Long Term Safety Nets to Protect Mortgage Borrowers

GOVERNMENT, INDUSTRY AND PROFESSIONALS' VIEWS ON SUPPORT FOR BORROWERS FACING REPAYMENT DIFFICULTIES

January 2011

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Building Societies Association

Long Term Safety Nets to Protect Mortgage Borrowers

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FOREWORD

by Rt Hon Grant Shapps MP, Housing Minister

I welcome the work being taken forward by the Building Societies Association to help homeowners struggling with their mortgage payments.

Preventing repossessions is incredibly important - behind each statistic is a struggling family whose whole life is turned upside down when they lose their home. We can not be complacent.

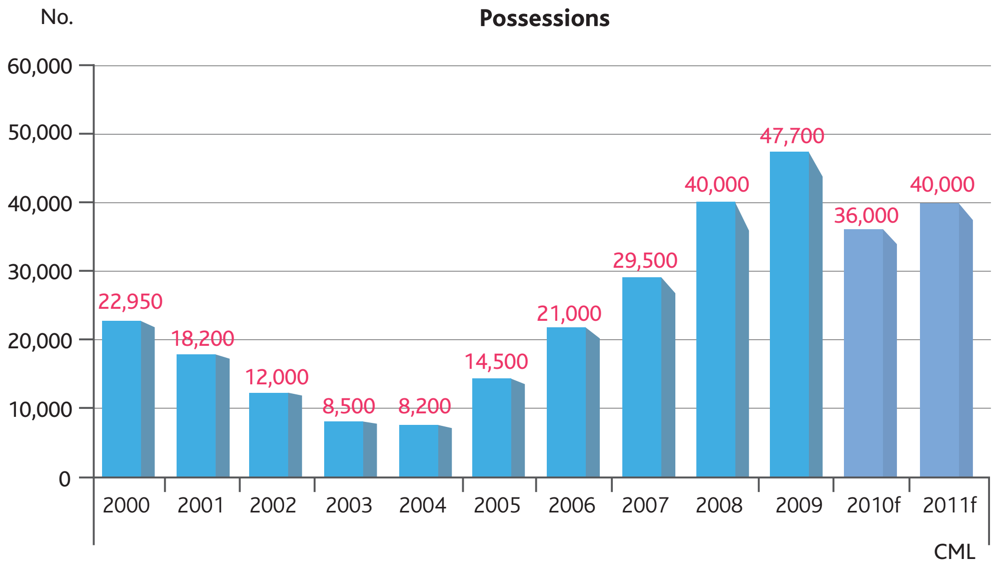
The most important thing that Government can do to help keep repossessions low is to continue our efforts to tackle the record deficit. By doing this we can avoid the need for rapid increases in interest rates and keep the pressure off homeowners feeling the pinch.

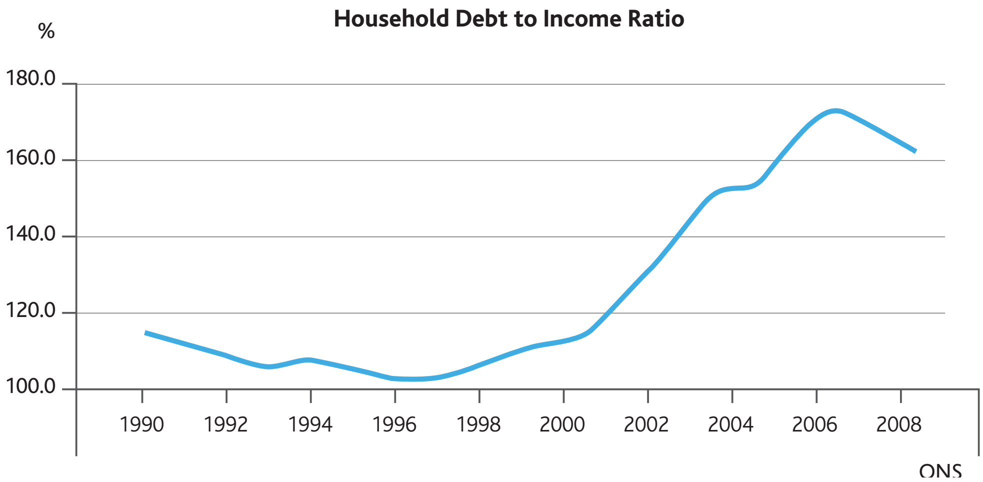
Even though interest rates are currently lower than expected, I know that many households are still struggling each month with their mortgage payments. That is why the Spending Review settlement made provision for the Mortgage Rescue Scheme.

