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'Feels like I'm doing it on my own': Examining the Synchronicity between Policy Responses and the Circumstances and Experiences of Mortgage Borrowers in Arrears

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The previous administration introduced several measures to prevent mortgage possessions, some of which were modestly effective. However, these hastily introduced initiatives were insufficient to bridge the gap between a fragmented policy framework and borrowers' circumstances and experiences of managing mortgage debt. The present restructuring of welfare and regulation represents a unique window to address these long-standing policy omissions in relation to sustainable homeownership in the UK. However, in the context of weakening state support, it is uncertain how or indeed whether, the opportunity to reform mortgage safety nets will be grasped. This article reflects upon the continuing misalignment of policy with borrowers' circumstances and experiences of mortgage arrears using new evidence from this downturn.

Keywords: Debt, homeownership, regulation, mortgage, arrears.

Introduction

Weaknesses in UK homeownership were established well before the financial crisis began in 2007/8 (Wilcox, 2005). The limited effectiveness of public and private mortgage safety nets had been identified (Kempson *et al.*, 1999; Ford and Quilgars, 2000; Ford *et al.*, 2004), alongside the risks posed by the increasing flexibility of the UK labour market and the extended reach of homeownership (Burrows and Ford, 1998; Ford *et al.*, 2001); and the threats posed by mortgage market innovation (Smith *et al.*, 2002; Munro *et al.*, 2005). Indeed, it is useful to remind ourselves that mortgage arrears and possessions began rising from 2003/4 onwards, although their growth was accelerated by the market downturn from 2008 onwards (Figure 1).

Overall, there has been a reduction in arrears and possessions since the peak of the recession, but both arrears and possessions are forecast to rise again during 2011 due to the weak economic recovery (CML, 2010a). The level of arrears and possessions during this downturn is lower than originally anticipated, and significantly lower than that experienced during the early 1990s. Nonetheless, a focus on developing policy in relation to sustainable homeownership is still urgently required if we are to limit the adverse consequences of possessions on former borrowers' health, children and finances (Nettleton, 1999; Pevalin, 2009).

The previous Government responded more rapidly to this downturn than in the 1990s (Ford and Wallace, 2009), but their initiatives remained crisis driven and included an element of reinventing the wheel. Support for Mortgage Interest (SMI) was amended to

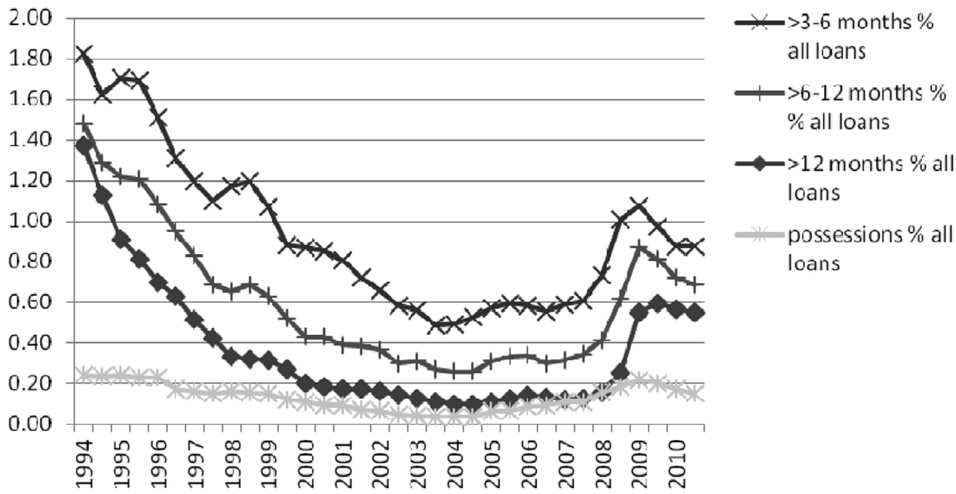

Figure 1. Mortgage arrears and possessions as proportion of mortgages 1995–2010
Source: CML Statistics AP1 and AP4.

offer more and earlier help, reversing some changes made in 1995 (Munro *et al.*, 2010). A Mortgage Rescue Scheme (MRS) was re-introduced to allow vulnerable households to avoid possession by remaining in their home as a tenant or on a shared equity basis and the Homeowners Mortgage Support (HMS) provided support to lenders to offer forbearance to borrowers unable to access SMI (Wilcox *et al.*, 2010). Additional funds were provided to the advice sector (Shelter, 2010a) and the Government worked closely with lenders to encourage greater forbearance. In addition, a pre-action protocol was introduced in the courts to ensure possession as the last resort (Whitehouse, 2009) and the Financial Services Authority increased their scrutiny of lenders and proposed tighter regulation of mortgage lending and arrears management (FSA, 2009).

