TACKLING THE COVID RENT DEBT CRISIS

Renters and landlords face cliff edge as furlough ends and benefits are cut.

NRLA
NATIONAL RESIDENTIAL LANDLORDS ASSOCIATION

Private renters and landlords across the country now face a cliff edge as a result of the end of furlough ending alongside cuts to benefit support.

The Bank of England has noted that renters are more likely than any other group to have lost their jobs or been furloughed whilst the Government admits that many landlords are highly vulnerable to rent arrears.

This report highlights growing concerns about the impact that a failure to tackle COVID related rent debts which are affecting almost one in ten (over 800,000) tenants will have on their ability to remain in their homes and the damage it will cause to their credit scores.

It draws on what was discussed at a recent webinar on the issue with research by the NRLA to provide a route map out of the rent debt crisis that tenants and landlords are now grappling with.

By the Government's own admission, private renters have been one of the hardest hit groups by the pandemic. The proportion of renters in arrears tripled from 3% in 2019/20 to 9% in November/December 2020 [1]. In stark contrast, as the Government notes, ***"mortgage arrears have returned to pre-pandemic level"***, whilst the proportion of social rents in arrears has not changed during the course of the pandemic.

Additional research for the NRLA has found that of those in the private rented sector who, since lockdown measures started, have built arrears which remain to be paid off, 82% were not in arrears prior to the start of the pandemic [2].

Whilst agreeing that the pandemic has had a larger impact on the finances of renters than homeowners, the Bank of England has spelt out clearly why this is, observing that [3]: ***"Renters were more likely to have lost their jobs or been furloughed, relative to households with mortgages or those who own their home outright. Survey evidence also suggests that more renters have seen a fall in income, a pattern which persisted over the crisis."***

Although panellists at the NRLA's webinar [4] agreed that landlords had, by and large, done everything they can to support tenants who have faced financial difficulties, there was a clear recognition and sympathy for the difficulties that landlords themselves have faced as rent arrears have mounted. All recognised that expecting landlords simply to write off rent arrears completely built through no fault of their own or their tenants was not viable, not least since [5]:

94% of private landlords rent property out as an individual.

45% of private landlords rent out just one property.

44% of private landlords became one to contribute to a pension.

The Government admits that given the profile of landlords across the country, many ***"are highly vulnerable to rent arrears."*** [6] Moreover, the majority of landlords (60%) feel their lettings business will be negatively affected as a result of the pandemic [7].

Government Interventions to Date

When pressed on the rent arrears debt problem the common response from the Government has simply been to repeat the list of financial support that has been provided without engaging with the crux of the issue which is that rent arrears are increasing despite this support.

Furlough

Government data shows that in November-December 2020, 24% of private renters were on furlough, a higher proportion than those in other housing tenures [8]. This was before the Prime Minister issued the second ‘Stay at Home’ order in January 2021. The Household Resilience Survey further found that:

- Households where the reference person was furloughed were more likely to report having no savings than those not furloughed. 43% of those furloughed reported having no savings, compared to 31% of those not furloughed.
- 29% of those on furlough had used savings to pay mortgage or rent, compared to 17% not on furlough.
- Private renters were more likely to say that the reasons they found it more difficult to keep up with rent payments were due to being furloughed on reduced pay (15%) or working fewer hours/less over time (14%).

Local Housing Allowance

In April 2020 the Local Housing Allowance (LHA) was brought back into line with market rents to cover the bottom 30% of private rents in any given area in order, the Government’s impact assessment on the decision noted, to ***“provide immediate additional support for housing support claimants."*** [9]

The very fact that the rate was increased was a sign that it was failing beforehand to provide the level of support that claimants needed. However, even with this change, there remained a large number of claimants where the allowance did not cover rents.

Across Britain the number of private rented households in receipt of Universal Credit with an entitlement to support for their housing costs increased by just over 95% between March 2020 and May 2021. Just over 55% of these have a shortfall between the housing support they receive and the rent they have to pay [10]. The Government has noted that in such cases the average shortfall is £100 a month. [11]

It is not surprising therefore that the Institute for Fiscal Studies has described the decision to freeze LHA rates in this way as ***“arbitrary and unfair”***. [12] The IFS has noted that the consequences are as follows:

- As time goes on and rents rise, the number of homes those in receipt of the LHA can afford will diminish.
- The support that is provided to recipients will no longer be tied to current levels of rent, but to rents in 2019.

