Scottish Labour
Build the Future Together

MORTGAGE RESCUE SCHEME

November 2022

The cost of living crisis and rising interest rates were starting to raise the cost of mortgages for home owners. Now the economic chaos created by the Tories in Downing Street has raised the cost of borrowing and mortgage holders are facing spiralling costs.

Without further action there is a risk that, combined with high inflation and potential increases in unemployment, some households will face losing their homes.

SCOTTISH LABOUR'S KEY PROPOSALS

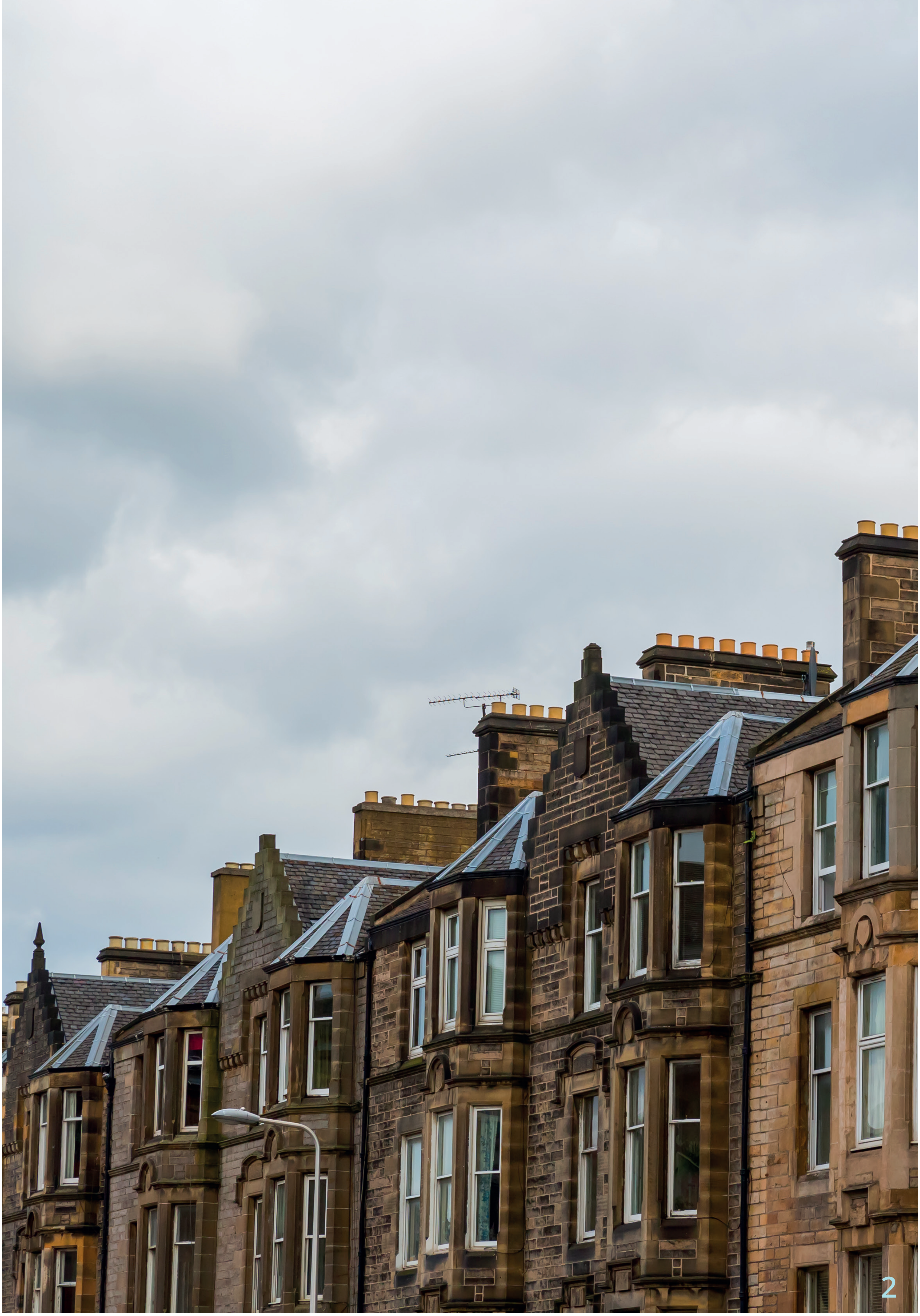
To prevent a wave of potential homelessness in Scotland, Scottish Labour are calling for the relaunch and revamp of the Mortgage to Shared Equity scheme so that it operates as a true safety net of last resort for those at risk of losing their home because of the cost of living.