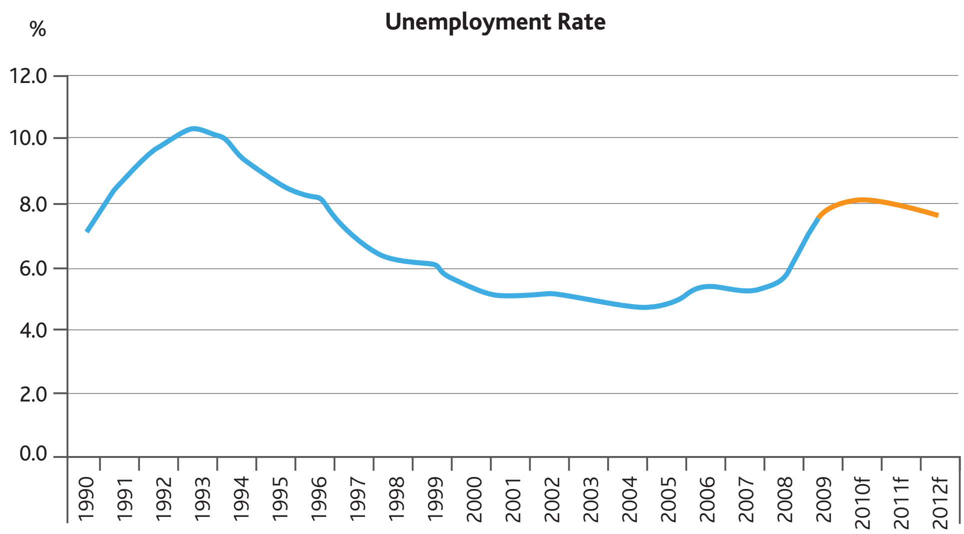
But this Government knows that it doesn't have all the answers - that is why I am so pleased to see the Building Societies Association working with lenders, insurers, the debt advice sector and registered social landlords to explore what they can do together to tackle the challenges ahead. You know your customers and what works best - that's why you are the right people to lead this work.

Thank you and I look forward to seeing your continued success at keeping repossessions down to the absolute minimum.

SOME USEFUL STATISTICS







ONS, OBR forecasts

LIST OF ATTENDEES AT THE BREAKFAST

Adrian Coles The Building Societies Association	**John Howard** Report Author	**Andrew Hagger** The Independent	**Stuart Deane** Principality Building Society	**Susan Lovelock** Department for Communities and Local Government
Stuart Ward Cardif Pinnacle	**Rob Yuille** Consumer Financial Education Body	**Tess Pendle** National Housing Federation	**Joanna Elson** Money Advice Trust/National Debt Line	**Nina Young** Department for Work and Pensions
Tim Roscamp Department for Work and Pensions	**Rohan Lee** HM Treasury	**Nicola Hughes** Shelter	**Suzy Awford** Genworth Financial	**Nick Kirwan** Association of British Insurers
Giles Schofield Genworth Financial	**Paul Broadhead** The Building Societies Association	**Fiona Cornes** The Building Societies Association		

The importance of action

Paul Broadhead

Head of Mortgage Policy at the BSA, thanks contributors and outlines the importance of acting now.

The importance of acting now

Since the launch of John Howard's report at a thought leadership breakfast hosted by the BSA in November the economic environment has remained difficult for consumers, lenders and Government alike. Anyone who is hoping that this problem will simply go away, unfortunately is likely to be proved wrong. With record low interest rates likely to come to an end in the near future, we must progress immediately and swiftly with this vital piece of work.

In addition to a rise in interest rates, we are likely to see a reduction in state assistance for those not able to meet their mortgage payments although it seems that many borrowers continue to believe that the Government will 'break their fall' in the event of them suffering a loss in earnings. Many consumers could therefore face a nasty shock if they rely solely upon the state to assist them in meeting mortgage payments. We must work to meet this gap in knowledge - and funding – that is coming in the near future.

The importance of acting for the benefit of consumers

No one likes to consider the possibility of becoming sick, being made redundant or the breakdown of a relationship, however these are all events which may cause a householder to fall behind on their mortgage payments. This is why we must work together to encourage consumers to tackle these difficult considerations and make provisions to ensure that they stand the best possible chance of remaining in their homes.

All parties; the borrower, the lender and the Government tend to suffer financial detriment from the repossession of a home and so it is in everyone's interest that we seek a framework of solutions to this difficult problem. We should not focus simply on the financial detriment, but must also consider the impact on the family who are losing their home. For many, the loss of their home comes on top of another traumatic event or difficult time in their life and we cannot underestimate the combined stress these pressures can cause.

The importance of working together

I am cheered by the willingness of industry to work together in the interests of consumers who face the risk of losing their home. I would like to thank those who attended the meeting for their commitment to this project, and who have submitted responses to this publication to demonstrate their support.

This document brings together responses from industry, Government and advisory bodies and is the first step towards a flexible, appropriate and transparent solution. There are a lot of good ideas contained in the initial report and the responses which must now be worked upon collaboratively in order for them to become a reality.

Next steps

I very much see this report as the start of the process, rather than its conclusion. We intend to take this very important piece of work forward through further discussion. We will host a series of working groups incorporating those who have been involved thus far, and any other parties who would be willing to contribute.

The role of the financial services industry

Andrew Hagger

Financial Columist at The Independent, gives his thoughts on the current problem, the consumer perception of Mortgage Payment Protection Insurance and possible future solutions.

It is imperative for the financial services industry to take a long hard look at how it can do more to keep people in their homes and prevent them from enduring the misery of having their property repossessed. Whilst the issues are less emotive from a lender's perspective, the financial implications are a constant cause for concern and will become more so when interest rates increase from their current artificially low level.

The report is a great starting point and some of the numbers and examples illustrate that the current strategy, if you can call it that, is not really working. But I think the part that sums it up for me and underlines the main issue comes at the end of the report where it describes the present arrangements as 'piecemeal and insufficient'. The mortgage industry in conjunction with insurers and the government needs to move towards a position where we have a far wider safety net in place and one with much finer mesh.