The IFS notes of the similar policy to freeze rates in this way prior to the pandemic that it ***“resulted in those in some high rent areas getting less support than those in some low rent ones.”***

"We believe that the UK Government should reverse its decisions to cut Universal Credit and to freeze Local Housing Allowance. To apply policies like these without doing any meaningful impact assessment is, we argue, lacking the necessary foresight and consideration of the impact they will have on people’s security of tenure and well-being and for many will threaten their chance of recovery."

Joint Statement by Crisis, Nationwide Building Society, The Big Issue Ride Out Recession Alliance, Propertymark, The Mortgage Works, National Residential Landlords Association, StepChange Debt Charity and Shelter, August 2021

Universal Credit

As noted above, the pandemic has seen a dramatic increase in the number of private rented households reliant on Universal Credit, many for the first time. The decision to cut weekly awards by £20 will serve only to make it harder for those in arrears to pay them back. This is exacerbated by:

- Expecting recipients to wait five weeks for the first payment.
- Making payments in arrears despite the private rented sector operating largely on the basis of rent payments monthly in advance.
- Not giving all claimants, from the very start of their claim, the choice to decide, if they would prefer, to have the housing element paid directly to their landlords.

As with the LHA, the very fact that the Government felt it needed to provide extra support in Universal Credit awards in response to the pandemic was a sign that, as it was constituted, payments were not providing the security that recipients needed. We see no reason why that has changed.

Discretionary Housing Payments

Ministers have made much of the £180 million in Discretionary Housing Payments made available in 2020/21 to support those in rent arrears. This fails to accept that:

- The extra £40 million made available in DHPs was announced in the 2019 Spending Review [13]. As such, the amount available was in no way set in response to the consequences of the pandemic.
- As reported by the Resolution Foundation, the majority (56%) of all private renter families with arrears are not in receipt of benefits, leaving them ineligible for a Discretionary Housing Payment [14].

All panellists during the webinar were of the view that relying on Discretionary Housing Payments to manage rent arrears was not suitable. Awards and how they are made are patchy across the country depending on the approaches taken by local authorities and it provides neither affected tenants nor landlords with any long-term security to rely on short term fixes.

Buy-to-Let Mortgage Deferrals

Ministers have persistently spoken about mortgage holidays being available to landlords where tenants have had problems paying their rent. The way that this has been mischaracterised by government however is troubling.

Rather than a ‘holiday’ it is a mortgage deferment. As the Economic Secretary to the Treasury has noted, those landlords who have secured one: ***“will still need to repay the full balance of their loan and will continue to accrue interest during the payment holiday, unless the lender has indicated otherwise.”*** [15]

This creates a perfect storm of tenants who have built arrears and landlords who need to begin catching up on missed mortgage payments.