And yet despite these positive initiatives, the UK still lacks an adequate system of safety nets for homeowners. At the time of writing, elements of the, already weak, existing provision are time limited and threatened by budget constraints. SMI is effective for eligible borrowers but has been weakened by steep payment reductions and/or the withdrawal of benefit for some claimants (Ford *et al.*, 2011). HMS was designed to address gaps in SMI eligibility but had an almost negligible impact (Wilcox *et al.*, 2010) and has now ceased. The Mortgage Rescue Scheme gathered momentum and supported many borrowers (Wilcox *et al.*, 2010), but is tightly funded, is now less attractive to lenders and has only been extended to 2013. Furthermore, the influence of the protocol is uncertain in a situation where lenders have been forbearing anyway (Ford and Wallace, 2009) and where there are few sanctions for lenders' non-compliance (Shelter *et al.*, 2009; Whitehouse, 2009). Moreover, lender forbearance is unreliable as it is influenced by changing market conditions (Ford and Wallace, 2009), and lenders are already signalling a reappraisal of their approach to forbearance in some situations, with poor outcomes for borrowers expected (Ford *et al.*, 2011).

In this context, this article examines the synchronicity between borrowers' circumstances and experiences and the current policy terrain. The article includes data drawn from statistical and administrative datasets and from three recent studies relating to sustainable homeownership. The first study was a qualitative investigation of how lenders and borrowers manage mortgage arrears (Ford and Wallace, 2009). It involved interviews with 17 borrowers in arrears, ten mortgage lenders, seven key informants and analysis of 90 advice case files. The second study was an interim evaluation of the Mortgage Rescue and Homeowners Mortgage Support schemes during the first 12–15 months (Wilcox *et al.*, 2010). This evaluation was based upon qualitative interviews with 42 former or existing borrowers in mortgage arrears, eight key informants, seven lenders, 21 intermediaries (such as local authorities, advisors and housing association staff) and the analysis of statistical and administrative data. The third study was a qualitative examination of 41 former borrowers who had experienced voluntary sales or possession of their home due to mortgage arrears (Ford *et al.*, 2010).

The article continues by considering the contribution made to mortgage arrears by reckless lending and borrowing in comparison to the loss of income from labour market disruptions. The article then examines borrowers' strategies for overcoming their arrears, their responses to advice and/or lender forbearance and provides some new evidence regarding contemporary exits from homeownership. The article then concludes by discussing the policy implications of this new evidence.

The origins of mortgage arrears

What prompts borrowers into mortgage debt is important because of the policy conclusions that flow from any analysis. The regulatory proposals included in the Mortgage Market Review incorporate measures to curtail higher risk lending to protect borrowers and lenders (FSA, 2009), but have polarised opinions within policy networks. Some agencies have welcomed the proposals and others contend that in the future the mortgage market could exclude too many households from homeownership (CAB, 2010; CML, 2010b; Inside Housing, 2010; Shelter, 2010b). On the one hand, there are arguments regarding lenders facilitating borrowers to over-extend themselves on mortgage credit, and, on the other hand, a discussion that emphasises the role of the loss of employment income in triggering mortgage default.

The explosion of credit and mortgage finance clearly had an unsustainable impact on borrowers, lenders and the economy (Crouch, 2009; Froud *et al.*, 2010). While providing opportunities to rehabilitate credit files and access finance (Munro *et al.*, 2005), subprime loans, from specialist or high street lenders, have been a particular concern (CAB, 2007; Kholberger and Johnson, 2009; Stephens and Quilgars, 2009). Hamnett (2009) argues that the market is incapable of learning from past errors and that stronger regulation is therefore necessary. This is not in itself controversial, but the way in which regulation is strengthened in practice, in relation to specific lending products, such as interest only mortgages, loans into retirement, self certified and high loan to values, for example, becomes more contentious.

