January 2008

Policy: briefing
Mortgages and repossessions

A discussion of the issues raised by the changing landscape of mortgage lending

Summary

This briefing looks at what lies behind the overall increase in repossessions since 2004, and sets out some of the issues raised by the changing nature of the mortgage lending sector. High house prices have made home ownership unachieveable for many, and increased the likelihood of others engaging in risky borrowing and lending. This briefing questions whether adequate systems are in place to deal with the new levels of risk that homeowners are experiencing, and whether lenders, regulators and the state are delivering the level of protection needed for homeowners in the current market.

- Although the level of repossessions is still far lower than in the early 1990s, there are contributory factors present now that were not so significant then. Household debt has become an increasing burden, and the way in which debts are managed by lenders has changed. Now, it is increasingly common for non-housing debts to be secured on the borrower's home, whether as a condition of taking out the loan, or as an enforcement measure imposed by the courts when payments fall into arrears.
- Both arrears and repossessions are higher among sub-prime mortgage customers than among customers of mainstream, or prime, mortgage lenders. The sub-prime sector is a comparatively new and rapidly expanding part of the mortgage market, and a recent Financial Services Authority (FSA) investigation into lending practices in the sector showed serious cause for concern.
- When homeowners do fall into arrears, the safety net, both in terms of state welfare support and private insurance schemes, is inadequate. Borrowers who are struggling to keep up with payments face pressure to enter into further loans, second mortgages, or sale and rent back schemes, in an attempt to solve their problems. There is insufficient access to independent advice, and lenders' practices around dealing with arrears and helping borrowers to get back on track, are highly variable, especially in the sub-prime sector.

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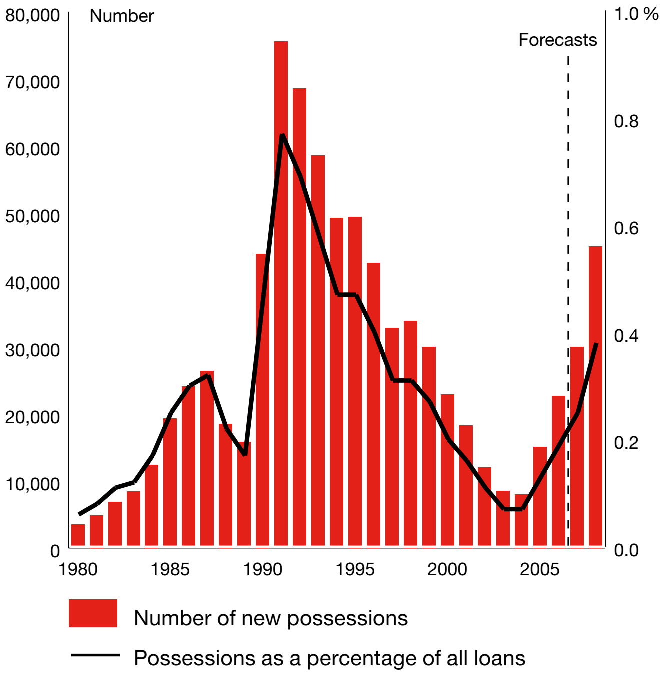
Arrears and repossessions in context

The Council of Mortgage Lenders (CML) reports steep increases in the numbers of repossessions taking place in recent years.[1] In 2004, there were 8,000, while by the end of 2007 they expect this to have risen to 30,000. A further steep rise to 45,000 is predicted for 2008.[2] This level is comparable to the situation in the mid-1990s, when the number of repossessions soared.



Source: CML, *Housing and mortgage market forecasts 2008/7.*

Over the last decade, there have been two major developments in the housing and mortgage market that are unprecedented in their scale and effect. Firstly, dramatically rising house prices have made home ownership less affordable to the majority of potential first-time buyers in most parts of England. This leads to pressure on households to:

- borrow higher multiples of income
- obtain finance for a deposit from family or other sources
- enter into higher-risk partnership arrangements, so that two or more purchasers may raise, between them, the necessary finances for purchase.