Firstly, Scottish Labour would widen the eligibility of the scheme by:

1. Amending the eligible house price thresholds so that it is not only the lowest value homes that qualify.
2. Reducing the size of the equity that people need to have in their property to ensure that buyers who have recently bought their home with smaller deposits and are rolling off their fixed rate can still access support.

Secondly, the scheme needs to be properly resourced if it is to help people in time. Scottish Labour want an increase to the resources dedicated to Home Owner Support so that they can deliver a maximum of a two month turnaround for applications.

These changes would ensure the scheme is fit for purpose and acts as a true safety net for homeowners during the current economic crisis.



BACKGROUND

Earlier this year the Bank of England had already started to raise interest rates in response to high inflation. Over the summer there was a growing concern that this, combined with falling real wages could see some homeowners struggle to keep up with rising mortgage payments.

The economic chaos of the mini-budget in September led to a spike in the cost of borrowing, mortgage products were pulled and interest rates soared. While subsequent u-turns from the UK Government prevented further damage households have been left facing higher mortgage rates.

On 5 November the Bank of England announced that it would be increasing the Bank Rate by 0.75 points to 3%.[1] Further rises are also likely, with interest rates forecast to peak at 4.75% next year.[2] Higher interest rates will increase pressure for mortgage holders on a variable rate and those coming to an end to their fixed term in the next 12-18 months.

The Bank of England also warned that the UK was facing a two-year recession and unemployment is also expected to rise to nearly 6.5%.

In October, the Resolution Foundation suggest that by the end of 2024 as many as 5.1 million mortgaged households UK-wide could be paying more for their housing as a result of higher interest rates.[3] While costs will likely be higher for households in higher value properties, the impact on living standards will be larger to lower income households.

Until now, and while interest rates have still been low, levels of mortgage arrears have remained low. In October the Bank of England's Financial Policy Committee released forecasts that now suggest the proportion of UK households that will face repayment difficulties – for mortgages, rent and other types of credit – will rise to 2.8% by the end of 2023, the same level as pre-the 2008 financial crash.[4]

1 https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/november-2022

2 https://www.bbc.co.uk/news/business-57764601

3 https://www.resolutionfoundation.org/publications/interesting-times/

4 https://www.bankofengland.co.uk/-/media/boe/files/financial-policy-summary-and-record/2022/fpc summary-and-record-october-2022.pdf

SCOTTISH POLICY CONTEXT

In 2020, 30% of households in Scotland owned their home with a mortgage,[1] equivalent to around 750,000 homes. The October analysis from the Resolution Foundation also suggests that mortgagors in Scotland could face an average additional cost of £2.6k per year on their mortgage.

The Scottish Government's Home Owner's Support Fund is supposed to help people who are facing repossession. It does this either by helping people to sell their home to the Registered Social Landlord or by the Government taking a temporary equity share in people's homes to help reduce payments.[2] Preventing repossessions should be a policy priority of these schemes as it can leave people having to accept a reduced value for their home because their options to hold out for the best price are limited.

However, both schemes are underused and under-resourced. Since 2016/17 only 181 people (41%) have successfully applied to the Mortgage to Rent Scheme. Since 2010/11 there have only been 33 successful applications to the Mortgage to Shared Equity Scheme and none since 2015/16.[3]

Despite this, in recent months there has been an increase in the proportion of homeowners looking for support. Data from Citizens Advice Scotland for August show a 25% month-to month increase in the number of views for their webpage "What to Do If You Can't Pay Your Mortgage" and a 277% increase in views to mortgage-related advice pages compared to 2021.

"Since 2010/11 there have only been 33 successful applications to the Mortgage to Shared Equity Scheme and none since 2015/16."

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1 https://www.gov.scot/publications/scottish-household-survey-2020-telephone-survey-key-findings/documents/

2 https://www.mygov.scot/home-owners-support-fund

3 https://www.parliament.scot/chamber-and-committees/written-questions-and-answers/question?ref=S6W-10734

DETAIL OF PROPOSED CHANGES

Scottish Labour believe the current scheme needs amended so that it can act as a safety net of last resort for homeowners.

