April 2019

Affordable Housing Commission Call for Evidence

StepChange Debt Charity's response

Summary

StepChange Debt Charity data suggests that the increasing lack of affordable housing across the UK could significantly increase the chances of households falling into debt.

StepChange sees examples of each of the four key groups identified by the Affordable Housing Commission, for whom the affordability of their housing is causing serious difficulty: struggling renters, particularly in the private rented sector but to a lesser extent in social rented housing; frustrated homeowners; those reliant on state support; and those who face affordability issues in older age.

The private rented sector is increasingly becoming the only housing sector where our clients who are in problem debt can find a home. In particular, it is associated with increasing numbers of clients who are older and/or with an additional vulnerability. Many of these clients prioritised paying their rent by taking out credit, many using high cost credit, adding to their financial difficulties. Because of their poor credit rating many are paying a “debt premium” in the form of higher deposits and/or rent and cannot accrue sufficient savings to be able to access a mortgage to buy their own home.

For our clients who received some form of housing benefit and who were private renters only 10% were receiving the full amount of their rent from housing benefit payments. Housing benefit shortfalls mean that the majority of our clients who claim will either be cutting back on other essentials or be forced to use credit or borrow from family or friends simply to pay their rent. In the long-term this is financially unsustainable.

Although a lower proportion of our clients overall are over 60, over 60% of these are still having to pay rent, suggesting they will continue to have to pay rent, as well as deal with their problem debt, in their retirement years. The even lower proportion of our clients aged 40-59 with a mortgage or who own their home outright, suggests this will be a growing problem amongst our clients in future years.

Our data indicates that low incomes and higher budget deficits (i.e. not having enough income to cover essential bills each month), being under 40, living in the private rented sector and being self-employed, in part-time work or unemployed all increased our clients’ chances of being unable to afford their home.

For many of our clients a lack of affordable housing resulted in significant negative consequences. These included the extreme of being made homeless, to not being able to afford deposits or letting agent fees, feeling forced to move from their current home or simply putting up with problems because of the worry of eviction. All these problems affected a higher proportion of clients who rented, particularly in the private sector. A lack of affordable housing also had a negative impact on our clients’ health, relationships and ability to work or find work.

There needs to be a shift from policies to support people to buy their own homes to initiatives to provide affordable housing for rent. Although the long-term solution of building more social housing at social rents is finally being accepted as a long-term policy solution to improve housing affordability, this policy intervention will take many years to yield results and cannot address the housing problems that our clients are currently experiencing.

Some shorter-term solutions include:

For the rented sector

- A cross-government review of the use of the private rented sector for housing vulnerable people
- Including protections from eviction for rent arrears in the Government's new Breathing Space and statutory debt repayment plan schemes.
- Evaluating the impact of introducing open-ended private tenancies and an end to "no-fault" grounds for possession in Scotland, with a view to roll out in other nations.
- The use of good rent payment records to improve credit reports which may help to reduce the 'debt' premium on both credit and housing costs. However, policy makers must consider safeguards to ensure extending data sharing does not harm people with current or past experience of payment difficulties.
- The introduction of a No Interest Loan Scheme should increase eligibility for support with deposit costs to a much larger number of low income households who are renting.
- To support people claiming the housing component of Universal Credit there needs to be a reduction in the five week wait for the first payment.
- Universal Credit Alternative Payment Arrangements (APAs) which pay housing support directly to landlords need to be more widely available and used effectively.
- More progressive forms of local taxation could provide an affordability bonus to those who are struggling to pay their rent or reliant on state support.
- Review the Local Housing Allowance cap basing figures on net local earnings figures rather than local market rents.

For the mortgage sector

- Introduction of a tax surcharge for all properties owned by those who are not a UK tax-payer or pensioner.
- To resolve the issue of many low income households remaining on high interest standard variable rate mortgages even when they are able to switch to cheaper deals, the FCA should co-ordinate an industry-wide agreement for an automatic internal switch to a more competitive rate for all customers ending a fixed term mortgage deal meeting certain criteria.
- Improvements in the consistency of advice provision around equity release and retirement-only mortgages.
- Evaluate the impact of recent changes to Support for Mortgage Interest benefits and reverse if they are found to be leading to more people losing their homes.

Introduction

StepChange Debt Charity welcomes the opportunity to respond to the Affordable Housing Commission's Call for Evidence. We are the largest specialist debt advice charity operating across the UK. In 2018, over 650,000 people contacted our telephone helpline or online debt remedy tool for advice and information. Housing-related debt amongst our clients is significant: of the clients to whom we provided debt advice in 2018, 18% of those with a mortgage had mortgage arrears and 21% of tenants had rent arrears.

However, this is not an issue that only affects our clients in problem debt. We are concerned that a combination of high housing costs and limited support for people struggling to maintain their homes is causing more people to resort to high cost credit or other forms of borrowing to cover mortgage and rent payments or basic home maintenance. This could make their overall financial position significantly worse. While 9.3 million households are using credit for everyday living expenses, including 1.4 million who have turned to high cost credit,[1] 29%in a YouGov poll said they were using high cost credit to cover their rent or mortgage payments.[2] Our research shows that people with mortgages and those renting privately are most likely to use credit to cope with a sudden drop in their income (18% more likely than average).[3] Taken together this suggests that the increasing lack of affordable housing across the UK could significantly increase the chances of households falling into debt.

Background

StepChange sees examples of each of the four key groups identified by the Affordable Housing Commission, for whom the affordability of their housing is causing serious difficulty.

***Struggling renters*: these are required to spend more than a third of their income on rented accommodation; they are often in the private rented sector (PRS), although the problem is also evident in in the social housing sector.**

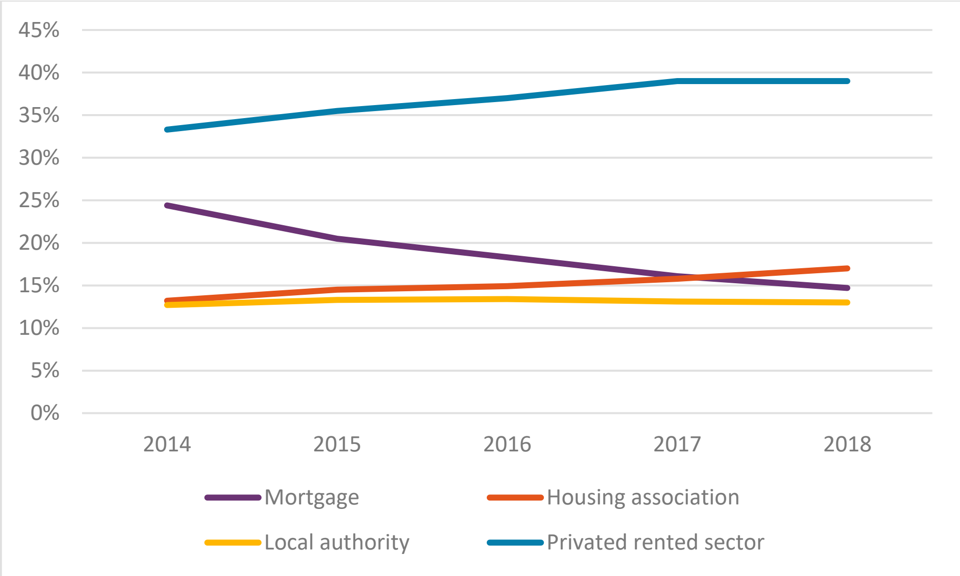
The proportion of StepChange clients who rent their home has grown from 71% to 82% in less than four years. The fastest growth in demand for our debt advice has come from those renting in the private sector who now account for four in ten clients. Only 15% of the clients who came to us for debt advice in 2018 had a mortgage (Figure 1). Average expenditure on rent amongst our clients renting in the private sector was over £100 per month more than that of those renting from local authorities or housing associations (£581 vs £424 and £465 per month respectively).

The proportion of clients who had an additional vulnerability, over and above their financial vulnerability, was also highest amongst those renting in the private sector and this has increased from 26% to 29% over the last three years (Figure 2). This suggests that not only are more and more

[1] StepChange Debt Charity (2018) Behind on the Basics
[2] StepChange Debt Charity (2017) The High Cost of Credit: the need for more affordable alternatives to high cost credit
[3] StepChange Debt Charity (2015) Held Back by Debt

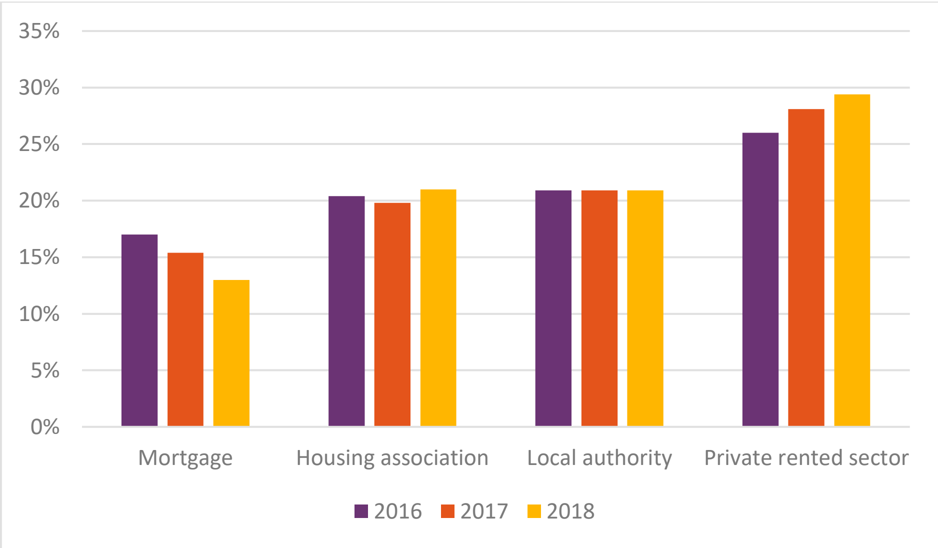
of our clients in problem debt renting in the private sector, but an increasing percentage of these clients have additional vulnerabilities.

Figure 1: Analysis of all new telephone clients by housing tenure showing the proportion of clients in each housing tenure over time from 2014 to 2018



Data was on all new telephone clients from 2014 (n=321,134), 2015 (n=314,676), 2016 (n=320,059), 2017 (n=264,856) and 2018 (n=252,269).

Figure 2: The proportion of clients classed as being in vulnerable circumstances over time by housing tenure



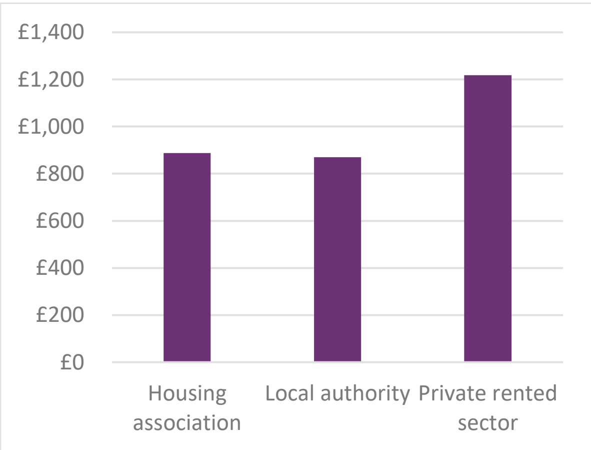
Data was on all new telephone clients from 2016 (n = 92,433), 2017 (n=143,449) and 2018 (n=129,165) where data had been recorded on both vulnerability and housing tenure. At StepChange, we consider all our clients to be financially vulnerable. However, a number of our clients also have an additional vulnerability on top of this. This could be due to a physical or mental health condition, low literacy or numeracy skills, or other communication barriers. Vulnerability can also be caused by circumstances – such as experiencing a bereavement, job loss or divorce.