We currently have a situation where repossession cases in the UK are being kept in check largely due to a combination of low interest rates and increased lender forbearance. However with increased unemployment and higher interest rates a distinct possibility over the coming 12 -18 months, doing nothing to create a safety net for borrowers isn't really an option. The latest CML predictions are that 175,000 mortgages will be in arrears by the end of 2010; that's quite worrying against the current backdrop of very low interest rates and extended support from lenders. If rates increase by say 2 per cent over the next couple of years, arrears and repossessions will once again become headline news, hence why we need to act now. It's a case of paying to sort the problem now or paying out much more to deal with the consequences later.

From the consumer's perspective, more needs to be done to prevent the gut wrenching major upheaval that borrowers and their families face when their home is repossessed. For most people, their home is their most valuable possession, yet despite the devastation and disruption to family life, neither the state, the consumer nor the financial services industry are doing enough to protect those very homes.

Who pays?

Whichever way you look at it, someone has to bear the cost of any form of safety net, or lack thereof: whether it's the consumer paying Mortgage Payment Protection Insurance (MPPI) premiums; the Goverment paying out under Support for Mortgage Interest (SMI); or lenders suffering arrears which turn into repossessions and big write offs. Ideally there should be a balance of responsibilities and financial contributions from all parties, but this is the real world and unfortunately it's easier said than done. Consumers don't like paying insurance premiums, not just on mortgage protection but on any insurance product. The lucky ones have never needed to claim and retrospectively weigh up how much they've seemingly 'wasted' over the years. Often, consumers don't see any material return for their monthly insurance payment (unless they claim of course) meaning that it will frequently be one of those items that gets cut from the household budget when times are hard.

The consumer perception of Mortgage Payment Protection Insurance

There's no doubt that consumers are aware of the existence of MPPI - but for the wrong reasons. It is considered complex and expensive, but the biggest issue is that it has unfortunately been tarred with same brush as PPI - a product which probably now has the most tarnished reputation of all. Mis-selling claims and copious amounts of adverse media coverage now make these potential 'home saver products' almost impossible to sell. This has lead to a basic lack of trust, so whilst the fundamental workings of MPPI still apply today, we desperately need to rethink the naming, pricing and positioning of the product which will hopefully enable lenders to increase take up levels. One of the statistics that caught my eye in the report was that less than 1 in 5 mortgages had MPPI in place in

2007 - and I doubt there's been much of an increase, if any, since then.

Future solutions

So I think there's a need for innovative solutions and it seems that some lenders are already considering alternative solutions. I was pleasantly surprised to read in the Daily Telegraph last month that Yorkshire Building Society is in discussion with insurers about buying blanket unemployment cover for its 400,000 borrowers. That sounds like a great proactive move from the mutual sector, looking to mitigate business risks but the discussions are still at an early stage, and amongst other things the figures will have to stack up if it's to come to fruition. But it's heartening to know that these sorts of discussions are taking place.

Whatever is delivered, it needs to be straightforward, flexible and reasonably priced. It could also be argued that if the mortgage is profitable in its own right, then why not sell MPPI at virtually cost price and give up the profit margin to encourage greater take up. The loss of sales revenue from insurance policies could be offset by longer term financial benefits in the form of fewer arrears and lower repossession costs for lenders.

If you look at MPPI pricing, there's still a wide variation in the cost of cover provided by lenders compared with direct players such as British Insurance and iProtect. So I think there's definitely some work to be done to ensure that price isn't seen as a barrier by consumers. I liked the idea of compulsory insurance, the cost of which is added to the monthly mortgage repayments and illustrated in best buy tables. To make this work it would need to be adopted by all lenders as unfortunately many borrowers will search with their 'cheapest price' blinkers on rather than considering the benefits of the cover. The mortgage payment should include basic low cost insurance, with options for the consumer to pay for more comprehensive cover if they wish.

We also need to look at other ways of compensating customers who take out MPPI, perhaps via a Government contribution towards costs (maybe tax relief on premiums), however I still think mandatory cover for borrowers, or at least for those with a mortgage repayment accounting for a certain percentage of their income is the way to go.

From the Government viewpoint, it has a distinct shortage of funds at its disposal and even though SMI has been given a temporary reprieve in its current form until June 2012, the chances of it continuing beyond that date probably aren't great. If unemployment starts to rise sharply as a result of the spending cuts, the additional cost burden could make the Government decision to axe or severely dilute the benefits of SMI much more clear-cut. But before going down this route the state needs to look at the repercussions of such actions and weigh up the cost of maintaining SMI against the cost of having to pay housing benefit to repossessed families.

Personally I think there should be mandatory cover across the whole market from all lenders reflected as an integral part of the monthly repayment rather than it being a separate premium and direct debit that the customer could later cancel. But as I mentioned earlier it's not that simple as we must consider how you treat the self employed, those on fixed contracts and numerous other scenarios.

Conclusion

I think if lenders take responsibility to protect home-owners and protection ends up becoming the norm rather than the exception, the government should make a financial contribution on the basis that this safety net will have fewer cases slipping through the holes for it to have to deal with.

Encouraging consumers to act

Stuart Deane

Director of Sales at Principality Building Society,

examines why consumers are reluctant to make arrangements for the eventuality that they are not be able to meet their mortgage payments and what can be done to change this.

