

## Help Needed for Homeowners in Debt

*A letter to the Herald, May 2008*

Sir

Mr Brown claimed that in his Draft Queen's Speech were important 'measures to protect homeowners in debt'. In reality, he has not laid out any plans to help homeowners worried about debt, nor has he promised to do so. Instead Gordon Brown has said he will simply think about taking action later in the year. Families concerned that they could risk repossession need help and advice now – not dithering and delay.

In the first quarter of 2008, there were over 27,000 mortgage repossession orders in Britain. Here in the South East, the rate of such orders was up 9%. These are very concerning numbers, though perhaps not quite so dramatic as you might expect from the TV and newspapers. In fact, the number of repossession claims, the first stage of the repossession process when homeowners are threatened with action, was much higher, at 39,000, with the South East up 13% on last year.

One industry that thrives when repossessions are high (and the fear of them even higher) is so-called 'sale and rent-back'. In this scheme, a company offers to buy your home from you quickly but at a sharp discount of say 20% or even 25%; you can then rent it back from them, and so are able to stay in your home. This can seem like an easy answer for people worried about mortgage payments – but of course they often lose out overall. Citizens' Advice Bureaux have aptly described sale and rent-back as "a disaster waiting to happen". Such schemes are marketed locally – we've had a flyer through our door in Alton.

A further issue today is that more and more repossession claims come not from the main mortgage lender, but from sub-prime lenders with a second charge on the home, often amounting to only a few thousand pounds. These are the result of all those loan consolidation offers on daytime TV. Under the threat of repossession, many of these claims are then resolved by renegotiating terms such that the borrower ends up repaying at an even higher rate over a longer period.

The Government has announced that it will look at whether it needs to take action to protect families from any unfair treatment in the sale and rent-back and second charge mortgage markets. The Office of Fair Trading has also launched a market study into sale and rent-back and plans to report in the autumn. The Government has said that in light of this study's conclusions it will consider whether further action is needed. You might admire their open-mindedness, but I am astounded they do not consider the issue more urgent than that.

At root, taking on debt is a matter of individual responsibility. But with too-easy availability of credit, and sometimes unclear explanations of financial products, it is easy to see how people can get themselves into too much debt. Then, a sudden change comes along – like loss of a job or breakdown of a relationship – and the problem becomes chronic.

We need to improve financial literacy. In the voluntary sector much good work is done by Citizens' Advice Bureaux and others, but their caseload is heavy, and in the main they can only get involved when problems are already apparent. I am delighted that East Hampshire District Council are taking this issue very seriously and have made the question of personal debt and financial education central to their Social Justice agenda.

But more is needed, and on a wider scale. As someone who has lobbied for this, I am very pleased that my own party has now announced plans to launch a free national financial advice service to help families worried about debt. It will be introduced across Britain within 12 months of a Conservative government coming to office, funded in full through a new £50 million social responsibility levy on the financial services sector. George Osborne has also set out detailed policies to expand financial education in schools, require credit card companies to provide much clearer information to the public, and to cut the cost of doorstep lending.

In the meantime, the financial services industry has to do more, including help for overburdened mortgage holders to manage the transition to higher interest rates. And once this credit crunch has finally eased, it must adopt a much more responsible lending policy – otherwise we will just see this pattern repeat itself.

Yours

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