StepChange clients with vulnerabilities were more likely to be behind on their household bills and to have a "negative budget" – meaning they had less money coming in than they were spending on essentials, including their housing costs. They were less likely to be working than clients who were not vulnerable, yet when they received benefit income two in five of them still did not have enough money to make ends meet.[4] A higher proportion of our vulnerable clients are renting in the more expensive, poorer quality and more insecure private sector[5] than the social sector. This raises the question of whether private renting, traditionally a short-term housing solution for the young, is the place we should be housing vulnerable people on consistently low incomes, particularly when they are already in financial difficulty.

Of clients who rent, those renting in the private sector had the highest average rent arrears (Figure 3a). However, the proportion of clients renting privately who had rent arrears was much lower than for those renting social housing (Figure 3b). This data reflects national statistics that 9% of those renting in the private sector had rent arrears compared with 25% of those renting social housing.[6]

Figure 3: Analysis of all new telephone clients who were renting for a) average rent arrears and b) proportion of clients in rent arrears

a)



b)

Number of telephone clients with data recorded on rent arrears renting from a housing association in 2018 was 20,279, from a local authority was 21,819 and in the private rented sector was 38,382.

The rent-to-income ratio of our clients renting in the private sector in 2018 was higher at 45% than for those renting from housing associations (39%) or local authorities (37%) (Figure 4a). This trend is consistent with England-wide data showing rent payments took up a lower proportion of household income for social renters than for private renters.[7] It demonstrates how on average rents are taking

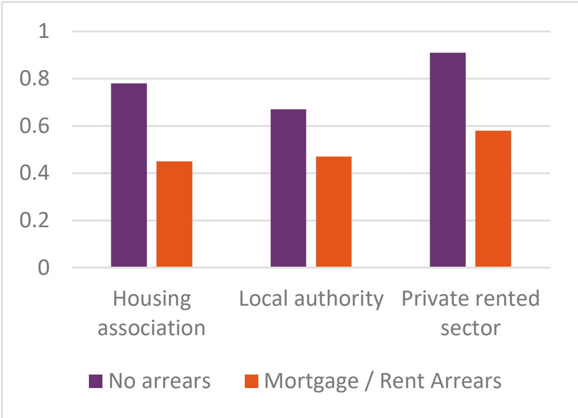
[4] StepChange Debt Charity (2018) Breaking the Link
[5] Hick, R. & Lanau, A. (2017) In-work poverty in the UK: problem, policy analysis and platform for action. Cardiff: Cardiff University.
[6] Ministry of Housing, Communities & Local Government (2018) English Housing Survey: Social rented sector 2016-17
[7] Ministry of Housing, Communities & Local Government (2019) English Housing Survey Headline report 2017-18

up over a third of our clients' incomes for those renting social housing and almost half for those renting in the private sector.

Figure 4: Analysis of all new telephone clients who were renting for a) percentage of rent value-to-income[8] and b) average debt-to-income ratio in 2018

a)

b)



Number of telephone clients with data recorded renting from a housing association in 2018 was 20,279, from a local authority was 21,819 and in the private rented sector was 38,382.

In addition, in 2018 our clients renting in the private sector had the highest unsecured debt-to-income ratio and those with no rent arrears had the highest debt-to-income ratio at 91% of their income compared with 58% for private renters with rent arrears (Figure 4b). This suggests that clients renting in the private sector are most likely to use credit to prevent themselves going into arrears with their rent, although this also appears to be happening to a lesser extent amongst those renting social housing. This may push many of our clients who are renting into persistent credit debt so they do not face the risk of losing their current home by falling into rent arrears – and this is particularly marked amongst those renting in the private sector.

Our client data shows, the private rented sector is increasingly becoming the only sector where people in problem debt can find a home. The financial circumstances of many low income private rented sector households would be materially improved if they lived in the social rented sector as rents are lower and they would also be less likely to experience poor quality housing and have increased security of tenure.[9]

[8] Rent value was recorded as the amount paid by an individual excluding any housing benefit paid directly to landlords; income was recorded as individual income from benefits and/or earnings minus any deductions through deductions from benefits, attachment to earnings or direct housing payments to landlords. This way of recording rent-to-income ratio is different from that used in the English Housing Survey and so could account for some of the discrepancies with national figures quoted.

[9] Rugg, J. & Rhodes, D. (2018) The evolving private rented sector: its contribution and potential. York: Centre for Housing Policy, University of York

***Frustrated homeowners*: those unable to buy a property without spending over a third on housing costs; many, who are struggling to save and without significant parental support, are destined to remain in the PRS.**

In a 2018 survey[10] many of our clients renting in the private sector stated that they wanted to buy their own property. Many noted that it is now often cheaper, once having saved sufficient deposit, to pay a mortgage rather than rent in the private sector:

> *"How can anyone who is paying for a private rental, NOT be suitable for a mortgage? I'd probably be £200 a month better off and be able to clear debts."*

[If I could get] a mortgage. I'd be paying far less per month on just about any mortgage for a three-bedroom house. But I can't afford to, and I don't have the credit rating, because of the debts."
StepChange Debt Charity clients, March 2018

As these clients suggest, average private sector rents are now higher than average mortgage repayments for first-time buyers across all UK regions, and average first-time buyers could save over £2,250 a year once on the property ladder compared to renting,[11] although this does not include the additional maintenance, repairs and insurance costs that those with mortgages may have to pay.

The Social Market Foundation has shown how individuals on lower incomes face a substantial housing poverty premium, particularly if they are in the private rented sector and unable to build up the savings required for a mortgage deposit.[12] While mortgage payments tend to decrease as a proportion of income over time, rent contracts are often tied to inflation and can increase each year. Our 2018 client survey[13] suggests that there is a similar "debt premium" for our clients, who have to pay more for deposits and in rent payments, because of poor credit ratings. This in turn reduces their ability to save for a mortgage deposit and their poor credit rating also reduces the chance of being approved for a mortgage. Those in problem debt are therefore more likely to continue paying higher private rental costs over time. This "debt premium" can only become even greater as those with problem debt are forced to remain renting in the private sector as they become older.

Even for those of our clients who have been able to buy a home, many found they were paying more for their mortgage as a result of poor credit ratings.[14] The Financial Conduct Authority has also found that customers with a poor credit rating are offered more expensive mortgages and with changes in affordability criteria for lenders, some may now be unable to change to cheaper deals, even if they have kept up with their more expensive mortgage repayments.[15]

"*Unable to change mortgage providers. Initial mortgage meant higher interest rates*."
StepChange Debt Charity client, March 2018

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[10] StepChange Debt Charity (2018) Locked Out
[11] Santander (2018) Owning a home is cheaper than renting in all areas of the UK
[12] Corfe, S. & Keohane, N. (2018) Measuring the poverty premium London: Social Market Foundation
[13] StepChange Debt Charity (2018) Locked Out
[14] *ibid*
[15] Financial Conduct Authority (2018) Mortgages Market Study: Interim Report MS16/2.2

***Those reliant on state support*: households that rely on Housing Benefit/the housing component within Universal Credit but current arrangements provide inadequate support, taking many below the poverty line.**

One-third of our 2018 survey respondents were claiming some form of housing benefit,[16] at the time of the survey and a further 10% were not currently claiming but had claimed housing benefits within the last two years. The proportions amongst those renting from a local authority were significantly higher at 62%, than those renting from a housing association (50%) which were in turn higher than those renting private sector housing (35%) (Figure 5a). These figures reflect the higher proportion of housing benefit claimants reported to be living in social housing compared with the private rented sector nationally.[17]

In many cases (28% of those who responded) our clients said the help they were offered with housing costs through the welfare system had supported them to keep their home.

> *"Without have the housing benefit I would be homeless."*
>
> *"A very helpful service. I am grateful that my rent is paid."*
> StepChange Debt Charity clients, March 2018

These positive responses were despite only a minority of respondents having their whole rent paid through housing benefit payments – 72% said they were paying the shortfall, whether this was from other benefit payments or wages. For those clients who were private renters only 10% were receiving the full amount of their rent from housing benefit payments (Figure 5b). The introduction of Local Housing Allowance rate caps, the household benefit cap, changes to the age limits on the Shared Accommodation Rate and the "bedroom tax", as well as the freeze on inflation-linked rises in welfare payments means that the number of renters, across different tenancy types, whose housing benefit entitlement falls short of their rent has increased amongst private renters and, to a lesser extent, amongst social housing tenants since 2011.[18] Housing benefit shortfalls mean that the majority of our clients who claim will either be cutting back on other essentials or be forced to use credit or borrow from family or friends simply to pay their rent. In the long-term this is financially unsustainable.

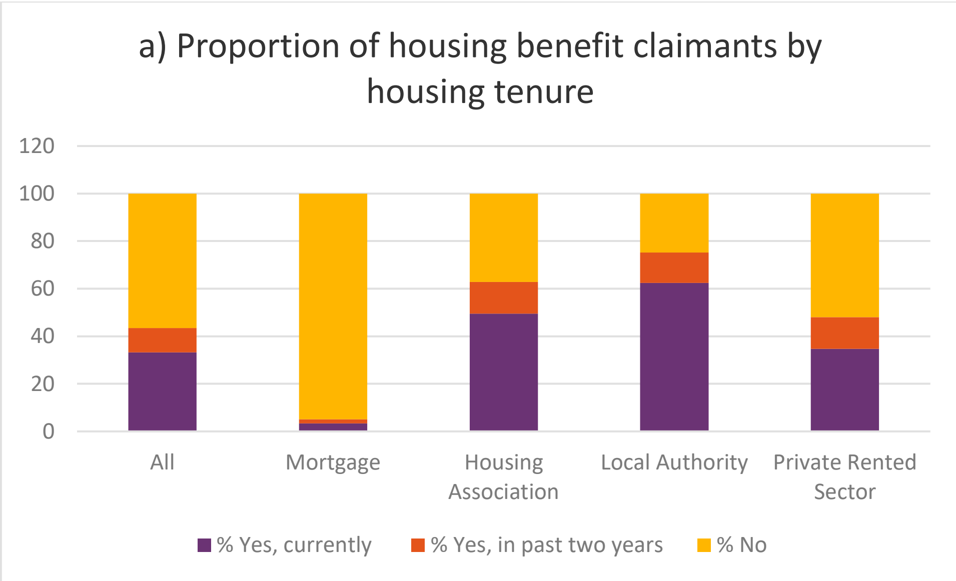
Almost a quarter of all our clients surveyed in 2018 said that claiming housing benefit had a negative impact on their ability to rent a property and this rose to almost seven in ten of those who had claimed housing benefit in the past two years. A number of issues were cited including the complicated and bureaucratic process of claiming benefits, delays and administrative errors, problems for those with fluctuating incomes and overpayments resulting in further debt.[19] Four