The report on long term safely nets to protect mortgage borrowers provides an excellent summary of current weaknesses within public and private sector provision explores possible alternatives that could form the foundation for all stakeholders to build upon, with a singular aim to provide a much more efficient frame-work for the benefit of all parties.

Why don't consumers make their own arrangements?

Focusing specifically on the current issues that prevent more consumers making private arrangements, it is important to explore the root cause of the issue to ensure that recommendations address the causes and not the symptoms. In my view the main reasons why consumers fail to make adequate personal provision largely fall into 3 distinct areas: attitudinal and behavioural; product and sales process; and regulatory.

Attitudinal and behavioural

There is a clear reluctance for many consumers to make their own protection provision for a number of different reasons:

- Confusion regarding product choice due to the complexity of the offering available
- Apathy
- Overall levels of confidence in insurance generally and distrust in insurers' likelihood of paying out in the event of a claim
- Poorly weighted financial priorities, with consumers having a preference to use any available funds to buy lifestyle enhancing goods, rather than the insurance to protect their standard of living.
- An unwillingness to confront unpleasant possibilities such as death, illness, injury or unemployment
- A belief that "it won't happen to them" and if it does "something will turn up".
- A lack of understanding, and in many cases over estimation, of the cover / support available through the state and indeed their own employer.
- Moral risk - ultimately the view that why should I pay for cover when someone else will foot the bill, or indeed by paying for private provision I will get fewer state benefits!

Product and sales process

Other significant barriers preventing consumers from purchasing insurance are the breadth of the product choices available and the length and complexity of the sales process. The result being:

- Buyer fatigue following a two hour plus interview and fact find
- Buyer confusion in relation to the options available
- Multiple protection products which cover different risks and have different exceptions and conditions
- Due to the weight of disclosure, a perception that policies are riddled with unfair terms, conditions and exclusions that overwhelm the benefits and value of the products concerned
- The weight of paperwork in support of the recommendation, including Statements of Demand and Need, Combined IDD, KFI, illustrations, policy documents etc.

Regulatory

It is clearly in all parties' interests that consumers are fully aware of the specifics of the product that they are purchasing and that it fully meets their needs. However this should be balanced against other elements of consumer protection that already exist within the sales process (such as cooling off periods), to ensure that the extent of disclosure and process are proportionate. Without this balance customers can simply be completely turned off by the process and end up with no protection whatsoever, irrespective of their needs.

There is a perception that regulation is moving towards treating customers as irrational and unable to make informed decisions. This opens up a much wider debate regarding fundamental principles of contract law which could have far reaching consequences. It also poses other questions such as "what personal responsibility should consumers have", and "how can you regulate against irrationality"?

What can be done?

Having identified the main reasons for consumers failing to make personal provision, the measures that we look to put in place should address those reasons.

Communication and education

There is a clear need to improve the understanding and perception of insurance and protection by consumers through improved communication and better education. We should not underestimate the scale of the attitudinal and behavioural issues, and we must acknowledge that consumer education alone will not have a significant impact, and so other additional measures must be considered.

Simplification of product and sales process

There is no doubt that that current product design and the desire for providers to differentiate themselves and their products creates complexity and restricts the ability for consumers to directly compare products and make informed decisions.

The introduction of products that are simpler in their construction with fewer or standard exclusions would enable consumers to make better informed choices. Additionally, creating products that cover multiple risks under a single policy would help remove some of the complexity that exists currently where there is the need to take out separate policies to cover specific risks.

It is fully recognised that these would not be easy solutions and indeed could increase the cost of protection. Additionally market collaboration is notoriously difficult and insurers may also be reluctant to remove areas of differentiation. However the current limited levels of protection penetration reinforce the need to do something and the above impacts and should be more than compensated for by:

- improved sales volumes as more consumers recognise the value of the cover, and
- improved net pricing as a result of reduced selection against the insurer.

Compulsion

Whilst better educated consumers and simpler products may improve the take up of private protection provision, a more radical solution may ultimately be required. Essentially if consumers do not choose to make their own provision and there is a requirement to move from public to private provision, some form of compulsion for all borrowers built into mortgage product pricing as a standard feature seems the most compelling solution.

Both the compulsion and cost impact would undoubtedly be negatively received by borrowers, especially in view of their current perceptions of protection. Compulsion should however carry the benefit of reducing the overall net cost of premiums by introducing greater economies of scale for insurers. As a result this should result in a unit cost that would be far more affordable to all.

Ultimately compulsory insurance only becomes an option if the whole market moves in unison. As touched on in the report, if compulsory protection becomes a viable option a way to sugar the pill would be to introduce tax relief on contributions, further reducing the net cost to consumers. Clearly there would be a financial impact to the state, but such a move would simply avoid downstream costs in the form of benefits that would otherwise be paid.

Irrespective of whether private provision is taken voluntarily or by compulsion, a key principle should be that the receipt of insurance claim payments should not affect an individual's tax and state benefits position. The current approach where certain insurance payments impact an individual's entitlement to wider state benefits is clearly inconsistent and introduces a moral hazard which needs to be removed.

Private versus public provision

It is clear from the report that there is a complete disconnect between private and public provision and demands an urgent review of public and private solutions, to ensure they dovetail strategically with the resultant removal of unnecessary duplication, cost and complexity.