However, structural change in the employment market resulting in a rise in precarious employment, together with changing patterns of household dissolution and formation, sits uncomfortably with mortgage products based on 25 years of stable employment and domestic relationships. On this basis, Policis (2010) argue that the major threats to sustaining mortgage payments arise, therefore, from outside the industry, primarily from labour market disruption, and subsequently oppose much of the proposed regulatory

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Table 1 Cause of mortgage arrears amongst MRS applicants January 2009 to March 2010

	Relationship Breakdown	Illness	Job loss / reduced hours	Increased mortgage payments	Bankruptcy	Other	Not Stated	Total
Percentage	19.8	12.1	44.1	2.6	2.4	6.3	12.8	100.0
Percentage of those with stated reason	22.7	13.9	50.5	3.0	2.8	7.2		

Source: MRS monitoring returns for local authorities (Wilcox *et al.*, 2010).

reforms. There is a social gradient to the experience of mortgage arrears, with borrowers in routine and manual occupations over-represented amongst households in arrears and/or who have experienced possession (Burrows, 1998; Ford *et al.*, 2010). However, households across the spectrum can accrue arrears, with certain features predisposing borrowers to mortgage debt. The triggers for mortgage arrears – labour market disruption, relationship breakdown or ill-health, for example – remain the same as in the 1990s, but during this market downturn arrears have been mediated through the context of additional borrowing and the consequent use of bankruptcy and insolvency procedures (Ford *et al.*, 2010).

Underpinning these divergent opinions about future regulatory practices are arguments regarding the origins of mortgage arrears. The evidence from a number of recent studies shows that the picture is less dichotomous and more nuanced than many positions imply.

Labour market disruption

The balance between the financial pressures and lifetime events that prompt borrowers to accrue mortgage arrears has shifted over time. For example, rising mortgage arrears and possessions prior to this recession were reportedly a product of over-indebtedness, alongside rising costs and interest rates (Ford and Wallace, 2009). Nevertheless, despite a public discourse continuing to associate mortgage arrears and possessions with over-stretched consumer borrowing alone, labour market disruption, including job loss, loss of hours or overtime, wage cuts or the failure of self-employment, is clearly the prime reason for mortgage debt in this recession and during the 1990s, roughly accounting for around half of all mortgage default (Burrows, 1998; Gall, 2009; Policis, 2010).

Half of the 41 borrowers who voluntarily gave up or sold their home due to mortgage arrears cited unemployment or reduced earnings as the main cause of their mortgage arrears (Ford *et al.*, 2010). In a further ten cases, it was difficult to distinguish whether unemployment or relationship breakdown had occurred first. The picture was similar among applicants to the Mortgage Rescue Scheme (Table 1) (Wilcox *et al.*, 2010).

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Table 2 Levels of equity and incidence of debt in Mortgage to Rent MRS cases completed by the end of February 2010

	Negative equity cases					Positive equity cases					
Type of Case	−50% +	−25% +	−10% +	−0% +	All negative	0% +	10% +	25% +	50% +	All positive	All cases
No unsecured debt	2	5	29	27	63	82	41	7	1	131	194
With unsecured debt	8	33	56	46	143	50	34	3	0	87	230
All MTR Cases	10	38	85	73	206	132	75	10	1	218	424

Source: Homes and Communities Agency monitoring returns (Wilcox *et al.*, 2010).

However, the Mortgage Market Review (FSA, 2009) is almost silent on the influence of labour markets or changing demographics on the incidence of mortgage default. However, regression analysis for their cost–benefit analysis did identify the rate of unemployment as an indicator of arrears, but the weight of the factors was not reported (FSA, 2010).

Irresponsible lending and borrowing

One lender noted that this recession was "messy" in comparison to the 1990s due to the presence of second charges and multiple debts that have increased the complexities of contemporary arrears cases (Ford and Wallace, 2009). Ford *et al.* (2010) found borrowers who gave up their homes voluntarily were heavily indebted, although few recognised this as the main problem. Although not a representative sample, two-thirds of the 41 borrowers interviewed were pursuing bankruptcy or insolvency. Of MRS completions between January 2009 and February 2010, over half of former borrowers had additional debts to their mortgage (Table 2). Furthermore, falls in house prices together with additional borrowing have increased the chances of borrowers experiencing negative equity. A total of 47 per cent of completed MRS cases were in negative equity (Wilcox *et al.*, 2010).