Secondly, the mortgage industry has diversified and expanded in order to meet the demand for larger and riskier loans. The sub-prime sector of mortgage lending, which lends to those at the higher-risk end of the spectrum of borrowers, has grown rapidly in recent years.

It is notable that levels of repossessions in the sub-prime sector are 10 times higher than in the mainstream sector. Some difference is to be expected given that the sub-prime sector lends to the highest-risk customers; however, the rate of increase in repossessions has also been higher than in the mainstream sector.[3]

Levels of arrears have shown a more unstable trajectory, differing from the clear upward trend of repossessions. However, far from being a source of reassurance as to the scale of the problem, these figures may well indicate that possession action is being sought sooner, or enforced more rigidly. The proportion of statutory homelessness acceptances due to mortgage arrears has doubled from two per cent in 2003/4 to four per cent in 2006/7.[4]

The changing landscape of mortgages and debt

Bankruptcies, individual voluntary agreements and secured debts have all shown steep increases over the past few years.[5]

There is also a growing trend of remortgaging to obtain capital to pay off other debts. A recent investigation into the sub-prime credit sector[6] indicated that remortgaging in these circumstances tends to be at a higher interest rate and on less favourable terms than the original mortgage, making inability to pay and repossession more likely.

Households who are experiencing financial difficulty can face a barrage of aggressive marketing, encouraging them to address the problem by increasing their debt in some way. These arrangements are often debt consolidation loans, which may be secured on the person's home, thus converting an unsecured, low priority debt into one that can result in the loss of their home if they are unable to keep up payments. Shelter advice workers report that the party seeking possession of the client's home is increasingly a second charge lender whose charge on the property can amount to as little

1 Council of Mortgage Lenders (CML) mortgage repossessions data, see www.cml.org.uk/cml/statistics

2 Cunningham, J, *Housing and mortgage market forecasts 2008/7*, CML, 2007. See also Cunningham, J, *Repossession risk review*, CML, 2007.

3 Stephens, M, and Quilgars, D, *Managing arrears and possessions*, CML, 2007.

4 Communities and Local Government (CLG) statistical release, *Statutory homelessness: 2nd quarter 2007.*

5 Figures from the Insolvency Service indicate that, after a steep rise between 2003 and the end of 2006, in 2007 bankruptcies and individual voluntary agreements began to fall again. However, both remain considerably higher than the levels of a decade ago.

6 Munro, M, Ford, J, Leishman, C, and Karley, N, *Lending to higher risk borrowers: sub prime credit and sustainable home ownership*, Joseph Rowntree Foundation (JRF), 2005.

as a few thousand pounds. It is difficult to quantify the levels of this problem because of the lack of statistical information available. Ministry of Justice statistics on possession actions entered do not identify actions brought by second charge lenders separately, and CML statistics on repossessions exclude second charge lending. Second charge lending is regulated by the Office of Fair Trading (OFT) under the Consumer Credit Act 2006, rather than by the FSA.[7] This differential regulation contributes to a lack of clarity over the nature and extent of this sort of lending and its contribution to repossessions.

In addition to the growth of these types of consolidation loans, judgments made against individuals in the county court for recovery of non-secured debt are being increasingly enforced by charging orders that give the lender a legal charge over the debtor's home. If the debtor does not comply with the terms of the judgment, they risk losing their home. The number of charging orders issued increased by 44 per cent between 2004 and 2005.[8]

Home ownership at the margins of affordability

Rates of home ownership currently stand at around 70 per cent. Levels of security and affordability in the private rented sector have been reduced over the past two decades, greatly diminishing this sector's suitability as an alternative to ownership for a long-term home. Social rented housing does offer the affordability and security that renting privately lacks, but is increasingly hard to access.[9]

The policy of successive Governments over the past 20 years has been to make it possible for more households to access home ownership. Principally this has been through the right to buy scheme, but increasingly this is being encouraged through the medium of shared equity or other low-cost home ownership (LCHO) products. These schemes, by definition, assist households who would not be able to afford to become homeowners without subsidy. Although evidence is limited, that available suggests that households who have taken up a LCHO product may have a repossession rate up to three times higher than the general population.[10]