The need to act decisively has never been greater as the current economic backdrop makes increasing arrears and repossessions inevitable. Whilst repossessions have reduced in the last 12 months due to high levels

Encouraging consumers to act

of lender support through greater forbearance, coupled with the lowest interest rates in history, both must inevitably comes to an end.

The report compares the cost of repossession against continued lender forbearance, but the risk is that the lender is simply postponing the inevitable and may still be in the same position five years on, and will therefore end up carrying the costs of both lost interest and repossession. As a result lenders must clearly treat each individual case on its merits to ensure there is a fair and differentiated approach between those that can't pay and those that won't pay.

Lenders cannot be expected to continue to absorb such costs indefinitely and alternative approaches should be explored. Currently, local and national Governments pick up significant costs post repossession in the form of benefits and housing support. Therefore there is a strong case for this funding to be used in a more efficient way, by lenders keeping borrowers in their homes but with the Government underpinning the additional costs that lenders acquire as a consequence.

Alternative solutions

A number of alternative options were highlighted in the report, including shared ownership, sale and rent back and mortgage rescue schemes, and all of which have merit provided the borrower has sufficient equity.

From a lender perspective a more variable tenure and the ability for borrowers to flexibly staircase up or down are options that would clearly support consumers. However in the majority of cases these options are sadly constrained due to their higher capital requirements and certainly within the building society sector, the absence of a capital raising instrument. This only serves to emphasis the issues lenders face in trying to manage stakeholder requirements which are often confusing, inconsistent and contradictory.

Other significant barriers to the options identified are the absence of a mature resale market in shared ownership, and in the case of sale and rent back, the issue that lenders are not in business to own and manage property portfolios especially as these would be geographically diverse.

As a consequence of the identified constraints, there is a clear opportunity to create a new vehicle into which all lenders could sell such properties, creating a retail housing bond. With rental yields projected to get even stronger in the near to medium term the new vehicle would guarantee strong cash flow, and would undoubtedly generate strong institutional / bond market interest, but in all likelihood only if supported by a degree of Government backing.

Conclusion

In summary there are a number of ways that the extent of long term mortgage protection can be improved, but if we are looking for a true step change in the number of people who make their own arrangements, thereby supporting a move from public to private provision, it will involve a fundamental shift in current thinking and far greater stakeholder collaboration.

The role of Government

Susan Lovelock

from the Preventing Repossessions and Homelessness team, Department for Communities and Local Government, **examines the role that Government has, and will continue to play in preventing repossessions.**

Government welcomes the contribution made by the report on the repossessions safety net and the discussions being taken forward by the Building Societies Association (BSA) on this important issue. We welcome the work of lenders, the debt advice sector, insurance industry and Registered Social Landlords to drive the debate forward and to look at innovative private and third sector led solutions to the repossessions challenge.

Preventing repossessions remains a key priority for Government. Whilst latest statistics show that repossessions this year have been lower than expected, it is clear that there are challenges ahead as interest rates begin to rise and that we cannot be complacent. There are also opportunities to learn from the experience of our joint work on repossessions over the last few years, to look at ways to improve and to simplify the protections and support currently in place.

It is also important that we recognise the hard work and contribution of the debt advice sector, lenders, Registered Social Landlords and Local Authorities in preventing many homeowners from losing their homes during the downturn.

Government measures

When repossessions rose in 2008, Government responded with a number of measures. These included -

- Implementing the Mortgage Arrears pre-action protocol
- Toughening up FSA regulation
- Putting extra money into debt advice
- Improving communications to raise awareness of help available
- Enhancements to Support for Mortgage Interest, and
- Establishing backstop schemes including Mortgage Rescue and Homeowners Mortgage Support

The Coalition Government has made further investment in this framework of protections through the Spending Review. The Financial Services Authority (FSA) is continuing to implement the Mortgage Market Review. The settlement included provisions to continue the Mortgage Rescue Scheme (MRS). Assistance through Support for Mortgage Interest (SMI) remains in place and the enhancements have been extended for another year to help more people in need. The Department for Work and Pensions (DWP) are developing longer term plans for SMI as detailed in the Welfare Reform White Paper published in October 2010. The Homeowners Mortgage Support (HMS) will close as originally planned in April 2011. A substantial investment in Local Authority homelessness prevention will enable them to respond to support households threatened with repossession.

We believe that repossession should be a lender's last resort, with a range of options available to households struggling with their mortgage payments to prevent it being necessary. Our framework provides support depending on the level of household need and individual circumstances. It is clear that a 'one size fits all' solution would not work in such a complex area. It is equally clear that the role of Government is to provide a framework that is fair to borrowers, lenders and taxpayers.

Future work

For Government, there are two key factors that we must take account of when talking about the safety net for repossessions. Firstly, our response must share the risks and costs of repossession fairly between lenders, borrowers and Government - avoiding moral hazard and creating positive incentives wherever possible. Negotiation and forbearance by mortgage lenders is a key part of the picture and it is in everyone's interests that they continue to play their part. Secondly, Government funding and intervention must be fairly targeted and deliver value for money for the taxpayer. This has been a crucial factor in decisions around the

The role of Government

rate for SMI and the future of Mortgage Rescue.