MRS tenants had shortfall debts that averaged £16,566 between January 2009 and February 2010, although four of the 231 cases had shortfall debts of over £100,000, and lenders wrote off average sums of £15,567 (Wilcox *et al.*, 2010). In the case of households who experienced voluntary possession, only one household out of 34 interviewed had a surplus on the sale of their home (Ford *et al.*, 2010).

Borrowers who were often financially marginal at the outset of their mortgage rapidly took out additional loans after their initial purchase (Ford *et al.*, 2010). Wilcox *et al.* (2010) found that 26 out of 32 interviews associated with MRS had re-mortgaged and 24 had multiple charges on their home. There were also examples of irresponsible lending and/or borrowing.

> At the time, it didn't seem a problem. They [the brokers] suggested how much I could borrow on my benefits. I just thought 'wow'. Just sign on the dotted line and I could get £90,000 by showing proof of my benefits and my passport. (Mortgage Rescue tenant who previously owned home outright)

By November 2009, between 58 per cent and 71 per cent of referrals to the Mortgage Rescue Scheme involved lenders associated with specialist or sub-prime lending, despite these individual organisations representing only 2–3 per cent of the total mortgage market at that time (Wilcox *et al.*, 2010).

The Policis (2010) report suggests that there is no underlying affordability crisis amongst borrowers, except a small pressured subset, as the arrears rate for borrowers who were on fixed rate mortgages and those on variable or tracker rates who had benefited from substantial interest rate reductions since late 2008 were largely the same. However, lenders identified bank base rate rises as one of the most significant threats to the incidence of arrears and possessions as rate rises could prompt new cases of arrears and frustrate agreements to repay current arrears (Ford and Wallace, 2009; Wilcox *et al.*, 2010).

Therefore, a prudent lending market is important but unlikely to prevent arrears arising from loss of earnings in future recessions. Conversely, the contribution that riskier mortgage products and lending has made to arrears and possessions during this market downturn should not be disregarded. The origins of arrears are primarily a function of labour market disruptions but the excessive or additional borrowing undertaken by mortgagors, and facilitated by lenders, certainly complicates the management of those arrears, and indeed the agencies tasked with preventing possessions.

Borrowers' strategies to manage mortgage debt

There are assumptions made regarding borrowers' propensity to acknowledge and manage their own arrears or their expectations regarding public support. For example, Howard (2010) suggests that following Government interventions to prevent possessions, borrowers will, in the context of declining take-up of private insurances, increasingly expect to be 'bailed out' of arrears. Moral hazard arguments exist for both lenders and borrowers when considering effective responses to arrears and, arguably, similar points could be advanced about the benefit to lenders of the MRS or the generous payments of SMI paid until October 2010. However, the evidence does not presently suggest that public policy to prevent possessions has had an adverse impact on borrowers' impetus to resolve their predicament.

Only a small minority of borrowers had any prior knowledge of the support available and rarely were they aware of the details of various schemes (Wilcox *et al.*, 2010). Where anger and/or 'entitlement' did exist, it was associated with borrowers with no previous experience of unemployment recognising the limited support available to some homeowners.

> Tried to get help from the muppets at the local job centre, but might as well have talked to the cat. The council were a waste of time. I'd heard that there might be help with unemployment with mortgages so I might as well talk to them, but [they] told me nothing, unless I have a disability, they don't help. Thirty-five years I've paid into this country and not got anything out of it. (Borrower seeking Homeowner Mortgage Support)

Rather than rely on the state or make calculated decisions to strategically give up mortgage payments due to negative equity, there is a great deal of evidence that borrowers make strenuous efforts to keep their home (Ford and Wallace, 2009; Wilcox *et al.*, 2010; Munro *et al.*, 2010; Ford *et al.*, 2010;). Indeed most borrowers who fall into arrears do recover their position (Gall, 2009; Policis, 2010). However, borrowers faced a range of barriers to resolving their situation. Many borrowers spoke positively of their lenders, advisers and local authorities, but for others the gaps in the safety nets are apparent.