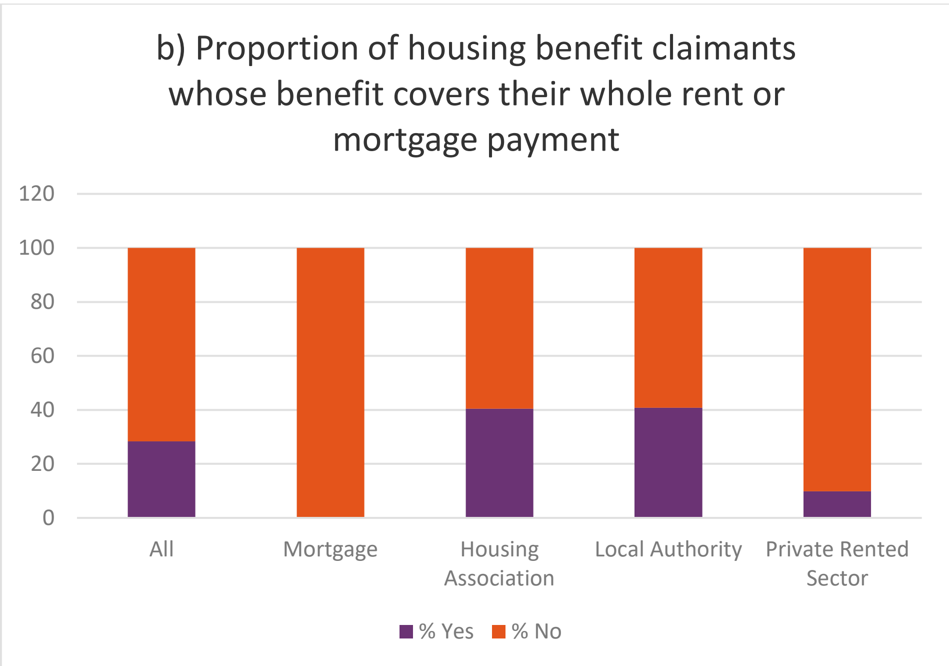
[16] Clients referenced Housing Benefit, Discretionary Housing Payments, the housing cost component of Universal Credit and Support for Mortgage Interest (despite the last changing from a benefit to a loan in April 2018) in their replies.
[17] Ministry of Housing, Communities & Local Government (2019) English Housing Survey Headline report 2017-18
[18] Joyce, R., Mitchell, M. & Keiller, A.N. (2017) The cost of housing for low income renters. London: Institute of Fiscal Studies
[19] StepChange Debt Charity (2018) Locked Out

percent of claimants surveyed commented that some landlords would simply not rent to tenants who were claiming benefits:

> *"Being on benefit out of circumstance has negatively affected renting as no landlord wants to rent to a family supported by the government."*
> StepChange Debt Charity client, March 2018

Figure 5: The percentage of clients who had claimed housing benefit a) within the last two years and b) whose housing benefit covered full housing costs





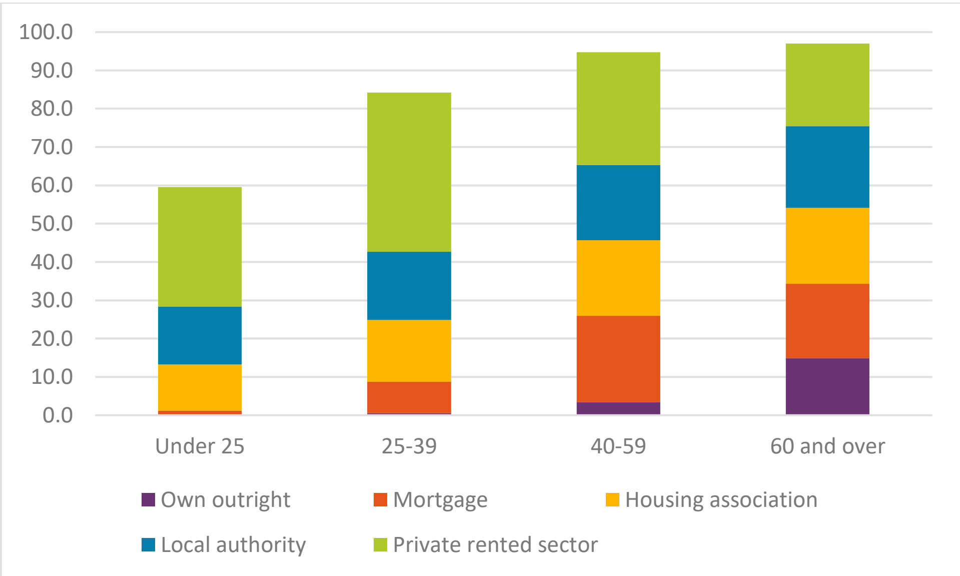
The bars represent all clients, those who have a mortgage and those who rent from a housing association, local authority and in the private rented sector. Figure 12a) n=655 and Figure 12b) n=207. There were four clients with mortgages who were claiming Support for Mortgage Interest which converted from a benefit to a loan in April 2018.

***Those who face affordability issues in older age*: whose incomes drop suddenly in retirement but whose rents remain the same (something which could become a bigger issue for generation rent in the future), but also older owners in unsatisfactory homes who cannot afford to upgrade their property or acquire somewhere suitable.**

Analysis of 2018 StepChange clients by age band shows that those who are 60 and over are more likely to have a mortgage or own their own home than younger clients (Figure 6). However, this data also demonstrates that only 15% of our clients who were over 60 owned their home outright, 19% still had a mortgage, and 19%, 21% and 22% were renting from a housing association, local authority or in the private rented sector respectively. This shows that the majority of our clients who are over 60 are having to maintain rent or mortgage payments at an age when they might have begun to consider retirement, with the accompanying drop in income this might involve.

StepChange Debt Charity's Financial Solutions service is established as a separate organisation, which offers advice and the arrangement of both equity release plans and mortgages aimed at helping people out of problem debt. In 2016 this service gave advice to 1,993 clients who had a problem, with 76% having a problem mortgage, which would not be paid at the end of its term. Our clients with mortgages are more likely to be older. We also identified that 50% of monies being released by these clients in a re-mortgage or equity release solution were being used to repay outstanding debts or help with regular bills.

Figure 6 StepChange clients' housing tenure by age band in 2018



The coloured bars represent the percentage of clients within each age band by housing tenure. The total number of telephone clients for which this data was available between January and December 2018 was 129,198. Under 25s = 16,156; 25-39 = 52,128; 40-59 = 48,259; and 60 and over = 12,654.

Although a lower proportion of our clients overall are over 60, the majority are still having to pay housing costs. For those who have been paying a mortgage in the long-term, equity release can help them to repay debts or cover the costs of essentials and repairs, but over 60% are likely to have to continue paying rent, as well as deal with their problem debt, in their retirement years. The even lower proportion of our clients aged 40-59 with a mortgage or who own their home outright, suggests this will be a growing problem amongst our clients in future years.

Consultation Questions

1. Understanding the affordability challenge

Q1.1: What does affordability mean for different people in different places? Covers definitions and measures, who and where (urban/rural/low and high demand areas), links with welfare system, housing conditions/standards and security of tenure, young and old

The current Government definition of affordable housing is:

"*Affordable housing is social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Affordable Rent is subject to rent controls that require a rent of no more than 80 per cent of the local market rent (including service charges, where applicable).*"[20]

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In 2017-18, the average rent (excluding services but including Housing Benefit) for households was £193 per week (equivalent to £836 per month) in the private rented sector.[21] An average "affordable rent" for the country using the Government's current definition would therefore be £669 per month, 29% of the median take-home salary.[22] However, there are vast differences in rent values across the UK, with the average private sector rent in London being £312 per week (£1,352 per month).[23] In 2016, median monthly private rent as a percentage of median monthly salary ranged from 23% in the North East, to 49% in London[24].

In 2018 the average private sector rent of a StepChange client was £581 per month (excluding any rent payments covered by direct benefit payments to landlords). However, this equated to an average of 45% of our private rented sector clients' income (again excluding any housing benefit paid directly to landlords). Even clients renting social housing were paying over 35% of their income on rent (Figure 4).

[20] https://www.gov.uk/guidance/definitions-of-general-housing-terms#social-and-affordable-housing
[21] Ministry of Housing, Communities & Local Government (2019) English Housing Survey Headline report 2017-18
[22] Office for National Statistics (2019) Average household income, UK: Financial year ending 2018
[23] Ministry of Housing, Communities & Local Government (2019) English Housing Survey Headline report 2017-18
[24] Office of National Statistics (2017) Housing summary measures analysis:2016

The problem of housing affordability was particularly marked amongst our London clients. An earlier analysis of our client data from 2017 showed that in that year, the highest proportion (17%) of StepChange clients lived in London. Our London clients had higher average incomes (£1,440 vs £1,350), but spent a higher proportion of this income on essentials (57% vs 50%). Most of this difference in the cost of essentials was associated with higher housing costs in the capital. A higher proportion of London clients with housing costs were behind on their rent or mortgage payments compared with the UK in general (36% vs 29%) and average amounts owed in rent or mortgage payments were higher than nationally (£1,400 vs £950 for rent; £4,450 vs £3,380 for mortgage arrears).[25]

Measuring affordability by comparison with local market rents, as the Government currently does, rather than through comparisons with local incomes, results in examples where in the London Borough of Harrow, for instance, an "affordable rent" calculated according to the Government's definition was £1,160 per month in 2015, when that was more than the maximum amount of housing benefit available in that borough and 83% of the salary of the average low income worker living there.[26]

We recommend that a truer definition of affordable housing and affordable rented housing should be based on a definition that it is:

> *"appropriate for the needs of a range of low to moderate income households and priced so that low and moderate incomes are able to meet their other essential basic living costs."*[27]

As recommended by JRF and the National Housing Federation, an affordable housing cost figure set for each local area, based on charging a fixed percentage (they suggest, based on social housing rents, 28 per cent) of the net local earnings figure, would be much more likely to guarantee affordability than tying measures to local market rents. The Mayor of London has defined a London Living Rent level for every neighbourhood in the capital based on a third of average local household incomes and adjusted for the number of bedrooms in each home.[28] The principle behind both is to link rents with local incomes, rather than local market rents. Despite policy intentions that caps on housing benefit since 2010 would lead to a reduction in market rents, they have continued to rise since the introduction of these reforms.[29]

Q1.2: Why is housing unaffordable? Covers main barriers and drivers (stagnating incomes, rising land values, housing as a financial investment, deregulation etc), shift in tenure and inter-generational aspects

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[25] StepChange Debt Charity (2018) London in the Red
[26] https://www.jrf.org.uk/blog/housing-market-isnt-helping-people-make-ends-meet-time-living-rents
[27] University of West Sydney (2008) Models of sustainable and affordable housing for local government
[28] https://www.london.gov.uk/what-we-do/housing-and-land/renting/london-living-rent
[29] Office of National Statistics (2019) Index of private rental prices, UK: January 2019

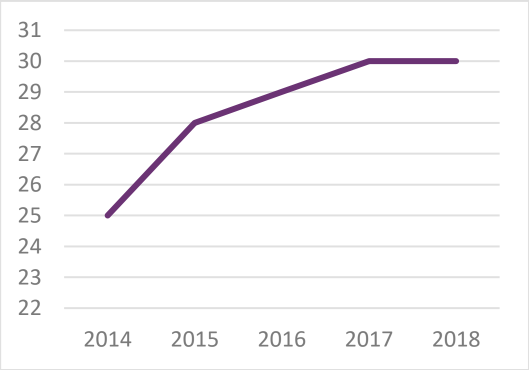
StepChange client data provides information on our clients' personal finances and characteristics rather than a broader picture of the housing market in general. However, it shines a spotlight on the issues facing those who are financially struggling. It clearly demonstrates that in recent years more and more of our clients are finding it hard to afford the essentials and/or have been using credit to pay for the basics.

