



How flexible tenure can prevent mortgage repossessions



With personal indebtedness up by more than 50 percent over the last decade, anxieties are growing that an economic downturn – or a rise in interest rates – will push more people over the edge. The low level of repossessions by banks and building societies could once again rise steeply, causing untold misery for the families affected.

Perhaps most vulnerable of all are the more marginal buyers who get a foot on the rung of the owner occupation ladder through one of the low-cost home ownership initiatives such as shared ownership and Homebuy. By definition these are people who would not normally be in a position to buy and problems with arrears are more common in this market than for outright home ownership.

As the size of the ‘intermediate housing market’ grows – between social renting and buying the cheapest houses available in the area – so this more vulnerable group of homeowners will grow, assisted by various forms of low-cost home ownership. Is it inevitable that this will also mean rising numbers who lose their homes and see their lives very seriously affected as a result? Does this mean that communities will become more unstable?

Flexible tenure

At the Joseph Rowntree Foundation, we introduced arrangements for flexible tenure some 20 years ago. Occupiers have the right to ‘staircase up’ if they can afford to. And if individuals get into financial difficulty and their mortgage repayments are at risk, we can – always at our discretion – use the receipts from ‘staircasing up’ to fund ‘staircasing down’ or ‘reverse staircasing’: we buy back shares in the property, if necessary enabling the occupier to become a tenant. Importantly, this allows people to remain in the same neighbourhood. The first case of reverse staircasing took place in 1989.

Over the years we have invested nearly £2.4m in repurchasing equity shares. Our expenditure has been covered by proceeds from equity sales – receipts from staircasing up.

Table 1: Staircasing figures for the last 20 years

Number of eligible shared ownership properties	406
Number of cases of ‘staircasing up’	117
Number of cases of ‘staircasing down’	84
Total receipts from ‘staircasing up’	£2.62m
Total invested into ‘staircasing down’	£2.37m

The pattern of staircasing does not appear to follow rises and falls in the property market so much as arbitrary, personal circumstances of occupiers.

Flexible tenure clearly provides an alternative to combating repossessions. However, as illustrated in a number of case studies which are set out below, the ability to release equity via reverse staircasing can help alleviate other non-housing difficulties.

Case Study 1

Mr and Mrs S originally purchased the property as 25 per cent shared owners in the late 1990s. They had two children. Mrs S fell seriously ill and Mr S left employment to care for his wife. Mrs S died soon afterwards.

Mr S remained on benefits which were insufficient to cover expenditure. Credit was used to keep the family afloat. This was not a long-term solution and home ownership was not sustainable for the family.

We were asked to consider the use of reverse staircasing to clear existing debt yet allow the family to remain in their home at this very difficult time. A medical professional involved with the family during this period fully supported the request from Mr S, since this would remove some stress from the family.

Staircasing down to full rental was agreed and completed. The family are now moving forward after being able to clear all their debt.

Case Study 2

Mr and Mrs M were an elderly couple living in a house which they owned on a 50 per cent shared ownership basis for several years. Their home was situated in a rural village which did not have extensive facilities and so travel was an essential part of life for them.

Increasingly Mr and Mrs M suffered health problems, with one of them unable to walk any significant distances. Their use of a car was essential in order to retain independence. However, this was becoming difficult as their existing car was old and required essential works which they could not afford.

The proposal was for them to staircase to 25 per cent ownership and release equity. This was agreed after further medical assessment and investigation into the option of a vehicle under the Motability scheme. The couple are now coping well in their home following the resolution of the transport problem.

Case Study 3

Mrs J purchased the property a few years ago on a 50 per cent shared ownership basis, following a stressful marriage breakdown and health problems. She was unable to work due to these health issues. She was able to service a small mortgage (having paid for most of the 50 per cent share with a single capital sum) and cover rent payments with the help of her child who lived in the property.

Mrs J's child then left the property to take up further education and the resulting reduction in income meant that Mrs J was unable to cope financially and had a shortfall between income and expenditure.

We agreed to a staircasing from 50 per cent to 40 per cent which enabled Mrs J to pay off her small mortgage and bring monthly outgoings to a more comfortable level.

Case Study 4

Mr and Mrs N purchased their home on a 50 per cent shared ownership basis in early 2000. Increasingly, however, the family struggled to keep up with mortgage and rental repayments and their accounts fell further and further in arrears. On a number of occasions the mortgage lender had cleared the rent arrears in order to prevent further action being taken.

The relationship between the couple then broke down, increasing the support that was required and the need to split ownership of the property.

We agreed to the reverse staircasing to full renting so that Mrs N could remain in the property with her children and Mr N received his equity share and relinquished his interest in the property. The mortgage, secured loan and rent arrears were cleared.

Our breakdown of reasons for agreeing reverse staircasing over the last four years shows that loss of employment accounts for 32 per cent of cases; general debt problems also account for 32 per cent; relationship breakdown was the main reason in 13 per cent of cases; health-related issues account for 19 per cent; and in 4 per cent of cases the funds were needed to pay for repairs where these were the responsibility of the shared owner.

Importantly, in each of these instances flexible tenure has not only spared households the misery of homelessness and leaving their neighbourhood, but has ensured that the community itself is more stable and sustainable.

Practice elsewhere

Flexible tenure received a high level recommendation from the Inquiry into Low Cost Home Ownership chaired by Baroness Brenda Dean at the Housing Corporation in 2002. However, this has not been widely taken up by housing associations. Shared owners in the LCHO properties provided by others will have to move out if they get into financial difficulties, perhaps ending up homeless: an obligation then falls on the local authority to re-house them.

Accumulated arrears often mean losses for the lender; and the Registered Social Landlord (RSL) will probably face irrecoverable rental arrears as well. Flexible tenure, as the route to mortgage rescue, makes financial sense. The alternative will often be the traumas of children having to be taken away from local schools, parents suffering homelessness, and emotional stresses that can last a lifetime.

Open Market Homebuy

In Open Market Homebuy schemes, in contrast to shared ownership (or New Build Homebuy), there is no lease and no rental payment. While full reverse staircasing to renting would be feasible, there are difficulties where the solution is simply to decrease the share of ownership held by the occupier. With shared ownership this simply means increasing the rent proportionately to take account of the smaller equity share, in Open Market Homebuy schemes where there is no rent this is not an option.

The solution here is a little more cumbersome but is not too problematic. The occupier could convert from the status of Homebuy purchaser to shared owner; then the staircasing down – and requirement to pay rent – follows.

More RSL participants?

Why is it that more housing associations have not redeployed the receipts from staircasing up to pay for staircasing down? The answer, no doubt, lies in the other purposes to which they have preferred to apply these resources: the receipts have allowed the housing association to cross-subsidise their social renting (perhaps winning competitive bids because they can accept less grant money than another RSL); or to pay for upgrading of other properties to meet Decent Homes standards; or simply to give the organisation greater financial security.

This is a matter of priorities. In our own case, helping people to sustain their home, and hopefully to stay on the home ownership ladder – even if going down one or two steps – and preventing homelessness, has been a priority. In the colder climate of any rise in interest rates or downturn in the economy, other housing associations may also see this as a priority.

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