Former tenants of social housing who have exercised the right to buy are a particularly vulnerable group. Beyond the former landlord's general duty to provide information as to the costs and risks of home ownership, there is little to prevent households taking on financial commitments that they will be unable to sustain in the long run. There are also reports of lenders and brokers in the sub-prime sector making doorstep approaches to social housing tenants to encourage them to exercise their right to buy and selling them financial products and mortgages that do not take into account their ability to pay.[11]

Despite a recent decline in confidence in the housing market, home ownership is still seen as such a solid financial investment that people are willing to engage in risky behaviour to enter it. On top of the demand from those who want to own their home, the profits that can be made from residential property have led to a boom in investment, and speculation. The fastest growing group of mortgage borrowers in recent years has been those who are not buying their own home, but buying to rent out to others – the 'buy to let' phenomenon.[12]

Given the dominance of home ownership as the tenure of choice and the availability of finance to high-risk borrowers, some households will inevitably overstretch themselves when they take out their mortgages. The ability of these households to afford their housing costs will be easily rocked by any changes in circumstances.

What are the risk factors for repossession?

The Survey of English Housing gives the most commonly stated reasons for mortgage arrears as (in descending order)[13]:

- lost employment
- 'other'
- reduced earnings due to sickness/injury
- partner left/died
- self-employed earnings reduced.

7 The Consumer Credit Act 2006 only covers loans up to a maximum of £25,000 at present. Although this is to be amended from April 2008 to there being no upper limit on the loans covered under the Act, it has been a source of considerable concern that there has been a period of time where large second charge loans have been subject to no regulation at all.

8 Department for Constitutional Affairs, *Judicial statistics 2005 (Revised)*, 2006. This is the latest year for which figures are available.

9 New social housing lettings have declined from 372,000 in 1997/98 to 228,000 in 2005/06. (Source: Housing Strategy Statistical Analysis (HSSA) and COntinuous REcording (CORE), *UK housing finance review 2006/07.*)

10 Office of the Deputy Prime Minister (OPDM), *Evaluation of the low cost home ownership programme*, 2002.

11 For example see Insley, J, 'Cold callers 'break rules to lure right-to-buy tenants', The Observer, 22 April 2007.

12 CML reports that buy-to-let mortgages now account for 10 per cent of total mortgage balances outstanding in the UK, and that the sector is outperforming mortgage lending for owner-occupation in growth. In 1998, there were 29,000 buy-to-let mortgages in the UK, in 2007 there were 938,500: CML, *Statistics table MM6, buy-to-let mortgages market summary.*

13 CLG, Table S315.

Rising interest rates are also likely to have contributed to the recent increases in repossessions. Rises in overall interest rates are compounded by the increasing prevalence of mortgages taken out on low initial rates fixed for a two-year term, with a steep ‘payment shock’ occurring at the end of this period.[14]

Some significant items of household expenditure, such as council tax, fuel bills, and transport costs, have increased at rates above inflation over recent years, placing a further strain on budgets. In addition, wages are currently rising only at (or sometimes below) the headline rate of inflation. This means that a household whose mortgage payments are on the edge of affordability could have to face the risk of falling into arrears for a long time. As with all risks, the longer the period of exposure, the greater the chance that something will go wrong.[15]

Available data[16] on repossession suggests that the following groups are at higher risk of repossession.

- Those on the lower end of incomes at which home ownership becomes possible.
- Those who have significant other debts.
- Those experiencing relationship breakdown. The loss of one partner’s income, coupled with extra costs, such as childcare and the expense of dividing assets, leads to significant problems for this group.
- The self-employed. The high rate of small business failure, and the likelihood of fluctuating income, leaves this group vulnerable to falling into arrears.
- The young and first-time buyers.
- Those households who are vulnerable or lack basic financial capability, and who may be more susceptible than most to questionable sales techniques.

Is the system of regulation working?

Mortgage lending has only been regulated by the FSA since 2004, and the system of regulation and scrutiny that they have put in place is still unproven in its effectiveness. The system encompasses all first charge mortgage lending and intermediary activity. However, second charge lending, such as where a loan for something other than home purchase is secured on the property, remains unregulated by the FSA, as does buy-to-let lending.