Drivers and barriers

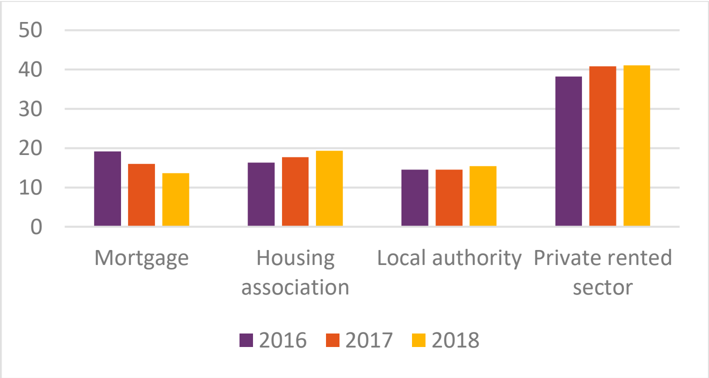
A "negative budget" indicates that a client's monthly spending on essential items like food, rent or mortgage repayments, heating and council tax, is greater than their monthly income. The proportion of our clients with negative budgets has been increasing since 2014 (Figure 7a). This is a particular problem as it means that unless they can increase their income, our clients cannot begin to plan to repay their debts and will increasingly face sanctions for falling into arrears on priorities, such as bailiff enforcement of council tax debts and eviction for rent or mortgage arrears. The percentage of clients renting in the private sector who had a negative budget (41% in 2018) was much higher than for any other housing tenure (Figure 7b). In contrast, in 2018 the proportion of clients with a mortgage with a negative budget was lowest at 14%. The average rent arrears levels of clients with negative budgets in the private rented sector were almost half (£274) of those with a negative budget living in housing association (£493) or local authority (£448) homes, again suggesting that our clients in the private rented sector try to minimise their rent arrears the most, perhaps by taking out credit to pay their rent

Figure 7: Proportion of StepChange telephone clients with a negative budget a) over time from 2014 and b) by housing tenure from 2016 - 2018

a)



b)



Graphs show percentage of clients who have a negative budget a) over 2014 to 2018 and b) by housing tenure in 2016, 2017 and 2018. Numbers are based on all advised telephone clients where data was recorded

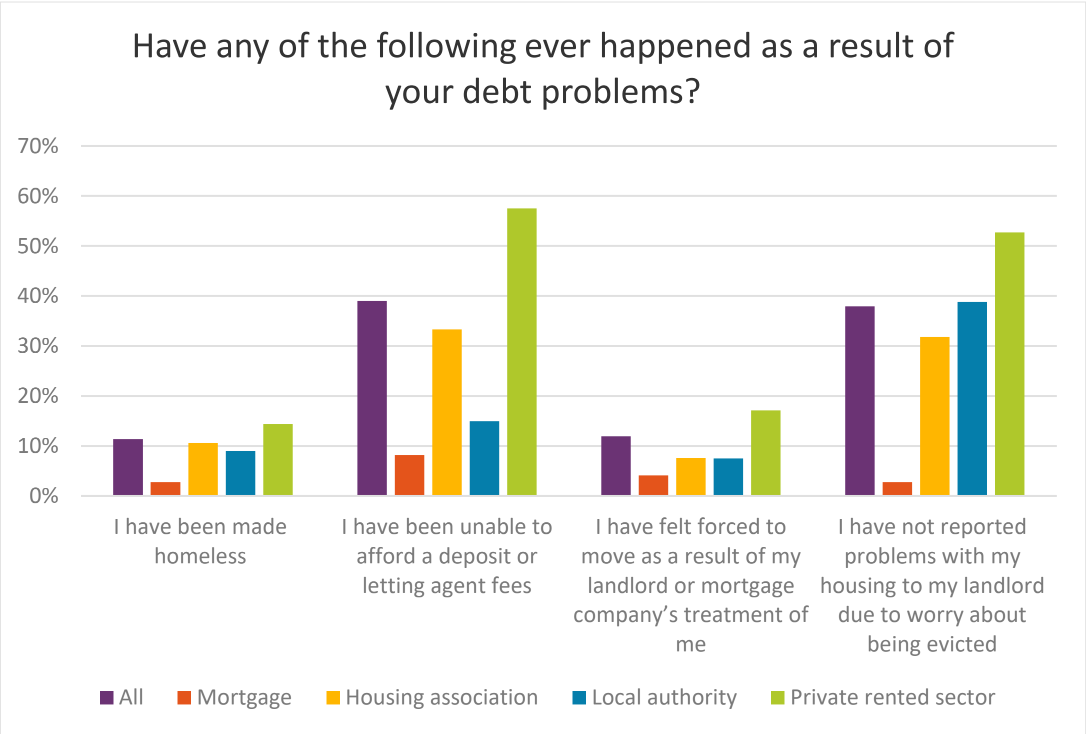
Who is most affected?

Overall our data indicates that low incomes and higher budget deficits (i.e. not having enough income to cover essential bills each month), being under 40, living in the private rented sector and being self-employed, in part-time work or unemployed all increased our clients' vulnerability to housing problems.[30] This suggests that a lack of assets, falling or fluctuating incomes, cuts to benefit payments, rising costs of living and the insecurity and increasing cost of properties in the rented sector all contribute to a lack of access to an affordable, good quality, secure home.

It is mainly amongst our older clients, with their increased chances of having a mortgage or owning property outright, and with incomes that provide them with a good budget surplus, that we see there is sufficient support for them to remain in stable, good quality accommodation while they address their debt problems.[31]

Q1.3: Costs and consequences of unaffordable housing – what's at stake and who are the priority groups that most need support? Covers whose worst affected and personal impacts, wider socio-economic impacts (on public finances, economy /productivity etc), other impacts (on homelessness, mixed communities, problem debt/dampen savings potential etc), future housing needs and demands

Figure 8: Proportion of clients who have faced housing access issues as a result of their debt problems, for all clients, and by housing tenure



Total answering this survey question = 354: those with a mortgage (n=73); those renting from a housing association (n=66); those renting from a local authority (n=67) and those renting in the private sector (n=146). In total 62 had another form of housing tenure

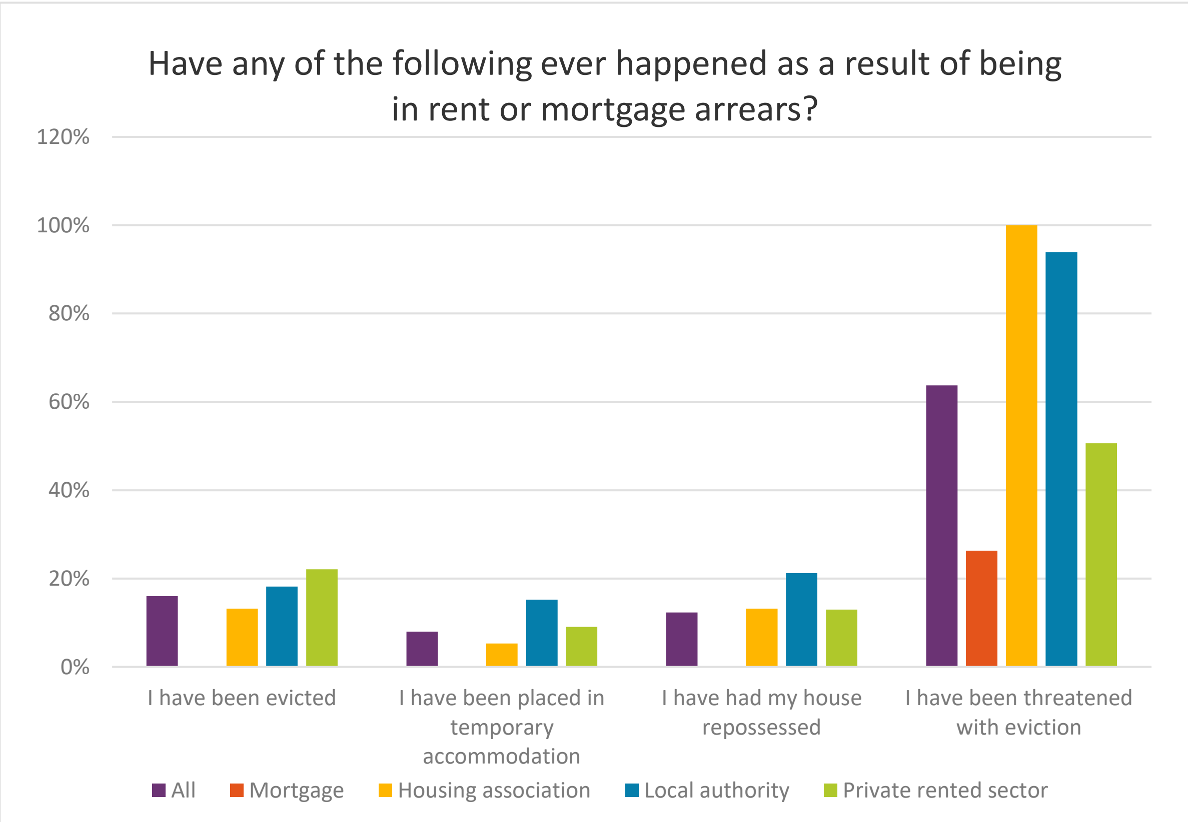
[30] StepChange Debt Charity (2018) Locked Out
[31] StepChange Debt Charity (2018) Locked Out

Data from our clients mentioned previously demonstrates that many are simply not able to afford life's essentials. Our analysis of London clients, in particular, highlights how housing costs are increasingly at the heart of this.[32].

Primary consequences

Our 2018 survey of clients' housing issues reveal the consequences of this policy failure**.** These included the extreme of being made homeless (11%), to not being able to afford deposits or letting agent fees (39%), feeling forced to move from their current home (12%) or simply putting up with problems because of the worry of eviction (38%) (Figure 8). All these problems affected a higher proportion of clients who rented, particularly in the private sector. As a result of their problem debt, more than half of private renter clients had been unable to afford letting agent fees or deposits at some point and/or had not reported problems to their landlord because of fear of eviction. Fourteen percent had been made homeless and 17% had felt forced to move.