It is clear that in the case of Mortgage Rescue, we will need to go further still to improve the value for money that the scheme offers, in order to ensure the scheme can help as many households as possible to avoid the threat of repossession.

We also need to ensure that we are taking a truly localist approach to preventing repossessions by empowering and supporting local authorities and their communities to address concerns in the best way for their local area. We would welcome discussions with local authorities and other partners about any steps Government can take to get out of their way as they rise to this challenge.

And we must recognise that for some households home ownership may be impossible to sustain. We must therefore also support alternative options for households in these circumstances such as assisted voluntary sale, avoiding the need for formal repossession proceedings wherever possible.

Conclusion

We look forward to continuing to work with lenders, the debt advice sector and other key partners as well as supporting industry and voluntary sector approaches to preventing repossessions.

As the economy improves, unemployment and interest rate changes will pose a challenge to homeowners and their lenders. There will be room for innovation and addition to the safety net, so we welcome this timely debate on what more industry, the voluntary sector and Government can do. This might be around supporting planned moves into affordable housing, such as Mortgage Rescue and assisted voluntary sales, perhaps around prevention such as insurance, perhaps around the way lenders and Government work can both contribute through arrangements for SMI and forbearance. While Government has an important role to play, so too do many other key partners.

Getting people to 'do the right thing'

Nick Kirwan

***Assistant Director of The Association of British Insurers,* considers how to protect homeowners from unpredictable life events and encourage them to 'do the right thing' by taking out insurance.**

The Government is increasingly expecting individuals to take responsibility for their own financial protection. Without protection products, individuals and families can face overwhelming financial hardship from the impact of injury, illness, death or unemployment. Families that mistakenly expect the state (and the taxpayer) to provide a long term safety net in the event of financial difficulty risk hardship and a radical change in lifestyle.

The economic climate

The newspapers are full of stories about spending cuts and are forecasting slow economic growth and job uncertainty especially with public sector jobs being axed. The resulting unemployed would suffer a substantial cut in income and would also lose some financial protection where previously an employer would be helping provide a buffer with death in service and sick pay benefits. These 'employed benefits' are protection that a self employed individual would also lack, and would need to put in place for themselves to ensure that their fundamental financial needs were covered.

Despite concerted efforts by lenders and the Government to reduce repossessions, families still lose their homes and are forced to downsize or move If it is not possible to sell at the price they bought the property, they can also face negative equity. The emotional stress of financial problems is a prime cause of relationship difficulties and family break ups.

When borrowers take that first step onto the housing ladder involving probably the biggest purchase in their life, they should be encouraged to 'do the right thing' and protect themselves and their families. To ensure families are financially protected, a long term safety net such as life cover, income protection and unemployment cover will need to be put in place for both the current uninsured mortgage borrowers as well as new mortgage borrowers. The proportion of borrowers taking out protection with the loan has been in steady decline for many years, a trend that could have huge impact in the current climate.

Doing the right thing

The principle of getting people to 'do the right thing' and take out protection when they take out a mortgage should be on an 'opt out' rather than 'opt in' basis, but the current regulatory framework seems to be making the process of taking out financ ial protection more difficult. A recent Competition Commission ruling means that, not only Payment Protection Insurance (PPI), but also Mortgage Payment Protection Insurance (MPPI) cannot now be taken out at the same time as the loan or mortgage is arranged. This is despite the Financial Ombudsman Service (FOS) stating in their annual review 2009/2010 that MPPI has not given rise to many complaints for several years, and that this trend had continued. A break in the process between the mortgage being arranged and protection products being offered will result in more families and home-owners facing the risk of financial hardship should the worst happen, if they do not afterwards put in place some form of mortgage protection.

The length of the sales process for simple products such as life cover and unemployment cover seems out of step. There is a need to explain what is and is not covered and to have a robust sales process, but the same regulatory requirements apply regardless of the complexity of the product making it uneconomic for the insurer and off putting for the consumer. It has been easy to justify providing yet one more piece of information to the consumer without considering the effect of being given a lengthy key facts document, regardless of the simplicity of the product.

The Mortgage Market Review (MMR) sets out prescribed affordability assessments to determine whether customers can afford a mortgage on their income. This means that mortgage borrowers and especially first time buyers, may fail the affordability test if they also take out protection to cover the loan. Addressing 'detriment before it occurs' has created yet another barrier to encouraging people to 'do the right thing' by taking personal responsibility for their financial well being.

Conclusion

The Government will need to focus increasingly scarce resources on those who need it most or who are unable to make provisions for themselves. Insurers offer a wide range of protection products which sees them removing the burden and consequences of financial risk from individuals, their families and Government. Taking personal responsibility and 'doing the right thing' creates peace of mind and should the worst happen, a financial safety net.

The role of the insurance industry

Suzy Awford

Vice President Government Relations at Genworth Financial (Europe), discusses the role the insurance industry can play in keeping distressed borrowers in their homes.

The report raises fundamental questions, which are crucial to homeowners' security and well being. What happens when the state cannot afford to support homeowners whose financial circumstances change, and the economy worsens to such a degree that an adverse change in financial circumstances becomes very much more likely? What can be done to avoid an increase in repossessions, with all the distress, cost and upheaval that repossession will cause?

The answer is not simple, and requires all stakeholders to work together through the Government's Home Finance Forum to find a solution. This is an issue that touches the lives of many people on a day to day basis, and should be prioritised with that in mind.