All companies subject to FSA regulation are required to conform to a code of business known as the Mortgage Conduct of Business (MCOB). They are also subject to a customer service protocol called *Treating customers fairly*, which demands basic standards of integrity and product explanation. This protocol, together with the MCOB, offers some degree of protection to consumers. The MCOB states, for example, that mortgage lenders must write to customers who fall into arrears within prescribed time limits, and must be willing to enter into an agreement with the customer to pay back the arrears within a timescale that is reasonable according to the customer’s circumstances. It also offers protection against intimidation or misleading information being directed towards customers.

Shelter has particular concerns over the degree of effectiveness of the regulatory regime within the sub-prime sector. The FSA recently published the outcome of stage two of their mortgage effectiveness review. The report, published in 2007, only covered their investigation into lending practices in the sub-prime sector, and did not include any material about lifetime conduct of business or arrears management, whether in the prime or sub-prime sectors. It found worryingly low levels of good practice, particularly among intermediaries, in regard to checking affordability and suitability of specific products for customers in the sales and advertising side of the sub-prime sector.[17] Among this group, in one-third of cases investigated there had been no adequate assessment of affordability. In one-half of the cases surveyed, no adequate assessment of the suitability of the product for the customer’s needs had been carried out. None of the lenders surveyed had covered all responsible lending considerations in their policies.

The Government has expressed concern at these findings in the recent Housing Green Paper. However, with regard to the question of ‘whether the financial incentives for mortgage brokers operate against the long-term interests of those they are advising’[18], the Green Paper states that the FSA will only consider this question if evidence of problems arises. Shelter considers that enough evidence has already emerged to prompt immediate intervention. Overall, the FSA’s response has been disappointing. They only took action against five providers, yet it is clear that levels of poor practice go well beyond this.

14 Financial Services Authority (FSA) product sales data suggests that 1.4 million mortgage borrowers may face steep payment shocks in 2008.

15 Whitehead, C, and Gaus, K, *At any cost? Access to housing in a changing financial marketplace*, Shelter, 2007.

16 For example, Ford, J, *Risks – home ownership and job insecurity*, Shelter, 1998.

17 FSA, Thematic review, 2007, www.fsa.gov.uk/pages/About/What/thematic/subprime/index.shtml

18 CLG, *Homes for the future: more affordable, more sustainable*, 2007, page 90.

The need for urgent regulatory scrutiny has been compounded by the crisis of bad debt in the American sub-prime sector, with its knock-on effects being a loss of confidence in the British financial markets, and reduced availability of the wholesale finance that the sub-prime sector depends on to be able to continue mortgage lending. These factors may make lenders less willing to grant mortgages to higher-risk borrowers. They may also lead firms to move lending to high-risk borrowers into even higher rates of interest and less favourable terms and conditions. If this happens, further rises in repossessions will inevitably follow. The current climate of uncertainty makes close scrutiny of the sector even more crucial. Shelter is keen to see the results of the FSA review of arrears management, and hopes that the Government will resource the FSA at a level that allows it to expedite the results of that review. The Government must also ensure that this enables the FSA's revisiting of lending practices in the sub-prime sector in 2008 to be comprehensive and stringent. Shelter would like to see appropriate sanctions being applied to all those who have failed to comply with the MCOB, not just a handful of the worst offenders.

Shelter would go further, and recommend that the Government extend the scope of FSA regulation within the mortgage industry. Shelter has identified the following areas as particular causes for concern.