Figure 9: Proportion of clients who have faced loss of housing as a result of having rent or mortgage arrears



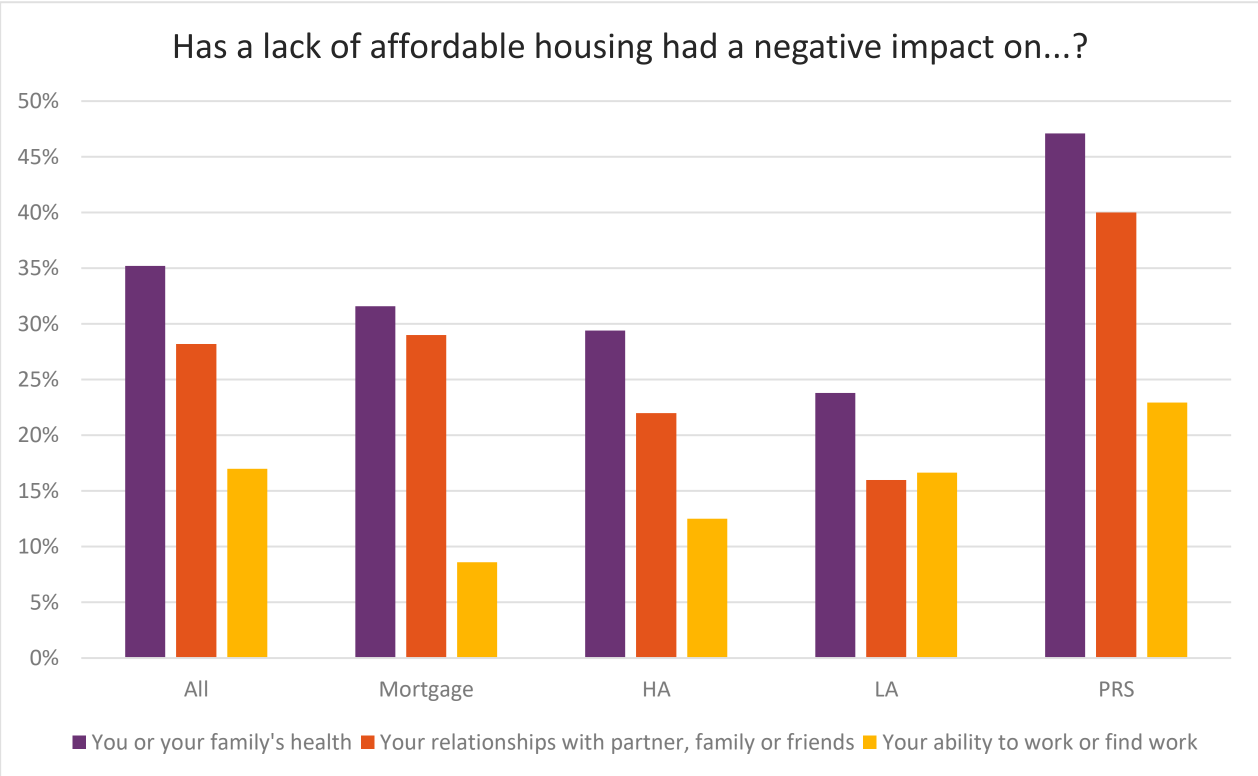
Total answering this survey question = 187: those with a mortgage (n=38); those renting from a housing association (n=38); those renting from a local authority (n=33) and those renting in the private sector (n=77). Six had another form of housing tenure. The proportion evicted, and the proportion threatened with eviction were both significantly associated with housing tenure ($p<0.05$) using the chi-squared test.

[32] StepChange Debt Charity (2018) London in the Red

Sixteen percent of clients who responded to the survey said they had been evicted in the past as a result of rent arrears, 12% had their house repossessed as a result of mortgage arrears, while 8% had been placed in temporary accommodation as a result of rent or mortgage arrears. Almost two-thirds (64%) had been threatened with eviction, as a result of rent or mortgage arrears (Figure 9).

Those who were private renters at the time of the survey were most likely to have been evicted for arrears in the past (over one in five), and the proportion of clients who said they had been evicted was significantly associated with housing tenure. This is consistent with the higher eviction rates from the private sector than the social sector reported nationally,[33] and the fact that the private rented sector is increasingly becoming the tenure for rehousing those who have been homeless.[34] A higher proportion of clients who rented housing association or local authority accommodation had been threatened with eviction for rent arrears and this was also statistically significant. However, the proportion actually evicted was lower than for private rented sector clients.

Figure 10: The impact of a lack of affordable housing on our clients' heath, relationships and ability to work or to find work



Bars represent the percentage who answered "Yes" to this question. Figures are split between all those responding; those with a mortgage; and those renting from a housing association (HA), local authority (LA) or in the private rented sector (PRS).

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[33] Clarke, A., Hamilton, C., Jones, M. & Muir, K. (2017) Poverty, evictions and forced moves. York: Joseph Rowntree Foundation

[34] Crisis (2017) Moving On

Wider social consequences

There are also wider social consequences to the lack of affordable housing. We have estimated the potential total external cost of unaddressed problem debt to government and the economy for a cohort of 3 million people facing severe financial difficulties to be around £8.3 billion. This is through the additional strain on health and local services, lost productivity, lost jobs and longer-term reliance on welfare and support services. This includes a potential £2.8 billion cost of losing a home or being evicted as result of unresolved problem debt.[35] Problems with the current housing market in the UK, if not addressed, are likely to increase the overall costs to the economy of people losing a home or being evicted as result of financial difficulties – many caused by initially using credit to cover essential costs.

Our 2018 client survey also demonstrated that a lack of affordable housing had a negative impact on our clients' health, relationships and ability to work or find work (Figure 10). The impact on health was significantly higher than on relationships and work ($p<0.00001$) and the negative impact on health, relationships and work was significantly associated with housing tenure ($p<0.05$), with those renting in the private sector reporting the worst effects. Amongst our clients the affordability of housing also has a more significant negative impact on health, relationships and work than lack of access to housing, insecure housing or low quality housing.[36]

Our clients' evidence of wider health, relationship and employment problems caused by unaffordable housing costs, and the related social costs this incurs, suggests we need to think how we can ensure better housing safety nets for those most vulnerable – many currently looking at a lifetime of high cost, insecure renting in poor quality accommodation, or the loss of any home at all.

Q1.4: What's being done and is it working, and what are the implications and policy trade-offs? Covers more recent central/local government response (housing support to FTBs, Buy to Let, Housing Benefit/Universal Credit etc), actions by housing providers and lenders and others, and costs and consequences on other policies (e.g. on welfare system, life chances, local growth and prosperity)

Across the UK over several decades there has been an strong emphasis on policy initiatives that aimed to increase home ownership levels and encourage private sector renting, which with the introduction of Right to Buy and support for Buy-to-Let, for example, have ultimately resulted in an estimated 40% of socially-owned homes under previous sales now being privately rented.[37] This has been a contributory factor to the current lack of affordable housing to rent. There needs to be an equal or greater emphasis on re-building or purchasing more social tenures to offer affordable rents to vulnerable households.

[35] StepChange Debt Charity (2014) Transforming Lives
[36] StepChange Debt Charity (2018) Locked Out
[37] https://www.yourmoney.com/mortgages/40-right-buy-homes-now-owned-private-landlords/

Struggling renters

A comprehensive review of recent policy initiatives to address problems with England's private rented sector housing market demonstrates that these have often only been aimed at addressing one identified problem at a time, rather than considering the housing market as a whole, and as a result most have either not made a significant difference, or in some cases, caused additional problems.[38]

Addressing the lack of affordable social housing

StepChange client data confirms this wider analysis showing that the private rented sector currently houses a large number of households in the lowest income bracket, and who have an additional vulnerability.[39] The higher rental costs in the private sector only add more to the financial difficulties of these clients. In August 2018, the Government published its social housing green paper[40] which included plans to expand the supply of social housing in an attempt to address this problem. The amount of social housing for rent fell from a peak of around five million in the early 1980s to just under four million in the mid-2000s, but it has been slowly rising since. This has mainly been driven by an increase in housing association homes. However, new social homes are currently more likely to be at the higher end of the Government's definition of "affordable rents".[41]

Many StepChange clients renting in the private sector report a lack of access to social housing,[42] and on average they pay over £100 per month more in rent than social housing tenants:

> "*It's impossible get social housing as I am classed as adequately housed*."
>
> *"Can't afford deposit etc so can't move yet, almost impossible to get social housing."*
> StepChange Debt Charity clients, March 2018

Our analysis suggests that the problem of more and more vulnerable households occupying private rented sector housing and paying increasing proportions of their income to maintain this, is worsening. There is simply currently not the number of social housing units available at a social rent that would be required to address this. Although the long-term solution of building more social housing at social rents is finally being accepted as a long-term policy solution,[43] this policy intervention will take many years to yield results and cannot address the housing problems that our clients are currently experiencing.

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[38] Rhodes, D. & Rugg, J. (2018) Vulnerability amongst low-income households in the private rented sector in England: University of York & Nationwide Foundation
[39] Rhodes, D. & Rugg, J. (2018) Vulnerability amongst low-income households in the private rented sector in England: University of York & Nationwide Foundation
[40] Ministry of Housing, Communities & Local Government (2018) A new deal for social housing
[41] https://fullfact.org/economy/whats-happening-rented-social-housing-england/
[42] StepChange Debt Charity e-mail survey of 816 clients in March 2018
[43] Ministry for Housing, Communities and Local Government (2018) A New Deal for Social Housing

Addressing high deposits and fees paid by private sector renters

The Tenant Fees Act 2019 which will be implemented on 1 June 2019,[44] aims to address problems with the affordability of rental deposits (see the proportion of StepChange survey respondents affected by this issue in Figure 8). It includes provisions to ban landlords and letting agents from charging tenants for a range of fees and capping the amount that can be charged for deposits and holding deposits.

Although this Act should help with some of the issues raised by our clients around the difficulty they have in affording deposits and additional fees in the private rented sector, it will not address, and may provide a perverse incentive to increase (to replace the insurance provided by higher deposits), the higher private sector "debt premium" rents that our clients and others[45] have reported are charged to many with poor credit reports. At a time when many of our clients are trying to repay their debts, having to pay more for essential housing costs because they are renting in a sector that is poorly regulated and governed by market forces, remains a significant problem.

The government feasibility study of a No Interest Loan Scheme to help those on low incomes[46] provides another opportunity to evaluate policy options for support. It would be important to evaluate whether this provides additional and sufficient support for those lacking a deposit to rent in the private sector. The evaluation should include a consideration of whether this support is better provided as a grant or a loan. Whilst there is a system of 'Budgeting Advances' available under Universal Credit, which provide no-interest loans, the eligibility criteria for these is extremely tight. To qualify, an individual must have been on benefits for over 6 months and have earned less than £2,600 (£3,600 jointly for couples) in the past 6 months – excluding the majority of people in employment. A No Interest Loan Scheme should increase eligibility for such support to a much larger number of low income households.

