present, consumers obtain information about SRB almost exclusively from companies offering the service.

'A lot of the time, where they’re getting the advice from is the company themselves, but they really know that the point is because they don’t have the money to do it. They don’t have the money to go to get that independent advice.'

Male, Focus group

10.2 Respondents felt that it would have been helpful to them if appropriate literature and information advertising (from the Government or from other trusted consumer bodies) had been available. When asked where literature should be placed, most identified advice giving organisations such as CAB, National Debtline, local authority advisory panels etc. In addition, supermarkets were suggested by several individuals as a place where they might have located SRB leaflets.

10.3 It was suggested that advertisements should be placed in the same locations as those used by SRB providers. This included newspaper advertising in red-top national newspapers and local papers, and television advertising on day time television and on sports channels.

10.4 Another suggestion was that more detailed information should be available on the web and should also be available in any of the usual locations where consumer and/or debt advice is provided.

10.5 Overall, it was evident that no single location would suit all respondents so that, if advertising were to be considered, a range of media and locations would be necessary to maximise spread.