

# Homeowners

In 2007/08, Scottish Citizens Advice Bureaux dealt with 44,169 issues related to housing. Problems related to housing have increased by over 25% over the last five years, and now make up over one in every ten issues seen by bureau advisers.

Homeowners in Scotland are facing a 'perfect storm' in the housing market – house prices are falling, home equity is disappearing, fixed-term mortgages are ending and there are fewer mortgage deals available. The effect is that homeowners are struggling to meet their mortgage obligations and are at an increased risk of losing their home. The number of repossessions has doubled in 2008, with over 1,000 repossessions taking place each month<sup>1</sup>.

Homeowners approach bureaux with a range of different issues related to mortgages and homeownership, including:

- Problems with mortgage companies
- Sale and Rent Back agreements
- The Mortgage to Rent scheme.

## Problems with mortgage companies

A number of clients have approached Scottish bureaux with homeownership problems caused by irresponsible lending and unsympathetic attitudes to clients in financial difficulty. In many cases, the agreements made are often only sustainable in the short-term, and can lead to long-term hardship as individual or economic circumstances change. Bureaux report:

- Clients with mortgages that are up to six times their income, resulting in hardship as economic conditions become less calm
- Clients who have been given substantial secured credit often based on an inflated value of the client's home – this credit can be worth more than the value of the property.

These situations are worsened by the attitudes and actions of lenders to clients in financial trouble, with lenders quick to threaten and impose repossession, but slow to respond to client circumstances and offers of repayment.

<sup>1</sup> Scottish Courts Service, October 2008

**||** *A West of Scotland CAB reports of clients who are struggling with high mortgage costs after being given a mortgage that is six times their income. The clients enquired with the lender about changing their mortgage, but were told that they will have to pay a £10,000 fee as it is under three years since the mortgage was taken out.*

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The Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland  
(Scottish charity number SC016637)

The credit  
crunch and its  
fall out have  
homeowners  
on a financial  
precipice as  
they look for  
ways to save  
their homes

**citizens  
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## Sale and Rent Back

Higher mortgage costs coupled with debt problems are putting clients at risk of losing their homes. As a consequence, bureaux are reporting an increase in the numbers of clients who sell their homes to private companies and then rent back from them. Sale and Rent Back agreements can have important disadvantages, and bureaux report:

- Clients whose homes have been bought for significantly less than the market value
- Clients who pay rent on their house that is as much as, or more than, the mortgage payments that they couldn't afford in the first place
- Agreements afford few tenancy rights to clients, and clients are often given short-term rental agreements leaving them vulnerable to eviction
- Clients unaware that their furnishings also become the property of the company through the agreement
- Clients who find that the proceeds of the sale take them above housing benefit levels.

## Mortgage to Rent

The Scottish Government operates the Mortgage to Rent scheme which helps people who are in danger of having their homes repossessed to stay in their home as tenants of a social landlord. The scheme offers greater security of tenancy than a private sale and rent back agreement. However, clients have experienced problems with the scheme:

- Mortgage lenders can refuse the application and proceed with the repossession
- The long processing time can put clients at risk of eviction, with bureaux reporting cases of clients being evicted while waiting for a determination on their application
- Clients need to have been served with an eviction notice before they can apply to the scheme, leaving the client with few options if their application fails
- The criteria used to select people for the scheme are restrictive, for example a property has to be cheaper than the average in an area to be selected.

## CAS proposals for change

Turbulent economic conditions, combined with irresponsible lending and unsympathetic creditor behaviour, are making life difficult for homeowners. The government needs to ensure that lenders do not offer credit irresponsibly in periods of economic optimism and that owner occupiers are better protected in tougher times. In particular:

- The Scottish Government should offer greater protection to homeowners, and ensure that homeowners do not lose their homes for a small amount of debt
- The OFT should ensure that the Sale and Rent Back sector offers owner occupiers fair terms and conditions when buying their homes
- The Scottish Government should speed up the Mortgage to Rent scheme and widen its scope to help more homeowners
- The Scottish Government should ensure that the proposed mortgage shared equity scheme is accessible to a wide range of homeowners, and that government help does not exclude those with low equity.

## Case evidence

**||** A West of Scotland CAB reports of a single parent who was overcharged rent after making a Sale and Rent Back agreement. The client sold her ex-council house to a local businessman who rents it back to her at £525 per month. The client is on Income Support, and the local authority has set a maximum rentable value for the property of £350 per month, leaving her a shortfall of £175 which needs to be paid from her benefits. The bureau has tried to negotiate a lower rent with the landlord unsuccessfully and the client faces the prospect of having to move out of the family home.

**||** An East of Scotland CAB reports of a client who has secured debt that is worth substantially more than the house. The client bought the house for £60,000 in 2002, and it is now worth around £110,000. Due to financial difficulties, the client re-mortgaged to £77,000 and also managed to get additional secured credit of £79,500. The total secured debt now stands at £156,000, around £46,000 more than the value of the house.