Addressing insecurity in the rented housing sector

There remain problems with insecurity of tenure in the rented housing sector, most markedly in the private rented sector, and a growing recognition that this could be contributing to increasing homelessness and reductions in levels of community support and engagement.[47] The Government has acknowledged that provisions to limit life-long tenancies in social housing introduced in the Housing & Planning Act 2016 will not be implemented "*at this time*" as "*there has been a growing recognition of the importance of housing stability for those who rent*".[48]

Before this, the Government had introduced a model tenancy agreement to support private rented sector tenants who wanted to negotiate a longer fixed term period at the start of their tenancy.[49] However, there was no legal requirement to adopt the agreement and it has not been widely used by

[44] http://www.legislation.gov.uk/ukpga/2019/4/contents/enacted
[45] https://www.blog.noddle.co.uk/finance/renting/even-renting-reach-700000-youngsters/
[46] HM Treasury & Department for Work & Pensions (2019) Financial Inclusion Report 2018-19.
[47] Ministry for Housing, Communities and Local Government (2018) A New Deal for Social Housing
[48] Ministry for Housing, Communities and Local Government (2018) A New Deal for Social Housing
[49] *ibid*

landlords.[50] In 2018 the government published a consultation on longer term tenancies for renters in the private sector aimed at improving their security of tenure.[51] To date there has been no feedback on the consultation, and some reports suggest that this policy has been abandoned.[52] The use of section 21 evictions (or “no fault” evictions) by private sector landlords remains a source of insecurity for private rented sector tenants once their initial assured shorthold tenancy term has ended. There is increasing evidence that its use is associated with rising levels of homelessness.[53]

The resulting insecurity for those renting in the private sector, means that many stay in poor quality housing, often with health and safety risks.[54] Our client survey in 2018 showed over half of respondents living in the private rented sector said they had not reported problems to their landlord because of fear of eviction.[55] Legislation in the Deregulation Act 2015 to protect tenants against unfair eviction where they have raised a legitimate complaint about the condition of their home,[56] appears to have been ineffective. Freedom of Information requests have also found very little evidence of the impact of the Act’s measures to curb such “retaliatory evictions”.[57] It is too early to say whether the introduction of the Homes (Fitness for Human Habitation) Act 2018[58] will improve tenants’ confidence in reporting health and safety issues to landlords or raise the quality of private rented sector accommodation more widely. However, the current imbalance between housing supply and demand in many areas of England suggests that it will not be sufficient to address this issue in places with a high demand for housing.

Frustrated homeowners

In the UK home ownership is still overwhelmingly the preferred housing option, with 86% of respondents to the British Social Attitudes Survey stating this was their preference. Despite this, levels of home ownership (including those still paying a mortgage) have been declining over the last twenty years, and the UK now has lower levels of home ownership than many other European countries.[59] This can be attributed to a number of causes including a dramatic rise in house prices relative to earning levels, an increase in the buy-to-let sector and a rapid inflation in rents as the number of social housing units to rent has reduced while more and more are forced to rent in a private sector that became less regulated in the 1980s.[60]

[50] The Centre for Social Justice (2019) Putting Down Roots: improving security for renting families and private landlords
[51] Ministry for Housing, Communities & Local Government(2018) Overcoming the barriers to longer tenancies in the private rented sector
[52] https://www.propertyweek.com/news/government-scraps-three-year-tenancy-plan/5098553.article
[53] Ministry for Housing, Communities & Local Government(2018) Overcoming the barriers to longer tenancies in the private rented sector
[54] Citizens Advice (2015) Renting uncovered
[55] StepChange Debt Charity (2018) Locked Out
[56] Department for Communities & Local Government (2015) Retaliatory eviction and the Deregulation Act 2015: Guidance note on the changes coming into effect on 1 October 2015
[57] House of Commons Library (2017) Retaliatory eviction in the private rented sector
[58] https://www.gov.uk/government/publications/homes-fitness-for-human-habitation-act-2018/guide-for-landlords-homes-fitness-for-human-habitation-act-2018
[59] The Centre for Social Justice (2019) Putting Down Roots: improving security for renting families and private landlords
[60] *ibid*

Addressing people's aspirations to own their home.

For several decades government policy has concentrated on addressing people's aspirations to own their own home. However, the 1980's policy initiative providing a right to buy council housing has resulted in a huge reduction in affordable social housing units. It is also now widely recognised as being one of the reasons government spending on housing benefit has increased so much, with more and more low income households living in "recycled" council housing that is now part of the private rented sector, with its much higher rents. Of particular relevance to this Call for Evidence is the finding that : "*lack of replacement of the rented stock that has been bought over the years has intensified problems of housing affordability."*[61]

More recently the Help to Buy scheme was introduced to support first-time buyers to get on to the housing ladder, as well as those wanting to upgrade to ownership of a larger property as their family expanded. However, this scheme has been criticised for the unintended consequences of increasing the prices of newly built homes and pushing up demand for home ownership.[62] Concerns have also been raised that builder profits and shareholder returns have risen sharply as a result of the scheme, whilst there has been little demonstrable benefit for households with the lowest income levels who wish to buy a home. The scale of the intervention is less than 4% of the total mortgage funding for first-time buyers in England and only 2% of Help to Buy transactions were for applicants with an income of £20,000 or less.[63]

It has been argued that a concentration on policies to support people to buy their own homes rather than concentrating on initiatives to provide affordable housing for rent has led to many of the current problems with the UK housing market. In turn, this has particularly disadvantaged those on low incomes, particularly younger people, through its wider economic and social impacts: "[*Housing] policy failures in the UK have resulted in widening intergenerational inequality, increased social exclusion, adversely affected productivity and growth and raised the risk of financial instability*." [64]

Addressing the lack of access to an affordable housing costs amongst those with poor credit ratings

A regularly repeated concern from our clients renting in the private sector was the difficulty they had in saving for a deposit for a mortgage, while they paid similar or higher monthly housing costs in rent as those with a mortgage. This was compounded by higher deposits or rents being charged to those with a poor credit rating. Even our clients who had mortgages, stated that they were paying higher interest rates because of their poor credit rating and were often unable to switch to cheaper deals.

For the latter group, the FCA have just published proposals to support those with a mortgage who were tied into more expensive rates because of recent changes to lending affordability criteria, to

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[61] Cole, I., Green, S., McCarthy, L. & Pattison B. (2015) The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations: headline findings form the evidence review. Centre for Regional Economic and Social Research, Sheffield Hallam University
[62] https://www.ucl.ac.uk/bartlett/construction/sites/bartlett/files/affhoupaper_carozzi-hilber-yu.pdf
[63] Ministry for Housing, Communities & Local Government (2018) Evaluation of the Help to Buy Equity Loan Scheme 2017
[64] Muellbauer, J. (2018) Housing, Debt and the Economy: a tale of two countries. Oxford: Department of Economics Discussion Paper Series

switch to a cheaper deal. They estimated that, in 2016, there were around 10,000 mortgage prisoners with active lenders and around 20,000 with firms authorised to lend but which are inactive.[65] However, their proposals will not help our clients who are in mortgage arrears, which may have been caused or exacerbated by the more expensive mortgage deals they were tied into.

A recent development to address poor credit ratings amongst those living in rented housing are initiatives, such as Rental Exchange by Experian,[66] where records of paying rent (or other essential bills) on time, are being tested to see if they can be used to improve credit ratings. This may offer a positive solution to the issue of “thin files” (lack of payment data) or past payment difficulties causing a higher cost for housing or reducing access to mortgages. However, our analysis suggests that there need to be safeguards on sharing data covering rent or council tax payments, as it would only benefit a minority of our clients.[67] We believe these types of scheme should always be voluntary, and targeted at people who are in a financial position to use their rent or essential bill payment records to boost poor credit scores.

Currently, schemes like Rental Exchange are often run on an opt-out basis by housing providers and there are issues around informed consent. People are taking on a degree of risk by participating – their credit record could become worse if they miss rent or other essential bill payments. This might also encourage more people to use credit, or experience hardship, to prioritise paying these bills as they are afraid of what will happen to their credit rating once they have entered the scheme. There needs to be an improved governance and policy framework on the use of such data which balances all these issues carefully to support financial inclusion, particularly of the most vulnerable. Thought should be given to developing a mitigation strategy for the most financially excluded where sharing rent data may not improve their credit score or could make it worse.

Those reliant on state support

Clients who told us what change in their current housing situation would make the greatest difference to their financial situation most often mentioned a cheaper rent or mortgage payment (one-quarter) with improvements to the welfare system being the next most popular answer (14%), although only one-third of our 2018 survey respondents were claiming some form of housing benefit.[68]

Problems with the current welfare system that increase the chances of eviction

The introduction of Local Housing Allowance rate caps, the household benefit cap, Shared Accommodation Rate changes and the “bedroom tax”[69], as well as the freeze on inflation-linked rises in welfare payments means that the number of renters, across different tenancy types, whose housing benefit entitlement falls short of their rent has increased amongst private renters and, to a lesser extent, amongst social housing tenants since 2011.[70]

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[65] Financial Conduct Authority (2019) Mortgages Market Review
[66] https://www.experian.co.uk/rental-exchange/tenants.html
[67] StepChange Debt Charity (2018) Locked Out
[68] *ibid*
[69] Officially the Spare Room Subsidy
[70] Joyce, R., Mitchell, M. & Keiller, A.N. (2017) The cost of housing for low income renters. London: Institute of Fiscal Studies

The Government introduced welfare reform policies that capped Local Housing Allowances (in particular the reduction from the median (50th) to the 30th percentile of local market rents) with the aim of reducing housing benefit expenditure and exerting a downward pressure on rents.[71] However, subsequent analysis by the Office for Budget Responsibility has shown that over recent years the housing benefit bill has continued to increase, partly as a result rent inflation, as measured in housing benefit administrative data, which has been higher than expected.[72]

Almost a quarter of our surveyed clients said that claiming housing benefit had a negative impact on their ability to rent or buy a property and this rose to almost seven in ten of those who had claimed housing benefit in the past two years. In 3% of cases people reported that these problems had actually resulted in them losing their home.[73]

Another welfare reform, the introduction of Universal Credit, has been widely reported to have caused significant increases in rent arrears.[74] These were attributed to the long waits for payment, often much longer than the five-week target. A national survey found that a significantly higher proportion of tenants claiming Universal Credit are in arrears (74%) compared to all households living in council and ALMO owned homes (26%).[75]

At the moment a relatively low proportion of our clients are claiming Universal Credit (17% of our clients claiming benefits from a 2017 survey), but as it rolls out across the country more and more will be affected. Only seven of our clients surveyed about housing benefit specifically mentioned that they were claiming the housing component of Universal Credit, which was meant to introduce "real time reporting" to provide more up-to-date information on fluctuating incomes and changes in circumstances. Four of these clients reported that Universal Credit had caused them more problems than their previous housing benefit claims.[76] Early roll-out of Universal Credit was focussed on simpler cases of single people making new claims. Even in those circumstances, performance did not meet targets and this has worsened as Universal Credit has been extended to more complex cases, leading to criticism from the National Audit Office (NAO), who concluded that further roll-out of Universal Credit carried the possibility of long delays in making an initial payment and on-going errors, particularly with complex claims. These often took weeks to resolve. The NAO reported that in 2017 almost one-quarter of housing payments though Universal Credit were not paid in full and on time.[77] The introduction of Universal Credit in its present form may add to the chances of claimants falling into rent arrears, with the resulting risk of being evicted from their home.

