

Summary : Outcomes of advice for struggling homeowners

Since April 2009, Communities and Local Government (CLG) has funded Shelter and other providers to provide independent advice to homeowners wishing to apply for Homeowner Mortgage Support (HMS) or to seek more general advice about their mortgage debt. Shelter has set up a dedicated helpline, the Homeowner Helpline, as well as a team of designated advisers based in advice centres and courts around the country using this funding.

This summary includes information about the number of clients that Shelter has advised through the HMS advice funding stream and an analysis of the cost consequences of the advice. It also reports on outcomes of 80 case files and findings from 30 follow up interviews with clients that received advice from their local Shelter service.

Key Findings

- Between April 2009 and May 2010, Shelter has provided mortgage debt advice to over 7,000 households, of which more than 4,700 households were helped under Shelter's Homeowner Mortgage Support contract.
- Each mortgage debt advice case costs the state, on average, £229. This makes the provision of advice a low cost, high value option, particularly compared to the cost of repossession - repossession of a vulnerable household is estimated to cost the Exchequer £16,000.

Outcomes for clients

- In 63 per cent of cases reviewed the client was helped to stay in their home. In 18 per cent of cases reviewed, Shelter was unable to help prevent repossession but assisted the client in another way, by offering advice on alternative accommodation, for example.
- The most common form of arrears assistance was to help or advise the client to agree a new mortgage repayment plan with their lender, which was evident in 44 per cent of cases reviewed.
- In a third of cases reviewed, immediate repossession was prevented, through advocacy following receipt of a possession claim letter, representation at court or negotiation following an order for outright possession. Other assistance included help accessing government support such as the Mortgage Rescue Scheme (MRS) and help with debt management.
- In a quarter of cases reviewed, clients were helped to apply for some form of government support (MRS, SMI, HMS).

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Awareness and perceptions of support available

- Prior to contacting Shelter, clients typically had little or no knowledge of the help available through HMS, MRS, or Support for Mortgage Interest (SMI). Some clients felt that the advice service should be better publicised.
- Client interviews highlighted several issues with the support available including delays in finding out about eligibility for government support and some perceived that support was only available as a last resort.

Quality of advice received

- In interviews following advice, clients were impressed by the professionalism of the service and said they found the advice reassuring at a time of crisis. Comments included:

'Shelter is fantastic. They spelt out the options... helped us present all the information ... and looked at the budget. And that made the lenders accept that it was a serious issue not like we were not paying our mortgage and we were living it up. They explained all the options available to us, and what Mortgage Rescue (MRS) was and what it would look like if we made ourselves homeless, and what support we would get from the council. There was a lot of professional detail there. I was very surprised and can't thank them enough..'

- Clients valued the role of court desk advisers in explaining complex legal issues, negotiating with lenders and representing them fairly during the hearing. Comments included:

'I went to court for a repossession order and the (adviser) approached me and asked me if I would like her to represent me in court. I was going to do it myself, because I didn't know any different. I didn't know there would be anyone to help there. I think it's an excellent idea to have someone there in the court to help, because it doesn't cost anything. A solicitor would cost a lot of money. I wasn't thinking about getting a solicitor, I couldn't afford it.'

'We went into a separate room and discussed it before the case. I was there a bit early, but she just sort of said to come and speak to her first.... If I had done it myself I probably would have (messed) it up. The woman from Shelter was so good, she said about the right to support yourself in your situation ... (if you could) not afford it.'

Recommendations

Housing and money advice work extremely well to prevent repossession, at low public cost. This research demonstrates that advice Shelter has given through the HMS contract has helped borrowers to manage their debts, agree new repayment plans, access government schemes, or get back on their feet in other ways. Not only is this a vital lifeline to homeowners, it can also save government from the expenses of repossession, such as judicial costs and re-housing costs.

Advice has also been beneficial to households who were no longer able to maintain home ownership, but required other kinds of support to access and keep new accommodation.

