



DEBATE PACK

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Rent Payments and Mortgage Acceptability

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Summary

There will be a Westminster Hall Debate on 23 October 2017, on an e-Petition which attracted 147,000 signatures before the 2017 General Election. It is about mortgage eligibility and acceptance and the role which rental payments being recorded on credit records might play. Paul Scully MP will lead the debate.

Contents

1.	Rent Payments and Mortgage Acceptability	2
1.1	The issue	2
1.2	Reform of mortgage lending	2
1.3	Credit Scoring	3
2.	Statistics on ownership and renting	4
2.1	Trends in housing tenure	4
2.2	Cost of rent and mortgages	4
3.	Issues	6
4.	Resources	7

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1. Rent Payments and Mortgage Acceptability

Summary

It is often cheaper and normally thought better, all other things the same, to buy a house than to rent. Getting a mortgage application accepted depends on several factors – one is a good credit score which makes both acceptance more likely and the offer more favourable.

Renters complain that their history of paying rent does not get recorded on their credit score in the way in which mortgage payments are recorded. This makes it hard for them to improve their score and get better deals on all sorts of credit applications – and mortgages.

An e-Petition called for rental payments to be treated equally with mortgages repayments.

1.1 The issue

Especially since the start of the long period of historically low interest rates, rent on a house can be the same or even higher than a mortgage for a similar property.¹ Yet, when tenants apply for a mortgage they face several hurdles: high house costs, the need for large deposit at a time when prices are rising and a strict 'affordability' criteria introduced following the financial crisis by the Mortgage Market Review (MMR).

If the application fails, the tenant often has higher outgoings, a target deposit requirement which increases over time and less ability to save due to the higher rent. The tone of the Petition reflects this frustration and its support, 147,307 signatures, suggests the feeling is shared:

Since living on my own I have paid £70,000+ in rent on time yet still struggle to get a mortgage. Unless you're getting handouts, wealthy, or in receipt of inheritance it's almost impossible. I want paying rent on time to be recognized as evidence that mortgage re-payments can be met.

1.2 Reform of mortgage lending

A Financial Services Authority (FSA) consultation paper published in 2010 outlined the undesirable mortgage lending activity which preceded, and materially contributed to, the financial crisis

Circumstances led lenders to feel insulated from losses arising from poor lending, largely as a result of being able to pass risks onto others (e.g. by securitisation) and also by the widely held expectations of continuing growth in property values. This resulted in relaxed lending criteria and increased risk taking.²

The post-crisis Mortgage Market Review aimed to reduce risk in lending. It began in October 2009. The initial [consultation paper](#) reflected a

¹ See statistics section below to suggest that this may be a perception more common in some areas than others

² FSA: [Mortgage Market Review: Responsible Lending](#); 2010

move to a more intrusive and interventionist style of regulation and which included “Imposing affordability tests for all mortgages and making lenders ultimately responsible for assessing a consumer’s ability to pay.”

As part of its work on what ‘affordable’ meant, the FSA undertook detailed study into the predictive ability of applicants with poor credit history and found it to be a [significant predictor and hence determinant of lending decisions](#): “*Our findings show that the dominant characteristic present in all of the highest-risk lending combinations is whether the borrower has an impaired credit history.*”

Since affordability is a regulatory matter lenders cannot disregard an applicant’s credit score. It is therefore logical that if applicants have every incentive to improve their score.

1.3 Credit Scoring

Credit Reference Agencies compile ‘scores’ based on the circumstances and outcomes of an individual’s history. It includes non-financial factors like electoral registration but the main factor is the record in paying off debts – credit cards, loans, utility bills etc. Whereas mortgage payments are recorded, rent, by and large, is not.

In certain cases – Social Housing - however rents are starting to be used in scores. Big Issue Invest formed a partnership with one CRA – Experian - to prevent low-income people being caught in a vicious circle of no-credit-score-no-lending. The project is called the Rental Exchange (RE) is outlined on the Big Issue: [The Rental Exchange: Helping social tenants build a positive credit history to gain equal access to financial services](#)

The project began in 2010 and has made significant progress:

As of June 2015, over 150 registered housing providers [] have signed-up to join the Rental Exchange, representing 1.5 million tenants across the UK.