> Just feel you're on your own, someone like me tries to be honest and open and cooperate at the outset, telling them as soon as I have news I'll let you know. Every month I paid something. As soon as a Mortgage Rescue scheme [was announced] I self referred myself . . . what do I do? . . . feels like you're on your own, wade through it and getting hassled by the mortgage company, ringing you putting stress on you. (Self-employed unsuccessful Mortgage Rescue applicant with Outright Possession Order awarded against her)

Increasing household income

The primary response to a loss of earnings is an attempt to increase the household income by gaining further employment or by claiming state benefits, principally SMI. Both approaches posed challenges for many borrowers.

Labour market constraints remain, especially in some locations. The unemployment rate in England in the second half of 2010 was 7.9 per cent (ONS, 2010a), but in the North East the rate was 9.7 per cent compared to 5.7 per cent in the South West (ONS, 2010b). With new employment, many borrowers regained confidence in their ability to pay their mortgage, but others re-entered the labour market on lower wages and/or were unable to find employment with sufficient income to meet their mortgage commitments: circumstances that an 'in-work' mortgage support benefit could mitigate.

> I'd have to get job on same salary as previously, if picked up minimum wage job there is no possible way I'd be able to afford the mortgage. (Mortgage Rescue applicant)

SMI remains a core component of current mortgage safety nets, although eligibility is limited to people in receipt of specific qualifying benefits alone. However, reforms made from January 2009 meant that greater numbers of borrowers benefited earlier and at a higher level (Munro *et al.*, 2010; Ford *et al.*, forthcoming). The awareness and administration of SMI was problematic, and from October 2010 the standard interest rate for SMI reduced from 6.08 per cent to 3.67 per cent, the average mortgage rate charged in July 2010, despite wide variation in respect of the rates individual borrowers pay. Consequently, this reduction means more borrowers facing greater payment shortfalls and growing numbers starting to accrue arrears (Ford *et al.*, 2011).

> Main thing is that the job centre doesn't tell you about benefits that were there, they're there to help you . . . I just think I was ignorant. I've never been unemployed before. (MRS applicant)
> At the moment, I have this arrangement until May this year, but if interest rates start to go up and if the interest the benefits use changes from 6 per cent, I don't know what will happen. (MRS applicant)

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Therefore, SMI provides some relief for borrowers but is poorly targeted, lacks precise payments and its effectiveness is less certain going forward.

Homeowners Mortgage Support was developed to meet the needs of borrowers who were not entitled to SMI, such as dual earner or self-employed households on low incomes. However, HMS had limited application, with only 32 borrowers being supported under the scheme during its first year, principally because lenders offered better forbearance packages and found the scheme too bureaucratic to operationalise in any great numbers (Wilcox *et al.*, 2010). Of the ten borrowers who had applied for or were on HMS, seven had mortgage arrears due to the failure of self-employment and/or working partners preventing eligibility to SMI. The failure of Homeowner Mortgage Support means that this significant gap in mortgage safety nets still prevails.

Negotiations with lenders

Borrowers have had some success with lenders more willing to exercise forbearance. From 2008, lenders recognised that possessions meant crystallising losses arising from negative equity onto their balance sheets. Lenders' previous 'pay or possess' attitude to borrowers in arrears gave way to lenders using a variety of forbearance tools to support more borrowers (Ford and Wallace, 2009).

> Because I phoned in advance they were ok ... they were fantastic, I was really impressed. (Borrower on lenders' forbearance scheme)

However, lender forbearance has been patchy and often triggered by the number of months' arrears borrowers had accrued rather than, as was the case within some lenders, the severity of the borrowers' hardship. Borrowers, therefore, frequently reported that lenders made short-term – one or two months – forbearance agreements that did not always match their circumstances and created a situation of repetitive fraught negotiations rather than a relief from a medium-term problem (Ford and Wallace, 2009). This led to the breakdown of communications with some borrowers and made possession more likely (Ford *et al.*, 2010).

> Why are you phoning every day? I said I've told you the situation, do you think it's changed in 24 hours? I'm already stressed. (Mortgage Rescue applicant)

The number of mortgage accounts in arrears that have a formal repayment or concessionary agreement to pay increased from 23 per cent Q1-2007 to 36 per cent by Q2-2010, although has since fallen back to 32 per cent by Q4-2010 (FSA, 2011a).