- Mortgage rescue, or sale and leaseback schemes are now widely advertised, and Shelter has major concerns over reports of bad practice among practitioners, and hardship for many households who have taken up the schemes. Shelter supports mortgage rescue schemes in principle as an option to provide flexible tenure for those who can no longer afford home ownership.[19] However, these schemes must be subject to adequate regulation and scrutiny, and result in long-term security of tenure for the former owners, with the option to buy back all, or part, of the equity. Currently, advertising is often misleading, implying that borrowers can stay in their homes on a long-term basis and, in some cases, not making it explicit that prices offered are below market value. The reality is often that the company will buy the property at a price far below full market value and rent it back to the former owners on an assured shorthold tenancy that gives minimal security of tenure. These products are currently unregulated, and there have not been any investigations into whether customers are given all relevant information and treated fairly – this needs to be addressed urgently.
- Second charge loans over £25,000 are only due to come under regulation by the OFT in April 2008. The dual system of regulation is likely to cause unnecessary confusion as two parallel systems seek, in slightly different ways, to regulate against issues such as irresponsible lending and misleading advertising.
- The omission of buy-to-let lending from the regulatory system. Tenants of buy-to-let landlords are sometimes evicted because their landlords fall into arrears and the properties are repossessed.

What happens when things go wrong?

Obtaining advice and assistance

There is a lack of awareness among many mortgage borrowers about their options if they fall into arrears. Although the majority of mortgage lenders' policies include advising borrowers to obtain independent housing advice, such independent advice is not universally available. There are limits to eligibility for assistance based around income levels and capital, and independent advice services, such as Citizens Advice Bureaux and Shelter's free housing advice halpline, sometimes have long queues or waits for appointments, which may be a deterrent to somebody who is in a stressful situation.

Forbearance by the lender

The mortgage lender should be willing to enter into an arrangement with a borrower to repay the arrears by instalments over a reasonable period of time. This is specified as required practice under the FSA's MCOB. However, this does not always happen in practice. There are variable practices among mortgage lenders in the way they deal with arrears. Research by the CML indicates that the rate of repossessions in the sub-prime sector is 10 times higher than that in the mainstream sector, while the rate of arrears is only five times higher.[20] This implies that borrowers who fall into arrears in the sub-prime sector may be twice as likely as those borrowing from mainstream lenders to end up being repossessed. There is also anecdotal evidence that some sub-prime lenders are very quick to repossess. The Citizens Advice survey of mortgage possession actions taken in one county court in 2006, showed that some lenders in the sub-prime sector were applying for many more possession orders than would be accounted for by their share of the sub-prime mortgage market.[21] While the FSA's

19 Murphy, J, *Good practice briefing: mortgage to rent*, Shelter, 2007.

20 *Managing arrears and possessions*, op cit.

21 Springett, H, 'Raging bull', *ROOF magazine*, May/June 2007, pages 31-33.

requirements in the area of arrears management[22] exist across all lenders (mainstream or sub-prime), there are questions over how well these requirements translate in practice into protection for customers in the sub-prime sector.

In Scotland, mortgage lenders have to inform the local authority homeless persons department when they enter into possession action for mortgage arrears.[23] Although this is a new measure and it is unclear how it will work in practice, it could have positive effects in allowing the local authority to become aware of a tendency towards unfair possession actions by certain lenders. Such a move might be useful if applied in England.

The state welfare safety net

The Income Support for Mortgage Interest (ISMI) scheme normally leaves borrowers with a shortfall between what ISMI will pay and what is owed to the mortgage lender.[24] This state safety net was cut back in stages as a reaction to the rapid rise in claims during the housing market crash of the early 1990s. The ability of the current safety net to deal with the effects of economic recession, or a collapse of the housing market, is untested. Many fear that the current arrangements would lead to significant hardship and rapid rises in repossessions.

Private insurance policies

When the ISMI scheme was cut back, the intention was that it would be replaced by private insurance products. This remains the Government's preferred means for homeowners to mitigate their risks. However, Mortgage Payment Protection Insurance (MPPI) policies are not universally held. Recent studies have found that only about one-quarter of mortgages are covered by MPPI policies, and that those who are not insured tend to be households that are least able to cover the cost of lost income themselves using other resources.[25]

Payment protection insurance policies in general (a sector which includes those sold for mortgage payment protection) have been criticised for being inadequate, because they do not cover many common reasons for falling behind with payments[26], and there have been concerns about inappropriate sales and misleading advertising. The sector was criticised in a recent market study by the OFT[27] and referred to the Competition Commission.

