

# **Sale and rent back – a market study**

Annexe G - Alternatives to sale and rent back

October 2008

OFT1018g

© **Crown copyright 2008**

This publication (excluding the OFT logo) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as crown copyright and the title of the publication specified.

# CONTENTS

<i>Chapter/Annexe</i>	<i>Page</i>
G.1 Introduction	4

## **G.1 INTRODUCTION**

G.1.1 This annexe examines the main alternatives open to consumers wishing to release equity from their home and considering sale and rent back. These are negotiating with their lender (or re-mortgaging), downsizing, purchasing equity release, applying for a social mortgage rescue scheme, or going through with repossession, bankruptcy or IVA proceedings.

### **Negotiation with lender**

G.1.2 'MCOB' regulations require a lender to try and reach an agreement with their customer, for example allowing arrears to be paid off by instalments, deferring payments of interest, extending the term of the mortgage, allowing customer to pay reduced amounts of capital, or capitalising the arrears. The Government is also working with the industry to review voluntary arrangements for borrowers facing difficulties.<sup>1</sup> The revised best practice guidance for lenders is due later this year.

G.1.3 The consumer may also be able to claim Income Support for Mortgage Interest (SMI) to help pay the interest repayments on a mortgage. The Government has also announced that the availability of SMI will be extended in April 2009. SMI is described in further detail in Annexe E.

G.1.4 This may help homeowners to deal with short-term difficulties, while remaining in their home, although, unless SMI is granted, it is unlikely to reduce the long term costs of the mortgage. In addition, in some cases, the lender and borrower may not be able to reach a sustainable agreement.

G.1.5 A limited number of customers may have taken out private insurance with their mortgages, commonly known as Mortgage Payment Protection Insurance (MPPI). However, customers should check their policies

---

<sup>1</sup> [www.hm-treasury.gov.uk/newsroom\\_and\\_speeches/press/2008/press\\_44\\_08.cfm](http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2008/press_44_08.cfm)

thoroughly as not all reasons for falling behind with payments may be covered.

- G.1.6 Consumers may also be able to re-mortgage with an agreement which has lower payments, for example because it has a longer term, is interest-only, or has lower interest rates. However, it may not be possible to secure a better deal, particularly in the present climate. Moreover, if the customers entered arrears, they may be refused a new mortgage. There may be certain up-front costs involved. This is therefore unlikely to be an alternative for customers with severe financial difficulties.
- G.1.7 We note that when the mortgage arrears pre-action protocol comes into force it will be harder for lenders to repossess.

## **Downsizing**

- G.1.8 In certain situations, the customer may simply not be able to afford to remain in their current home. Sale and rent back arrangements may lower short-term costs of remaining in their home (for example if there is a period of discounted rent), and may even lower long-term costs to some extent, but some customers may find that this is not sufficient to make it affordable. In these cases, the consumer may be better off selling their home on the open market, and downsizing or renting. 'MCOB' regulations require lenders to allow a customer to remain in possession to effect a sale, where no reasonable payment arrangement can be made.
- G.1.9 However, there are problems associated with downsizing. Moving house may also create difficulties in certain circumstances, for example where the household has children who attend a local school, or a member of the family is ill. Consumers may also struggle to find alternative accommodation. For example, they may have problems securing a mortgage on a new property if they are in financial difficulty, or have difficulties obtaining rental property if they do not have a sufficient deposit for private rental, or fear that the council may not re-house

them. Relocation may also be costly and sale on the open market may take a considerable period of time, particularly in the current climate.

### **Quick sale**

G.1.10 In cases where a consumer is not able to sell the home on the open market in the time available, they may be able to sell to a company offering 'quick sale' or 'flash sale' deals. In these transactions, the property is purchased at a discount on a chain-free basis within a short time-frame (sometimes within a week, but more usually within three to four week). This is quicker than sale on the open market, and so suitable for consumers under time pressure, but at the price of a sale at discount to the full market value.

### **Equity release schemes**

G.1.11 Equity release schemes are described in Annexe B. They are aimed at customers at or around their retirement age and allow the customers to release equity in their home but also to retain the right to occupy it. These schemes are regulated by the FSA, which provides wide ranging consumer protection. They also offer considerable security of tenure, as the consumer can only lose the right to occupy his property on the occurrence of certain specified events.

G.1.12 However, it is highly unlikely that an equity release plan would be made available to a customer who is not close to retirement age or who has not repaid sufficient equity in his home to ensure he would be eligible to receive a pay out from the plan. Moreover, in some cases, consumers find the schemes expensive and are not able to obtain sufficient capital from the transaction.

### **Social mortgage rescue schemes**

G.1.13 In some regions, social mortgage rescue schemes exist. The schemes are run on a not-for-profit basis and usually provide funding to social landlords to enable them to charge an affordable rent. The landlord will usually pay the open market value, and the customer can retain

ownership for part of the property or buy the property back at a later date. The schemes provide greater security than renting with a private landlord and the customer is likely to be eligible for housing benefit.

G.1.14 Such schemes currently exist in Scotland and some other regions of the UK and the Government has recently committed to expanding the scope of such schemes to prevent a further 6,000 repossessions. These schemes are described in further detail in Annexe H. The schemes provide clear benefits over private sale and rent back transactions, but, even accounting for the Government's recent expansion, availability is limited and the schemes have stringent eligibility requirements.

### **Proceeding with repossession, bankruptcy or IVAs**

G.1.15 In certain circumstances, a customer may go through with repossession. In this case, the lender has an obligation to obtain the best price for the house that might reasonably be paid. This may be at least the value that can be obtained in a 'quick sale' transaction. The local housing authority is likely to have a duty to secure or provide assistance to secure alternative accommodation for the customer. However, the customer continues to incur the costs of the mortgage until the property is sold and is also likely to incur the lender's costs of enforcing the mortgage, such as the costs of court proceedings. If there is not enough money left to pay the money owed to the lender after selling the property, the lender can still pursue the customer for the shortfall. The lender can make the customer bankrupt if they are unable to agree how to repay this debt.

G.1.16 A consumer may also apply to be made bankrupt directly, or enter into an individual voluntary arrangement (IVA). However, this does not ensure they retain their home. Bankruptcy does not prevent a lender from commencing repossession proceedings. Under an IVA, the customers' property may only be kept out of the IVA with the agreement of the insolvency practitioner and creditor. Bankruptcy and IVAs and repossession have severe consequences for the customer's credit ratings.