Self-protection by consumers

Most stakeholders would agree that protecting your financial future to enable you to stay in your own home when your household is under financial stress, is the right thing to do. Despite this, as the report states, only 17% of people protect their mortgage payments through insurance. This would not be such a problem if homeowners were protecting themselves in other ways. But there is little evidence that this is the case and the state simply does not have the resource to provide comprehensive protection.

Genworth Financial is a financial security company, operating in 25 countries across the world, looking after 15 million policy holders. We very much welcome the recognition in the report that the insurance industry has a role to play in addressing this problem, and that appropriate incentivisation of prudent behaviour is critical. The Report suggests considering an insurance requirement for home owners with under 20% equity in their property, combined with tax relief for borrowers who additionally protect themselves through accident, sickness and unemployment.

A balanced regulatory environment is fundamental to incentivise borrowers to plan for financial stress on their mortgage payments. The ban on selling Mortgage Payment Protection Insurance alongside mortgage policies means that consumers are discouraged from protecting themselves just at the point in the economic cycle that they most need protection. Other jurisdictions elsewhere in Europe strike a more even balance between ensuring that consumers understand the nature of the protection they will receive, whilst not discouraging people from considering how to protect themselves.

The roles of stakeholders

All stakeholders have a role to play in finding solutions to help keep consumers in their homes.

- The industry (both the insurers which develop the products and the lenders which distribute them) has an obligation to ensure that products are clear, simple to understand, fairly costed, sold properly and pay out when they are needed. Mortgage Payment Protection Insurance has a high payout rate on claims, but this is a message that has been lost in the wider debate on payment protection insurance.
- Policy makers and regulators should consider ways to incentivise prudent behaviour by home owners. The Government must work with lenders, the insurance industry, policy makers, regulators, consumers and debt advisers to find a way forward to help get this balance right. Insurers should be a key part of the Home Finance Forum discussions.
- Equally, consumers must play their part by ensuring that they plan for their financial futures, and take into consideration that their financial circumstances could change.

Insurance solutions

The report also references Mortgage Payment Protection Insurance, which protects lenders should the borrower default, which facilitates sustainable home ownership by enabling prudent lending to first time buyers and provides a second pair of eyes reviewing mortgage lending decisions. In Italy, lenders without Mortgage Indemnity Insurance on their high loan to value loans need to hold more capital than loans with Mortgage Indemnity Insurance. It is possible to find ways to incentivise prudent behaviour.

Genworth Financial has also developed an integrated product combining Mortgage Indemnity Insurance (which protects lenders), and Mortgage Payment Protection Insurance (which protects consumers). This enables both lenders and consumers to act prudently. The solution to developing effective safety nets in the UK is likely to be through a combination of many of the elements outlined in the report. This needs to move up the political and policy agenda.

Genworth Financial would very much welcome the opportunity to engage with all stakeholders to ensure that we play our role in finding a way forward on this critical issue.

The need for long-term change

Nicola Hughes

Senior Policy Adviser at Shelter, explains the impact of repossessions on families and what can be done to prevent them.

The case for reform

Shelter knows from the cases we see every day that just one single thing, like a bout of illness or drop in income is all that's needed push people into spiral of debt and arrears that can lead to the loss of their home. Our advisers help hundreds of clients struggling with mortgage arrears or repossession action every month. In the last year more than 35,000 people visited our web advice pages for mortgage arrears and Support for Mortgage Interest and almost 70,000 people have downloaded Shelter advice guides on mortgages. Behind every statistic is the real story of a household threatened with losing the roof over their head, faced with the prospect of becoming homeless, of moving away from their local community, of moving their children to a new school.

Undoubtedly, the initiatives - some lasting and some temporary - developed since 2008, have helped many borrowers avoid eviction, and of course historically low interest rates have helped. A huge amount has been achieved, from regulation of sale and rent back products to the bolstering of government support.

There is a clear case that repossessions should be prevented as far as possible, and the discussions the Building Societies Association are leading go to show that it's in the interests of borrowers, lenders and government alike to work towards a long-term safety net for homeowners that is permanent, comprehensive and effective. Yet it often seems like we've been here before, with every housing market crash bringing its own cries of 'never again'. There is, broadly, a consensus that reform is needed. But exactly what type of reform and how to make it happen remain more complex questions.

Proposals for change

One way to prevent arrears and repossessions is to minimise their likelihood in the first place - prevention rather than cure. In the long term, only a huge increase in house building can help to make housing costs more affordable for everyone. But mortgage regulation has a part to play too. Responsible lending can't stop unexpected life events from throwing finances into chaos, but it can go a long way to ensure that a mortgage is sustainable and genuinely affordable from the outset. A second element of the safety net must be good quality, independent, impartial and free advice for those borrowers who do get into difficulty. Advice organisations, including Shelter, help people to manage their debts, agree new payment plans, access Government schemes or get back on their feet in other ways. Advice at court helps some 85% of borrowers who attend avoid immediate eviction, whilst Shelter evidence suggests that casework - costing just a few hundred pounds per case compared to the colossal costs of repossession - helps the vast majority of clients to stay in their homes. The Government must seriously consider the effect that cuts to advice funding may have for struggling homeowners.