Shelter believes that an effective safety net needs to have the following features.

- It should be realistic, and able to cover the actual costs incurred by households in paying their mortgages, rather than notional costs, so that borrowers are not left to make up shortfalls out of resources they may not have.
- It should aim to minimise situations where common causes of loss of income remain uncovered.
- It should strike the right balance between providing a comprehensive level of cover, and ensuring that it does not provide perverse incentives for households to borrow at unaffordable levels, or recklessly alter their circumstances in reliance on a safety net.
- It should be simple, transparent and universal in its application, without the level of cover varying depending on which product a consumer has taken out, and not relying on consumers to navigate their way through the small print of contracts to discover exclusions and limits to their cover.
- It should be funded through a mixture of channels, with payments being contributed by the Government, lenders, and borrowers.

Shelter believes that the proposals for a Sustainable Home Ownership Partnership (SHOP), put forward by the Joseph Rowntree Foundation[28], have a great deal of merit and manage to satisfy most of the criteria set out above. SHOP would bring together homeowners, lenders and the Government in partnership, each contributing to a fund used to purchase block insurance. This block insurance, which is cheaper than individual policies, would pay out on a time-limited basis on loss of income arising from specific risks. This system could act as a replacement for both ISMI and MPPI, and Shelter is keen to see these proposals developed further.

22 The FSA's Mortgage Code of Business requires lenders to adopt policies and practices that allow customers reasonable time and arrangements to pay off arrears.

23 Under section 11 of the Homelessness (Scotland) Act 2003.

24 Income Support for Mortgage Interest (ISMI) will only pay on the first £100,000 of a mortgage loan, and will only cover the interest element of the payments, not capital repayment. Borrowers who lose their income normally have to wait for 39 weeks before the first payment will be made, leaving them to meet substantial costs out of savings or other resources.

25 Ford, J, Quilgars, D, Burrows, R, and Rhodes, D, *Homeowners risk and safety-nets: Mortgage Payment Protection Insurance and beyond*, ODPM, 2004.

26 Tutton, P, and Hopwood Road, F, *Protection racket – CAB evidence on the cost and effectiveness of payment protection insurance*, Citizens Advice, 2005.

27 Office of Fair Trading, *Payment protection insurance – report on the market study and proposed decision to make a market investigation reference*, 2006.

28 Ford, J, and Wilcox, S, *Managing risk and sustainable home ownership in the medium term: reassessing the options – a consultation document*, JRF, 2004.

The courts as last line of defence

Over 90 per cent of possession actions taken to the county court result in the granting of a possession order, and only 0.2 per cent are dismissed.[29]

It is possible to improve procedures at the point where a possession order is applied for in the county court. Scrutiny of actions brought could identify those cases where lenders have not adhered to regulatory standards or treated the customer unfairly, and could prevent lenders in such cases from obtaining a possession order. Tenants in the social housing sector have some protection with the pre-action protocol for rent arrears, but there is no such protection for mortgage possession cases.

The existing law does not allow judges to make a final consideration on whether it is reasonable in all the circumstances to grant possession. Such freedom does exist in many tenancy possession cases, and there may be scope for the law to be changed so that a test of reasonableness becomes possible for mortgage possession actions.

The Unfair Contract Terms Act 1977 potentially allows judges in the county court to rule that any of the terms of a contract are unreasonable, and to dismiss a case brought under such terms. Using this legal measure could provide some protection to borrowers whose lenders engage in practices such as charging unreasonable sums as a penalty for defaulting on payment, or setting an unreasonable timescale under which arrears have to be paid back. However, deciding unfairness in this way is a cumbersome and unreliable way of dealing with the problem.

What are the consequences of rising repossessions?