To support people claiming the housing component of Universal Credit there needs to be a reduction in the five week wait for the first payment. Trussell Trust data shows that referrals to foodbanks due

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71 Department for Work & Pensions (2014) The impact of recent reforms to Local Housing Allowances
72 https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-housing-benefit/
73 StepChange Debt Charity (2018) Locked Out
74 National Housing Federation (2018) Briefing: Universal Credit and rent accounts – potential impacts
75 Association of Retained Council Housing & National Federation of ALMOs (2018) Carrying the Debt: measuring the impact of Universal Credit on tenants and landlords – survey results 2018
76 StepChange Debt Charity (2018) Locked Out
77 National Audit Office (2018) Rolling Out Universal Credit

to benefit delays are increasingly due to Universal Credit claims.[78] Citizens Advice reports that despite improvements to Universal Credit Alternative Payment Arrangements (APAs) which pay housing support directly to landlords, these are still not available widely or used effectively. They recommend that plans to expand access to APAs need to be implemented as soon as possible with managed payments to landlords fitted around actual rent payment cycles.[79]

A recent reform introduced in April 2018 has affected those who are reliant on state support to help them keep up mortgage payments. Previously Support for Mortgage Interest (SMI) payments were a benefit, but they can now only be claimed as a loan. Figures from the Department for Work & Pensions show that a high proportion of those eligible for the loan (mostly older and more vulnerable people) have not claimed it since the reform was introduced. There are concerns that without some other means of paying off their mortgage, many of those refusing the loan may end up losing their home. It has also been reported that mortgage lenders perceive a reduction in SMI as the government partially reneging on the implicit contract under which the lenders exercised forbearance.[80]

Those who face affordability issues in older age

Addressing the issue of an increasing number of older people continuing to rent

Our client data confirms wider national projections showing that the number of people renting when they are past retirement age is only likely to increase in the future.[81] This will cause significant pressures on the welfare budget if rents are to be regularly paid from a reduced retirement income.[82] Although pensioner protections from many of the recent welfare cuts are currently protecting older people in the rented sector from housing problems,[83] policy reforms to increase pension savings are unlikely to be sufficient to offset the deficit between the income and rent costs of the majority of older people who remain in the rented sector in the future.[84] Neither has there been sufficient reform in planning and housing policy to ensure that an adequate number of rented homes will remain accessible for older people, particularly those who develop health issues in later life.[85]

3. Towards a new affordable housing offer: managing demand

Q3.1: What tax and macro-economic policies and changes in mortgage lending would help ensure housing is more affordable? Covers property/land taxes, tax relief, role BoE/macro financial controls, reforms to mortgage lending/new lenders (councils)

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[78] https://action.trusselltrust.org/5weekstoolong
[79] Citizens Advice (2019) Managing Money on Universal Credit
[80] Aron, J. & Muellbauer, J. (2016) Modelling and forecasting Mortgage Delinquency and Foreclosure in the UK
[81] Adler, D. & Wilson Craw, D. (2017) Life in the Rental Market
[82] Joyce, R. Mitchell, M. & Norris Keillor, A. (2017) London: Institute of Fiscal Studies
[83] *ibid*
[84] https://www.theguardian.com/money/blog/2017/dec/02/pensions-timebomb-rents-homeowners
[85] Age UK (2016) Ageing in squalor and distress: older people in the private rented sector

Struggling renters and those reliant on state support

Reforms to taxation

The current highly regressive form of Council Tax creates perverse incentives for the conversion of multi-unit residences into single-family luxury homes especially in the most expensive locations, as owners pay lower Council Tax relative to property values. Solutions such as a Land Value Tax[86] or more progressive forms of Council Tax banding[87] have both been suggested as being beneficial in reducing the financial pressures on low income households and increasing the amount of housing available to them. Such reforms could provide an affordability bonus to those who are struggling to pay their rent or reliant on state support.

A particular problem in the UK, most markedly in London, is the impact of overseas investors on property prices, pushing values beyond the reach of local residents. One solution suggested is to have a modest tax surcharge for all properties owned by those who are not a UK tax-payer or pensioner. Any policy initiative around this should also ensure that these arrangements do not discourage UK-based pension funds and institutional investors from investing in residential rental housing, if the policy intention is to increase access to affordable housing.[88]

Frustrated homeowners and those who face affordability issues in older age

Reforms to mortgage lending

To resolve the issue of many low income households remaining on high interest standard variable rate mortgages even when they are able to switch to cheaper deals, the FCA should co-ordinate an industry-wide agreement for an automatic internal switch to a more competitive rate for all customers ending a fixed term mortgage deal meeting certain criteria. We also recommend introducing a requirement for lenders to contact standard variable rate payers regularly to let them know about the possible financial benefits of switching to products they offer for which they are eligible. Lenders should use the communication channel (mail, telephone, e-mail or SMS) for which customers state a preference to provide this information. Information from lenders needs to be provided in a consistent, accessible and transparent way so that comparisons can easily be made between the standard variable rate mortgage and other mortgage products, including any differences in fees, flexibility, eligibility criteria and minimum loan amounts.

For many of our older clients their home is their only valuable asset, but they experience considerable difficulty in releasing this cash. Most equity release schemes have much higher charges and interest rates than traditional mortgages, and equity release schemes may not be appropriate for those with a high loan-to-value ratio on their home. Over three-quarters of our Financial Solutions clients are on interest-only mortgages which have no repayment vehicle. Some providers are already

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[86] https://www.economist.com/briefing/2018/08/09/the-time-may-be-right-for-land-value-taxes
[87] Coreltt, A. & Gardiner, L. (2018) Home Affairs: options for reforming property taxation. London: Resoltion Foundation
[88] Muellbauer, J. (2018) Housing, Debt and the Economy: a tale of two countries. Oxford: Department of Economics Discussion Paper Series

putting these clients under increasing pressure through litigation and threatened repossession proceedings.

Recent changes in FCA regulation have introduced a ‘retirement interest-only mortgage’ restricted to older consumers in which the lender would not seek repayment until the occurrence of one or more specified life events.[89] This was intended to encourage lenders to come up with a broader range of products that might better suit the needs of older people. Such a retirement interest-only mortgage would also reduce the rate at which equity in the property is eroded owing to interest roll up, in comparison with equity release schemes. It may also provide benefits to the current generation of homebuyers who are taking out large mortgages at an older age by encouraging lenders to increase the number and flexibility of mortgage products that extend payments past retirement age, so offering them a better range of solutions.

In some cases a retirement interest-only mortgage would be the best solution for our clients. However, we often see more complicated financial situations and there is a danger that without advice, people may not consider the full range of solutions available to them. In particular, it could allow some lenders and building societies to potentially move clients, with high loan-to-value ratios, in volume without advice, onto a retirement interest-only product which is not the best solution for them, and could potentially leave them significantly worse off.

Although older people may have a smaller amount of unsecured debt than other groups, being on a fixed pension income with limited or no savings can make sudden unexpected costs or large increases in essential household bills more difficult to manage. Ill health and disability can also affect older people disproportionally, and lead to problems with accessing appropriate benefits. This leads to further debt problems if someone is living on a reduced income with heightened costs due to their disability. Finally, financial problems caused by relationship breakdown or bereavement can create much more intractable financial difficulties post-retirement.

The new retirement mortgages will require a monthly repayment, so they won't be affordable by everyone, particularly following any such income shocks. Without the safeguard of forbearance by lenders and a switch to interest roll up offered by a lifetime mortgage, some of the most vulnerable older customers could find themselves at risk of repossession. Many may try to take out more credit simply to cover their essential bills, with the potential to escalate their debts still further.

Figures obtained from the Financial Conduct Authority via a Freedom of Information Act request show that just 112 retirement interest-only mortgages were successfully completed across the whole of the UK last year. This is despite some 185,370 retirees potentially facing losing their homes as their interest-only mortgages mature.[90] To address our current concerns around retirement-only mortgages, the gap in advice needs to be addressed. The basic principle behind giving mortgage advice is to help the customer get the best solution to their problem. But, an adviser has to have permission from the regulator to tell clients if that's either a retirement interest-only mortgage or a

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[89] https://www.fca.org.uk/publication/impact-assessments/retirement-interest-only-mortgages.pdf
[90] https://www.thisismoney.co.uk/money/mortgageshome/article-6479701/Just-112-homeowners-given-retirement-mortgage-year.html

lifetime mortgage (equity release). Most mortgage brokers are not qualified to advise on equity release so they refer people on to equity release advisers. However, at the moment, advisers earn more in commission if they recommend equity release. The FCA needs to address this bias by ensuring older people in this position are provided with independent advice from someone who can advise on both types of mortgage, with no difference in commission payments for recommending either one. The advice should consider both present and possible future financial situations (i.e. in case of the death of a partner who is currently named on the mortgage) to ensure they fully explore the possible scenarios and recommend the solution which is best suited to current and future needs. Without such independent advice it seems likely that retirement-only mortgages will continue to be ignored by those who would most benefit from them or may be taken up by those for whom equity release would be more suitable.

Q3.2: What regulatory reforms and new products/schemes are needed to make both social and private housing more affordable? Covers social rents regime, rent controls in the PRS, new rents to incomes schemes ('living rents', personalised rent), new types of low-cost mortgages

Struggling renters and those reliant on state support

Households facing severe financial difficulties need more help to stabilise their finances and recover from problem debt in a secure home

We welcome the Government's intention to include protections in respect of rent arrears in the new Breathing Space and statutory debt repayment plan schemes. This includes proposals that all collections and recovery action on debts would stop once a plan begins and this stop on recovery action would include evictions due to unpaid debts under Section 8 of the Housing Act 1988. However, consideration should also be given to including evictions under Section 21 Housing Act 1988 rules. In this respect we agree that rent arrears could be prioritised in the plan on the request of a debt advisor enabling these to be paid more quickly. The Government's introduction of a Breathing Space scheme for people in problem debt should encourage all landlords to show forbearance and agree affordable repayment of rent arrears without the threat of evictions wherever possible. The courts should ensure that all landlords follow the Debt Pre-Action Protocol for rent arrears[91] or Pre-Action Protocol for Possession Claims by social landlords[92], when taking legal action against tenants. However, at the moment there is evidence that in England[93] and Wales[94], where these Protocols are not requirements, the procedures are not being followed and courts are not subsequently protecting tenants from eviction.

In the social housing sector, Shelter Shetland has reported on the success that Glasgow Housing Association (GHA) achieved in reducing evictions while also increasing the collection of rent arrears. By changing its emphasis from legal action to early intervention, GHA's total arrears fell from £10.1m

[91] https://www.justice.gov.uk/courts/procedure-rules/civil/pdf/protocols/debt-pap.pdf
[92] https://www.justice.gov.uk/courts/procedure-rules/civil/protocol/pre-action-protocol-for-possession-claims-by-social-landlords
[93] Shelter (2018) Shelter evidence to the statutory review of LASPO
[94] Shelter Cymru (2018) Policy briefing: Avoiding unnecessary evictions among social tenants in Wales

in 2007 to 2008 to £6m in 2015 to 2016, while at the same time reducing the number of evictions by almost 20% between 2013 to 2014 and 2015 to 2016[95] Landlords, particularly social landlords, could learn from such examples of good practice and ensure that their messages to tenants encourage those in financial difficulty to contact them for support, rather than simply threatening eviction as soon as a rent payment is missed. This could result in greater stability for tenants, improved rent arrears repayments through affordable repayment plans and reduced court costs for landlords.

Consideration should also be given to changing the processes for Section 8 and Section 21 evictions. Section 21 evictions are increasing used for evictions for rent arrears, originally intended to be conducted under the section 8 procedure.[96] Such a change could allow section 21 evictions to be abolished as recently discussed in Parliament.[97]

Evaluating the impact of introducing open-ended private tenancies and an end to "no-fault" grounds for possession in Scotland to inform policy changes in other nations.