Can insurance models work? The report identifies some of the common pitfalls and barriers of private mortgage insurance. Shelter believes that to be effective, insurance should be funded by all three central stakeholders: the borrower, lender and the state. It should provide no moral hazards for borrowers or lenders, provide some form of assistance for the majority of cases and, of course, it should be sensitive to the fiscal context and therefore be cost-neutral or cost saving for the public purse. The debate surrounding the universal credit provides an opportunity to grapple with these ideas.

Unfortunately, there will be some households who can simply no longer sustain home ownership. The presence of schemes like Mortgage Rescue, allowing the most vulnerable households to transition into another tenure, but stay in their own home, is crucial. There is also more we can do to assist those borrowers who want and need to sell their home at an earlier stage, including lender-led help through Assisted Voluntary Sale packages.

Finally, safety nets must include appropriate legal and regulatory frameworks. The balance of power is, contractually, weighted in favour of the mortgage lender. Although legal innovations such as time orders (for some consumer credit loans) and the pre-action protocol have gone some way to redressing this imbalance we believe there is more that can be done to bring mortgage law into the 21st Century.

Conclusion

That we must do more to help borrowers avoid repossession over the long term is clear. The nature of that help will continue to be a subject for debate and analysis, but it's a debate the industry and the advice sector know we need. Long term change also requires serious political buy-in. Ministers must heed the call to look seriously at the safety net and start to consider fundamental - even controversial - reforms that could prevent the next repossessions crisis.

The benefits of a robust safety net

Joanna Elson OBE

Chief Executive of the Money Advice Trust, **explains why repossessions rarely benefit anyone and calls for a holistic solution to the repossession problem.**

'Long Term Safety Nets to Protect Mortgage Borrowers'

Through our running of the National Debtline and Business Debtline, at the Money Advice Trust hear from many thousands of people every year who are struggling to meet their mortgage repayment commitments, and as such we have an understanding of how people arrive at a situation where they need help. Due to intervening life events, people fall into mortgage arrears even during good economic times. It is now time to future-proof the help available for those in mortgage arrears and stitch together a comprehensive safety net. Financial and benefits advice must be integral to the development of a robust safety net, both at the outset and afterwards to address other indebtedness and benefit entitlement.

Mortgage rescue, flexible tenure and Sale and Rent Back

The recent announcement that funding for MRS will continue is good news. Nonetheless, it is disappointing that this will stop in April 2013 and we have concerns that the emerging localist approach for MRS will create a postcode lottery for people accessing the scheme. Despite initial teething problems, momentum for MRS has built and 1456 households had been rescued by the end of quarter three 2010. In order to maximise the success of the scheme, consideration must be given to the most cost efficient way of delivering the scheme and ensuring uniform rules around eligibility are adopted by regional delivery partners.

Despite FSA regulation of sale and rent back, there remains poor practice in this sector. At worst, participants in the scheme may be forced to leave their home if the minimum five year fixed-term tenancy is part of the arrangement. At best, we view such schemes as a last resort and not integral to a consumer friendly safety net.

Homeowner mortgage support scheme (HMS)

Whilst HMS has not delivered the widespread relief from repossession that was initially anticipated, the interim evaluation report confirms the scheme is cheap to run and beneficial to the borrowers who have registered (46 registrations to date). We see no compelling reason to disband HMS unless those who could currently benefit from the scheme would have their needs met elsewhere in the safety net.

Support for Mortgage Interest (SMI) versus a compulsory income insurance scheme

We believe there is considerable merit in a 'Sustainable Home-Ownership' type scheme. We would welcome further exploration of such an initiative in the context of considerations around the replacement of SMI. One of the major benefits of such a scheme is that it would help those homeowners who do not currently qualify for SMI but are at risk of repossession due to short term income shocks. We would also suggest that had this scheme existed at the time of the downturn, the previous administration may not have felt compelled to introduce HMS.

Time orders and temporary financial difficulty

In 2009 the Treasury proposed a potential equalisation of the first and second-charge markets. We welcomed this but suggested it must be based on taking the best consumer protection measures from the Consumer Credit Act (CCA) regime and the Financial Services and Markets Act (FSMA). Time orders are normally a short-term measure to deal with temporary financial difficulty. We would welcome discussion around their inclusion in a safety net.

Wider cost-benefits

We note the report's findings regarding the cost to the lender of repossession; we would also highlight the following indicators of the wider costs of repossession.

- CLG estimated the cost to the Exchequer of repossessing a vulnerable household at £16,000
- NEF Consulting, in a report for the Law Centres Federation, calculated that avoiding eviction of a family of four can result in a saving to Government of £34,000.

The very existence of safety net provisions prompt people to seek advice from local authorities, money advisers and lenders when perhaps they would not otherwise have done so.

- From January to September 2009, 29,448 households approached their local authority for advice about MRS.
- Although HMS has not delivered the anticipated widespread help to households, between April 2009 and May 2010 Shelter provided mortgage advice to 4,700 households under a CLG homeowner mortgage support contract.

Conclusion

Ensuring the right protection is in place for those struggling to meet their mortgage repayments is vital. As noted above, research shows that repossession rarely benefits anyone; lender, borrower and Government all lose out as a result. Establishing a robust and fair safety net for vulnerable borrowers can therefore be to everyone's benefit, and we must continue to work hard to achieve this goal.

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ISBN 978-1-869839-99-4

January 2011