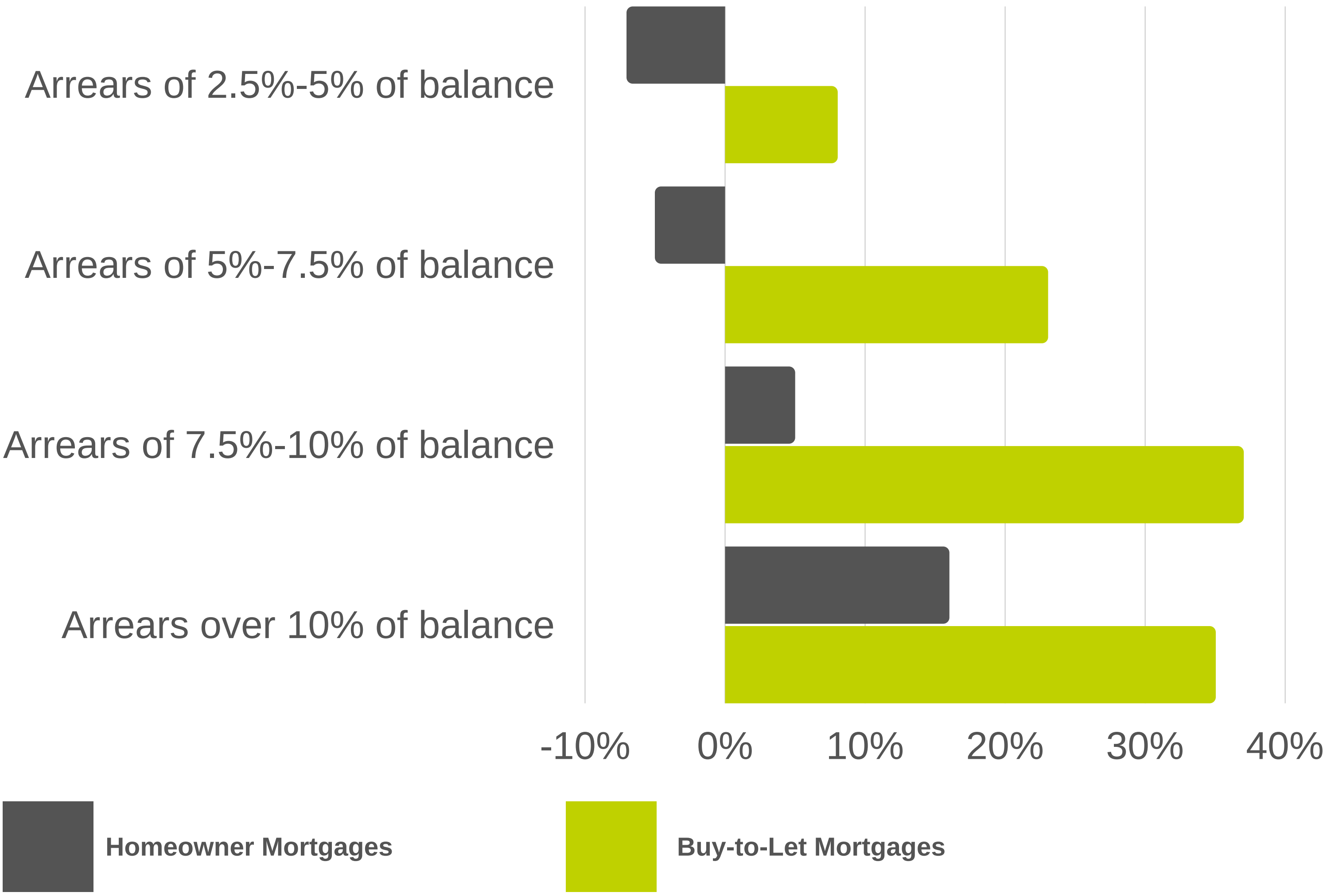
Chris Norris from the NRLA raised concerns that whether a landlord has had to seek a deferral in response to the pandemic was being taking into account by some lenders when deciding on new mortgage and re-mortgage applications.

Data from UK Finance (as shown in chart 1) for the second quarter of 2021 [16] also points to a more notable year on year increase in the number of buy-to-let mortgages in arrears than homeowner mortgages.

"Renters and landlords whose finances have been affected since lockdown cannot keep tenancies going without additional financial support."

Joint Statement by The Big Issue Ride Out Recession Alliance, Crisis, Citizens Advice, Joseph Rowntree Foundation, Money Advice Trust, The Mortgage Works, National Residential Landlords Association, Nationwide Building Society, Propertymark, StepChange Debt Charity and Shelter, February 2021

Chart 1: Percentage change in number of buy-to-let mortgages in arrears by band compared to homeowner mortgages in year to Q2 2021



Consequences of Not Taking Further Action

The longer that the Chancellor goes without providing the financial support needed to help renters tackle COVID related arrears, the more he will need to accept the consequences of the failure to act. These include:

- The cost of responding to tenants who are unable to continue to remain in their homes. The Housing, Communities and Local Government Select Committee has observed that the cost of developing a financial package to tackle arrears ***"would likely save the Exchequer a substantial amount in homelessness assistance"***. [17]

- The damage that would be done to tenant credit scores. Research commissioned by the NRLA has found that for those tenants still facing rent arrears built since March last year, 26% said that their landlord had attempted to reclaim these arrears through a court order (Moneyclaim). Such steps serve to damage a tenant's credit score making it difficult for them to access new housing in the future, either a new property to rent or becoming homeowners.

- As raised by Yvonne Fovargue MP, there is the tragic personal and financial cost of the mental health difficulties that rent arrears and allowing them to build without financial support causes for affected tenants.

Warning from the Bank of England

The Bank of England has warned of the risks that renters experiencing financial difficulties could cause to the wider economic recovery [18]. It notes that this is because:

- "Renters hold a significant proportion of unsecured debt. Pressure on renters' finances may result in defaults and losses for lenders on these loans."
- "Rental repayments are also a source of income for buy-to-let landlords. A fall in rental payments may lead buy-to-let borrowers to sell properties quickly, amplifying house price falls in a downturn."
- "If renters cut consumption to keep up with rental payments this could amplify a downturn. Renters are less likely to have savings compared to mortgage borrowers and spend a significant portion of their income on housing costs.