Seeking advice

In contrast to the 1990s, the advice sector is now integral to Government and lender responses to mortgage debt (Ford and Wallace, 2009). Although some borrowers admit to denying the extent of their personal debt and mortgage problems, this was not widespread. Contact may have been broken with lenders but this was often after unsustainable forbearance terms were imposed (Ford *et al.*, 2010). Without advice and support, borrowers who relinquished possession of their home made poor decisions regarding payment. One lender suggested that advisors were important to 'manage all the people shouting at them' (Wilcox *et al.*, 2010).

The effectiveness of the MRS is in part due to the large numbers of borrowers that received advice about their mortgage arrears. During the first 15 months, 20,254 borrowers approached local authorities for advice or assistance in relation to mortgage arrears, of which 1,230 or 8.3 per cent applied for MRS and 630 of these cases completed MRS successfully (Wilcox *et al.*, 2010). Nearly 15,000 people received forms of advice and/or referrals to their lender, while others were referred directly to homeless services.

Some borrowers felt able to conduct negotiations with lenders themselves (Ford *et al.*, 2010). However, advisers frequently revise over-ambitious commitments made between borrowers and lenders and borrowers often leave seeking advice to critical moments, such as court hearings (Ford and Wallace, 2009). Nonetheless, borrowers responded positively to the former Government's communications urging struggling homeowners to talk to their lender or seek professional advice. Lenders reported more borrowers making contact earlier with lower levels of arrears or before any arrears had emerged, making resolution of the problems more manageable for borrowers and lenders (Ford and Wallace, 2009).

However, advice services were sometimes overwhelmed and borrowers experienced long waits for appointments, could not get through on the telephone in some localities or the quality of the advice was sometimes poor (Ford and Wallace, 2009; Wilcox *et al.*, 2010). There were examples of advice staff lacking knowledge of Government assistance, of limited involvement and, in particular, a lack of satisfactory advice relating to self-employed people's trading and welfare entitlements.

> Every time I make an appointment they don't do them out of hours of work. I can't take a day off, I've just decided to swallow it and pay it all . . . I just got fed up trying to organise it all. (Borrower on unaffordable suspended possession order after time spent unemployed)

Access to good quality advice is also now threatened due to reductions in local authority and legal aid budgets (see for example Robins, 2011).

Relinquishing homeownership

Borrowers with short-term mortgage arrears were reluctant to contemplate losing ownership of their home; however, more entrenched borrowers began to reconcile themselves to becoming a tenant. Few borrowers have been able to retain partial ownership of the property under the shared equity Mortgage Rescue scheme, primarily as few had sufficient equity in their home (Wilcox *et al.*, 2010). Recent borrowers in arrears indicated that retaining occupation of their home was more important to them than the tenure (Wilcox *et al.*, 2010). In contrast, borrowers in the 1990s recession considered mortgage rescue schemes unattractive (Ford and Wilcox, 1998).

> I love where I live. I have supportive neighbours who looked after me when I was ill. It's a council estate but mostly owned, but I'm not bothered about buying . . . I don't miss worrying about it. (MRS tenant)

However, several MRS tenants reported they would consider homeownership again (Wilcox *et al.*, 2010), but none of the former borrowers who voluntarily gave up possession of their home was interested in homeownership in the future (Ford *et al.*, 2010).

It is widely recognised that homeownership for some is no longer sustainable and that long-term forbearance can exacerbate rather than relieve borrowers' debt problems. Indeed, the FSA (2011b) recently warned lenders against forbearing on terms that did not reflect borrowers' circumstances or when not in their best interest. However, borrowers wishing to exit homeownership were constrained in a number of ways.

There has been widespread enthusiasm for the public Mortgage Rescue Scheme as it provided a mechanism to address housing and debt issues, mitigate some of the adverse consequences of possession on household members, minimize shortfall debts and alleviate the burden on local authority housing departments in terms of re-housing repossessed households (Wilcox *et al.*, 2010). However, applications were hampered by long delays and shortages of funds in the MRS (Wilcox *et al.*, 2010), and the most recent changes have meant that stakeholders forecast very few cases in the future.

The constraints of a sluggish housing market make the sale of the property to avoid possession difficult (Ford *et al.*, 2010). Seven MRS applicants and a third of the 41 former borrowers who gave up their home voluntarily had attempted to sell their homes themselves, and many more had contemplated doing so (Ford *et al.*, 2010; Wilcox *et al.*, 2010). However, the slow housing market limited transactions and, where sales did occur, provided insufficient funds for borrowers to clear their debts (Ford *et al.*, 2010; Ford and Wallace, 2009).