Shelter recommends that:

- **Targeted government funding for homeowner advice must be maintained at the current level**, including funds for face-to-face advice. A far greater number of homeowners are eligible for advice funded through this HMS contract than through Legal Services Commission (LSC) funding. Government should be aware that if advice is to help homeowners it must be **funded in a way that allows them to access it**, with broad eligibility criteria.

The research shows that a number of clients valued advice at court, and spoke positively about the role of court desk advisers in explaining complex legal issues, negotiating with lenders and representing them fairly during the hearing. The research also shows the importance of the duty desks for onward referral to wider housing or money advice.

- We urge the LSC and CLG to **continue funding for free advice at courts**. The two funding streams could be made more cost efficient by coordinating duplicated administrative costs.
- Over the long term, advice services, including legal aid, must be put on a **steadier funding footing** so that advice is always available to people in need of help – both in and out of recession.

Absolute numbers of clients accepted onto HMS are low both in this sample and at a national level, whilst MRS and particularly SMI have been more popular with borrowers. Nonetheless, the culture of advice, forbearance and negotiation of new repayment plans embedded through all of the schemes has been effective at keeping borrowers in their homes.

- Recent initiatives to support homeowners, including HMS, MRS and reforms to SMI should continue for as long as funding allows. If no new state funding can be sourced, private finance should be leveraged into the system, including lender contributions.
- Regardless of the future of the HMS and MRS schemes, the referral systems between lenders and advice agencies, and the recognition of advice as a crucial repossession prevention tool must be an integral cornerstone of the long term safety net for struggling homeowners. In order for this to be effective, **lender forbearance must be enshrined in regulation and law** as well as good practice.

Some clients were **frustrated at the delay in getting help** due to administrative complexities of government schemes, and the fact that they felt they were unable to access some schemes unless as a last resort. To speed up processes and encourage uptake, we recommend that minor changes are made to scheme designs, including:

- The **five month extended forbearance waiting period for HMS is scrapped** to allow people quicker access to help.
- **HMS rules around proving a temporary income reduction should be simplified**, with advisers, lenders and borrowers making a collective, tailored and informed decision about client suitability.
- Households should not have to be on the brink of eviction before accessing help. Interpretation of 'exhausting other options' should be consistently applied and communicated so that **households can access all of the government schemes before receiving an order for possession**. This is in line with the pre-action protocol which encourages full exploration of options *before* court, and will save money through reduced advice time and court costs.

Clients frequently reported a lack of public information and awareness about help available to them. This also was evident in local authorities and at Jobcentre Plus, often the first port of call for people who have lost their jobs and are struggling with debt. We recommend that:

- **Jobcentre Plus has procedures in place to signpost clients to sources of information** about mortgage help, and to advise clients about eligibility for SMI.
- **Local authority homelessness staff are continually empowered to give help and support** to struggling homeowners, and are fully trained in and equipped with information about government schemes.
- Communications campaigns promoting help available are effective but costly. We support the government in its bid to **increase awareness through other public relations activities**.

Limited job opportunities meant that clients felt bleak about their future and their ability to pay their mortgages over the long term. Unsurprisingly, job loss and debt are closely linked. If the labour market does not recover swiftly, these clients will need support in order that they can have managed exits from government schemes and, where necessary, from home ownership. This concern also underlines the need for a new, long term safety net settlement.

- We call on the government to urgently **review the long term help available to homeowners**. A new settlement is needed that takes the best aspects of both state benefits (SMI) and private insurance, and shares risks and costs between all three parties – lenders, borrowers, and the state.

Over the long term, clients need to be empowered to tackle their own financial difficulties and have the confidence to discuss their problems with lenders. A number of clients expressed apprehension about talking to their lender or felt that their lender was unhelpful or unengaged, or simply did not understand the small print:

- We support the FSA in its work to **promote financial education and consumer engagement**. Accessible materials in plain English, such as the NHAS leaflet *Are you worried about your mortgage?* or the FSA *Money Made Clear* guides are a crucial part of this.
- Lenders and their trade bodies should work to **embed good practice communications** with struggling borrowers, and the FSA must ensure regulatory standards on this are enforced.