For individuals and families who are repossessed, the costs are considerable. A recent literature review[30] found that repossession has a negative effect on the psychological, physical and emotional health of all who experience it. Also, a household may be found to have made themselves intentionally homeless by falling into arrears, and only be eligible for limited assistance from the local authority.[31] Often their only option would then be to obtain housing in the private rented sector, where rents are high and security of tenure is low. At this point, the household may enter into a cycle of repeated homelessness as each tenancy ends. If mortgage lenders were required to inform the local authority homeless persons department when they enter into possession action for mortgage arrears it might allow local authorities to plan better for eventual homelessness applications from those repossessed. This might also reduce the likelihood of repossessed households being found to be intentionally homeless. In addition, the local authority could give homeowners access to advice at a point that may enable the homeowner to avoid losing their home in the first place.[32]

The long-term effects of homelessness and housing insecurity have damaging effects not only for the individuals who experience them, but for society as a whole. They act against the achievement of a range of government policy objectives in areas such as child poverty, health, education and economic growth.[33]

Rising repossessions also have a knock-on effect on people who are trying to access rented housing. As households suffer repossession and seek rehousing in the social rented sector through homelessness legislation, they simply add to the demand and growing waiting lists in this sector. Tenants of defaulting borrowers in the private rented sector are also affected by rising repossessions.

At the wider level, inadequately regulated lending in the sub-prime sector, that leads to high levels of repossessions, may have a range of social and economic effects that will be difficult to predict or quantify. The crisis in the American sub-prime market in 2007 caused a loss of confidence among financial institutions and the public at large, and may have damaging consequences that have yet to unfold.

29 *Managing arrears and possessions*, op cit.

30 McCallum, E, and McCaig, E, *Mortgage arrears and repossessions in Scotland*, Scottish Executive, 2003.

31 *Watchman v Ipswich BC* [2007] EWCA Civ 348.

32 Under section 195 of the Housing Act 1996 local authorities have a duty to take reasonable steps to prevent a person (who is eligible, in priority need and not intentionally threatened with homelessness) from losing their accommodation.

33 National Housing Federation, Shelter, Local Government Association, Chartered Institute of Housing, National Federation of ALMOs, *Building for the future: A programme of housing investment for the 2007 Comprehensive Spending Review*, 2006.

Recommendations

- More effective scrutiny and regulation by the FSA to ensure that products being sold are affordable and the most appropriate for the customer's needs.
- Review of the scope of FSA regulation. In particular, to consider bringing within FSA regulation (i) the regulatory regime for second charge lending currently under the Consumer Credit Act, (ii) buy-to-let lending, and (iii) mortgage rescue schemes. As an interim measure, the OFT should carry out an urgent investigation into mortgage rescue schemes for misleading advertising.
- A national mortgage rescue scheme should be set up, to be administered through registered social landlords. Such a scheme could offer the potential benefits of flexible tenure, without the drawbacks of many privately-run schemes, such as lack of security of tenure, inconsistency, and risk of financial exploitation and homelessness.
- Improve the safety net for owner-occupiers. ISMI and MPPI allow too many households to fall through the gaps. Shelter recommends that the Government investigates the benefits of the Joseph Rowntree Foundation proposals for a SHOP.
- The Government and mortgage lenders should increase funding for the provision of early stage, preventative advice for homeowners in difficulty.
- Implement a pre-action protocol for mortgage arrears cases in the courts.
- Require mortgage lenders to inform the local authority homeless persons department when they commence possession action against borrowers.
- The Ministry of Justice should carry out an analysis of the number and characteristics of possession actions instituted by second charge lenders, and break down published information on possession actions to show first and second charge lenders' actions separately.

Shelter also supports the following proposals in the Housing Green Paper.

- Improving the capability for dealing with financial matters among those on low incomes or otherwise financially excluded, through the provision of generic financial advice and education.
- Investigation of longer-term, fixed-rate mortgage products. Shelter hopes that this will form part of a broader investigation into a range of ways in which the market could be developed so that more of the interest rate risk can be transferred away from the customer, including capped interest rates.
- An overall increase in housing supply to help counter excessive rises in house prices.

Shelter further believes that a more balanced, cross-tenure approach to housing policy is needed to address some of the issues raised in this briefing. Specifically, the development of the private rented sector needs to be examined so that it becomes an acceptable alternative to home ownership for the provision of a long-term home; and the nature of the taxation system has to be considered, including the advantageous position of existing owner-occupiers and buy-to-let investors.

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