Rarely did borrowers and advisors consider private sale and leaseback schemes to be a credible alternative, due to the under-valued sale prices and short tenancies that were frequently terminated soon after completion (OFT, 2008). However, the impact of the FSA regulation on this sector from June 2010 is unknown.

Furthermore, the different policy options that flow from the different transitions from owning to renting even when the households are in similar circumstances causes difficulty when former borrowers seek rehousing, in particular from the local authorities (Ford *et al.*, 2010). Exiting homeownership prior to any formal compulsory repossession can jeopardise chances of securing housing under the homelessness legislation, despite borrowers being in exactly the same circumstances as others subject to litigation.

Discussion and conclusions

The policy responses to mortgage arrears remain unsynchronised with borrowers' circumstances. Policy is fragmented across Government departments with far from optimum outcomes for borrowers who fall through what exists of a mortgage safety net. This is evident in three main areas: regulatory proposals, welfare support and the consequences of exiting homeownership.

Firstly, the proposals to reform mortgage market regulation emphasise the reckless lending in mortgage markets of the pre-financial crisis era, and are silent about the threat to sustainable homeownership from labour market disruption widely evidenced during this and the last economic downturn. Greater prudential lending *is* necessary and the UK needs to reconcile itself to a lower rate of homeownership. Although, as Stephens (2010) notes, this would require reform of the whole housing system, involving expansion of social renting if the private rented sector remains unable to offer security of tenure.

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However important, prudential lending alone is unable to address the threats to mortgage sustainability posed by the labour market.

Secondly, the welfare system does not currently recognise the need and/or demand for in-work welfare support for homeowners. This is especially problematic in the context of a recession where part-time work and reductions in hours, rather than absolute job losses, have been significant (ONS, 2010c). Moreover, many households are excluded from partial assistance for mortgage support due to some work remaining in the household, even if on low wages, and self-employed borrowers still face difficulties accessing qualifying benefits or proving non-employment. The narrow eligibility to SMI and the absence of an in-work equivalent for SMI represent important gaps in safety net provision.

The Universal Credit system offers an opportunity to address this by smoothing the transition to work by a gradual withdrawal of support as income increases (DWP, 2010). However, it currently looks like SMI will be omitted from the Universal Credit proposals, as it would increase the costs at a time of public spending constraints. Therefore, any reform of SMI is currently unclear.

As mentioned, several suggestions have been made for a comprehensive public-private mortgage safety net jointly funded by borrowers, the Government and lenders (Ford and Wilcox, 1998; Wilcox, 2003; Stephens *et al.*, 2008b). Although there has been little enthusiasm for such partnership models in the past, the current period represents a unique opportunity to consider new initiatives to sustain homeownership that can provide support for a wider range of borrower circumstances than the current SMI provision. Such an initiative can address moral hazard issues by the joint individual and institutional contributions based on risk.

Thirdly, there are a range of policy responses for borrowers giving up their home depending on the transition route chosen, even if the household circumstances are comparable. Access to Mortgage Rescue, social housing and homelessness support and future credit are dependent on whether the borrower sold the home prior to compulsory possession taking place, voluntarily relinquished possession of their home by handing back the keys or whether their home was subject to compulsory possession through the county courts. Further guidance for local authorities could ensure that housing support offered to struggling homeowners is triggered by an objective assessment of their circumstances and the realistic sustainability of their mortgage, rather than lenders' variable litigation practices with regard to compulsory possession.

In conclusion, a safe lending regime could encompass wider access to ownership than the current proposals suggest, if a comprehensive system of safety nets is also instituted. Such as system would include provision for the equivalent of in-work type benefits to support the majority of borrowers who experience mortgage arrears due to reduced income, primarily from labour market disruptions. Crucially, an inter-departmental or 'corporate' response is required from Government to address the gaps in provision arising from conflicts between the regulatory, welfare, housing and employment domains. At the time of writing, market conditions are stable or worsening and support to homeowners has been weakened, leaving many borrowers exposed. Moreover, there is a danger that the next recession will again be accompanied by hurried responses, with expensive set up costs and, in some circumstances, limited effectiveness, if this unique opportunity to address the evident deficiencies in the safety net provision for borrowers is lost.

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