Firstly, the property valuation thresholds were previously set to target low value properties. However, in recent years wage rises have not kept up with the increase in house prices and so property valuation is unlikely to be an indicator of income. The thresholds are also outdated, having not been increased since 2017[1] and, in reality, a very small number of properties will fall under the thresholds. Scottish Labour therefore propose raising the thresholds to the median house value. The current thresholds do vary between areas and to take account of house size, if possible, the Scottish Government should upgrade each of these to the median. If this cannot be done quickly, Scottish Labour suggest using median house price data for each local authority from the Registers of Scotland.[2]

Secondly, to be eligible for the current Mortgage to Shared Equity scheme you must have at least a 20%[3] equity in your home but data from the Financial Conduct Authority[4] suggests that would apply to only 58% of mortgages. Scottish Labour propose reducing the size of this equity share to expand eligibility to the scheme so that it is accessible for more mortgage holders, should they need support. The new equity threshold would be determined in consultation with lending institutions, with the aim of ensuring support is available to those who may be rolling off a two or three year fixed rate mortgage and who have not yet built up sufficient equity to meet the 20% threshold.

The other elements of the scheme would remain the same. The maximum size of the equity that the Scottish Government would take would remain at 30% but this would also subject to an economic assessment of the individual's circumstances. After two years, homeowners would be able to buy back the equity in their home, with the expectation that they would aim to buy it back in full within 10 years.

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1 https://www.gov.scot/publications/hosf-property-thresholds-guidance/

2 https://www.ros.gov.uk/data-and-statistics/house-price-statistics

3 https://www.mygov.scot/home-owners-support-fund/eligibility-guidance

4 https://www.fca.org.uk/data/commentary-mortgage-lending-statistics-q2-2022

Making these changes would mean that around half of homeowners in each local area could apply for timely support to help them keep their homes, should they fall behind in their mortgage repayments.

Scottish Labour also recommend these flexibilities are put in place until the end of 2024/25. This would help smooth the transition to higher interest rates by helping homeowners who are facing steep and unexpected rises to their mortgage costs within the next 24 months and giving them confidence that support is available.

"Scottish Labour believe the current scheme needs amended so that it can act as a safety net of last resort for homeowners."

COSTS & FUNDING

The total cost of the changes will depend on a number of factors, including the number of people in need of support, the value of their homes and the size of the equity taken by the Government.

The Home Owners Support Fund (HOSF) is a demand-led budget within the wider housing and Affordable Housing Supply Programme budget. Between 2008/09-2014/15 the HOSF had an annual budget of between £10m to £20m, which in real terms would be around £26.8m in 2023/24.[1] The changes proposed will open the previous Mortgage to Shared Equity scheme up to more applicants, potentially with higher value assets.

Scottish Labour therefore propose that from April, provision is made with the wider housing budget to deliver a relaunch of this scheme. Applying the Bank of England's forecasts to the number of mortgages likely to be impacted by higher interest rates suggests that as many 7,400 mortgaged households could be struggling with credit repayments.

However, not all households facing higher mortgage costs will need Government support. Some may still be able to negotiate with lenders, reduce payments with savings or already be planning to move. Equally, not all those who end up in arrears will face repossession. It is also likely that demand for the support will take some time to filter through and so additional provision is unlikely to be needed in this financial year (2022/23).

To account for the widening of the scheme Scottish Labour therefore propose that next year £50m (as double the real terms value of the 2008/09 scheme) is budgeted,[2] with an assessment of uptake and economic forecast for future financial years.

1 Based on Affordable Housing Outturn Reports and using the SPICe inflation calculator, based on a £20m budget in 2008/09 in 2023/24 prices.

2 Based on the national median house value (£180,000) and a 20% Government equity share, this could support almost 1,400 people.

In the first instance, this funding should be allocated from within the wider housing budget, which has been repeatedly underspent and then raided by the SNP. In both 2021/22 and 2022/23 to date, the Scottish Government's budget revisions have released £40m and £26.8m of funding respectively from with housing budget for other Scottish Government purposes. In future years, Scottish Labour suggest that potential underspend of this nature should be kept in the housing budget and allocated to cover the costs of the Mortgage to Shared Equity scheme.

The nature of the scheme also means that the equity is returned to the Government over time. If additional resource is required over the two-year period Scottish Labour suggest that opportunities to defer funding plans are explored, such as the profile of SNIB capitalisation over the proposed 10-year timeline.

Potential savings are also possible within the Social Justice, Housing and Local Government Portfolio through the prevention of homelessness; analysis published by Crisis in 2020 suggested that suggested that the cost of homelessness per person ranged from £14,800 to £24,700 depending on the level of need.[1]

1 https://www.crisis.org.uk/media/241640/crisis_rapid-rehousing-report_web_spreads_v2.pdf

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