British homeowners fall prey to “sale and rent back” scams

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Over the last few years, a new breed of “sale and rent back” (SRB) speculators has emerged in Britain, seeking to take advantage of the most vulnerable homeowners to turn a profit.

Hundreds of companies and individuals across the country have targeted people defaulting on their mortgage payments and facing repossession with the promise that they can sell their home, rent it back to keep the bailiffs at bay and remain there for as long as they wish—provided they keep up with payments. The prospect that they may even be able to buy back their homes sometime in the future is also peddled to those who get caught up in such schemes.

The reality for many has been very different. Unscrupulous buyers often undervalue the property (in the worst cases, only offering half the market value) and charge exorbitant administration fees. Once the property has been handed over to the buyer, the rent is often as much as the previous mortgage payments and even increased substantially. Once the contract of typically 6 to 12 months has expired, the tenant is booted out to sell the property for a quick profit.

Until this month, there has been no regulation of the sector, no checks on SRB advertisements or the advice given. If an SRB company goes bankrupt, the properties it holds will usually be repossessed by their lender. Far from allowing people to hold on to their homes, SRB has left many of them homeless and impoverished.

SRB schemes have been around for some time, but the scale at which they have grown is an indication of how rapidly the economic crisis—and especially unemployment—is affecting thousands of people now threatened with the loss of their homes.

The Office of Fair Trading (OFT) has calculated that there are roughly 2,000 unregulated SRB operators, who offer to buy homes at a knock-down price in exchange for a fast sale and a cash lump sum.

The Financial Services Authority (FSA) reports that 25,000 properties were involved in such schemes in 2008, and predicts the figure will rise to more than 30,000 in 2009. These statistics suggest that the true scale of people falling behind in their mortgage payments or facing repossession is masked by the rapid growth of the SRB market.

A chief executive of a group of property investment companies observed, “While it is good news that the actual number of repossessions in 2008 is 5,000 less than the 45,000 the CML [Council of Mortgage Lenders] predicted, this is sadly not a result of mortgage lenders making strenuous efforts to avoid repossession, as the CML claims.

“Rather, it is a result of the large rise in sale and rent back agreements, which is enabling many people to stay in their homes which would otherwise have become repossession statistics.”

The threat of house repossessions on an even larger scale than the recession of the early 1990s even led the government to create its own SRB scheme in September 2008, in the hope that the true extent of the crisis can be postponed until after the next general election. But a government minister admitted last month that only six families had been saved from losing their homes under the scheme.

The ostensible justification for SRB schemes is that they save buyers from repossession, but the evidence for this is tenuous. That they do little more than postpone repossession for a few months and create a new market for speculation is the more likely outcome. A co-owner of an SRB scheme admitted as much, saying, “We make our money from the customers who

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don't buy back their homes and yes, it's likely most won't be able to buy them back. No-one has done so yet."

If the majority of people bought back their homes, these companies would go out of business.

A Citizens Advice social policy officer commented, "Sale-and-rent-back agreements might be right for some people but we have seen numerous cases where people have lost substantial sums of money and found themselves homeless within a year."

SRB speculators have continued to grow despite calls more than a year ago by Citizens Advice, the housing charity Shelter, and the CML for the government to introduce regulation.

The OFT also called for regulation, but its advice added up to little more than "increasing consumer awareness" and improving information about housing benefits. The ignorance of the occupants was blamed rather than the practice of the speculators.

As a result of the increasing furor over SRB schemes, the FSA began implementing a two-stage regulation process from July 1 that will not come into full effect until the summer of 2010.

Sam Younger, chief executive of Shelter, said, "With 65,000 homes predicted to be repossessed this year, more and more struggling homeowners will be tempted by sale and rent back schemes in the hope they can offer a lifeline. However many schemes are exploitative, leaving people financially worse off and vulnerable to homelessness.

"It is vital that the FSA enforces the regulations fully and gets the whole industry signed up for regulation within a month. We will work diligently with the FSA to expose any company that fails to sign up by 31st July and ensure they are held to account and consumers are aware of their practices."

Despite this endorsement and promise of collaboration, Shelter's website goes on to admit that "It is not clear what changes will take place as a result of regulation, and extreme caution is still advisable when it comes to sale and rent back schemes."

The FSA proved toothless in regulating rampant speculation in the finance sector. Its SRB regulation adds up to little more than a series of nebulous guidelines, in which companies have to show they meet "minimum standards" and are run by "fit and proper" persons. The main requirement is for companies to submit a sustainable business plan with sufficient funding available. For those forced into selling their homes, the FSA says they should be "treated fairly" and be entitled to an independent valuation of their property.

That there has been rampant exploitation of those on SRB schemes is shown by the fact that the FSA has said that only 10 of the roughly 2,000 SRB companies in operation will meet the new standards. The main effect of such "regulation" will not be to protect customers, but to consolidate the industry into a small number of major players, especially the large investment companies.

The government has trumpeted plans to build 20,000 new homes for those on low incomes and on council house waiting lists, but council leaders point out that even this totally inadequate number will mean the chopping of existing programmes such as the refurbishment of council and private rented homes.

As in the financial markets, the collapse of the housing bubble has become another nail in the coffin of free market ideology. The economic crisis has ruled out any major programme of house building as far as the corporate and financial elite is concerned. Instead, demands are being made for massive cuts in public spending and more attacks on wages, to offset declining rates of profit.

The acute problem of affordable housing calls for the implementation of a socialist policy to build new homes nationwide. Only in this way can housing be guaranteed for the majority, and especially those on lower incomes.

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