Experience in Wales and Scotland

All panelists were of the view that the Government needed to intervene in some way to support renters who have built arrears directly as a result of the pandemic with Nigel Mills MP arguing that the case was "*overwhelming*".

Schemes have been developed in Wales and Scotland.

In Wales, in October 2020 the Government launched its Tenancy Saver Loan scheme [19]. Under the scheme, those tenants who qualified could apply for a loan to cover COVID related rent arrears via a credit union with 1% interest and five years to repay the loan.

The eligibility requirement stipulated that the applicant:

- Was a private rented sector tenant holding a tenancy (fixed-term or periodic) for a home located in Wales.
- Was not in significant rent arrears, e.g. at least 8 weeks of rent arrears, prior to 1st March 2020.
- Was in rent arrears from 1st March 2020 or that the applicant is in rent arrears from 1st March 2020 and at point of application, will struggle to pay future rent (up to 3 months in advance) as a result of COVID-19.
- Was not in receipt of either housing benefit or housing cost payments through Universal Credit.
- Had a landlord and/or agent that was registered and/or licensed with Rent Smart Wales
- Could afford to repay the loan, based on their income and affordability assessment.
- Had not applied and received a Tenancy Saver Loan through another provider for the period in question.

Ministers in the UK Government have questioned the low take up rates of the Welsh scheme. The NRLA argues that this has primarily been for the following reasons:

- The charging of interest on the loan which did increase the debt payable by tenants.
- The fact that the affordability assessment was based on the income of tenants at a point when it has been affected due to COVID, rather than based on the recovery of income following the pandemic.

The Welsh Government has since converted the loan scheme into a grant [20].

The March 2021 the Scottish Government confirmed that it had extended its Tenant Hardship Loan scheme [21]. The terms of the scheme are:

- They are available for social and private tenants up to a maximum of nine months' rent costs covering rent arrears and future rent, where those arrears have arisen since 1st January 2020.
- The loan can include up to a maximum of three months of future rent payments as part of the nine-month total.
- Repayments are deferred for six months as standard and repaid over a five-year period.

- The loan is interest free.

- Applicants are given the option to have the loan paid directly to their landlord.

- The Energy Saving Trust is delivering the fund on behalf of the Scottish Government.

Policy Proposals for England

In responding to the rent debt crisis it is important to note that there are two distinct groups:

- Those who have seen their income affected as a result of the pandemic but who are likely to see that recover and do not qualify for benefit support.

- Those in arrears and in receipt of benefits.

For those tenants in arrears and in receipt of benefits, at the very least the Local Housing Allowance should return to the 30th percentile, rather than being frozen in cash terms. All panellists were of the view that changes were needed to the way rates were calculated to ensure they better reflected the rents paid by tenants.

More broadly, we believe it vital that the benefits system provides a proper safety net to those who need it most. As such, we are calling for the Government to set out a path to ensure that housing allowance rates meet average rents in any given area. We recognise, however, that this would require changes to the benefit cap to ensure that recipients felt the full benefits of such a move.

For those ineligible for benefit support, we are calling for the development of a hardship loan scheme.

The key parts of our proposal are as follows:

- Loans should be available to cover rent arrears built since lockdown measures started in March last year.

- Given the circumstances of individuals and households likely to apply for hardship loans, the standard affordability criteria is unlikely to be a useful measure of the risk of default. Applicants will seek a loan because their income has been disrupted. As such, eligibility should be assessed on the basis of prior affordability of the tenancy by demonstrating that the household was able to meet a standard affordability assessment prior to March 2020.

- Repayments should be made in line with the recovery of the tenant’s income using a similar model to that used for student loan repayments.

- The loans should be interest free. This is a principle the Government appears to have already accepted elsewhere. The 2021 Budget Red Book notes: ***“The government will provide up to £3.8 million of funding to deliver a pilot no-interest loans scheme. The scheme will help vulnerable consumers who would benefit from affordable short-term credit to meet unexpected costs as an alternative to relying on high-cost credit."*** [22]

- Loans should be guaranteed by the Government. Again, there is already precedence in respect of current mortgage guarantee schemes.