In some countries, tenancies can only be ended if the tenant gives notice or the landlord has reasonable grounds. This is the approach that Scotland has recently implemented through the Private Housing (Tenancies) (Scotland) Act 2016. Private rented tenancies in Scotland are open-ended (no fixed term tenancy) and landlords are not able to evict a tenant simply because their tenancy agreement has reached its end date; the tenant must give notice or the landlord will have to use one of the new grounds for repossession (an end to "no-fault" or Section 21 evictions). Any changes to length of tenure and "no-fault" evictions in the private sector in other UK nations should build on an evaluation of the impacts on landlord and tenant behaviour following the changes to the Scottish system. This should ensure a holistic approach that reduces unintended consequences.

However, this will not by itself address the problem of helping the most financially vulnerable to sustain occupation of their homes. Our own research suggests that this should also be accompanied by further protections that would give people time to clear rent arrears in affordable instalments, so that they are not put at increased risk of eviction when they fall behind with rent payments as a result of a sudden change in circumstances beyond their control, such as job loss or illness.

Q3.3: How can the welfare system ensure that those on low incomes, with particular needs or those experiencing financial shocks have the right level of support in a timely way to reduce housing stress Covers housing benefit system, LHA, mortgage support, and temporary accommodation

<u>**Struggling renters and those reliant on state support**</u>

Review the use of the private rented sector for housing people whose circumstances make them vulnerable to financial difficulty, exclusion and hardship.

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[95] Shelter Shetland (2017) Research report: evictions by social landlords in Scotland 2012 – 2016
[96] The Centre for Social Justice (2019) Putting Down Roots: improving security for renting families and private landlords
[97] https://hansard.parliament.uk/Commons/2018-12-06/debates/21A6B725-C6F7-4A0A-8BE9-D839A5C8D3BB/Section21Evictions

We support the call in other recent research,[98] for the Government to undertake a thorough review of how best to meet the housing needs of low-income tenants, with a particular focus on tenants in receipt of benefit. The roll out of Universal Credit adds urgency to this call. That review needs to work across government, led by the Ministry of Housing, Communities & Local Government and the Department for Work and Pensions, but including other departments concerned with reducing financial exclusion and the social costs of problem debt.

Review the Local Housing Allowance cap

There is clear evidence that the rising rates of evictions are linked to the overall growth of the private rented sector and to cuts to Local Housing Allowance (LHA) with the greatest impact being felt in London.[99] LHA rates were insufficient to enable low-income households to find alternative accommodation if they lost their home, causing homelessness. These fundamental failings in welfare support will, unfortunately, not be removed by the Homelessness Reduction Act.

The Government should consider, as recommended by JRF and the National Housing Federation,[100] and the Mayor of London,[101] an affordable housing cost figure set for each local area, based on charging a fixed percentage of the net local earnings figure. This would be much more likely to guarantee affordability than tying measures to local market rents. Despite policy intentions that caps on housing benefit would lead to a reduction in market rents, they have continued to rise since the introduction of these reforms.[102] .

The housing benefit market is not attractive to landlords, and a key reason for this is that rates do not cover the rent (risking rent arrears). In most areas this means landlords are turning to alternative markets. It is increasingly difficult for housing benefit recipients to find landlords who will accept tenants in receipt of housing benefit. This is an important equity issue; people on low incomes receiving housing benefit are facing discrimination because of poverty. This is currently the subject of a Work and Pensions Committee Inquiry.[103] However, it is likely to remain an issue if the amount many tenants receive in housing benefit is substantially below the amount needed to rent any local properties.

Frustrated homeowners and those who face affordability issues in older age

Evaluation of the impacts of the change of Support for Mortgage Interest (SMI) from a benefit payment to a loan

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[98] Rugg, J. & Rhodes, D. (2018) The evolving private rented sector: its contribution and potential. York: Centre for Housing Policy, University of York.

[99] Clarke, A., Hamilton, C., Jones, M. & Muir, K. (2017) Poverty, evictions and forced moves. York: Joseph Rowntree Foundation

[100] https://www.jrf.org.uk/blog/housing-market-isnt-helping-people-make-ends-meet-time-living-rents

[101] https://www.london.gov.uk/what-we-do/housing-and-land/renting/london-living-rent

[102] Office of National Statistics (2019) Index of private rental prices, UK: January 2019

[103] https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2017/inquiry18/

We are currently working with other debt advice agencies to investigate whether there has been significant detriment to our clients who were previously claiming SMI as a benefit, from April 2018 when it became a loan. Current Department for Work and Pensions figures suggest there has been a very low take-up rate of the loan payments and anecdotal evidence that even those who take up the loans are facing long delays in receiving payments. It is currently not clear if this is causing people to become at increased risk of losing their home. The high economic and social costs of losing a home and possible homelessness[104], would suggest that if this is an impact of changes to SMI payments, the policy should be reviewed and reversed.

4. What else needs to change?

Q4.1: Do you have any other thoughts about what could help ensure housing is more affordable, including examples of best practice from UK (devolved nations) and overseas?

The devolution of housing policy across UK nations offers a chance to compare and contrast policy options. For example, the Private Housing (Tenancies) (Scotland) Act 2016 introduced a number of changes to the private rented sector in Scotland at the same time as the Scottish government has committed to increasing the amount of social housing built – a commitment which is currently on target.[105]

An analysis comparing StepChange Debt Charity clients in the four devolved nations suggests that Scotland's changes are resulting in a lower proportion of vulnerable clients being housed in the private sector and lower levels of rent arrears. For example, Scotland has a higher proportion of local authority renters (27%) and a lower proportion of private sector renters (30%) than the other three nations. England, Wales and Northern Ireland have a similar proportion of clients renting in the private sector (around 40%). Northern Ireland has a much higher proportion of clients with a mortgage (35%) than England, Scotland and Wales (15, 23 and 20% respectively), probably reflecting the lower house prices there (Figure 11).

The proportion of clients in rent or mortgage arrears was highest in England for all housing tenure types. In all four devolved nations the proportion of clients with housing cost arrears was lowest for those renting in the private sector. For those renting in the private sector the proportion of clients in arrears was lower in Scotland (9%) and Northern Ireland (9%) than in England (14%) and Wales (12%) (Figure 12).

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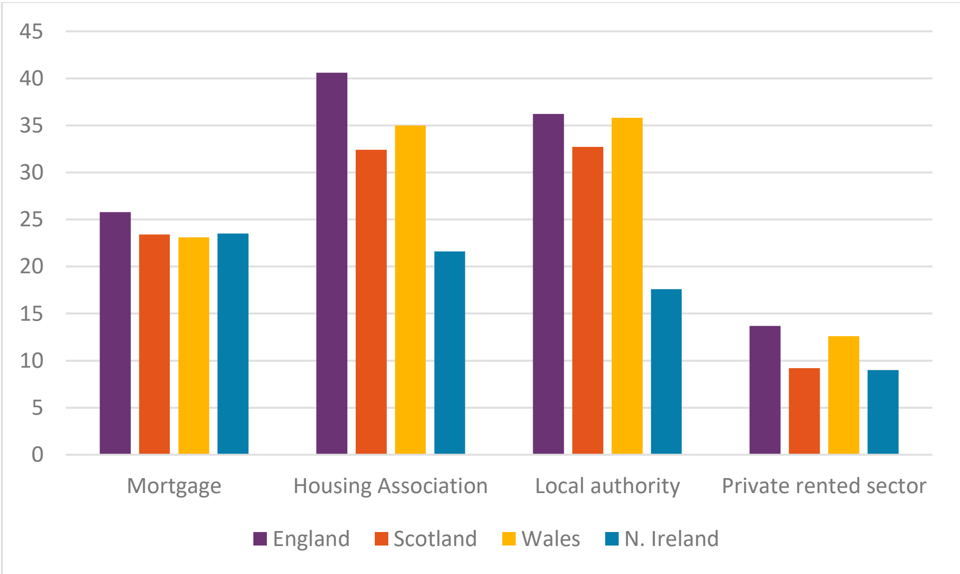
[104] StepChange Debt Charity (2014) Transforming Lives
[105] https://www.scottishhousingnews.com/article/affordable-housing-programme-on-target-at-halfway-point

Figure 11: StepChange Debt Charity clients by housing tenure in the four devolved nations

Data was on all new telephone clients from 2018 (England: n = 106,095; Scotland: n = 6,982; Wales: n = 6,508; Northern Ireland: n = 1,048).

Figure 12: The proportion of StepChange Debt Charity clients in rent or mortgage arrears by housing tenure in the four devolved nations

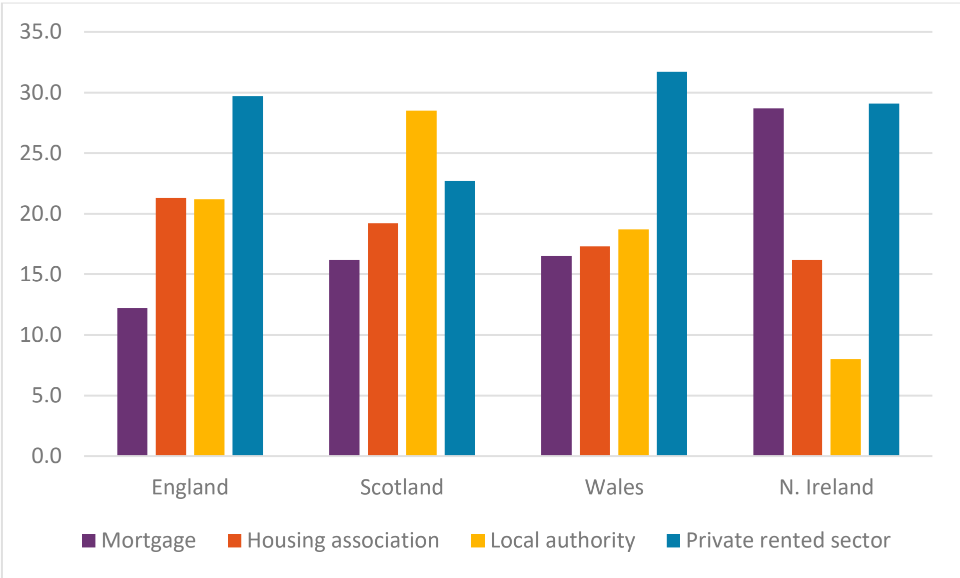


Data was on all new telephone clients from 2018 (England: n = 106,095; Scotland: n = 6,982; Wales: n = 6,508; Northern Ireland: n = 1,048).

The proportion of vulnerable clients living in the private sector was significantly lower in Scotland (30%) than in England, Wales and Northern Ireland (36.0, 37.5 and 47.6% respectively (Figure 13).

We intend to look in more detail at whether any differences across the four nations can be associated with any particular housing policy or policies and follow these relationships across time. This should support us to see which are the best practice housing policies to create more affordable housing across the UK.

Figure 13: The proportion of StepChange Debt Charity clients who are vulnerable by housing tenure in the four devolved nations.



Data was on all new telephone clients from 2018 (England: n = 106,095; Scotland: n = 6,982; Wales: n = 6,508; Northern Ireland: n = 1,048). At StepChange, we consider all our clients to be financially vulnerable. However, a number of our clients also have an additional vulnerability on top of this. This could be due to a physical or mental health condition, low literacy or numeracy skills, or other communication barriers. Vulnerability can also be caused by circumstances – such as experiencing a bereavement, job loss or divorce.