As of June 2015, there are 39 social landlords sharing rent payment data on a live (monthly) basis for 550,000 tenants and the number is increasing every month.

Test data has validated the original research thesis and demonstrated the following benefits to tenants: [...]

Building a positive credit history – in over 70 per cent of cases, tenants with no significant arrears see a positive increase in their credit score. This results in increased access to, and affordability of, credit and other basic goods and services.

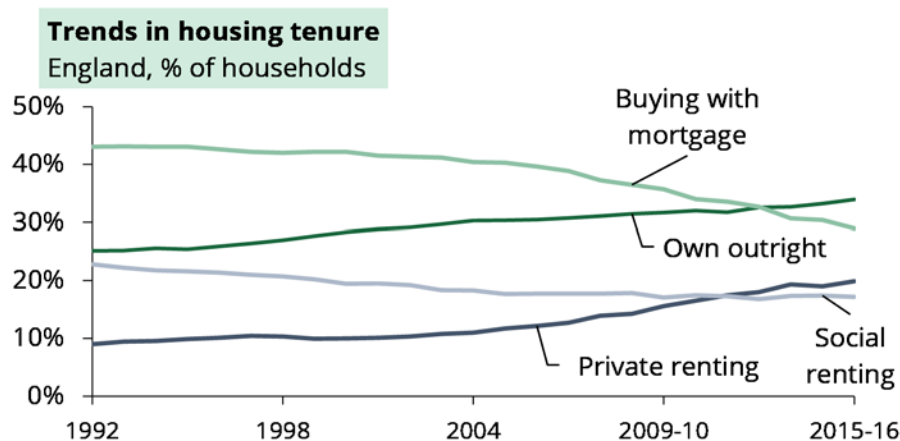
2. Statistics on ownership and renting

2.1 Trends in housing tenure

There were around 8.5 million households living in rented accommodation in 2015-16, according to the most recent English Housing Survey: 37% of all households.

The private rented sector is a growing part of this group. Nearly 20% of households were renting privately in 2015-16, up from 17% five years previously. The proportion of households in the social rented sector has remained at around 17%.

In the same period, 7.7 million households owned their property outright and 6.6 million were buying with a mortgage. The proportion of households buying with a mortgage fell from 34% in 2011-12 to 29% in 2015-16.



Source: [English Housing Survey 2015-16 Headline Report](#), Annex table 1.1

In Scotland in 2016, around 15% of homes were rented privately, 23% were social rented and 58% were owner-occupied. This works out to around 0.9m rented homes and 1.5m owner-occupied homes.³

2.2 Cost of rent and mortgages

In 2015-16, the average rent for private renters in England was £184 per week: lower than the average mortgage cost for mortgagors, which was £159 per week.⁴

The English Housing Survey also asks about householders' ability to keep up with their housing costs. 71% of private renters said that they found it 'easy' to pay their rent (similar, but slightly lower proportions of social renters said the same). 95% of mortgagors said they had had no difficulty keeping up their mortgage payments over the past year.

³ Scottish Government, [Housing statistics for Scotland: Stock by tenure](#)

⁴ DCLG, [English Housing Survey 2015-16: Housing costs and affordability report](#)

9% of private renters were either in rent arrears or had been in the previous 12 months, compared to 25% of social renters.⁵

A Channel 4 Fact Check published 18 October 2017, based on ONS figures, stated that rents in London had increased by 53% (29% in the rest of the UK) compared to the general level of prices between the mid 1990s and 2010s.

⁵ Ibid.

3. Issues

- Providing data to a CRA requires a continuing commitment and technical resources. Mortgage lenders are substantial, regulated, companies whereas many landlords are individuals.
- Transparency works both ways and could negatively impact future applications.
- There are many other factors which lenders have to consider – long term income stability, other costs that renters don't have to pay – redecoration insurance etc.
- House purchase is a long term commitment and interest rates can rise more erratically than rents.

4. Resources

- Further resources on how the Rental Exchange Scheme works can be found on the Experian site [here](#).
- There is a Library Paper on the [Mortgage Market Review](#).
- The Petition and Government's response can be found [here](#).
- Statistics on home ownership and renting by constituency are available from the Library's [2011 Census profiles](#).

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