Home-owners and poverty

by Alison Wallace, David Rhodes and Firona Roth

This report examines the circumstances of home-owners who are in poverty, where they live and their housing finances, and how these may have changed over time.

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Poverty is rarely associated with home-ownership, a housing tenure more typically linked to social mobility and rising affluence, and yet half of all households in poverty are actually home-owners (a third once housing costs are considered). This report is based on a study that addressed the contemporary relationship between home-ownership, low incomes and poverty, and has considered both the tenure's potential and limits for low-income households. It forms part of a wider programme of research into housing and poverty undertaken by the Joseph Rowntree Foundation.

Actions:

- Policies that promote the expansion of home-ownership among low- to moderate-income groups should be accompanied by programmes that support these households, which are shown to be at greater risk of poverty and default.
- Regulatory authorities should check longer mortgage terms are sustainable over the whole term and monitor whether longer-term loans have any impact on the level of investment in pensions.
- Greater attention needs to be paid to the poor housing conditions among home-owners in poverty, particularly older outright owners. Fixing homes that are cold, dangerous or in poor repair should enable older people to stay in their homes for longer, and avoid homes becoming a potential cause of ill-health.
- A comprehensive review of mortgage safety nets is needed to determine how low-income home-owners should be supported in the future.

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JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. *Home-owners and poverty* is part of our work on housing and costs – a key focus of our strategy to solve UK poverty.

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The literature review and supporting data tables are available from www.york.ac.uk/chp

Executive summary

Key points

Home-ownership is usually associated with prosperity, but half of all households in poverty are led by home-owners. This proportion decreases to a third once housing costs are considered. This is equivalent to between 1.8 million and 2 million households before housing costs (BHC), and between 1.7 million and 1.8 million households once housing costs are considered.

Poverty among home-owners has reduced significantly over time, but less so for mortgaged households. For these, housing costs meant that rates of poverty were higher in 2013/14 than prior to the financial crisis, despite low interest rates.

If current trends in the labour market composition of home-ownership were to continue, this would act to reduce poverty rates among home-owners. A one percentage point rise in mortgage interest rates would provide a modest increase in the rate of poverty after housing costs (AHC), but a slightly more pronounced rise over time if the tenure was able to draw in greater numbers of self-employed or routine employees.

Most outright owners in poverty were retired couples or singles, and most mortgaged households in poverty were middle-aged couples with children. But the home-owners at the greatest risk of poverty include those in self-employment, routine occupations or part-time work, those who have taken out an additional mortgage, lone parents and those who experience relationship breakdown.

Home-owners in poverty were twice as likely to report arrears (14%) than other mortgaged households (7%), and were overwhelmingly led by someone in work. Those in work are excluded from the current system of mortgage safety nets.

The geography of poverty and home-ownership is critical. There were hugely divergent housing market experiences, meaning housing equity could transcend a household's poverty status, and policy concerns in some jurisdictions failed to register at the UK level.

The homes of older home-owners in poverty BHC required significant investment (£2 billion) to bring them up to the government's Decent Homes Standard, and the mean sums required per individual property were a fraction of the housing equity held.

Introduction

Home-ownership is a housing tenure more associated with wealth and social mobility than with poverty, not least as home-owners overall have higher incomes, live in less overcrowded conditions and are able to accrue housing equity. This is despite home-owners comprising half of all households in poverty (a third, after housing costs are considered). This study examined the circumstances of home-owners in poverty, where they lived and their housing finances, and how these may have changed over time using fives waves of the Understanding Society study and British Household Panel Survey from 1993/4 to 2013/14. A literature review and in-depth interviews with policy and industry stakeholders supported the analysis.

Existing evidence and knowledge

Existing evidence shows that home-owners have more frequent but shorter spells of poverty than renters, but that their homes are more likely to be in poor condition than those of social housing tenants. So while home-owners have the control to arrange their own repairs, over time their investment falls below that required to remedy disrepair or property defects.

Home-ownership also presents a financial risk, and more lower-income home-owners are behind with their mortgage payments, despite low interest rates and the overall metrics for arrears and possessions being at a historic low. And yet, when government schemes promote a range of subsidised home-ownership options to meet the aspirations of low- to moderate-income households, the support that is available to struggling home-owners is being undermined. Home-owners do accumulate housing wealth that is unavailable to rented households, but while its use during the life course can be an effective buffer against financial shocks for some households, equity withdrawal again represents a greater risk to lower-income households as it increases the risk of repossession. The uneven distribution of housing wealth and the capacity to use it therefore makes an asset-based welfare system a challenge.

Stakeholders consulted during this study frequently had housing priorities elsewhere and/or had not contemplated the needs of lower-income home-owners before. This was not a universal position, however, and a number of key concerns were evident. Stakeholders held mixed views on the renewed focus on affordable home-ownership, as they acknowledged widespread aspirations to the tenure, but there were concerns around the targeting of resources and the need to bolster housing supply at price points that met the needs of all households. Previous expansions of low-income home-ownership had been undertaken in a different regulatory environment, and there was a sense that new market regulation would limit the exuberance and liberal lending practices of previous periods. While growing precariousness in the labour market for younger workers was apparent, its impact on poverty among home-owners was considered to be minimal, as their access to and ability to afford a mortgage would be limited.

Interviewees offered mixed responses about lending into retirement and on longer terms. On the one hand, facilitating access to home equity in later life to support retirement income or support younger family members was viewed positively. But on the other, the extension of mortgage terms, while making home-ownership more affordable, also caused concerns that home-owners would carry the debt burden with its associated risks for longer, and would remain focused on meeting their mortgage repayments in middle age rather than saving for their retirement.

The system of mortgage safety nets was considered wholly inadequate, and wide disquiet was apparent at the reinstatement of the 39-week waiting period prior to receiving payments of Support for Mortgage Interest (SMI). The conversion of SMI to an equity loan was raised as a potential deterrent to claiming and a driver of increased debt, not least in falling markets. Stakeholders saw the long anticipated rise in bank base rates as a significant threat, particularly for low-income home-owners, not least because unsecured household debt was rising and, although considered a greater problem among young renters, signalled that many households were ill equipped to manage higher rates. This is also discussed in the literature review (Wallace, 2016).

Characteristics of home-owners in poverty

Outright owners in poverty were frequently older, retired and single or in a couple, but mortgaged households in poverty were frequently middle-aged couples with children. While outright owners in poverty were frequently retired, the majority of mortgaged households in poverty were in work – 61% BHC and 73% AHC. Of those households with inadequate incomes, below the Minimum Income Standard (MIS), 85% were led by someone in work. The attributes most associated with increased risks of home-owners being in poverty included overcrowding, being in routine employment, relationship breakdown and taking out an additional mortgage.

The labour market composition of home-ownership has experienced a significant shift that pre-dates the financial crisis. Home-owners have been increasingly drawn from professional and managerial classes, while those in self-employment and in routine or semi-routine occupations are found less frequently among new entrants to home-ownership.

Home-owners and place

Northern Ireland had the highest rates of home-owners in poverty, and Scotland the lowest rate, and this was true for rates of poverty before and after housing costs. Outright ownership largely reduces poverty rates AHC, but for mortgaged households, housing costs in all areas of the UK increase poverty rates, by 102% in southern England and by 128% in Scotland (albeit from a lower base).

Home-owners in poverty lived in many places, but more frequently in areas of multiple deprivations, slightly more often in homes of low value relative to their local areas, and among homes in the lowest council tax bands. However, home-owners in poverty were less likely to live in degraded neighbourhood environments than other households in poverty. Although home-owners in poverty had larger homes than other struggling households, mortgaged households in poverty comprised 20–25% of overcrowded households, and a third of overcrowded households with incomes below the MIS. The largest proportion of non-decent homes were those belonging to home-owners, particularly older outright owners in poverty BHC whose homes required a total of £2 billion investment to meet the government's Decent Homes Standard.

Home-ownership finances

High housing costs among home-owners have slowed the decline in poverty rates that has occurred in this tenure since the financial crisis. Mortgaged households comprised half of households spending over 35% of their income on housing costs, but only a third of all households in poverty (AHC) who had high housing costs. High housing costs increased the rate at which people fell behind on their loans and, overall, home-owners in poverty were twice as likely (14%) to report that they had mortgage arrears. Moreover, 81% of all households behind on their mortgage payments had a working household reference person (HRP), but only 12% of these mortgaged households in arrears were in poverty BHC, and 23% were in poverty AHC.

Older home-owners in poverty took out interest-only loans more frequently than other home-owners, limiting their ability to switch to affordable repayment loans prior to retirement. Interest-only loans reduced the housing cost burdens for home-owners in poverty, but attracted higher interest rates. Access to lower rates would support greater loan repayments.

Regionally the sums of housing equity varied considerably, reflecting local housing market circumstances, and enabled a household's wealth to transcend their poverty. Outright owners **not in poverty** in Northern Ireland held lower sums of housing equity (£120,000) than outright owners **in poverty** in all other regions (except Scotland). Furthermore, mortgaged households **in poverty** in London had more housing equity (£203,000) than outright owners **not in poverty** in all other regions of the UK, except the South of England. Very few home-owners drew upon their equity, but among mortgaged households, equity withdrawal was most common among younger mortgagors in poverty BHC and older outright owners below the MIS.

While many home-owners in poverty had the potential to downsize to reduce their housing costs and/or release substantial sums of housing equity (38–49%), a smaller but significant minority (14–17%) were adequately accommodated or overcrowded in the lowest-value homes in their area and had little equity. This indicated that unless moving involved a lower cost market or an exit from the tenure, these households were likely to require additional support.

Home-owners and poverty over time

Rates of poverty among outright owners have reduced significantly, but less so for mortgaged households, for whom housing costs meant poverty rates were higher in 2013/14 than prior to the financial crisis, although lower than that reached during the market downturn in the 1990s. At that time, poverty was associated with exits from home-ownership, mostly to private renting, but in the 2000s home-owners increasingly moved out of poverty while retaining ownership. Home-owners stayed out of poverty predominantly by staying in work, but the strength of this effect reduced over time. Retirement was a key entry to poverty, but staying retired became less of a predictor of poverty over the study period, and the proportion of home-owners entering poverty on retirement reduced by half. A fifth of relationship breakdowns resulted in home-owners entering poverty AHC during the 2000s.

Home-owners from ethnic minority groups stayed in poverty almost twice as often as white home-owners over most of the study period. Those with the greatest housing equity were able to remain out of or escape poverty more frequently than those with less equity. Self-employed home-owners were the most likely to move into **and** out of poverty, indicating that they are particularly exposed to market fluctuations. Professional or managerial home-owners were the least likely to fall into poverty.

Should Bank of England base rates rise one percentage point, all things being equal, poverty among home-owners would rise modestly, from 11% to 12%. This would have a larger impact on the housing cost burden and, by implication, the sustainability of the tenure among home-owners in poverty.

However, if current trends in the labour market composition of home-ownership continue, this would act to reduce poverty rates BHC – although less so for poverty AHC – unless the tenure is able to draw in greater numbers of low- to moderate-income households.

Policy implications

Policies that support lower-income households at greater risk of poverty and default should underpin the aim to extend the reach of home-ownership.

Regulators should monitor longer-term and higher mortgage costs against the sustainability over the term, and the potential for reduced pension investment.

National regulatory, welfare or housing agencies should have greater sensitivity to the geographical diversity of poverty and home-ownership.

Poor housing conditions among home-owners in poverty demands greater attention, particularly for older outright owners. Remedying the thermal deficiencies, disrepair and hazards in their homes means that they can remain in their homes in later life, and has the potential to make healthier homes. The equity held by these households dwarfs the sums required for maintenance, so greater access to equity loans could prove beneficial.

The report shows that current mortgage safety nets poorly serve many home-owners in poverty, particularly those in work. There is an urgent case for a comprehensive review of mortgage safety nets, to reconsider the role of the state in supporting low-income home-owners in the coming period. The review should consider a range of proposals that can be maintained throughout the market cycle, and include the potential roles for home equity, lenders' self-insurance, mutual insurance schemes, and other measures that can accommodate different risks and labour market circumstances. These could include smooth exits through assisted voluntary sales, or rescue schemes for when home-ownership is demonstrably unsustainable. These latter measures now dovetail with local authorities' enhanced responsibilities towards homelessness prevention.

1 Introduction

Poverty is rarely associated with home-ownership, a housing tenure more typically linked with social mobility and rising affluence. Indeed, home-owners enjoy lower rates of overcrowding, are more likely to be in employment, have the opportunity to accumulate wealth and have higher incomes than renters (Department for Communities and Local Government, 2016b). And yet, half of all households in poverty are actually home-owners, which is as true today as it was when first highlighted (Burrows and Wilcox, 2001; Burrows, 2003; Meadows and Rogger, 2005). This report is based on a study that addressed the contemporary relationship between home-ownership, low incomes and poverty, and has considered both the tenure's potential and limits for low-income households. It forms part of a wider programme of research into housing and poverty undertaken by the Joseph Rowntree Foundation (JRF).

It has long been recognised that home-ownership, as the dominant tenure, encompasses a broad spectrum of people with diverse circumstances (Forrest et al, 1990; Ford and Wilcox, 1994). Arguably, though, policy and research have neglected these differing experiences in recent times. During rising markets and the period since the financial crisis, discourse around home-ownership has more closely addressed those unable to buy a home and intergenerational wealth inequalities (Stephens, 2011; Thomas and Dorling, 2004; Hoolachan et al, 2016). Housing markets have undergone profound change since the earlier studies on home-owners and poverty (Burrows, 2003; Burrows and Wilcox, 2001; Meadows and Rogger, 2005), as buoyant markets gave way to the financial crisis, a weak recovery and tighter credit conditions. Affordability constraints, fuelled by rising house prices and limited wage growth, have contributed towards significant tenure shifts and an older home-ownership sector. Furthermore, other contextual shifts demand a fresh consideration of how low-income households experience home-ownership. These include the increasing importance of home equity in personal finance and retirement planning, labour market changes, the impact of stringent mortgage regulation on lower-income households, and divergent regional housing market performance after the crisis. So what impact have these events or processes had on the incidence and experiences of home-owners in poverty today? Do home-owners at risk of poverty reflect a long shadow of former lending environments? Alternatively, to what extent should marginal owners figure as a contemporary concern? Have labour market, welfare and housing market changes reconfigured the experience of poverty among home-owners?

Long-term home-owners experience shorter, frequent spells of poverty, but poverty for social renters is a more enduring experience and associated with greater material deprivation (Stephens et al, 2014). But poverty has also been associated with falling out of home-ownership, and for similar reasons that home-owners enter poverty in the first place (Wood et al, 2015). Home-owners of course have access to housing equity, a potentially significant resource unavailable to renters. While drawing on housing equity may be a cost-effective buffer to smooth incomes (Ibid.), for lower-income home-owners, equity withdrawal is associated with higher risks of repossession (Searle, 2013) and undermines the qualities of security and control that low-income home-owners value in home-ownership (Wallace et al, 2014). The uneven distribution of housing equity, flowing more to higher-income groups and to certain locations, also limits the effectiveness of asset-based welfare strategies (Montgomerie and Büdenbender, 2015; Searle and McCollum, 2014). While interest rates have been historically low, rising Bank of England base rates could increase the housing cost burden on mortgaged households, although home-owners overall are now better prepared than in the period immediately following the financial crisis (Bunn, 2015). However, a significant pool of lower-income home-owners are encumbered with unsecured debt and are vulnerable to further income or economic shocks (Blacklock and Whittaker, 2014). We also know that home-owners' invest in repairs to the fabric of their homes at the outset of ownership, but this declines over time and with age and income, resulting in poorer housing conditions than those of social renters, but not those of private renters (Leather, 2000).

Housing policy is a devolved responsibility for each constituent country in the UK, and there has been significant divergence. In England, housing policy experienced a period of flux with a greater emphasis on lower-income home-ownership, although, at the time of writing, it appears the government may move nearer to a more tenure-balanced policy as found in Scotland, Wales and Northern Ireland. Nonetheless, a step-change in the supply of affordable home-ownership options, such as shared ownership and right-to-buy, is apparent in England. Governments in Scotland and Wales have curtailed opportunities for tenants to exercise the right to buy, although all devolved jurisdictions have shallow subsidies for other affordable home-ownership products. Such policies satisfy persistent widespread ambitions to the tenure and address disquiet about constrained access to housing; for policy-makers, they hold the promise of stemming a decline in the tenure. Nevertheless, without an appreciation of the experiences of low-income, marginal home-owners – those at the tenure borders – any impact of extending the reach of home-ownership is uncertain, at a time when the government is simultaneously undermining safety nets through limiting eligibility and entitlements to Support for Mortgage Interest (SMI) payments. This study therefore examined current interactions between poverty and home-ownership, looked at how key aspects have changed over time, and the threats or opportunities that are apparent in the near future.

Research objectives and methods

The research aimed to establish how home-ownership affects poverty – and vice versa – and how this might change in the future. In particular, the research examined four key areas:

1. current knowledge on the links between home-ownership and poverty
2. current characteristics and circumstances of home-owners in poverty
3. future trends for home-ownership and poverty
4. policy implications of the findings.

To meet these objectives, the study had six components:

1. a literature review of existing evidence about the limits and potential of low-income home-ownership
2. a total of 13 in-depth, qualitative telephone interviews with policy and market stakeholders
3. cross-sectional analysis of the UK Household Longitudinal Study (UKHLS) Understanding Society (2013/14)
4. longitudinal analysis of the British Household Panel Survey (BHPS), which forms part of the sample of the Understanding Society dataset (waves 1993/4, 1998/9, 2003/4, 2008/9 and 2013/14)[1]
5. cross-sectional analysis of the English Housing Survey to examine physical housing conditions (2013/14)
6. forecasting key future trends that may impact upon poverty and home-ownership.

The literature review is available separately online from the Centre for Housing Policy (Wallace, 2016).[2] This report is based upon the empirical analysis using the in-depth interviews with a range of stakeholders drawn from mortgage lenders, advice agencies, and government agencies and departments concerned with welfare, housing and mortgage markets, to provide the context to the quantitative data analysis that follows. The cross-sectional analysis was undertaken at the household level, using attributes of the household or of the household reference person (HRP). The longitudinal analysis was undertaken at the individual level, allowing analysis of change in household members' circumstances, not least as these may result in a change in the HRP between waves.

Goulden and D'Arcy (2014) define poverty as 'when a person's resources (mainly their material resources) are not sufficient to meet their minimum needs (including social participation)'. In the event, the research adopted three income measures to reflect relative poverty before and after housing costs and households with inadequate incomes. We were unable to identify material deprivations due to the cessation of relevant questions in the transition from the BHPS to Understanding Society. The cross-sectional and longitudinal analysis used the internationally recognised relative poverty measures of household income being at or below 60% of median equivalised incomes, before housing costs (BHC) and after housing costs (AHC). Incomes were equivalised, or adjusted to reflect the household composition, as a certain income for a single person would go further than for a family dependent on the same income. The cross-sectional analysis also used an assessment of whether a households' income fell below the Minimum Income Standard (MIS). MIS is a measure of whether a household's income allows them to have food, clothes and shelter, and other necessities, but also permits them to have the opportunities and choices necessary to participate in society (Padley and Hirsch, 2017). MIS is based upon a publicly defined minimum basket of goods and services, and is relevant to the discussion of poverty as most households who are defined as in poverty are also unable to reach this publicly defined acceptable standard of living. It represents households below median income but above the poverty line. The research team compared AHC incomes to Loughborough University's MIS threshold data for 2014, using figures that excluded rent, council tax, childcare and water rates, and that were comparable to AHC incomes in DWP's Household Below Average Incomes (HBAI) study, to calculate whether a household income was at or below the MIS income threshold. Some categories of households were excluded from this analysis, typically multi-adult households. This MIS data began in 2008, and so we were unable to calculate MIS for earlier waves of BHPS data.

To ensure that there were sufficient numbers for meaningful spatial analysis, the analysis reflects combinations of English regions and the devolved countries of the UK. These 'broad regions' comprise: the 'North', which represents the government office regions of the North West, North East and Yorkshire and the Humber; the 'Midlands', which represents the West Midlands and East Midlands; and the 'South', which represents the East, South East and South West regions of England. London and the devolved countries of Wales, Scotland and Northern Ireland stand alone, and were not combined with other geographic regions.

A full description of the research methods is contained in the Appendix. Data tables that support the analysis are available from www.york.ac.uk/chp

Report structure

Chapter 2 highlights the concerns of stakeholders involved with low-income home-owners. Chapter 3 uses cross-sectional analysis of the Understanding Society data collected during 2013/14 to consider the personal characteristics of home-owners who experience poverty, followed by an assessment of the properties and places occupied by home-owners in poverty (Chapter 4). Chapter 5 considers the financial aspects of home-ownership for those who experience poverty, including their housing costs and assets. Longitudinal analysis of the BHPS that forms part of the Understanding Society sample is presented in Chapter 6, to show changes in the relationships between different households, home-ownership and poverty over the 20 years between 1993/4 and 2013/14. This chapter also provides some near-term estimates of the impact of changes in interest rates and the labour market composition of home-owners. Finally, Chapter 7 discusses the policy implications of the findings.

2 Stakeholder perceptions of the low-income home-ownership

Box 1: Summary

- Stakeholders found merit in supporting aspirations to own among low-income households as the tenure offered security and the potential for asset accumulation. However concerns arose that, in England, affordable home-ownership schemes were poorly targeted and homes were required for all households.
- There was strong support for the tighter mortgage market regulation instituted since the financial crisis; it was seen as increasing the robustness of the market.
- Observed changes in the labour market were not thought to adversely impact poverty or the sustainability of home-ownership, as the households in question were largely excluded from the market due to house prices or market regulation.
- While longer mortgage terms were seen as reducing the affordability constraints of home-ownership, some concerns were raised that longer mortgage terms meant greater exposure to risk, and that fewer home-owners would switch investment from their home to pensions in middle age.
- There was little support for the reinstatement of the 39-week waiting period for SMI, which supports struggling mortgage borrowers, but limited consideration of what the role of the state should be in providing safety nets for mortgagors.
- Calls were made for lenders to self-insure, using additional mandatory points on mortgage loans to provide payment breaks and write-offs of mortgage debt themselves. There were also calls for more supported exits and soft landings – through assisted voluntary sales – for households where home-ownership was demonstrably unsustainable.
- Shared ownership was seen as a safer place for low-income households, as providers have stronger affordability assessments and there is the potential for flexible tenure, although interviewees noted that few providers drew upon recycled capital grant to facilitate shared owners reducing their shares in the property.

Introduction

This section reports on the in-depth interviews with stakeholders involved in different aspects of low-income home-ownership. It looks at: perceptions of the merits or otherwise of low-income home-ownership; labour market changes that may impact the tenure; how mortgage market regulation may impact some groups as well as the wider sector; and the sustainability of the tenure and what help might be available.

Support for home-ownership

Almost universally, interviewees found recent policy in England too focused on funding affordable home-ownership. While welcoming the scaling of support for options such as shared ownership, stakeholders wanted to see a more tenure-neutral approach from government, with support for housing options across the income spectrum as evident and valued in other UK jurisdictions. Not that support for home-ownership was absent: generally, interviewees recognised the popular aspiration to own and the benefits of ownership in terms of asset accumulation and long-term security, but also recognised that the tenure involved risk, and was inappropriate and/or would remain inaccessible for many households.

Providing measures to overcome affordability constraints in many regions was welcomed, but there were some reservations regarding poor targeting of resources, with funding not necessarily focused on first-time buyers, lower-income households or new housing supply. Shared ownership was seen as fulfilling these needs, but it was notable that equity loan options in Wales and Scotland had lower property-value ceilings and were focused on new entrants to the tenure. It was emphasised that the reinvigorated right-to-buy offers in England have emerged in a much changed environment than in the 1980s and 1990s, and would not include the subprime doorstep lending that was previously evident and fed into many of the adverse experiences some purchasers had of right-to-buy. The interviewees felt that more stringent mortgage market regulation would go some way to ensuring affordability among new entrants using this pathway to ownership. Comparing data from previous periods of right-to-buy to the present was therefore considered to be remiss.[3] Right-to-buy was seen as delivering ownership to lower-income households, but limited in its wider impact on the overall home-ownership rate – not least as the ambition to preserve social housing opportunities has meant restrictions on, or (proposed) abolition of, right-to-buy in Scotland, Wales and Northern Ireland.

Demand for shared ownership was generally viewed as strong, and extending the offer outside of London and the South of England provided the potential for lower-income households to acquire property stakes, although uptake was more uncertain here. The impact of additional funds for affordable home-ownership on overall rates of home-ownership is unclear, not least as housing providers now have greater flexibility about how the funds may be used. Other jurisdictions were also exploring rent-to-own, their own equity loans schemes, or other versions of shared ownership.

Labour market change

Stakeholder interviewees recognised young people's exposure to contract or temporary work, but it was thought that young people employed in precarious jobs were unlikely to contribute to poverty among home-owners. These households would be largely excluded from the mortgage market, either because they were unlikely to be able to fulfil the more stringent affordability and stress tests of the current lending environment, or because they perceive themselves to be ineligible and may subsequently exclude themselves from the market. Lenders emphasised that they considered a person's propensity to pay over time, as reflected in their credit scores, rather than their occupation and income alone. The observed decline of home-owners in lower grade occupations may not therefore have been a direct response to the mortgage market review, but perhaps a function of affordability relative to incomes.

Mortgage market change

Loans into retirement and to self-employed people were raised as potential areas where more stringent mortgage market regulation was anticipated to have had an impact, but interview participants suggested that there had been little evidence of this, and/or the industry had mitigated any potential fallout.

Certainly lenders have undertaken much work on loans into retirement, to reconcile overcoming age-related discrimination in financial services, people working longer and people wishing to access equity, with the requirements to ensure affordability in the underwriting process in the new regulatory environment. However, this is a complicated arena, not least for lenders trying to anticipate affordability many years into the future. First, there are older outright home-owners or mortgagors in the latter years of their loans who wish to supplement their income by cashing out equity for themselves or family members later in life. In these cases, lenders could appraise their ability to repay loans based on their current or anticipated pension income, although applicants could still cash out their pensions after taking the loan. Second, there are increasingly younger borrowers whose loan terms potentially extend into retirement, but lenders have little ability to estimate their future income capacity to service these loans.

A better-functioning market for equity release in later life was raised as an issue, as assets accumulated during one's lifetime should be accessible in order to overcome poverty later in life. Interviewees who commented on this thought the market was not working as well as it should. Equity release in retirement was also seen as a mechanism to address the small but significant proportion of home-owners on interest-only loans who are coming to the end of their mortgage term without a repayment vehicle in place.

Loan-to-value, and loan-to-income, affordability and stress testing have all received attention from the UK regulators, and enjoy strong support, but loan terms remain unregulated. Hence to preserve the affordability of mortgages, new loans have increasingly been made for much longer loan periods than the 25 years traditionally witnessed in the UK.[4] The US has long seen 30-year terms in the mainstream market, but increasingly in the UK, 30–35-year loans are advanced to people often in their 30s, meaning that loan terms are likely to be pushing into periods when people would otherwise be considering retirement. Some stakeholders were concerned about the consequences for extending the debt burden, the implications for risk over time, and the potentially adverse impacts on middle-aged people's pension savings as investment becomes concentrated in the home and not switched to pension investment towards the end of their working life (when the mortgage used to be complete). Other stakeholders, however, set these concerns against the improved affordability of home-ownership. Although the greater risk and overall costs were recognised, rather than wishing to constrain the opportunity to gain lower monthly payments through longer loan terms, stronger safety nets for borrowers were seen as desirable to offer protection against the longer period of risk. However, stronger mortgage safety nets do not address the potential impacts on the overall costs of the loan or displaced pension investment.

The mortgage market review instituted the prudent market behaviour apparent after the crash into the new regulatory framework for the UK mortgage market. Interviewees considered the new framework meant that the market would be more robust in the future. Constraints on loan-to-income, affordability and stress testing all met with approval, notwithstanding the impact of longer loan terms discussed above. Risk has not been removed from the tenure, but has been reduced; banks were thought to be reluctant to revisit past practices that contributed towards the crisis, sensitive to reputational risks.

Stakeholders raised the issue of 'mortgage prisoners': borrowers who qualified for loans prior to new stringent mortgage lending after the financial crisis, but who would no longer qualify in this new environment. There had been concern that these mortgagors were stuck on high interest rates, unable to remortgage. Transitional arrangements took time to bed down, but there are now mechanisms whereby existing mortgagors who would not otherwise qualify for a new loan can move to new loan products. This is the case with their existing lender at least, as there are few incentives for new lenders to take on these borrowers who may increase risk on their loan book. Problems arise, however, among those for whom there has been a change in circumstances, as they no longer represent the same underwriting proposition to the lenders and therefore are unlikely to be able to access any transitional arrangements. These borrowers are now likely to be stuck on high standard variable rate loans, and unable to access low and fixed rate offers that could limit further financial risks.

Sustainability of home-ownership

As mortgage arrears and repossessions have declined across the UK since the financial crisis, and the UK successfully tempered the fallout from the subsequent recession, the issue of the sustainability of home-ownership had faded among policy stakeholders. This was not universal, however, and one notable exception was the interviewee from Northern Ireland, where the impact of the crisis had been, and remains, more profound. The diverse market experiences across the UK – either in devolved areas or in regions with weaker economies – meant that a minority of stakeholders felt that local issues surrounding mortgage debt and sustainability were a challenge to register at the national level, as policy was seen as being driven by overheated markets elsewhere in the country.

The forthcoming changes to SMI met with mixed responses from interviewees. Many felt disappointed with the changes – the reinstatement of the 39-week waiting period, the benefit's conversion to a loan, and that Universal Credit will remove entitlement to SMI if either partner works, however minimal the hours – and considered them to represent a significant blow to borrowers, potentially undermining the sustainability of the tenure. Others acknowledged that SMI had always been imperfect, but felt that SMI had failed to reach borrowers in need for some time, and has therefore been a "safety net only in name". Any impact therefore would be muted, as most home-owners remedy any default within three months anyway, and many failed to qualify for support even under the previous eligibility rules.

The impact of the changes was uncertain. Most of the SMI casebook involves long-term recipients of Pension Credit with small, mature loans who are paid low-value sums, with a suggestion that these claimants shared a common profile with low-income, former right-to-buy borrowers. Affordability constraints and mortgage regulation may have removed such borrowers from future claims on SMI. One scenario saw the conversion of SMI to equity charges resulting in families stepping in to repay low value outstanding loans, to preserve family equity over the longer term. There was also concern that an equity charge may also act as a deterrent to claiming, or force some younger borrowers with more substantial monthly payments into greater debt.

Lender forbearance has provided a powerful breathing space for borrowers to remedy any default, although SMI had played an important role during the economic downturn (Ford et al, 2011). However, one interviewee noted that SMI was then being paid at a rate that exceeded many loan amounts, and so lenders were more content to wait for its receipt. Borrowers remain protected by the pre-action protocol that ensures lenders seek possession only as a last resort, and by regulation to treat customers fairly. While interest rates are low, lenders may therefore feel willing to wait the longer period of 39 weeks for long-term cases that are capable of remedy. Should interest rates rise though, waiting will increasingly have balance-sheet risks and the situation with lenders could change.

Across the interviews it was evident that there was no clear policy direction to resolve the situation regarding weakening mortgage safety nets, other than trying to retain current provision. Previous calls for compulsory tripartite insurance systems between lenders, borrowers and government under the Sustainable Home Ownership Policy (SHOP) were not widely known (Wilcox and Williams, 2013; Stephens et al, 2008). Those interviewees who had previously discussed such reforms felt that there was some merit to them, but that the timing was poor when they were previously considered – the risks being borne in the mortgage market by borrowers and lenders were great but uneven, so prudent market participants would have had to cover risks to which they were not exposed. Since regulation had levelled the playing field by limiting these high-risk lenders and borrowers, previous concerns may now be undermined. However, interviewees generally felt that the government would not currently entertain additional expenditure, and any costs borne by lenders would be passed onto borrowers, for whom the additional premiums may prove problematic.

An alternative suggestion for reformed mortgage safety nets focused on differently structured loan products with safety spaces built in, so a few points on the mortgage would enable lenders to self-insure and thus offer payment breaks and write-offs in prescribed circumstances. Such moves could cover many risks and entail little government cash, but they would have to be mandatory across the loan book, as financially constrained borrowers could opt out of the percentage-point premiums.

Another interviewee was concerned that 'soft exits' should be more readily available for struggling borrowers. The public should not be expected to sustain investment in home-ownership indefinitely, as it was not a right, but home-owners should be supported to remedy income shocks. Smoother exits from the tenure should also be provided if the situation was clearly unsustainable.[5] There was a view that mortgage rescue could be revived in any economic downturn, and existing experience drawn upon to institute a new round of support. However, there was also the sense that policy would once again be made 'on the hoof' with implementation risks, rather than moving to a position where a safety net system was in place throughout the housing cycle.

Warnings about the sustainability of home-owners' current finances were found for some interviewees in rising consumer credit, more prevalent among renters but also evident among home-owners who are using credit to overcome falling living standards. Moreover, reducing tax credits under Universal Credit for home-owners who receive no other sources of support could also signal problems for some families.

On reflection, some interviewees thought that the role of the state in supporting home-owners should be reviewed, not least as greater private renting is likely to result in higher and significantly more substantial housing benefit bills – in excess of the expenditure on SMI – for the government in the future if home-ownership falls. Further discussion on reconciling competing tensions within the system is required. Could SMI be more generous now it is recast as an equity loan, as funds would return to the government eventually? For example, could it include the repayment component of mortgage payments, be offered as an in-work benefit too, or be paid after a shorter waiting period?

Stakeholders saw shared ownership as a more forbearing form of home-ownership, as it can be a flexible tenure with additional systems to support struggling borrowers. Interviewees suggested that shared ownership providers had more stringent affordability tests than lenders used to have, but that few providers drew upon recycled capital grant to fund downsizing for shared owners, and there are mixed responses from providers about how rent and mortgage debt are managed. There is limited data in this field to substantiate the claims, but no reason to suggest that shared owners are a greater risk to mortgage lenders (Clarke et al, 2016). However, industry data indicates that shared ownership possessions may run at a higher rate than in the wider market, although it is uncertain whether they are comparable to the first-time buyer segment (Duxbury, 2016).

Conclusion

Stakeholders saw merit in meeting low-income households' aspirations to home-ownership, due to the increased security and opportunity for asset accumulation. Moreover, it was felt that the advent of stronger mortgage market regulation would strengthen the market in the future, and that previous experiences of low-income home-ownership may have less traction in the current period. Interviewees also thought that changing labour market security for younger workers would have a limited bearing on home-ownership due to affordability constraints. There were some concerns about 'mortgage prisoners' that lenders had gone some way to rectify, and about longer loan terms making home-ownership more affordable, but also increasing risk over the longer term and limiting pension investment in middle age. Changes to SMI were seen as unwelcome, but few had proposals of how struggling home-owners should be supported, although self-insurance by mortgage lenders paid for through additional points on mortgages was suggested, as well as greater support for smooth exits when the tenure becomes unsustainable. Housing market experiences are so divergent that national policy fails to meet the needs of all locations, with sustainable home-ownership low on the policy agenda and fears that regulatory actions to address overheated markets may dampen fragile recoveries in weaker markets.

3 Who are home-owners in poverty?

Box 2: Summary

- Half of all households in poverty were home-owners (a third AHC) in 2013/14. This is equivalent to between 1.8 million and 2 million households BHC, and between 1.7 million and 1.8 million households once housing costs are considered.
- Poverty rates among outright owners has reduced significantly, but less so for mortgaged households, for whom housing costs meant poverty rates were higher in 2013/14 than prior to the financial crisis, although it remains lower than the level reached during the 1990s market downturn.
- Outright owners in poverty were typically older, retired singles or couples, while mortgaged households in poverty were often middle-aged couples with children.
- The home-owners at the greatest risk of poverty, however, include: those in part-time work, self-employment or routine occupations; those who have taken out an additional mortgage; people living in low-value homes; lone parents; and those who experience relationship breakdown.
- Home-owners in poverty BHC were marginally more likely than other home-owners to still hold mortgages after the age of 65. Older home-owners in poverty were also more likely to use interest-only loans.
- Home-ownership has increasingly come to house those from professional or managerial occupations, with fewer people in self-employment or routine occupations.
- Two-thirds of mortgaged households in poverty were led by a working HRP, and thus were largely ineligible for help with housing costs.

Introduction

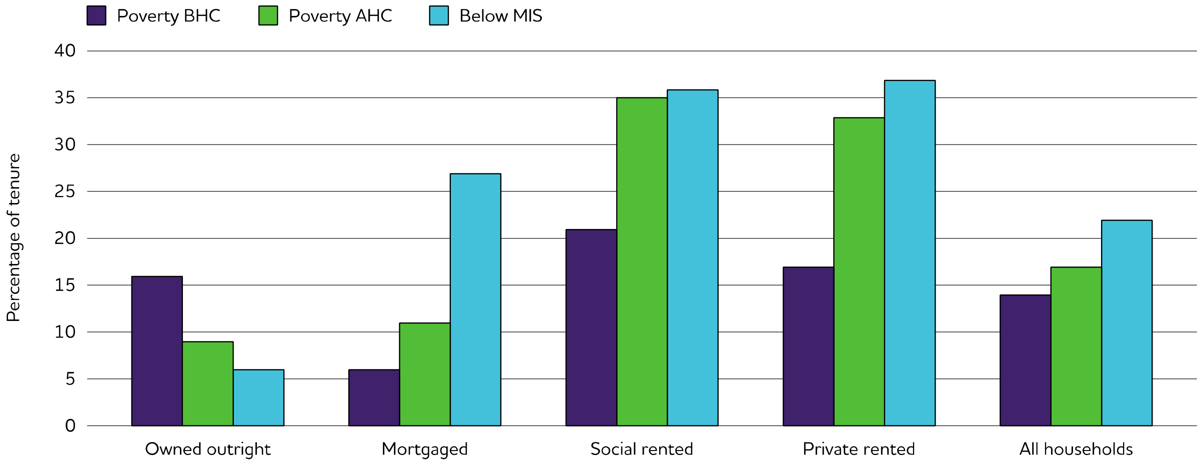
This chapter outlines the extent of poverty and inadequate incomes among home-owners, and explores the characteristics of home-owners in these circumstances based on the attributes of the HRP.

The extent of poverty among home-owners

Department for Work and Pensions (2015) data shows that home-owners still account for half (50%) of all households in poverty BHC (30% outright owners and 20% mortgaged owners) and 32% of all households in poverty AHC (15% outright owners and 18% mortgaged households). Understanding Society data suggests a higher proportion of households in poverty are homeowners – 54% BHC and 44% AHC – but this could be a function of panel data attrition among perhaps more mobile rented households. But overall, home-owners have lower rates of poverty than renters. Poverty BHC is only marginally lower for outright owners (16%) compared to social or private renters (21% and 17%, respectively; see Figure 1). Mortgaged households, however, have substantially lower rates of poverty BHC (6%) than any other housing tenure. The poverty rate AHC for mortgaged households almost doubles (11%), and decreases for outright owners (9%). The proportion of mortgaged households with inadequate incomes (below the MIS threshold) was much higher (27%).

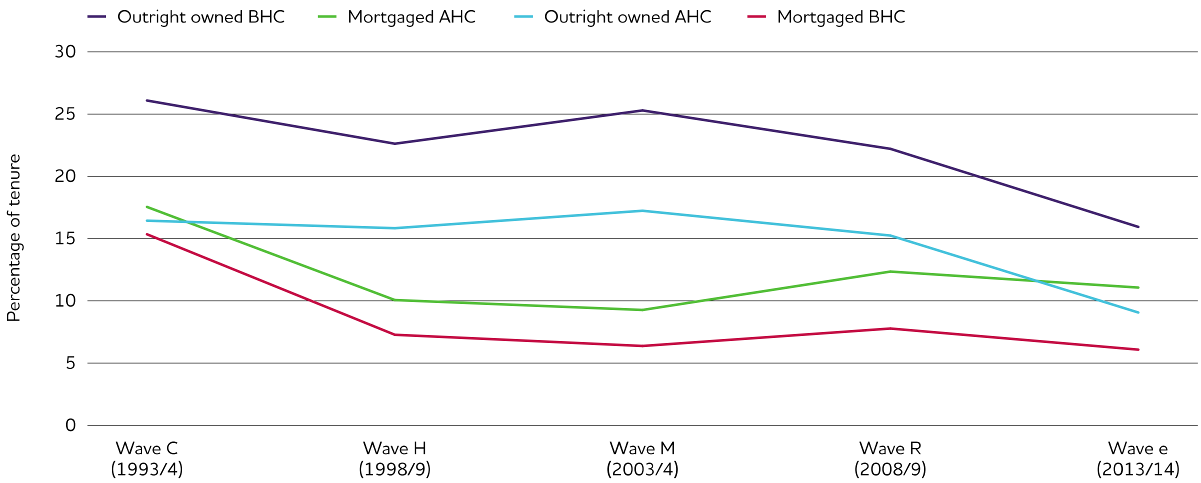
Poverty rates have declined among home-owners over the study period – notably for outright owners – but less so for mortgaged households, where housing costs and the financial crisis have slowed any decline (Figure 2). During 2013/14, the proportion of mortgaged households in poverty AHC remained marginally higher at 11% than prior to the financial crisis (10% 1998/9 and 9% 2003/4), but remained below that seen during the early 1990s recession (18%).

Figure 1: Proportion of tenure by income status, 2013/14



Source: Understanding Society

Figure 2: Poverty rates by home-ownership tenure, 1993/4 to 2013/14



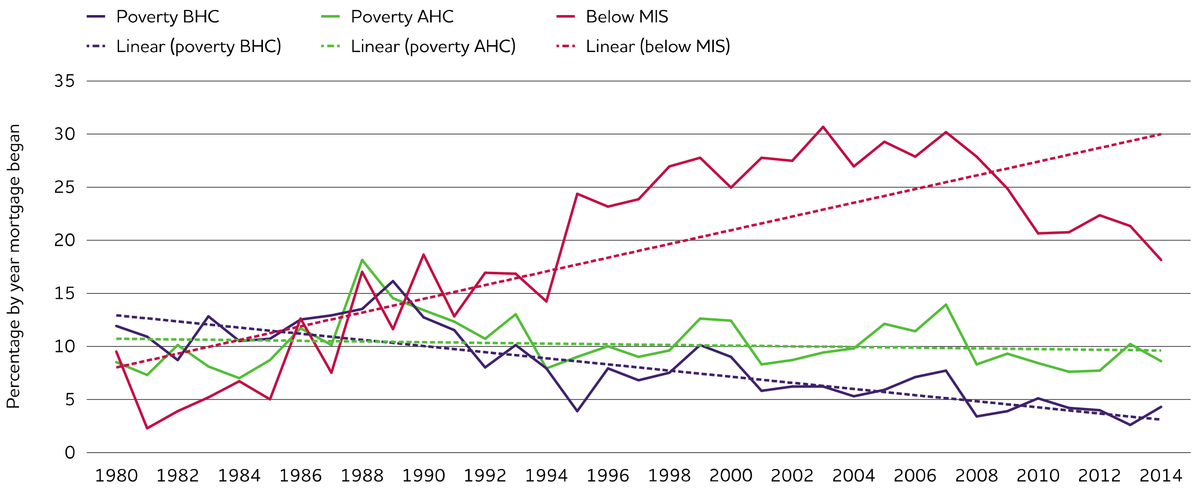
Notes: Rates for households with incomes below MIS were not be calculated for the BHPS waves C–R.

In this report, waves in upper case (ie waves C, H, etc) are from the BHPS, and waves in lower case (ie wave e etc) are from Understanding Society.

Source: BHPS and Understanding Society

Poverty BHC among home-owners in 2013/14 was much lower for newer entrants to the tenure, particularly when compared to those who bought in the period prior to the financial crisis in 2008/9, where the rates are significantly higher (Figure 3). By contrast, rates of poverty AHC had a shallower decline, and were only marginally lower for new entrants. It is evident that the period of liberal lending drew marginal households on, or at risk for, inadequate incomes (below MIS) into the tenure.

Figure 3: Income status by year mortgage first began (percentage of year)



Source: Understanding Society

Gender

Overall, households headed by women were over-represented among households in poverty and within most housing tenures. However, mortgaged households in poverty or with inadequate incomes were the exception, and most frequently had HRPs who were men (55% BHC, 57% AHC and 65% for incomes below MIS). In contrast, 58% of outright owners in poverty BHC had women HRPs, which reduced to 52% AHC. For outright owners below MIS, 63% had HRPs who were men. However, women HRPs of mortgaged households were slightly over-represented among mortgaged households in poverty (46% BHC and 43% in poverty AHC, despite forming 41% of mortgaged households).

Age

The age of households in poverty reflects the age profile of the different housing tenures, with greater proportions of older HRPs in outright ownership, middle-aged HRPs in mortgaged households, young HRPs in private renting, and a generally even distribution of ages among HRPs in social rented households.

Overall, rates of poverty among home-owners rose with age, with 5% of 25–34 year olds being in poverty BHC, rising steadily to 16% of over 65s. There were differences depending on whether they held a mortgage and whether housing costs were considered. The HRPs of outright-owner households in poverty were mostly aged over 55 (89% BHC and 85% AHC), compared to the largest proportion of HRPs in private rented households in poverty, who were in the 16–34 year old age group (44% BHC and 45% AHC). The HRPs in mortgaged households in poverty were most often in the 35–54 year old age group (60% BHC and 66% AHC). Nevertheless, for mortgaged households those aged 55 or over were over-represented among those in poverty, comprising 31% of those in poverty BHC but 23% of mortgaged households. Middle-aged HRPs aged between 35 and 54 years old were over-represented among households with incomes below the MIS income threshold (75% compared to 63% of mortgaged households).

The labour market profile of different age groups differed, with 58% of 25–34 year olds drawn from profession or managerial occupations, which reduces to 34% of those aged 65 or over. Conversely, the proportion of 25–34 year olds in routine occupations was 12% compared to 23% of those aged 65 or over.

Mortgaged households in poverty were 50% more likely to hold loans after the HRP was 65 years old (9% of those in poverty BHC, but 6% for all households and mortgaged households in poverty AHC). Fewer households with incomes below the MIS threshold held loans past the age of 65 (1.5%). The use of interest-only loans increased with age among struggling households, and 44% of the mortgaged households in poverty BHC with HRPs aged 65 or over had interest-only loans, compared to an average of 26% among other mortgaged households in poverty. A total of 87% of these older mortgaged households were retired and 67% of them had bought homes prior to 2003.

Household type

As with age, household types also differ by tenure. Outright owners were more likely to be single or couple households with one person over pension age, while mortgaged households most often comprised single, non-pension aged people, or couples with children.

Households in poverty or with inadequate incomes largely follow these tenure profiles, with 47% of outright owners in poverty BHC being single pensioner households and 24% couple pensioner households. The minimal housing costs associated with outright ownership reduced the rate of poverty overall (from 16% BHC to 9% AHC), and this is frequently cited as a key advantage of the tenure. Couples with children form the largest household type among mortgaged households in poverty, 29% BHC (34% AHC), and comprise 79% of mortgaged households with incomes below the MIS threshold. Couples with children were, however, under-represented among mortgaged households in poverty, and single people below pension age were also under-represented.

Marital status

The marital status of home-owners in poverty also follows the age and household composition profiles of the different tenures. The largest groups of mortgaged households in poverty were married or cohabiting couples (45% BHC and 54% AHC), but married households formed 61% of mortgaged households, so they were under-represented among mortgaged households in poverty. Married or cohabiting couples formed 73% of mortgaged households with incomes below the MIS threshold, and so were over-represented here. Households where the HRPs were never married, or were divorced or separated, were over-represented among mortgagors in poverty. Never-married people formed 20% of HRPs of mortgaged households, but 26% of those in poverty BHC (21% AHC), and those where the HRP was divorced or separated formed 16% of mortgaged households, but 24% of mortgaged households in poverty BHC (22% AHC).

Outright-owned households where the HRP had been widowed or had survived a civil partnership formed the largest group of those in poverty BHC (34%) and were over-represented, but AHC the poverty rate fell to 25%, close to the average for all outright owners.

Ethnicity

Black African/Caribbean, Asian/South Asian and ethnic minority group households were generally more likely to be in poverty. For example, such HRPs were present in 7% of all households, but 11% of all households in poverty. This held for mortgaged home-ownership but not outright home-ownership, possibly as the numbers were too small to discern an effect. These HRPs formed 7% of mortgaged households but 15% of mortgaged households in poverty BHC, and such mortgaged households were around twice as likely to experience poverty (13% BHC and 19% AHC) than all white groups mortgaged households (6% BHC and 10% AHC).

Black African/Caribbean, Asian/South Asian and ethnic minority group households entered home-ownership more recently and therefore were younger, and more of them still carry mortgage debt. The mean age of such home-owner HRPs was 54 years old, compared to a mean age of 65 years old for the combined white group home-owner HRPs. The former group of home-owners bought their homes later (2000 compared to 1994 for white groups HRPs) and, among those in poverty, more frequently held a mortgage (57% compared to 23% for white groups home-owner HRPs in poverty BHC).

Employment

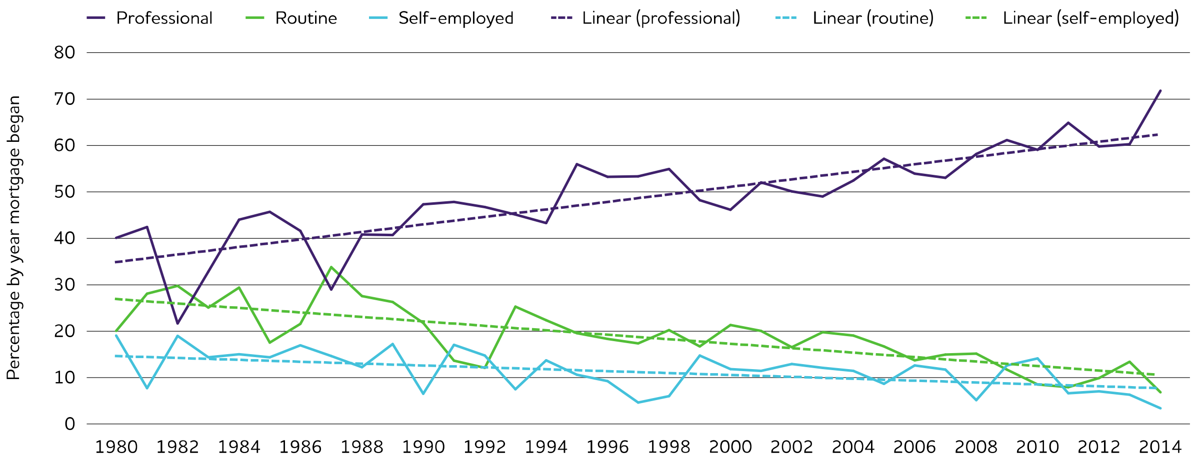
While outright owners in poverty were more frequently retired (76% in poverty BHC), the majority of mortgaged households in poverty were working (61% in poverty BHC, 73% AHC and 85% of mortgaged households with incomes below MIS).

Overall, more HRPs in home-ownership were from professional and managerial occupations than for other tenures, and conversely HRPs in home-ownership were less often self-employed or from lower-grade occupations. For home-owners in poverty, HRPs in self-employment and routine occupations were over-represented. Self-employed HRPs were found in 11% of mortgaged households, but 28% of mortgaged households in poverty BHC (25% AHC and 16% with incomes below MIS). Similarly, HRPs in routine occupations were found in 16% of mortgaged households, but 27% of mortgaged households in poverty BHC (24% AHC and 21% with incomes below MIS). For outright-owned households with working HRPs, 39% of those in poverty BHC were self-employed (43% AHC). Mortgaged households with professional HRPs were less likely to be in poverty; while forming 53% of mortgage households, they made up just 27% of mortgaged households in poverty BHC (30% AHC and 42% of those with incomes below MIS).

Housing costs had a disproportionate impact on poverty among professional households compared to those in lower-grade occupations. Poverty rates among mortgaged households in professional occupations rises from 27% BHC to 30% AHC, and to 42% of those with incomes below MIS. However, the proportion of mortgaged households where the HRPs were in routine occupations fell from 27% in poverty BHC to 25% AHC, and 21% with incomes below the MIS threshold. This is due to greater proportions of more recent home-owner HRPs being drawn from professional and managerial occupations, and as a greater proportion of them have entered the tenure more recently, their mortgage cost burdens remain high.

The shift in the occupational class of home-owners is significant (Figure 4). Using data about occupational class from 2013/4 compared to the year their mortgage first began, we can see that HRPs in professional occupations have grown from 40% of those who bought in 1980 to 60% of those who bought their homes in 2013, and 71% in 2014. The proportion of home-owners in routine occupations is much lower among new buyers than among those who bought in the 1980s or 1990s, declining from 30% in 1982 to 13% in 2013, or 7% in 2014. A similar but slightly less pronounced decline in self-employment has occurred, comprising a fifth of buyers in 1980 to between 3% and 6% in 2013 and 2014. There are fluctuations in the data, and people may have changed their occupational class since the time they first bought, but nonetheless the picture of a tenure being less accessible, and possibly less sustainable, to those in lower-grade employment is clear.

Figure 4: Current occupational class of existing home-owners by year mortgage began, 2013/14



Source: Understanding Society

The mean net monthly equivalised income BHC for households with HRPs in professional occupations was £3,351 (in 2013/14) compared to £2,137 for those in semi-routine or routine occupations. So there are important implications for the resources that different households can bring to home-ownership.

However, these shifts in the occupational composition of home-ownership may reflect general shifts in the labour market. Comparing the occupational class of all households in the 1993/4 wave of the BHPS and the 2013/14 wave of Understanding Society, there has been a significant growth in professional employment from 26% in 1993/4 to 45% in 2013/14. This was partially at the expense of intermediate roles, while the stock of HRPs in routine jobs (23% in both waves) and self-employment (13% in 1993/4 and 12% in 2013/14) changed little, although the number of those in lower supervisory occupations was reduced. Using this data, the growing absence of home-owners from semi-routine or routine occupations among new entrants cannot therefore be explained by their growing absence from the labour market. Affordability constraints are a likely explanation, but the relationship between labour market changes and housing opportunity requires further exploration.

There was little sense that precarious work sat behind poverty among home-owners, or among mortgaged households at least. The HRPs of mortgaged households in poverty (7% BHC and 6% AHC) or on inadequate incomes (5%) were the least likely to be engaged in work that could in some way have been considered temporary, compared to other households in other tenures (15% for private renters in poverty BHC). However, outright owners in poverty had high rates of temporary work, possibly as this was used to supplement retirement income, and thus security of employment was presumably less of a concern. The rates of HRPs with a second job were similar for mortgaged households in poverty (5% BHC and AHC) and those in private renting in poverty (4% BHC and 5% AHC).

Mortgagors and private renters had higher qualifications than social renters or outright owners, which is partly a function of age. The proportion of households in poverty with HRPs that held degrees rose across all tenures as housing costs were taken into account, and conversely, the proportion of households without any qualifications fell. A total of 24% of mortgaged households in poverty BHC held a degree (25% AHC), which rose to 31% of mortgaged households with incomes below MIS. In contrast, outright owners in poverty had the highest proportions of HRPs without any qualifications at all, reflecting the higher age profile of the tenure.

Factors that influence poverty among home-owners

Statistical analysis was undertaken to establish what factors had some of the strongest influences on the odds of being a home-owner in poverty. Using individual-level data permitted the inclusion of variables that indicated some change in the household members' circumstances from 2012/13 (wave d).

The strongest factors that influenced the odds of being a **mortgaged household in poverty BHC** were:

- being from a white group (this decreased the risk of poverty BHC by 0.34 times, compared to being from an ethnic minority community)
- taking out an additional mortgage (increased the odds by 2.6 times)
- being a lone parent, rather than a couple without children (3.4 times)
- living in overcrowded conditions (3.2 times)
- being a man (1.8 times)
- working part time (5.1 times)
- being in routine or manual work (3.5 times)
- being self-employed (2.1 times).

The strongest factors that influenced the odds of being a **mortgaged household in poverty AHC** were:

- being from a white group (reduced poverty by 0.52 times)
- having a relationship breakdown (2.9 times)
- staying divorced, separated or widowed (1.8 times)
- remaining married (1.4 times)

living in overcrowded conditions (2.0 times)

being a man (1.5 times)

being in routine or manual work, in contrast to a professional occupation (2.1 times)

being in an intermediate occupation (1.4 times)

being in a lower supervisory position (1.7 times)

being in semi-routine work (2.0 times).

The strongest factors that influenced the odds of being an **outright owner in poverty BHC** were:

getting married (4.7 times)

remaining married (reduced poverty by 0.5 times)

having a home in council tax band A (3.2 times)

working part time (3.2 times)

being in routine work (2.8 times)

being in semi-routine work (8.5 times).

The strongest factors that influenced the odds of being an **outright owner in poverty AHC** were:

being from a white group (reduced poverty by 0.3 times)

getting married (4.0 times)

having a home in council tax band A (2.8 times)

being self-employed (8.1 times)

being in semi-routine work (4.4 times).

These factors in combination explain only a small portion of the variance between home-owners in poverty and other households (between 11% and 26%). They do give an indication, though, of the some of the issues that were strongly associated with an increased risk of being in poverty, and distinguish struggling home-owners from other households.

Conclusion

This chapter confirmed that the rate of poverty among home-owners was lower than among households in other housing tenures, but that due to the size of the tenure, half of households in poverty BHC and a third of households in poverty AHC were home-owners. The characteristics of those in poverty in home-ownership largely reflected wider tenure profiles, so outright owners in poverty were frequently older, retired singles or couples, and mortgaged households in poverty were frequently middle-aged couples with children.

The overwhelming majority of mortgaged households in poverty had working HRPs, with serious implications for the effectiveness of current mortgage safety nets that offer no in-work support. Newer entrants to home-ownership have been increasingly drawn from professional or managerial occupations, reflecting wider labour market shifts, but bringing higher incomes to the tenure. Mortgaged households with professional HRPs were less likely to be in poverty, but were drawn into poverty after housing costs were considered, not least as their housing cost burden remains higher compared to that of earlier entrants to the tenure in routine or manual occupations.

The attributes that had the strongest influence on the odds of being a home-owner in poverty included: being from a Black African/Caribbean, Asian/South Asian or ethnic minority community; being a man, young, single or a lone parent; living in overcrowded conditions; being in routine or semi-routine employment, or self-employed; experiencing relationship breakdown; getting married; and living in low-value homes.

The next chapter advances some of these property-related themes, and examines the circumstances and locations of where home-owners in poverty live.

4 Where do home-owners in poverty live?

Box 3: Summary

- Northern Ireland (BHC and AHC) had the highest rates of home-owners in poverty, and Scotland the lowest.
- Home-owners in poverty lived in many places, but more frequently in areas of multiple deprivation, slightly more often in homes of low value relative to their local areas, and in homes in the lowest council tax bands. However, home-owners in poverty were less likely to live in degraded neighbourhood environments than other households in poverty.
- Although home-owners in poverty had larger homes than other struggling households, mortgaged households in poverty comprised 20–25% of overcrowded households, and a third of overcrowded households with incomes below the MIS.
- The largest proportion of non-decent homes were those belonging to home-owners, particularly older outright owners in poverty BHC whose homes required a total of £2 billion investment to meet the government's Decent Homes Standard.

Introduction

This chapter examines the incidence of poverty among home-owners around the UK, and provides insight into the types of property, place and local housing market where home-owners in poverty reside.

Poverty, tenure and region

Poverty among all households is unevenly distributed across the regions. Northern Ireland had the highest proportion of households in poverty BHC (22%), and London the lowest (12%). After housing costs were considered, Northern Ireland and London jointly held the highest proportion of households in poverty (20%), and Scotland had the lowest proportion (13%). Households whose income was below MIS are more evenly distributed, but again Northern Ireland and London had the greatest proportions (24% each). Clearly, Northern Ireland has an underlying issue of low incomes, and London of high housing costs.

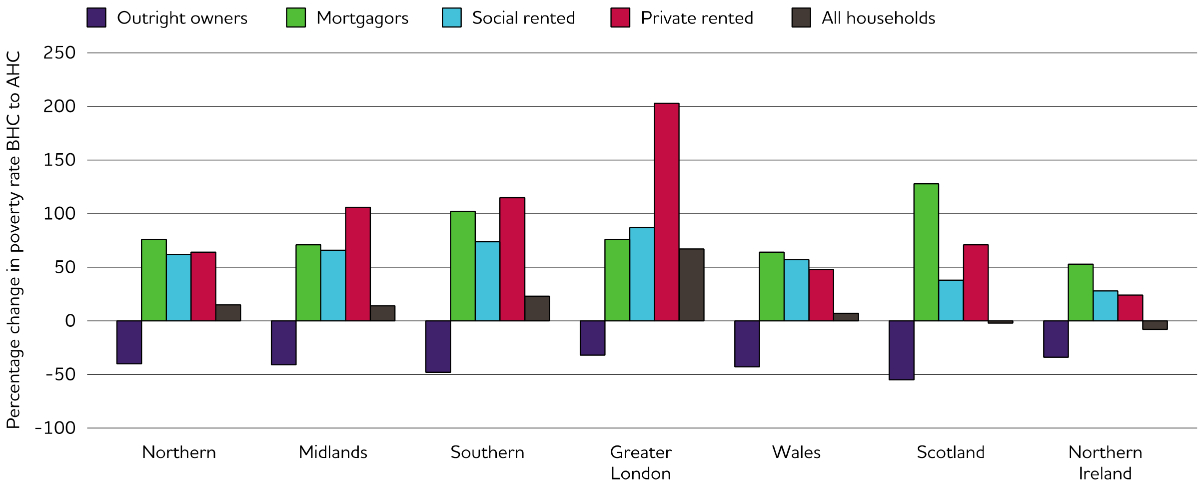
Northern Ireland also had the greatest proportions of home-owners in poverty, for outright-owned and mortgaged households (Figure 5). Scotland had the lowest proportion of mortgaged households in poverty (3% BHC, 7% AHC), and London the lowest proportion of outright-owned households in poverty (6% BHC), although Scotland was marginally the lowest for outright-owned households in poverty AHC (7%).

Figure 5: Households by income status, home-ownership tenure and region, 2013/14

Source: Understanding Society

In all regions, outright ownership reduced poverty rates after housing costs were considered (Figure 6). For mortgaged households, housing costs increased poverty the most in the South of England (102%) and in Scotland (128%). It is unclear why housing costs so greatly impact poverty rates among Scotland's mortgaged households, not least as they had some of the lowest rates of poverty. However, much higher proportions of mortgaged household HRPs in poverty AHC in Scotland were in routine occupations (48%), compared to the other regions where the proportions ranged from 21% to 29% (except for Northern Ireland, where 44% were in routine occupations). In the North of England, Wales, Scotland and Northern Ireland, housing costs inflated the poverty rates for mortgaged households to a greater extent than for private rented households, but this situation was reversed in the Midlands, South of England and especially in London, where housing costs notably increased poverty among private renters.

Figure 6: Change in poverty rate AHC by tenure and region, 2013/14



Source: Understanding Society

Local house prices

House prices are a reflection of the bundle of attributes in any locality, and reflect the appeal of local homes or neighbourhoods. The team appended the Land Registry house prices for 2014 for each local authority district in England and Wales to the Understanding Society dataset, and compared these to the self-reported estimated current values of respondents' homes. Mortgaged households in poverty were over-represented in the lowest-value homes in their local authority area – with 43% of mortgaged households in poverty (40% AHC) being in the three lowest-value deciles of their area – and slightly under-represented among the highest value homes in their local area (top three deciles by value). Outright owners in poverty were slightly under-represented among homes of the highest values.

Council tax bands have not been revalued since 1991, but provide an additional indication of where in the market people's homes were placed, with band A the lowest-value homes and band H the highest-valued homes. Mortgaged households in poverty BHC (47%) and outright owners (41%) were over-represented in homes placed in council tax bands A or B, although they were less likely than social renters (81%) or private renters (67%) to live in homes in these council tax bands.

Home-ownership, local areas and neighbourhoods

The Department for Communities and Local Government's Index of Multiple Deprivation (IMD) rankings (2015) were also appended to the dataset for households in England. While home-owner households in poverty broadly live in the most deprived local authorities to the same extent as other struggling households, home-owners in poverty were less likely to have a degraded neighbourhood environment.

Mortgaged households in poverty BHC in England were over-represented in the bottom fifth of local authority districts ranked by deprivation (as measured by the IMD), but less so for mortgaged households in poverty AHC or with inadequate incomes below the MIS threshold. A total of 27% of mortgaged households lived in the most deprived local authority areas, but 38% of mortgaged households in poverty BHC resided in these districts. Outright owners that remained in poverty AHC were also over-represented in the most deprived districts (29%), despite only 22% of outright owners living in the bottom two-fifths of deprived local authorities.

However, in terms of neighbourhoods, the Understanding Society data showed that low-income home-owners were less likely than renters to live in a degraded environment. Home-owners in general had less exposure to environmental neighbourhood nuisances, such as boarded-up or demolished buildings, and trash or litter in the street, than rented households did. Home-owners, however, reported exposure to heavy traffic at the same rates as social renters, which was much below that of private renters.

Home-owners' properties

Home-owners were generally over-accommodated, with a greater number of rooms than the household required, and certainly when compared to households in rented homes. The mean number of bedrooms for outright owners and mortgagors was 3.03 and 3.15, respectively, compared to 2.14 and 2.29 for social and private renters, respectively. This remained the case for home-owners in poverty who had slightly smaller homes than for home-owners not in poverty (2.75 bedrooms for outright owners in poverty BHC, 2.83 AHC; and 2.99 bedrooms for mortgagors in poverty BHC, or 3.1 AHC). Households in home-ownership with inadequate incomes had slightly larger homes than the average for all home-owners (3.08 bedrooms for outright-owned and 3.2 for mortgaged households).

One measure of overcrowding, determining whether a home adequately accommodates the household within it, is the bedroom standard.[6] Using this measure, households in home-ownership were less likely to be overcrowded than other households, and this also held for households whose incomes were below the MIS threshold. However, among households in poverty the rate of overcrowding for mortgaged households (13% BHC and 9.5% AHC) was close to that of rented households (15% BHC and 13% AHC for social renters, and13% BHC and AHC for private renters).

Housing conditions

Analysis of the English Housing Survey 2014 housing stock data provided insight into poverty, physical housing conditions and home-ownership.[7] The English Housing Survey assessed whether or not dwellings met the government's Decent Homes Standard[8] – a measure of the physical housing conditions of the home – and if not, the average expenditure required to meet the standard.

Home-owners had poorer housing conditions than social renters, but better conditions than private renters. A total of 19% of outright-owned homes and 18% of mortgaged homes failed to meet the Decent Homes Standard, compared to 14% of social rented homes (and 28% of private rented homes; see Figure 7). Poverty amplified the intensity of non-decent homes across all housing tenures. A total of 26% of mortgaged households in poverty BHC had a non-decent home (23% AHC), and 23% of outright owners in poverty BHC (22% AHC) had a home that failed to meet the Decent Homes Standard. These rates were again higher than for households in poverty in social housing, but lower than for households in poverty in private renting.

Figure 7: Non-decent homes by tenure and poverty status, 2014

Source: English Housing Survey

The majority of HRPs in outright-owner households in poverty whose homes failed the Decent Homes Standard were aged over 65 (75% BHC and 70% AHC). The most common reason their homes failed the standard was that they lacked thermal comfort (9%) or had unsafe hazards in their homes (12%). The HRPs of mortgaged households in poverty and in non-decent homes were younger, aged between 45 and 64 (56% BHC and 49% AHC). The homes of mortgaged households in poverty were more likely to fail the Decent Homes Standard due to unsafe hazards (16%) or because of disrepair (5%).

Home-owners who lived in non-decent homes were slightly more likely to have HRPs from Black African/Caribbean, Asian/South Asian or ethnic minority communities (21%) than white group home-owner HRPs (18%). However, white group home-owners in non-decent homes were more likely to be outright owners, whereas Black African/Caribbean, Asian/South Asian or ethnic minority community home-owners in poor quality homes were more often mortgaged households. This pattern held for home-owners in poverty BHC, with greater proportions living in non-decent homes. A total of 32% of Black African/Caribbean, Asian/South Asian or ethnic minority community mortgaged households in poverty BHC lived in non-decent homes, compared to 25% of white group mortgaged households in poverty BHC, but 19% of white group outright owners in poverty BHC were in non-decent homes compared to 14% of outright owners with Black African/Caribbean, Asian/South Asian or ethnic minority community HRPs.

Mortgaged households in poverty with children also had a greater incidence of non-decent homes. For example, the proportion of lone parents with dependent children in poverty who lived in non-decent homes was 39% (compared to 11% in social rented homes); the figure was 25% for couples with children (compared to 16% in social housing), but only 14% for couples without children (compared to 22% in social housing).

Outright-owned and mortgaged homes generally had much lower rates of double-glazing (or energy-efficient boilers) than social housing. However, home-owners in poverty (BHC and AHC) were slightly more likely (51%) than home-owners not in poverty (44%) to have the required minimum insulation. Indeed, 47% of outright owners and mortgaged households in poverty had loft insulation, compared to only 25% of social rented tenants' homes. These results perhaps indicate the success of free loft insulation schemes for low-income or older private households.

The investment required to bring homes up to the Decent Homes Standard was the greatest for outright-owned homes (£9.4 billion), compared to £8.6 billion for mortgaged households, £8 billion within the private rented sector, and £5.9 billion among social renting. For individual outright-owned households, this amounted to £6,881 per home, but the figure was higher for those in poverty (£8,760 in poverty BHC and £8,842 in poverty AHC). Mortgaged households in poverty had the second highest remediation costs (£5,444 for all mortgaged households, but £7,714 for those in poverty BHC and £6,027 in poverty AHC), followed by private rented and social rented households.

The investment required to bring the homes of home-owners in poverty up to the Decent Homes Standard totals £2 billion for the 232,565 outright-owned households in poverty BHC (reducing to £674 million for the 76,265 outright-owned households in poverty AHC). The investment required to meet the standard for the homes of the 102,767 mortgaged households in poverty BHC was £674 million (or £1 billion for the 170,471 in poverty AHC), and this was similar to the sums required to meet standards in social housing.

Conclusion

Poverty among home-owners was distributed differently around the UK, with Northern Ireland having the highest rates of poverty among home-owners BHC and Scotland generally having the lowest rate of poverty among home-owners. Housing costs in particular increased rates of poverty among mortgaged households in southern areas of England, although the greatest impact of housing costs on poverty was seen in London's private rented sector. Mortgagors in poverty were as likely to live in the most deprived areas as social renters in poverty, and were over-represented among the lowest local housing values, but were less likely to live in degraded neighbourhood environments than renters. Mortgaged households in poverty were also less likely to live in overcrowded conditions than renters in poverty, but comprised a fifth to a quarter of all overcrowded homes with children. The physical housing conditions of home-owners were proportionately better than the worst homes found in the private rented sector, but home-ownership contained the most homes that failed to meet the Decent Homes Standard. Investments of £2 billion were required to meet the standard among outright owners in poverty BHC, which reduces to £674 million for those in poverty AHC.

5 Housing costs, housing gains and sustainability

Box 4: Summary

- Mortgaged households comprised half of households spending over 35% of their income on housing costs, but only a third of all households in poverty (AHC).
- High housing costs increased the rate at which people were behind on their loans and, overall, home-owners in poverty were twice as likely (14%) to report that they had mortgage arrears. Indeed, 81% of households behind on their mortgage had working HRPs, and were thus ineligible for help with their housing costs.
- Older home-owners in poverty used interest-only loans more frequently than other home-owners, limiting their ability to switch to affordable repayment loans prior to retirement. Interest-only loans reduced the housing cost burdens for home-owners in poverty, but attracted higher interest rates. Access to lower rates would support greater loan repayments.
- Regionally the sums of housing equity varied considerably, reflecting local housing market circumstances, and sometimes enabled a household's wealth to transcend their poverty status.
- Outright owners **not in poverty** in Northern Ireland held lower sums of housing equity (£120,000) than outright owners **in poverty** in all other regions except Scotland. Furthermore, mortgaged households **in poverty** in London had more housing equity (£203,000) than outright owners **not in poverty** in all other regions of the UK, except the South of England.
- Very few home-owners drew upon their equity but, among mortgaged households, younger mortgagors in poverty BHC and older outright owners below the MIS threshold used equity withdrawal the most.
- Many home-owners in poverty have the potential to downsize to reduce housing costs and/or release housing equity (two-fifths). A smaller but significant minority (14–17%) were adequately accommodated or overcrowded, in the lowest value homes in their area, with little equity, indicating that unless moving involved a lower-cost market or an exit from the tenure, they required additional support.

Introduction

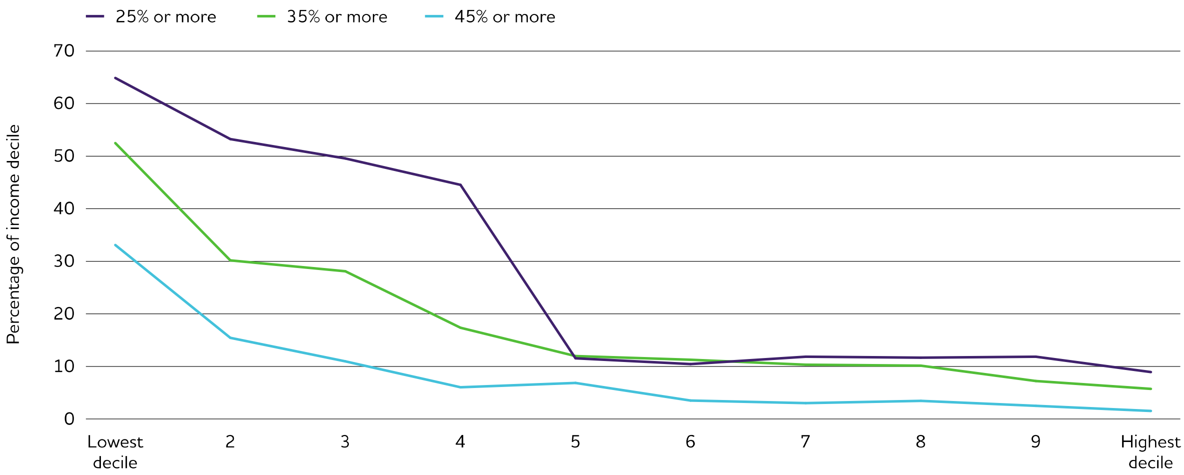
This chapter looks at the relationships between the finances of home-ownership and poverty. It considers high housing costs relative to income, mortgage finance, financial stress, and the levels and use of home equity. In addition, this chapter takes a closer look at home-owner households in poverty, and asks whether they could contain housing costs or release housing equity by moving.

Housing costs and poverty

The report uses net affordability ratios to express housing costs relative to household income, based on net housing costs (ie rent less any housing benefit payable) as a proportion of net household income. Overall, mortgaged households have housing cost burdens below that of private renters, but above that of social rented households. Outright owners have paid down their mortgages, so do not have regular housing costs.

Figure 8 shows that there is a social gradient to mortgaged households paying high housing costs. The lowest-income group had the largest proportion of households spending over 25% of their income on their mortgage (65%), with 52% spending over 35% of income and 33% spending over 45% of income. However less than 10% of the highest-income group had high housing costs relative to their incomes.

Figure 8: Housing affordability ratio for mortgaged households by income decile, 2013/14



Source: Understanding Society

While 13% of all mortgaged households spent 35% or more of their income on housing costs, 46% of mortgaged households in poverty BHC (59% AHC) had similar high housing costs. Furthermore, a third of mortgaged households in poverty (31% BHC and 33% AHC) spent 45% or more of their income on mortgage costs, compared to only 6% of all mortgaged households. High housing costs affected mortgaged households with incomes below MIS slightly less compared to those in poverty, but 38% of these households spent 35% of their income on mortgage costs, and 18% spent over 45% of income.

High housing costs were associated with being behind on mortgage payments. One in eight (12%) of mortgaged households with housing costs over 35% of their income were behind with their mortgage payments, compared to 7% of all mortgaged households. This effect was stronger for households in poverty, with nearly a fifth of mortgaged households in poverty with high housing costs being behind on their mortgage (19% in poverty BHC and 18% AHC). The rate of mortgage arrears for households with incomes below MIS and high housing costs was 12%, the same as for all mortgaged households with such costs.

Mortgage type

Interest-only loans are problematic, as a significant minority do not have an accompanying plan to repay the loan when the term expires (Financial Conduct Authority, 2013). After the financial crisis and the advent of tighter mortgage regulation, interest-only loans have been used little, although are still deployed in the short-term as part of a lender's forbearance strategy if borrowers are struggling with payments. This data shows that 17% of all mortgaged households held interest-only loans, and 8% held a mixture of repayment and interest-only. But these loans were far more common among home-owners in poverty. A total of 26% of mortgaged households in poverty BHC held interest-only loans (20% AHC), more than 50% higher than the average number with interest-only loans across all mortgaged households. Some 4% of mortgaged households in poverty BHC held a part repayment/part interest-only loan (3% AHC). Households below the MIS threshold had the same rate of interest-only loans as all mortgaged households.

There was no significant association between payment problems and the type of mortgage people held, or with the year their mortgage began.

Mortgage interest rates

The mortgage interest rates paid by respondents were estimated using their monthly mortgage instalment, the years left on the loan and the outstanding value of the loan at the time of the survey. The study uses self-reported data, based on a person's recall of outstanding mortgage sums and repayments made, and these data do not indicate whether a person is overpaying their mortgage. To limit the impact of people making overpayments to their loans, interest rates estimated in excess of 10% were excluded. At the time of the data collection in 2013/14, the average fixed mortgage interest rate was 3.27%, a variable loan rate was 2.57%, and the average across all loans was 3.15% (Q2, 2014). Fixed loans comprised 82.5% of new business and 40% of outstanding loans (Bank of England, 2016). The average loan rate estimated from the Understanding Society data was 3.94% with a median of 3.74%. The estimates are slightly higher than the rates recorded by the Financial Conduct Authority, but serve as a useful indicator of group differences.

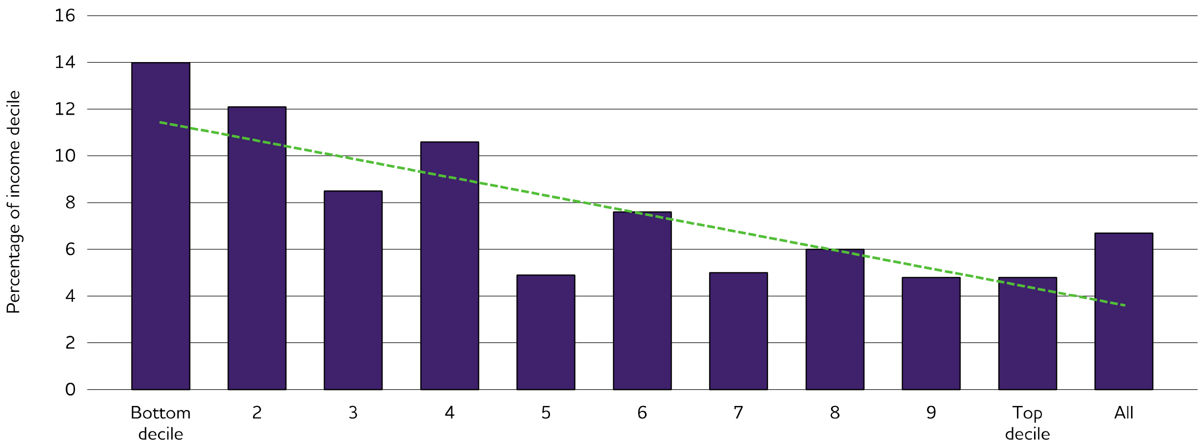
Mortgaged households in poverty paid slightly higher interest rates, particularly AHC (3.99% BHC and 4.17% AHC), than the mean for all mortgaged households (3.94%). Interest-only loans attracted higher interest rates (4.21%) than repayment loans (3.86%), and were higher still for mortgaged households in poverty AHC (4.68%) or with incomes below the MIS threshold (4.88%). For borrowers in poverty BHC, interest-only loans were lower (3.58%). If interest rates were lower, rates of poverty AHC for mortgaged households would reduce; alternatively, if the level of current payments were retained, any additional funds paid could be directed towards repayment of the outstanding capital balance. Interest rates were lower for those who had bought more recently: 3.84% for those who had bought in 2008 or later, compared to 4.43% for those who had purchased in 1993 or before. As lower-income home-owners were more likely to have entered the tenure in earlier periods, these higher interest rates may reflect a greater incidence of 'mortgage prisoners' among these cohorts.

However, interest-only loans acted to reduce the housing costs burden, as mortgaged households with interest-only loans paid lower proportions of their income on mortgage costs than those with repayment loans, and this held for those in poverty, too. This indicates the importance of interest-only loans for households managing their finances, at least in the short-term, despite the long-term risk of non-repayment. For those in poverty BHC, 52% of those with repayment loans spent 35% or more of their income on mortgage costs (60% AHC), compared to 28% of those on interest-only loans (41% AHC). There was no significant association between affordability ratios and payment type for mortgagors with incomes below MIS.

Financial stress and tenure

Home-owners had fewer indicators of financial stress than rented households, but being in poverty amplified the problems of meeting common household commitments. Mortgaged households in poverty (13% BHC and 14% AHC) reported being behind on their mortgage payments twice as often as other mortgaged households (7%). This was only slightly below the level of private rented households behind with their rent payments (16% BHC/AHC). There was an apparent social gradient to being behind with mortgage payments, with 14% of the lowest-income decile being behind with their mortgage payments compared to 5% of the top income decile (Figure 9). Furthermore, 81% of all households that were behind on their mortgage payments had a working HRP, including 52% or 62% of home-owners in poverty BHC/AHC and 67% of home-owners with inadequate incomes below the Minimum Income Standard, causing these home-owners to be largely ineligible for any help with their housing costs.

Figure 9: Behind with mortgage payments by income BHC decile, 2013/14



Source: Understanding Society

Fewer mortgaged households who bought since 2008 were behind with their mortgage, 5.5%, compared to around 7% of those who bought in any period up to then. For mortgaged households in poverty, the difference in the rate of respondents reporting mortgage arrears was much more pronounced, with new entrants having much lower rates (8% compared to 16% for mortgaged households who bought in earlier periods), but this was not statistically significant.

The value of the loans outstanding was largely below the upper limits of SMI (£200,000, or £100,000 for those in receipt of Pension Credit), but with some important variations.

A total of 9% of all outstanding loans in Understanding Society 2013/14 exceeded £200,000, due to regional variation and more recent entrants carrying larger loans due to both higher housing costs and the limited ability so far to pay down their debt. A total of 28% of mortgaged households in London held loans higher than £200,000 and 13% of mortgaged households in the South of England. In addition, 18% of loans taken out between 2008 and 2014 exceeded £200,000, and 10% of loans taken out between 2002 and 2007. This compares to only 3% of loans taken out prior to 1993 and 5% between 1994 and 2002.

Loan values of mortgaged households who are behind on their loans differ little from those not behind on their loans. Overall, a total of 8% of all mortgaged households behind on their loans have loans that exceed £200,000, 16% of those who bought between 2008 and 2014, 14% of borrowers in the South of England and 26% in London.

There are small numbers of retired mortgagors so we must be cautious with these results, but the proportion of retired households with loans in excess of £100,000 was 13%, again 29% in London and 18% in the South of England.

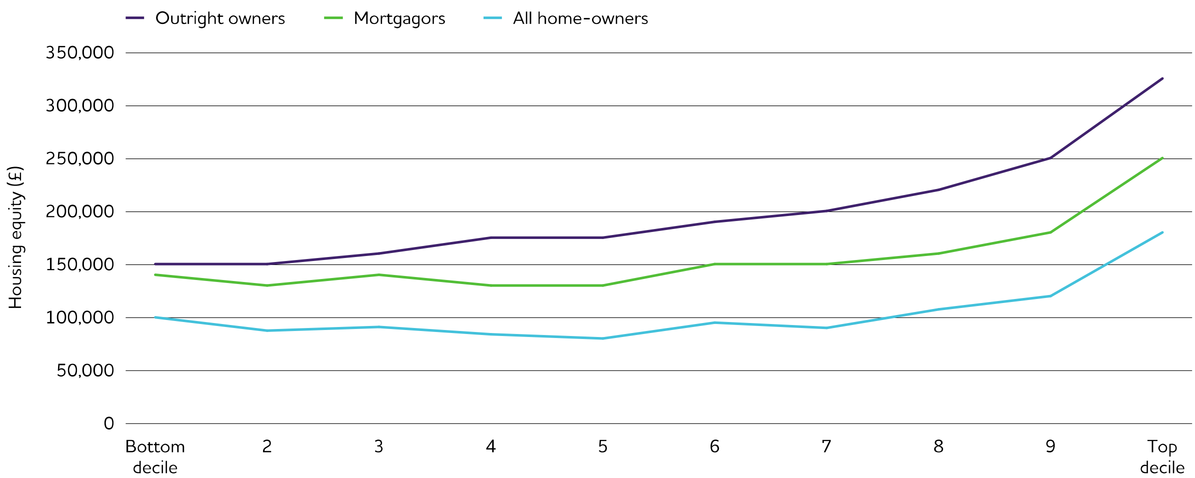
The impact of loan values exceeding SMI ceiling limits depends on the duration of the borrower's income-shock. On the one hand, if lengthy then the option to consider downsizing is likely to be appropriate. However, if short-term – which for most home-owners is the case – then SMI may be less effective in some locations as shortfall payments are required to manage even an interest-only loan.

Home-owners who were behind on their mortgages had lower sums of housing equity, £86,451 compared to £110,000 for home-owners who were not behind with their loans (with some geographical variation). Home-owners behind on their loans in London held a median sum of £200,000 in equity, compared to £61,500 in Northern Ireland. A fifth of those behind on their mortgage payments held less than £35,000 in equity, but a fifth held over £200,000. The monthly mortgage payments – of which only the interest would be paid – ranged from £396 in Wales to £600 in the South of England, so even if all the repayment was met by SMI, the equity charge for six months is likely to be less than £5,000. In a downturn these equity sums are likely to be reduced, leaving those with the least equity also vulnerable to negative equity. For many defaulting home-owners, the imposition of an equity charge to cover several months of SMI payments may have limited impact, but help them retain their homes over the long term. This suggests there is scope to reduce the 39-week waiting period for SMI and thus offer greater support to home-owners when the help is most required, in the period after the income shock occurs. Equity borrowing for SMI may be more problematic if combined with other household debt, especially in lower-cost and/or lower-equity areas.

Housing assets

Unsurprisingly, home-owners in higher income groups held the most in housing equity, with the top decile holding median sums of £250,000, compared to £140,000 in the bottom income decile (Figure 10). Also unsurprisingly, outright owners held higher amounts of housing equity than mortgaged households, with the highest groups of outright owners holding £325,000, compared to £150,000 by outright owners in the bottom income decile (£150,000 was also held by outright owners in poverty BHC/AHC). Even mortgaged households in the bottom income decile held £100,000 in housing equity (£95,000 was held by mortgaged households in poverty BHC/AHC). Home-owner households with inadequate incomes had median sums of housing equity of £195,000 for outright owners, and £90,000 for mortgaged households.

Figure 10: Median housing equity held by household income decile and tenure, 2013/4



Source: Understanding Society

There were, of course, differences in the equity sums held by different age groups. Older groups held more equity for outright-owned homes as well as mortgaged households, as would be expected – they have had longer to accumulate housing wealth.

However, geography further complicated this picture of a social gradient to the sums of housing equity held by home-owners. Home-owners in London and the South of England held far greater sums of equity compared to those in other regions of the UK. Indeed, outright owners in London held almost three times more housing equity (£320,000) than outright owners in Northern Ireland (£120,000). This also held for mortgaged households, with a median sum of £240,000 held in London, compared to £66,000 held by mortgaged households in Northern Ireland, and £79,000 in Scotland.

Regionally the sums of housing equity varied considerably for home-owners in poverty, too. The median sum of equity for all outright owners in Northern Ireland was lower (£120,000) than that for outright owners in poverty (BHC or AHC) in all other regions except Scotland. Conversely, outright owners in poverty in London held greater median sums of equity (£203,000) than outright owners not in poverty in all other regions of the UK, except the South of England. The lowest level of equity held among mortgaged households in poverty BHC was in Northern Ireland at only £40,612, in contrast with mortgaged households in poverty BHC in London, who held £203,437 in equity.

Some 3% of mortgaged households were in negative equity, where the sums outstanding on their mortgage exceeded their estimated value of their home. This increased slightly to 5% for mortgaged households in poverty (BHC or AHC) and for those on inadequate incomes below MIS.

Only a small proportion of home-owners had withdrawn equity via remortgaging (3%). Young home-owners in poverty and older home-owners not in poverty had more frequently withdrawn equity from their home. Home equity has been used to smooth spending associated with children, job loss or relationship breakdown (Parkinson et al, 2009). Perhaps partially reflecting these findings, this analysis found that 10% of 25–34 year olds in poverty BHC had withdrawn equity, compared to only 2% of over 65 year olds in poverty BHC, 5% of over 65s with incomes below MIS, and 2% of 25–34 year olds with incomes below MIS. The prime use of the money was home improvement or repairs (38%), followed by other purposes not mentioned (31%) and home extension (23%), although 14% of home-owners used home equity for debt consolidation. There were too few numbers to identify an association using cross-sectional data between poverty and reasons for equity withdrawal.

Housing-induced poverty

Households that were in poverty AHC but not in poverty BHC represented 7% of all households, 6% of mortgaged households,19% of social rented households and 21% of private rented households. However, 29% of households in housing-induced poverty were mortgaged, with 34% private renters and 38% social renters. The proportion of outright owners in these circumstances was negligible due to their minimal housing costs.

There was little variation in the regional incidence of housing-induced poverty among mortgaged households. The greatest proportions of mortgaged households in housing-induced poverty were in Northern Ireland and Wales (7% each) and the lowest in Scotland (5%). Nearly two-thirds of mortgaged households in housing-induced poverty had at least one dependent child (62%), and those who were self-employed (22%) or in routine occupations (24%) were over-represented. Mortgaged households in housing-induced poverty were more than twice as likely to be behind with their mortgage payments (14%) compared to other mortgagors (6%), and marginally more than those in poverty BHC (12%).

Downsizing

Downsizing enables home-owners to release equity and, if mortgaged, reduce their housing costs. Obviously, decisions to move home or leave the tenure are dependent on a range of factors, including transaction costs, commitment to local schools and social networks, and the anticipated duration of poverty, which for mortgagors is likely to be shorter-lived than for renters. Other unsecured debt may also be factored in, making for complex and emotional calculations as to the sustainability of the current situation, as demonstrated during the mortgage rescue scheme (Wilcox et al, 2010), and for defaulting home-owners considering assisted voluntary sales (Wallace et al, 2011). Lenders' willingness to retain people as mortgage customers may also be in doubt, especially if they would no longer qualify for a mortgage under current regulations and/or had fallen behind with their mortgage.[9] Nonetheless, it is useful to quantify the extent of the possibilities.

Table 1 indicates the potential for home-owners in poverty to downsize, depending on their home's value in relation to the local market and their level of occupancy. It is assumed that higher housing costs, for mortgaged households, were associated with over-consumption of property – larger homes relative to the household size and/or more expensive homes relative to those in the respondents' local area (thus identifying the place of mortgaged households in their local housing market, and the extent to which they were over-accommodated). Clearly, if a household had excess bedrooms and was in a high-value neighbourhood within the local housing market, then there is potential for them to move to reduce housing costs, if mortgaged, and possibly release housing equity. On the other hand, if the household was already overcrowded and in the lowest-value homes in their local area, then moves to release equity would entail moving to a lower-cost housing market or exiting the tenure altogether. At the margins, a household's ability to downsize would be dependent on the exact household composition and availability of alternative homes locally, so there is a large element of uncertainty, but it is illustrative of the options available to struggling home-owners.

Table 1: Potential ability of home-owners to downsize

	Overcrowded	Met bedroom standard	Over-accommodated
1 Lowest local house values	×	×	?
2	×	×	?
3	?	?	✓
4	?	✓	✓
5 Highest local house prices	?	✓	✓

Mortgaged households

Using this template for home-owners in England, significant proportions of mortgaged households in poverty would have the ability to downsize to potentially reduce housing costs and/or release housing equity, as many were both over-accommodated and in the higher-value homes in their local area (Table 2). A total of 49% of mortgaged households that are only in poverty due to their housing costs could move, 43% of those in poverty AHC reducing to 38% of mortgaged households in poverty BHC. The sums of equity held by these mortgaged households (ranging from £135,000 for mortgaged households in housing-induced poverty to £160,000 for those in poverty BHC) are also substantial, and obviously unavailable to households in poverty in other housing tenures.

The proportion of mortgaged households in poverty that was already in the lowest-value homes and at the bedroom standard or overcrowded, so could not move to a smaller or lower-value home, represented much smaller proportions (11–17%), and held much lower sums of housing equity (£40,000–54,000). There remain large proportions of these households for whom the ability to downsize on these basic measures is uncertain, but for many households in their position this illustrates that there is important potential to reduce housing costs and/or release some equity.

Table 2: Housing equity for mortgaged households in poverty by ability to move, 2013/14

	Housing-induced poverty		In poverty BHC		In poverty AHC	
Ability to move	Percentage	Median equity available	Percentage	Median equity available	Percentage	Median equity available
No	11	£40,000	17	£54,180	14	£45,000
Uncertain	41	£80,000	45	£89,683	43	£83,897
Yes	49	£135,000	38	£160,000	43	£145,139

Source: Understanding Society

Outright-owner households

Table 3 shows the potential for outright-owner households in poverty. Very few have no ability to downsize at all, and those that definitely are able to downsize, as they are over-accommodated and in higher-value homes relative to their local area, had substantial sums of housing equity. Downsizing later in life is the most frequent method of older home-owners releasing equity (Banks et al, 2010), rather than using formal equity release products from lenders, but whether the sums realised are sufficient to change their poverty status over the long term is uncertain.

Table 3: Housing equity for outright-owned households in poverty by ability to move, 2013/14

	In poverty BHC		In poverty AHC	
Ability to move	Percentage	Median equity available	Percentage	Median equity available
No	4.5	£103,945	4.2	£100,008
Uncertain	48	£130,008	48.7	£125,008
Yes	47.5	£200,008	47.1	£220,008

Source: Understanding Society

The geographical location of home-owners in poverty would reduce the equity available to those in the North of England and in the devolved countries of the UK, and increase the equity available to those in London and the South of England. Moreover, the ability to downsize may be lower in more constrained housing markets. Nonetheless, these sums demonstrate that, as home-ownership is frequently over-consumed, there is a greater range of options available for many struggling owners, although a smaller pool would require external support unless they exit the tenure.

Conclusion

Mortgaged households form the greatest proportions of all households who spend over 35% of their income on housing costs, including around half of mortgaged households in poverty BHC (a third in poverty AHC, similar to rented households). Mortgaged households in poverty were paying slightly higher mortgage interest rates. This was especially the case for interest-only loans, which were used more frequently by older, mortgaged households in poverty, but these loans did serve to reduce the housing cost burden. There was a clear social gradient to being behind with mortgage costs, with more than one in eight of mortgagors in poverty reporting payment problems, and eight out of ten working and thus being ineligible for support with mortgage costs. Distinct from rented households in poverty, home-owners in poverty held some substantial sums of housing equity, and in some regions this exceeded the sums held by home-owners who were **not** in poverty in other regions. Significant proportions of home-owners in poverty had housing equity, and were over-accommodated and in higher-value homes relative to their local area, and so could move to lower their housing costs or release equity to support the household. A smaller pool was in the lowest-value homes, adequately accommodated or overcrowded, and with little equity, and thus would require external support.

6 Home-owners and poverty over time

Box 5: Summary

- During the 1990s, poverty was associated with exits from home-ownership (mostly to private renting), but in the 2000s, home-owners increasingly moved out of poverty while retaining ownership.
- Home-owners stayed out of poverty predominantly by staying in work, but the strength of this effect reduced over time. Retirement was a key reason for entering poverty, but staying retired became less of a predictor of poverty over the study period, and the proportion of home-owners entering poverty on retirement reduced by half.
- A fifth of relationship breakdowns resulted in home-owners entering poverty AHC during the 2000s.
- Home-owners from ethnic minority communities stayed in poverty almost twice as often as white group home-owners over most of the study period.
- Those with the greatest housing equity were able to remain out of or escape poverty more frequently than those with less equity.
- Self-employed home-owners were the most likely to move into **and** out of poverty, indicating that they are particularly exposed to market fluctuations. Professional or managerial home-owners were the least likely to fall into poverty.
- Should mortgage rates rise one percentage point, all things being equal, poverty rates among mortgaged home-owners would rise only slightly, but have a greater impact on the housing cost burden and, by implication, the sustainability of the tenure among home-owners in poverty.
- However, if current trends in the labour market composition of home-ownership continue, this would act to reduce poverty rates BHC, unless affordable home-ownership schemes draw in greater numbers of low- to moderate-income households.

Introduction

This longitudinal analysis is based on respondents to at least two waves across waves C (1993/94), H (1998/99), M (2003/4) and R (2008/9) of the BHPS, and wave e in the Understanding Society data (2013/4). The longitudinal analysis differs from the cross-sectional analysis in that it was based on households and the attributes of the HRPs, rather than individuals.

The first part of this chapter sketches a broad longitudinal overview of tenure and poverty, and rates of poverty among home-owners. The first part of the analysis is based on individuals who responded to all five of the waves included in the study, to ensure comparability and consistency over time. It is therefore relatively limited in scope due to the applicable caseload. The second part of the analysis is based on individuals who responded to consecutive pairs of the waves included in the study, and consequently allows a more detailed analysis due the larger numbers of respondents. This part of the analysis considers all pairs of waves, across the 20-year study period. The final section of the chapter explores the impact of mortgage interest rate rises.

Overview of tenure and poverty status changes from 1993/4 to 2013/14

Looking at individuals who responded to all five waves shows the tenure and poverty changes that occurred over the study period. Nearly two-thirds of individuals remained in home-ownership throughout this period, but others shifted between ownership and renting. Almost nobody was in poverty throughout this time, but only two-thirds avoided being in poverty at all over the 20-year period.

Tenure overview

Figure 11 takes as its starting point the housing tenure of people during 2003/4 (wave M), and shows the tenure they were in during 1993/94 (wave C), and the tenure they were in by 2013/14 (wave e). The figure shows a general shift towards outright ownership from mortgaged home-ownership. While some renters entered home-ownership during this period, a significant proportion of mortgagors moved out of the tenure, mostly to private renting – particularly between waves C and M.

Figure 11: Summary of tenure changes from waves C (1993/4) to M (2003/4), to wave e (2013/14) (percentage)

Source: BHPS and Understanding Society

Poverty overview

Figure 12 again takes as its starting point individuals in poverty or not in poverty during 2003/4 (wave M), and shows whether they were in poverty or not prior to this in 1993/4 (wave C) or after this during 2013/14 (wave e). It shows that slightly fewer of this set of people ended the period in poverty than began it, and this held for poverty rates AHC.

Figure 12: Summary of poverty status from waves C (1993/4) to M (2003/4), to wave e (2013/14) (percentage)

Source: BHPS and Understanding Society

Owner occupation and poverty overview

Looking at one cohort of owners – all home-owners in wave M (2003/4) who responded to all five waves – highlights the churn evident, with moves in and out of poverty and, for a minority, in and out of home-ownership.

Overall poverty rates among this group increased slightly from 8% to 11% between 1993/4 and 2013/14, although had remained at around 10% AHC during the period of study. But it is clear that poverty had reduced among outright owners, especially since 2003/4, but had increased for mortgaged households, particularly AHC. For this group of outright owners, poverty BHC reduced from 17% to 14% (from 13% to 8% AHC) between 2003/4 and 2013/14. For mortgaged households, however, the rates of poverty AHC rose from 6% to 12% during the same period, although was a similar rate BHC (from 5% to 6%). Of those that had been in social housing before and after being home-owners in 2003/4, more were in poverty by 2013/14 than in 1993/4.

Some 5% of outright owners had also changed to mortgaged owners between 2003/4 and 2013/14, and 7% of mortgaged owners in 2003/4 had been outright owners in 1993/4, showing that some had released equity from their home and/or used a mortgage to buy a more expensive home. This indicates that although obvious poverty rates had not grown significantly for this group, there is significant churn among households involving moves in and out of poverty, as well as moves between housing tenures. These issues are explored below in more detail using data from individuals who responded to at least two paired waves of the survey.

Tenure, poverty change and home-owner characteristics, 1993/4 to 2013/14

All home-owners

One of the most notable observations is that between 1993/4 (wave C) and 2003/4 (wave M), fewer home-owners in poverty had maintained their home-ownership status (85%) compared to home-owners who were not in poverty (95%). Between 2003/4 and 2013/14 (wave e) this difference had disappeared, with similar proportions of each group remaining as owners. Poverty during the 1990s was therefore associated with increased exits from home-ownership compared to the 2000s.

Exits from home-ownership were primarily into private renting – 5%, compared to 2% of moves being to social renting between 1993/4 and 1998/9 – but was amplified for those in poverty BHC, where 7% entered private renting (3% of which also escaped poverty) and 4% entered social housing (1% of which also left poverty). The rate of these exits slowed over the study period, but ended slightly higher in 2013/14 than during the 2000s, although below the rate of tenure transitions during the 1990s. Between 2003/4 and 2013/14, 6% of home-owners in poverty BHC left for private renting (4% also exited poverty) and 2% left for social housing (and also left poverty). Home-owners who were in poverty but able to retain the tenure between waves increasingly also left poverty over the 20-year period. Between 1993/4 and 1998/9, 42% of home-owners in poverty who remained home-owners also left poverty, but between 2008/9 and 2013/14 the rate was 64%.

For home-owners in poverty AHC the patterns were similar, but the rates of exit to rented accommodation were greater, with significant proportions of home-owners in poverty entering rented homes, and also remedying their poverty, between all waves.

Outright owners and mortgagors

The rate at which outright owners remained in poverty between waves reduced substantially over the study period, from 11% between 1993/4 and 1998/9 to only 6% between 2008/9 and 2013/14. Very few mortgagors consistently stayed in poverty BHC between all waves (just 2%). A greater proportion of mortgagors moved out of poverty BHC during the transition from 2003/4 to 2013/14 (7%) than between previous periods (around 4%), although the rate at which mortgagors fell into poverty largely remained unchanged throughout the period.

Mortgagors fell into poverty AHC in slightly higher proportions between 2003/4 and 2008/9 (10%) compared to 7% between other waves, but they also exited poverty more often by the end of the period (7% between 2003/4 and 2013/14, compared to 4% between the earlier periods).

Economic status

Examining any changes in economic activity between paired waves for people who were home-owners in the first wave reveals that those in work avoided poverty most frequently, but their tendency to do so declined over the study period. So 95% of working home-owners avoided poverty between the periods 1993/4 and 1998/9, but this effect was reduced between each wave, until only 89% did so between 2008/9 and 2013/14.

Moving out of work into retirement or some other form of economic inactivity also remained a key way in which respondents fell into poverty across the pairs of waves. Nevertheless, remaining in retirement became less of a predictor of remaining in poverty over the study period, reducing by half from 16% between 1998/9 and 1998/9 to 8% between 2008/9 and 2013/14. Similar patterns were at play for moving in and out of poverty AHC. Poverty rates among working home-owners increased over time, especially during the period leading up to the financial crisis (between 2003/4 and 2008/9, waves M to R), and although the rates recovered after this period, they remained higher in later years than during the 1990s.

Marital status

We examined marital status for the first three pairs of waves, as later years had an incompatible definition of marital status to the BHPS. Becoming a couple was the strongest predictor of remaining out of poverty, although the strength of this effect declined very slightly over time. Thus, 94% of respondents moved from single to married between 1993/4 and 1998/9 and stayed out of poverty, but this reduced to 89% between 2003/4 and 2008//9. Remaining married or living as a couple was also a strong predictor of remaining out of poverty, although this too declined in strength very slightly over the period.

The clearest predictor of falling into poverty across the pairs of waves was the ending of a marriage or living as a couple. A total of 17% of respondents who became widowed, divorced or separated moved into poverty BHC (15% AHC) between waves C and H (1993/4 to 1998/9). However, the proportion of people who became widowed, divorced or separated and entered poverty AHC increased to 21% between waves M and R (2003/4 to 2008/9), but a similar proportion (14%) moved into poverty BHC in this later period.

Personal characteristics

Single home-owners most often remained in poverty between waves, and most commonly fell into poverty across the pairs; the case was the same for the older age groups of respondents. Those aged 65 or over, however, were increasingly likely to move out of poverty across the study period, reflecting the reduction in poverty rates among this group over time. While 4% moved out of poverty between 1993/4 and 1998/9, this rose to 12% who avoided poverty BHC between 2008/9 and 2013/14. Prior to the financial crisis in 2008/9, older home-owners aged 65 or over were the most likely to enter poverty AHC. However, leading up to the crisis (waves M to R), younger people aged 16–34 entered poverty at a greater rate than other age groups. In the period after the crisis (waves R to e), home-owners in middle age had the highest rate of entering poverty.

Although women home-owners remained in poverty across the pairs of waves slightly more often than men, the extent of this difference reduced over time, and women were also more likely to move out of poverty than men in each pair of waves.

There was a mixed picture relating to ethnicity, poverty and home-ownership. Non-white group home-owners were, nonetheless, nearly twice as likely as white group home-owners to remain in poverty for each consecutive wave, except between 1998/9 and 2003/4. For example, while 3% of white group home-owners remained in poverty between 2008/9 and 2013/14, 12% of Black African/Caribbean, Asian/South Asian and ethnic minority group home-owners remained in poverty.

Housing equity

The fifth of respondents with the largest amount of housing equity were only rarely in poverty across both pairs of waves, a characteristic that was true for each of the pairs of waves over the study period. Home-owners whose housing equity was in the second quintile moved into poverty BHC most frequently between 1993/4 and 1998/9 (12%) and in the lead-up to the recession between 2003/4 and 2008/9 (10%), compared to home-owners with other sums of housing equity. In the early period they were also the group who stayed in poverty the most. The greatest proportions of home-owners who moved out of poverty between waves were for those in the third and fourth highest groups of equity, between 2008/9 and 2013/14 (12% moved into poverty for each quintile), and the top two groups of housing equity, between 2008/9 and 2013/14 (8% moved out of poverty).

For home-owners with lower equity, and in previous waves, far smaller proportions of people were able to exit poverty. There was little pattern to the rates of home-owners moving into poverty in terms of the level of housing equity they held, although in the earliest waves it was home-owners in the second quintile of housing equity who experienced the most moves into poverty.

What role home equity played in reducing the incidence of poverty is, however, uncertain, as it may reflect the attributes of home-owners with higher equity, being closer to the labour market or with higher education, for example, than those without equity. It could also plausibly be a function of older outright owners accruing equity while also having lower rates of poverty in later life.

Value of the home

Home-owners in the lowest-value homes in their local area moved into poverty more frequently across all waves, except between 1998/9 and 2003/4, although moves into poverty were generally reduced for home-owners in all value homes. The rates were also particular high in the lead-up to the financial crisis between 2003/4 and 2008/9 (10% for moves into poverty BHC for those in the bottom local home value group, and 13% and 11% for moves into poverty AHC for the bottom two bands of local home values).

The rate at which home-owners stayed in poverty were highest in the lowest-value homes across all waves, at 10% between 1993/4, 1998/9 and 2003/4, and 9% between 2003/4, 2008/9 and 2013/14. There was little pattern to the value of the home for those who managed to escape poverty between waves.

Occupational class

The 'highest' class of managerial and professional occupations was consistently the least frequently in poverty, with around 95% of this group remaining out of poverty across each of the pairs of waves. Very few professional home-owners fell into poverty BHC across the waves, with 4% across the middle of our study period and only 2% between 2008/9 and 2013/14. However, these figures were slightly higher for rates of poverty AHC, when 6% of professional home-owners moved into poverty between 2002/3 and 2008/9, and 5% between 2008/9 and 2013/14.

Self-employed people, in contrast, were consistently the group least likely to remain out of poverty across the pairs of waves, with only 64% remaining out of BHC poverty between the periods 2003/4 and 2008/9. During this period 10% remained in poverty, and 18% fell into poverty. However, self-employed home-owners were also the group that moved out of poverty the most, with 15% escaping poverty between 2008/9 and 2013/14, indicating that self-employed people were particularly sensitive to market fluctuations. Also between the latest periods, 2008/9 to 2013/14, home-owners in semi-routine or routine employment also had high rates of transition into poverty (7%), just below that of self-employed home-owners. Only 82% of people in semi-routine or routine occupations stayed out of poverty between 2008/9 and 2013/14, compared to 94% of home-owners in professional occupations.

What might the future hold for home-owners in poverty?

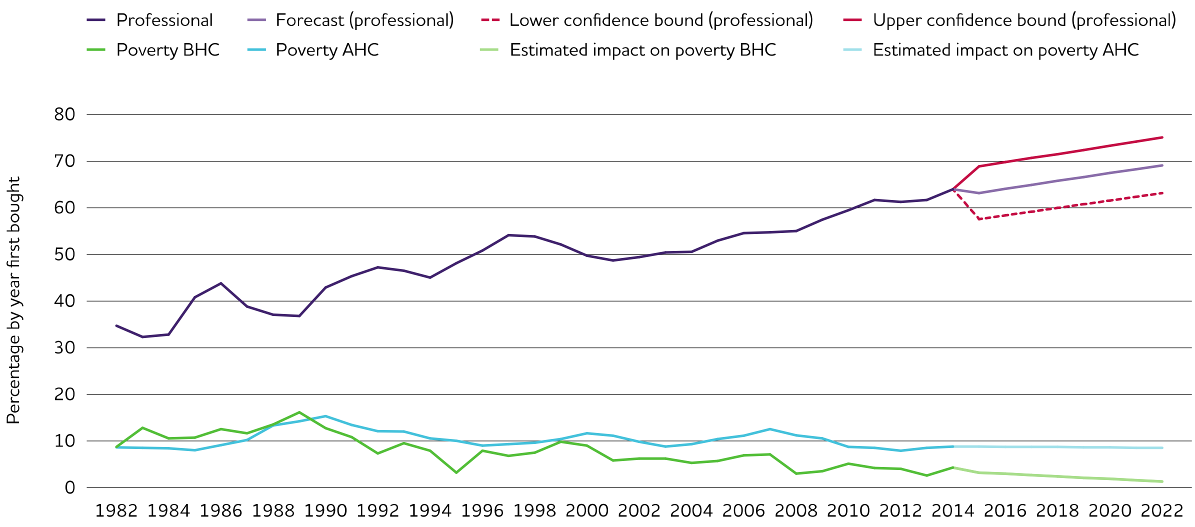
This section looks forward to estimate the impacts of changes in labour markets and mortgage finance that may influence the relationship between home-owners and poverty.

Trends in the occupational class of home-owners

Long-term shifts, pre-dating the financial crisis, were apparent in the proportions of home-owners in different occupational classes who bought property over time, with an increase in the proportion of professional occupations, and reductions in the rate of home-owners in routine occupations or self-employment among more recent entrants.

If new cohorts of home-owners are increasingly drawn from the professional and managerial classes, then the poverty BHC rate among home-owners is forecast to reduce accordingly (Figure 13). The team used smoothed, three-year averages of time series data recording the proportion of home-owners in professional occupations in 2013/14 by the year they first took on a mortgage, to forecast the impact on rates of poverty if current trends continued. If even more home-owners who buy in the years to come are from professional occupations, then the rate of poverty BHC among all home-owners would see a substantial reduction, from 4.3% among those who bought in 2014 to 1.9% for those who buy in 2022.

Figure 13: Impact on poverty BHC of rising professional HRPs in home-ownership



Source: Understanding Society

Greater proportions of households with self-employed HRPs had bought their homes during the 1980s than in more recent years. For example, 16% of home-owners who bought in 1984 were self-employed in 2013/14, compared to only 6% for those who bought in 2014. If this trend in the reduction of new buyers where the HRPs were self-employed continues, then the impact on the rate of poverty BHC among home-owners who bought in 2014 is forecast to reduce by 2.5 percentage points, to 2.2% for those who buy in 2022. Similarly, HRPs in routine or semi-routine occupations in 2013/14 comprised 29% of those that bought in 1989, but only 10% of home-owners who bought in 2014. Should the proportion of new home-owners in routine employment continue declining, the poverty rate BHC would reduce by 2.7 percentage points, to 1.6% by 2022. The impact of greater numbers of professional households in home-ownership on the rates of poverty AHC is, however, negligible.

There was wider uncertainty about the trends for home-owner HRPs in self-employed, routine or semi-routine occupations, compared to those in professional or managerial occupations, but the impact of a potential reduction in poverty rates with these shifts in the composition of the tenure are clear.

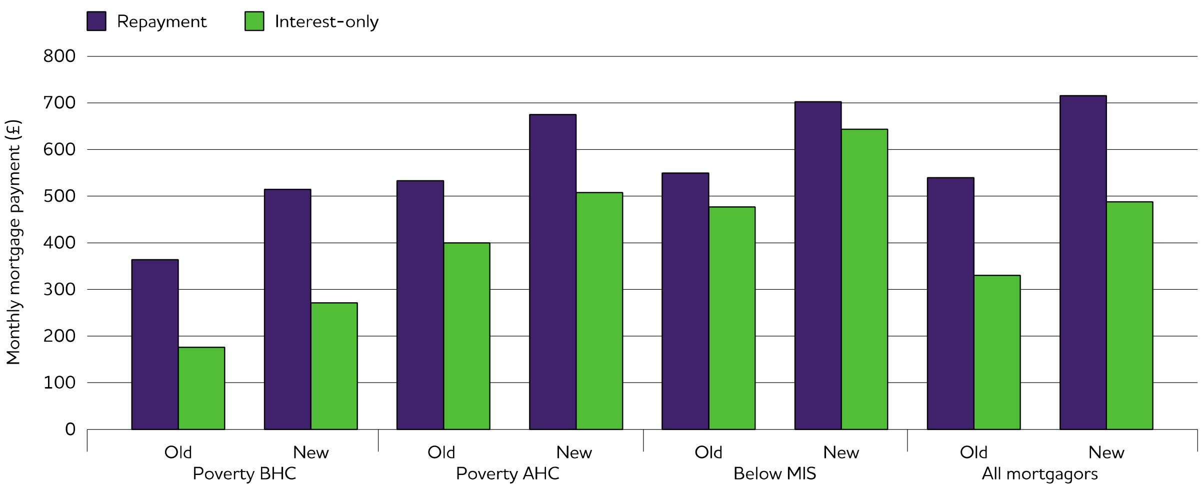
If, however, the expansion of affordable home-ownership options meets the home-ownership aspirations of low- to moderate-income households, rather than those of middle to higher earners in high-cost housing markets, then we could see the poverty rate BHC among home-owners rise. If a forecast decline in the proportion of new home-owners in routine occupations is replaced with a 5% rise over the period from 2014 to 2022, then, all things being equal, the impact on the rates of poverty BHC would be a rise of 1.5 percentage points, to 5.8% for those who buy in 2022.

Impact of mortgage rate rises on housing costs and poverty

For many years, policy discourse has been concerned about the potential of Bank of England base rate rises. For new entrants to the mortgage market post-2014, lenders have stress-tested applications against a two percentage point rise in mortgage rates, to ensure long-term affordability of the loans. The evidence here, however, suggests potentially grave impacts of a 1% rate rise on affordability and, by implication, sustainability, if not accompanied by rising incomes. Sensitive to this, rate rises are likely to be phased in gradually and many borrowers could have swapped to fixed rate loans, so mortgagors are unlikely to universally experience a hard payment shock. The study has used an unmitigated one percentage point rise to illustrate the potential impacts on mortgage costs, mortgage costs relative to incomes, and poverty rates. The data is based on circumstances in 2013/14 and has not attempted to adjust for the base rate reduction to 0.25% after the EU referendum vote in June 2016, or the more recent restoration of the 0.5% base rate from October 2017.

After a one percentage point rise in mortgage interest rates, the median monthly payment for repayment loans would rise from £540 to £594, an increase of £54 or 10% (Figure 14). Interest-only monthly mortgage costs would rise from £330 to £421, an increase of £91 or 28% in monthly loan costs. For mortgaged households already in poverty BHC the impact is greater, so repayment loans would rise £53 per month or 14.5%, and interest-only loans by £65 per month or 37%. There would be a still significant but lesser impact on households in poverty AHC, or with incomes below the MIS threshold. These are potentially significant payment shocks, not least for those households in poverty BHC and/or with interest-only loans, now that historically low interest rates have become normalised.

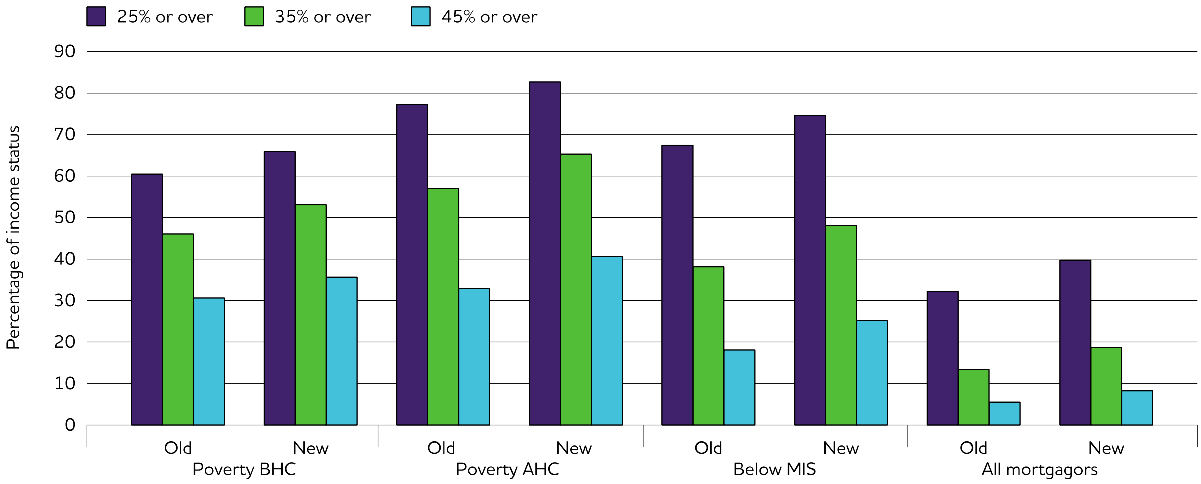
Figure 14: Monthly mortgage payments before and after a one percentage point rise in mortgage rates, by existing income status and mortgage type



Source: Understanding Society

A one percentage point mortgage interest rate rise would increase the proportion of mortgaged households spending over 35% of their income on housing costs, rising from 13% to 19% (Figure 15). Those spending in excess of 45% of their income on mortgage costs would rise from 6% to 8%. For mortgaged households in poverty, the proportion spending over 35% of income on housing costs would rise from 46% to 53% BHC, from 57% to 65% AHC and, for those with incomes below MIS, from 38% to 48%. The burden of high housing costs among mortgaged households clearly falls disproportionately on those in poverty or on inadequate incomes. However, the percentage rises in the proportion of mortgaged households paying high housing costs after a one percentage point rate rise were greatest for households **not** in poverty, due to a combination of those in poverty: having been home-owners for longer; having lower-value loans; and having lower loan-to-values. Rising mortgage arrears should be anticipated, however, as we saw earlier that increased affordability ratios are associated with greater proportions of households reporting that they were behind with their mortgage payments, especially for those in poverty. These anticipated changes are dependent on mortgage borrowers not having fixed their loans, which lower-income households are the least likely to do compared to higher-income borrowers (Wallace et al, 2014).

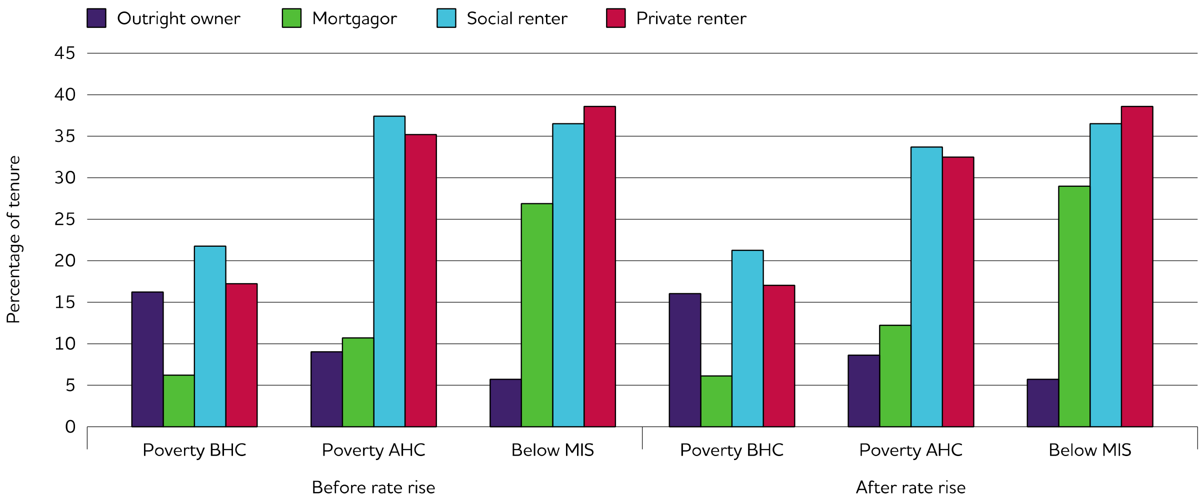
Figure 15: Net housing affordability ratio before and after a one percentage point mortgage interest rise, by income status



Source: Understanding Society

The impact of an assumed one percentage point rate rise on poverty rates was also calculated (Figure 16). The poverty rate among mortgagors stood at 6% BHC and 10.7% AHC during wave e, 2013/14. The rise in housing costs represented by a one percentage point rise in mortgage rates would mean that the poverty rate AHC among mortgagors would rise to 12.2%, a 14% increase, but would not bring the rate of poverty AHC among mortgagors near that of social or private renters (32% and 31% respectively). Following a one percentage point interest rate rise, the proportion of mortgagors whose incomes fell below the MIS threshold would rise from 27% to 29%.

Figure 16: Income status by housing tenure after a one percentage point rise in mortgage interest rates



Source: Understanding Society

Note that increased mortgage costs raise poverty rates AHC slightly among mortgaged households, but also act to reduce the aggregate household income after housing costs are deducted, and thus reduce the rate of poverty AHC among social and private renters. Thus despite only mortgage costs having risen with any increase in interest rates, poverty rates reported in Figure 15 differ to those reported in earlier chapters.

Conclusion

This chapter considered the interactions between home-owners and poverty over a 20-year period between 1993/4 and 2013/4. Movements out of home-ownership to rented housing (primarily private renting) were greater in the 1990s than in the period from 2003 onwards, possibly reflecting the lower interest rates and greater lender forbearance apparent in the most recent economic downturn. Remaining in work was the best way for home-owners to stay out of poverty, but the effect diminished in strength towards the end of the study period. Conversely, retirement became less of a predictor of entering poverty towards the end of the study period. Black African/Caribbean, Asian/South Asian and ethnic minority community home-owners were twice as likely to remain in poverty, except for the period 1998/9 to 2003/4. Self-employed people were the occupational class least likely to remain out of poverty across the study period, the most likely to enter poverty, and yet also the most likely to leave poverty, indicating their sensitivity to market fluctuations.

Looking forwards, labour market shifts in the composition of home-owners – with growing proportions of new home-owners drawn from professional classes, and lower proportions from the self-employed or those in routine or semi-routine occupations – indicate a decline in the rate of poverty BHC among new entrants. Conversely, all things being equal, mortgage interest rates rises of one percentage point would only marginally increase poverty rates (AHC) among home-owners. The impact of any rise on the housing cost burdens would be of a greater magnitude, however, especially for households already in poverty without fixed rate loans. The combination of events that may unfurl over the next few years is uncertain, but the tendency for home-owners to be drawn from higher-income professional groups could mitigate any impact of base rate rises, if they come. The impact on poverty rates of a rate rise will also be determined by any wage growth or inflation.

7 Discussion and policy implications

Introduction

Once households have gained access to home-ownership, the on-going experiences of lower-income home-owners currently garners little policy attention in relation to concerns about other housing issues, and perhaps understandably so. But when policy, at least in England, focuses so tightly on lower-income home-ownership options, examining the interactions of poverty and home-ownership is timely. This chapter discusses the evidence and draws out the policy implications.

Discussion

Although proportionately fewer in number than rented households in poverty, home-owners in poverty have been hidden in plain sight, and not subject to policy attention. This may be understandable, as social and private rented tenants have higher rates of poverty and no equity to potentially fall back upon. Moreover, it appears that the rate of poverty is falling and presents less of a risk among more recent home-owners. Pensioner poverty has reduced overall, a growing proportion of home-owners are now outright owners with minimal housing costs, and the proportion of newer home-owners in occupational groups associated with higher wages has increased. In addition, affordability pressures may further limit the proportions of self-employed people or those in routine occupations who enter the tenure, and who are more at risk of entering poverty. These issues combine to reduce the rate of poverty among home-owners overall.

However, other trends are apparent in the data, including an increase in the proportion of home-owners in poverty who are working, and in the proportion of those in professional or managerial occupations who experience poverty, although they remain under-represented among households in poverty. In combination, these factors suggest, however, that being in work is decreasing in its ability to help households avoid poverty, and that the risk of poverty extends higher up the income scale, particularly after housing costs. Mortgaged households with children also comprise a large proportion of working households with inadequate incomes at risk of poverty. It is notable that the rates of poverty AHC have declined at a slower pace than the rates of poverty BHC. Furthermore, should the significant change in the affordable home-ownership levels be sustained over the medium term, this does hold the potential at least to draw low- to moderate-income households into the tenure, possibly slowing or reversing any decline in poverty within the tenure.

In the 1990s, exits from home-ownership were associated with poverty, but existing home-owners in the 2000s showed a greater ability to escape poverty and remain in the tenure. This may be a function of the changing labour market profile, but lower interest rates and greater lender forbearance have made well documented contributions to the sustainability of the tenure. Although the arrears and possessions metrics are currently benign, the proportion of low- and moderate-income home-owners reporting that they were behind with their mortgage payments indicates a significantly wider pool of home-owners who are struggling and in financial stress than is reflected in official statistics. Estimates of the impact of possible rate rises show that the housing cost burdens, especially those felt by households already in poverty without fixed rate loans, would be significant, although poverty rates AHC would be little changed. This indicates that the arrears and possessions situation could deteriorate, and measures should be considered now to support struggling home-owners, not least to avoid the implementation problems associated with the rapid introduction of new mitigating measures seen during the last economic downturn (Wilcox et al, 2010).

Interest-only loans were more evident among older and mortgaged households in poverty and reduced the housing costs to income burden for these households, but there remains a risk of non-repayment at the end of the mortgage term. Lenders have, at the regulators' request, been prompting borrowers to make arrangements to repay interest-only loans. These data could not identify if households had a repayment strategy for their loan. It is likely that a large proportion would be limited in their ability to switch their loan and make affordable repayments prior to retirement.

Estimates showed that almost a fifth of home-owners in poverty were unable to move in order to reduce housing costs and/or release housing equity because they were adequately housed or overcrowded, in low-value homes, and had little equity. However, substantial proportions (two-fifths) were over-accommodated, in high-value homes relative to their local area, and with equity behind them, and so had the potential to downsize to reduce housing costs and/or release equity. Obviously, geography would alter the sums of equity available to these households, increasing that available to home-owners in London and the South of England, and likely reducing it in the North of England or the devolved countries. Policies that cap support to lower-value loans (SMI) or lower-value homes (mortgage rescue) are therefore appropriate, if other eligibility requirements match the circumstances of those struggling.

It was clear that there is a need to reconsider the role of the state in supporting home-owners, as the presence of greater proportions of working people in poverty, especially among home-owners, means that the current system of mortgage safety nets fails to meet households' needs. In the advent of another market downturn, greater proportions of home-owners in poverty may no longer be in work, but a system of safety nets is required that works throughout the market cycle and also offers a form of in-work support. Moreover sustaining households in home-ownership could be less expensive, as public support of the tenure over the long term is likely to be lower than the spectre of higher housing benefit bills supporting private renters in later life.

Stakeholders offered limited proposals as to what the government should do to support struggling home-owners. It is clear from this analysis that large proportions of home-owners in poverty do have housing equity, and – in the absence of housing equity being taxed and redistributed for a range of welfare purposes – there are plausible arguments for equity charges. Stakeholders who had considered the issue thought that the shift to equity charges would mean that there was scope for eligibility for SMI to be widened. A more generous offer could address eligibility and the needs of working households, do so in a more timely fashion, and possibly include an element of repayment. Stakeholders acknowledged that in a downturn, equity levels could reduce and that a portion of equity charges would not be repaid, but many home-owners have sufficient equity to cover this support. Borrowing to remedy problem debt is not normally recommended so mortgagors with little equity and potentially long and/or higher-value SMI claims could be directed to formal debt advice.

However, an alternative suggestion for a reformed mortgage safety net eschewed public subsidy altogether, and was based on differently structured loan products. Loans could be reconfigured with safety spaces built in, so a few points on the mortgage would enable lenders to self-insure and thus offer payment breaks and write-offs in prescribed circumstances. Such moves could cover many risks and would require little in the way of government cash, but would have to be across the loan book, as financially constrained borrowers could opt out of the percentage point premiums.

Some stakeholders thought that in addition to working with lenders and public and/or private housing providers, the state should also facilitate smooth exits in response to the adverse consequences on family members' mental health and stability that may result from moves out of the tenure when home-ownership becomes demonstrably unsustainable.[10] Assisted voluntary sales schemes would also support the homeless prevention agenda.

Mortgaged households in poverty AHC had higher interest rates on their loans than those not in poverty, especially for interest-only loans. Some lenders trialled loan modifications after 2008/9 as they have been widely used in the US foreclosure crisis (Ford and Wallace, 2009), but the evidence of their application or effectiveness was limited. Looking again at such remedies could inform future decisions about the direction of state support for home-owners, to secure reduced interest rates for struggling borrowers where self-help is unavailable and, in the case of interest-only loans, support repayment.

A smaller but important point is that mortgaged households in poverty were most often working families, so any consideration of in-work and child poverty should consider measures that include home-owners. Although home-owners in poverty largely lived in similar locations to renters in poverty, this was not always the case, so area interventions may fail to meet the needs of some children in poverty.

Outright owners are largely retired households, for whom the rate of entry to poverty has slowed over time, but their physical housing conditions require attention. Their homes demand the most resources to meet the Decent Homes Standard, and yet the home is now generally the site of social care in later life, and therefore assumed to be unproblematic. Although in aggregate, the sums required to bring outright owners' homes, including for those in poverty, up to the Decent Homes Standard were significant, the remediation costs per individual property were modest and dwarfed by the sums of housing equity held. Revisiting equity loan schemes for home-owners in poverty could go some way to remedying poor conditions among older home-owners. Supporting mortgaged households in poverty in poor housing conditions is also possible, but represents a greater challenge. Releasing equity would increase payments for already stretched borrowers, unless the borrowers could simultaneously shift to a lower interest rate; the flow of funds back to the scheme from equity charges would take a lot longer. Nonetheless, greater support for revolving funds to support such remediation works could support older home-owners, at least, to stay in their homes.

Research gaps

Home-owners from ethnic minority communities were more likely to be in poverty and remain in poverty over the long term, particularly for mortgaged households compared to white group home-owners. The differential experiences of ethnic minority group home-owners should be explored further in terms of access, affordability, sustainability and poverty, as these issues are under-explored in the contemporary literature.

Home-ownership under UK devolution should also be explored further. Policy differs in terms of the support available (all countries have different systems of affordable home-ownership schemes), and avoiding exit from the tenure (Scotland and Wales have mortgage rescue schemes that are unavailable to home-owners in England and Northern Ireland). The intensity and nature of poverty experiences also differs by region and country – Northern Ireland has the highest rates of poverty (BHC or AHC), along with London (AHC). Scottish home-owners had consistently lower rates of poverty, despite greater proportions of HRPs being from lower-grade occupations, but the reasons for this were unclear.

Support for home-owners is the responsibility of different levels of government, producing some fundamental tensions – mortgage regulation and social security are retained, national UK domains, while housing, including affordable home-ownership support schemes and mortgage rescue, are the responsibility of the devolved areas. Northern Ireland is the only devolved area that does not have to maintain parity with welfare systems in Great Britain, but with only limited examples of divergence. Attracting attention for struggling home-owners in smaller jurisdictions can therefore be a challenge, not least as some areas have seen only a weak recovery from the recession, and issues of the sustainability of home-ownership remain, but the UK-wide policy agenda has moved on. Further consideration of the geographic circumstances of low-income home-owners is required, including policies that support them throughout the market cycle and when those cycles are not synchronised across the UK.

The data did not permit analysis of a few critical issues. First was the issue of unsecured debt and poverty, which stakeholders identified as a growing concern. The data also did not permit analysis of the tax credits received by low-income home-owners, particularly as mortgaged households frequently comprised couples with children. It is uncertain how home-owners will fair when tax credits are rolled into Universal Credit, and possibly reduced; it is also unclear what the impact of more limited access to SMI will be.

Policy recommendations

Policies promoting the expansion of home-ownership among low- to moderate-income groups, accompanied by programmes that support these households, which are shown to be at greater risk of poverty and default.

Regulatory authorities to monitor longer mortgage terms against the sustainability over the term, as well as possible under-investment in pensions.

National regulatory, social security or housing agencies to have greater sensitivities to the geographical diversity of housing and/or home-ownership experiences, which can give rise to policy mismatches.

Greater attention to be paid to the poor housing conditions among home-owners in poverty, particularly older outright owners. Remedying the thermal deficiencies, disrepair and hazards in their homes underpins them remaining in situ in later life, and has the potential for healthier homes. The housing equity held outweighs any remediation costs, so national governments should ensure access to revolving loans and support to undertake the work to bring homes up to standard.

A comprehensive review of mortgage safety nets to determine how low-income home-owners should be supported in the future. The review should include the role of equity, lenders' self-insurance, existing proposals such as shared insurance schemes (for example, SHOP), how safety nets could accommodate different risks and labour market circumstances (such as self-employment), as well as the facilitation of assisted voluntary sales schemes in each area when home-ownership is shown to be unsustainable. Certainly, the conversion of current mortgage interest payments to an equity charge signals that support could be more generous in terms of waiting times and eligibility.

Notes

1. Further information about the Understanding Society and BHPS datasets is available from https://www.understandingsociety.ac.uk/

2. https://www.york.ac.uk/media/chp/Report.pdf

3. But see Cole et al (2017) for assessment of the early stages of the voluntary right-to-buy pilots, for examples of tenants over-stretching themselves to purchase.

4. The proportion of first-time buyers with mortgages over 30 years in length is 38% (Department for Communities and Local Government, 2016b), and for loans advanced on terms over 35 years the proportion has risen from 16% in 2007 to 26% by 2015 (Halifax, 2016).

5. See Wallace et al (2011) for a discussion of assisted voluntary sales schemes.

6. "(a) A person living together with another as husband and wife (whether that other person is of the same sex or the opposite sex) (b) A person aged 21 years or more (c) Two persons of the same sex aged 10 years to 20 years (d) Two persons (whether of the same sex or not) aged less than 10 years (e) Two persons of the same sex where one person is aged between 10 years and 20 years and the other is aged less than 10 years (f) Any person aged under 21 years in any case where he or she cannot be paired with another occupier of the dwelling so as to fall within (c), (d) or (e) above."
ONS (2014)

7. House condition surveys are also available in Northern Ireland and Scotland, but were beyond the scope of this project to analyse. A house condition survey in Wales is also planned for 2017/18 (see http://gov.wales/statistics-and-research/housing-conditions-evidence-programme/?lang=en).

8. To meet the Decent Homes Standard, properties must be safe, be in a reasonable state of repair, have reasonably modern facilities and services, and have efficient heating and effective insulation. There are 26 separate criteria.

9. Stakeholders noted that transitional arrangements for existing mortgage customers to obtain new mortgage deals, despite not qualifying under current regulations, are in place, but may not be applicable for customers who have experienced a change of circumstances. It is a situation more applicable to those who have fallen into poverty and are trying to manage their finances.

10. See Wallace et al (2011) for a discussion of the potential of assisted voluntary sales, and Nettleton et al (1999), Nettleton and Burrows (2000), and Pevalin (2009) on the impact of repossessions.

11. For further information about relative deprivation and the IMD see http://bit.ly/1Vr8muy

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Appendix: Research methods

In-depth stakeholder interviews

A total of 13 qualitative interviews were undertaken between January and August 2016 with stakeholders who had an interest in the housing and mortgage markets. These interviews were conducted on the telephone and lasted a maximum of one hour, and were digitally recorded and transcribed. The discussions were led by a topic guide that covered issues ranging from general and current policy support for (low-income) home-ownership, changing labour markets, changing mortgage markets, sustainable home-ownership, the merits or otherwise of low-income home-ownership, and threats and opportunities that were on the horizon for (prospective) low-income home-owners. These interviews informed the analysis and in particular the discussion relating to the policy implications of the research findings.

Quantitative data analysis

This research is principally based on analyses of data collected in the British Household Panel Survey (BHPS) and its successor Understanding Society. The BHPS began in 1991, and continued for 18 waves until 2009, after which Understanding Society was introduced. Respondents to wave 18 of the BHPS who agreed to continue participating in Understanding Society were first interviewed in the second wave of the new survey, in 2010/11. At the time of this research, all 18 waves of the BHPS were available for analysis, as were the first five waves of Understanding Society, which took the survey data up to 2013/14.

The panel of participants has evolved since the BHPS was first established. In 1991 it comprised 5,500 households and 10,300 individuals across Great Britain. Additional samples were added in Scotland and Wales in 1999, and in 2001 the survey was extended to include Northern Ireland. Understanding Society further expanded the scale of the surveys and, as with the BHPS, it follows respondents who remain within the scope of the survey, attempting to re-interview them in each wave.

A number of questionnaire modules are used in the surveys, and these too have evolved over time. Many questions have been repeated in each wave, some have been asked only occasionally or intermittently, and in some cases questions have been modified or updated from previous waves. The net result is a range of data with varying capacity for a longitudinal analysis in a consistent and comparable manner.

Analysis waves

Within the scope of this work it would have been impracticable to include all waves of the survey data available, due to both the time it would have required to compile the relevant variables from all waves, and the low number of respondents to all waves. It was also considered unnecessary to analyse all waves to obtain a picture of the patterns of poverty among home-owners over the period covered by the surveys. Therefore five waves were selected at five-year intervals, finishing with the most recent data available: 1993/1994 (BHPS wave C), 1998/1999 (BHPS wave H), 2003/2004 (BHPS wave M), 2008/2009 (BHPS wave R), and 2013/2014 (Understanding Society wave E). These waves also represent place-markers in the recent housing market cycles. Wave C, 1993/4, was just after the lowest point of the 1990s housing market downturn, 1998/9 a midpoint between 1993/4 and 2003/4, when markets started rising, to a peak just prior to 2008/9, which was the start of the financial crisis when the market fell, and 2013/14 reflect the limited recovery after the financial crisis.

The cross-sectional analysis was completed at the household level, and the longitudinal analysis was based on individual adults who responded to consecutive pairs of the five waves: since household type and membership can change, the surveys make no attempt to follow households, but rather they follow the individuals within households who remain within the scope of the BHPS or Understanding Society. Due to these two key differences, the percentages reported in the cross-sectional analysis are unlikely to be the same as those contained in the longitudinal analysis.

Poverty and income measures

The Households Below Average Income (HBAI) data is derived from the Family Resources Survey (FRS), a cross-sectional government survey. The BHPS and Understanding Society survey represent longitudinal panel data. The panel survey data are based on annual interviews from a sample that includes the same people and households, rather than the FRS samples that include different people and households each year. Government and researchers frequently use the BHPS and Understanding Society to analyse poverty, particularly movements in and out of poverty, but while the panel data is regularly re-weighted to remain representative, findings from the two surveys may differ slightly. The proportion of all households in poverty that are home-owners is, for example, higher in the Understanding Society data (54% of all households in poverty BHC and 44% of all households in poverty AHC) than the HBAI data (50% of all households in poverty BHC and 33% of all households in poverty AHC). HBAI figures are reported for the composition of households in poverty, but Understanding Society data is used to analyse the characteristics and circumstances of households in poverty who are home-owners.

The method used to calculate household income and identify those in BHC and AHC poverty follows the form set out by the Department for Work and Pensions (DWP, 2014/15). An 'HBAI comparable' household net income figure is made available for the BHPS, using a methodology and range of income variables as set out in the UK Data Archive Study 3909 (Levy and Jenkins, 2012), and the appropriate figures are included in Understanding Society data.

Household income was equivalised using the modified OECD equivalence scales, as set out in the DWP methodology; following this the BHC and AHC equivalised incomes were used to identify households with an income of lower than 60% of the median. To facilitate this procedure, the equivalised median household income figure was calculated for households responding to each of the five waves of data used in our analysis.

In addition, household incomes below the Minimum Income Standard (MIS) (see Hirsch, 2015) were identified for different household types using HBAI-equivalent compatible data AHC (excluding rent, council tax, childcare and water rates) for 2014, obtained from Loughborough University. Some household types, such as multi-adult households, were excluded from the MIS calculations, as figures to determine the MIS threshold were unavailable. It was not possible to use measures of poverty and social exclusion that comprise indicators of material deprivation, as the Understanding Society dataset does not ask the same range of questions that the BHPS once did regarding physical housing conditions.

External data

Two external sources of data were appended to the Understanding Society data to enhance the analysis. These were average house prices for all transactions, obtained from the Land Registry, and the Index of Multiple Deprivation (IMD) 2015.[11] These two sources of data were added at the local authority level – a special licence version of the Understanding Society data was obtained to facilitate this data matching. Average house prices for 2014, including quintiles, deciles and vigintiles, were calculated for each local authority area in England and Wales, and married to the Understanding Society wave e data. Likewise, with the IMD for the local authorities of England, quintiles, deciles and vigintiles of the IMD average score were calculated and married to the Understanding Society wave e data.

Derived variables were created from the dataset to address a range of issues, including the three poverty measures (BHC, AHC and incomes below the MIS), estimating housing equity, loan-to-values, mortgage interest rates and housing affordability ratios. The housing affordability ratios used net income data and net housing costs, so housing benefit was deducted from rental costs, rather than being added to household income.

Estimated variables

Dummy variables were calculated for mortgage interest rates paid and housing equity based on respondents' self-reported data. These estimates are therefore subject to the respondents' ability to accurately recall their outstanding mortgages, monthly payments and the number of years left on the loan, for example, and so may differ from industry-derived data of actual loans. The impact of mortgage interest rate rises was also subject to these caveats, as it was estimated from these data.

Affordability ratios were also calculated, subject again to respondents' recall, based upon net rents (minus any housing benefit payable) and net household income.

Only findings that were statistically significant were reported, unless otherwise stated.

Cross-sectional analysis of the English Housing Survey

A researcher was employed as part of the project to analyse the physical housing circumstances of home-owners in poverty, and compare their conditions with other home-owners' and other households in poverty in other housing tenures. House condition surveys are available in Scotland and Northern Ireland, but were beyond the scope of this project. A Welsh house condition survey is being considered for 2017/18.

Interview data from the 2013–14 English Housing Survey was merged with physical survey information from the 2014 Housing Stock data. Of the 12,297 dwellings that underwent a physical survey, 446 (3.6%) of these were vacant and therefore could not be matched with interview data. Hence the final sample analysed in this report is composed of 11,851 households. As the English Housing Survey oversampled from the rental sector in order to obtain large enough sample sizes for each of the tenures, a weighting was applied to the data so that the results in this report are representative of the national population of English households.

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