- Payments should be made directly to the landlord just as student loans are paid directly to Universities.

A loans proposal would not increase debt for tenants since by having built arrears, the tenant would already be in debt. It would simply transfer the existing debt from the landlord to the loan scheme. In fact, if there is no interest it would reduce the debt compared to if the tenant had to borrow the money to pay it off from other lenders who would charge interest.

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References

[1] MHCLG, *English Housing Survey - Household Resilience Study, Wave 2 November-December 2020*, April 2021, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/978991/Household_Resilience_Study_Wave_2_November-December_2020_Report.pdf.

[2] NRLA, *Landlords Made Scapegoats for COVID Rent Debt Crisis*, 17th June 2021, available at: https://www.nrla.org.uk/news/landlords-made-scapegoats-for-covid-rent-debt-crisis.

[3] Bank of England, *Household debt and Covid*, 25th June 2021, available at: https://www.bankofengland.co.uk/quarterly-bulletin/2021/2021-q2/household-debt-and-covid.

[4] On 21st July 2021 the NRLA hosted a webinar looking at how to tackle the COVID rent debt crisis in the private rented sector . Chaired by Carol Lewis, Deputy Property Editor at The Times, the panellists were:

- Yvonne Fovargue MP (Labour, Makerfield) - Chair of the All-Party Parliamentary Group for Debt and Personal Finance
- Nigel Mills MP (Conservative, Amber Valley) – Member of the Work and Pensions Select Committee
- Chris Norris – Policy Director for the National Residential Landlords Association

Around 30 people attended including government officials, representatives of key trade and pressure groups in the sector and journalists.

The webinar can be watched at: https://attendee.gotowebinar.com/recording/2276838308926562319.

[5] MHCLG, *English Private Landlord Survey 2018 - Main report*, January 2019, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf.

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[9] Department for Work and Pensions, *Equality Analysis for uprating Local Housing Allowance rates to the 30th percentile of local rents*, 6th October 2020, available at: https://www.gov.uk/government/publications/local-housing-allowance-uprating-equality-analysis-april-2020/equality-analysis-for-uprating-local-housing-allowance-rates-to-the-30th-percentile-of-local-rents.

[10] According to the DWP's StatXplore website as of 9th September 2021:

- Across the Britain, the number of private rented households in receipt of Universal Credit with an entitlement to housing support as part of the payment has increased by just over 95% from 786,600 in March 2020 to 1,535,618 in May 2021.

- As of May 2021, just over 55% of these households (848,429) have a gap between their housing cost support and the rent they had to pay.

[11] Will Quince MP responding to written parliamentary question UIN 6183 on 28th May 2021, available at: https://questions-statements.parliament.uk/written-questions/detail/2021-05-24/6183.

[12] Institute for Fiscal Studies, *Initial reaction from IFS researchers on Spending Review 2020 and OBR forecasts*, 25th November 2020, available at: https://www.ifs.org.uk/publications/15203.

[13] HM Treasury, *Spending Round 2019*, 4th September 2019, available at: https://www.gov.uk/government/publications/spending-round-2019-document/spending-round-2019.

[14] Resolution Foundation, *Getting ahead on falling behind - Tackling the UK's building arrears crisis*, 16th February 2021, available at: https://www.resolutionfoundation.org/publications/getting-ahead-on-falling-behind/.

[15] John Glen MP, Economic Secretary to the Treasury, in response to written question 145037 available at: https://questions-statements.parliament.uk/written-questions/detail/2021-01-28/145037.

[16] UK Finance, *Mortgage Arrears and Possessions Update Quarter 2 2021*, 12th August 2021, available at: https://www.ukfinance.org.uk/sites/default/files/uploads/Data%20(XLS%20and%20PDF)/UKF-Mortgage-Arrears-Possessions-Update-12-August-2021.pdf.

[17] HCLG Select Committee, *Protecting the homeless and the private rented sector: MHCLG's response to Covid-19*, Sixth Report of Session 2019–21, 31st March 2021, available at: https://committees.parliament.uk/publications/5342/documents/53217/default/.

[18] Bank of England, *Household debt and Covid*, 25th June 2021, available at: https://www.bankofengland.co.uk/quarterly-bulletin/2021/2021-q2/household-debt-and-covid.

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[22] HM Treasury, *Protecting the Jobs and Livelihoods of the British People*, March 2021, page 48, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf.