



FINANCIAL INCLUSION CENTRE COVID-19 BRIEFING

PROTECTING RENTERS FROM THE FINANCIAL IMPACTS OF THE COVID-19 PANDEMIC

FUNDING THE SUPPLY OF AFFORDABLE, DECENT SOCIAL HOUSING

INTRODUCTION

The Covid19 pandemic has had a devastating impact on the UK economy and would have had a similar devastating impact on jobs and household incomes if it wasn't for a range of large scale, **temporary** interventions introduced by the government and financial regulators.

But, we must prepare for the fact that the crisis will play out in four phases:

- Emergency phase (while the temporary government and regulatory measures are in place)
- Survival phase (when the support measures are removed/ phased out and households have to survive financially until a sustained economic recovery comes)
- Recovery phase (when the economy begins to recover – but it will be some time after this before jobs and household finances recover)
- Rebuilding and restructuring phase (when the challenge of rebuilding and restructuring the economy, financial system and household finances needs to begin, new reforms are put in place against the risk of future economic shocks).

The Financial Inclusion Centre recently published a comprehensive report entitled *Extraordinary times need extraordinary measures: dealing with the immediate and longer term financial impacts of the Covid-19 pandemic*. This report can be found here:

That report proposed a range of measures to protect households during these phases and covered financial services and non-financial services sectors such as housing, council tax and utilities. From that report, we are producing a series of briefings focusing on specific issues.

This first briefing focuses on what needs to be done to protect private renters once the temporary protections against evictions are unwound. This briefing also outlines our proposals for efficiently funding the building of social housing to meet the need for affordable housing.

This briefing should be read in conjunction with the report we have also uploaded on our website today called *Consumer Rights in the Private Rented Sector*. See: [Consumer Rights in the Private Rented Sector](#)

That report provides an in depth analysis of the lack of protection and weak rights available to private renters and makes a series of recommendations for redressing that rights deficit in the long term.

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Financial Inclusion Centre
May 2020

WHY ARE RENTERS AT RISK?

As outlined in the report *Extraordinary times need extraordinary measures: dealing with the immediate and longer term financial impacts of the Covid-19 pandemic*, renters are already facing serious and prolonged financial difficulties due to the impact of Covid-19. But, as we highlighted in our ground breaking analysis contained in the report *Consumer Rights in the Private Rented Sector*, there is already major level detriment and a **significant** rights and protection deficit in the PRS.

The government has introduced some measures to help renters. Nearly £1 billion of support is being provided to increase housing benefit and Universal Credit so that Local Housing Allowance will cover at least 30 percent of market rents in local areas. The government had promised that evictions in social and private housing would be suspended during the pandemic and this suspension of evictions has been extended until the 23rd of August.¹

However, these measures just extend the statutory notice period for eviction from 2 months to 3 months for the vast majority of renters. This means landlords can still serve notice and claim possession at the end of that period.

There appears to be no protection for residents who can be evicted without notice such as people in temporary housing or lodgers. Furthermore, there appears to be no statutory provisions to deal with arrears that will be built up during this period. Instead the government has previously said that it would 'encourage' landlords and tenants to agree an 'affordable' repayment plan to payback arrears.

Even if evictions are suspended during the crisis, renters will still be vulnerable when landlords seek to recover rent arrears after the emergency protections are lifted. As private sector rents are high in certain parts of the country, allowing landlords to recover arrears too aggressively would make rents even more unaffordable and place too great a strain on household finances. Just providing tenants with a period of grace to repay arrears would provide limited protection given how badly household finances are expected to be hit.

There is little sign that the consumer protections available to homeowners with a mortgage as part of the Financial Conduct Authority's regulatory regime will be made available to renters once the emergency measures come to an end.

Renters need enhanced protections during the crisis and for as long as it takes until a sustained recovery has been established. We are facing what has been described as an 'avalanche of evictions'. Furthermore, a more fundamental overhaul of the consumer protections available to renters is needed.

Of course, the position of landlords must also be considered. In 2015/16 there were 2.5 million private landlords in the UK, up from 1.97 million in 2011/12 – an increase of 27 percent.² Eight percent landlords (by number) own 38 percent of all private rented properties.³ The majority of landlords own just one property. Many of these will not have deep pockets to withstand a loss of rental income.

¹ <https://www.gov.uk/government/news/ban-on-evictions-extended-by-2-months-to-further-protect-renters>

² <https://www.landlordtoday.co.uk/breaking-news/2018/4/number-of-uk-landlords-rises-to-1-75-million>

³ Source: CML RESEARCH, The profile of UK private landlords, Kath Scanlon and Christine Whitehead LSE London, December 2016, Fig 1: Distribution of PRS Portfolio size (2016)

MEASURES TO PROTECT PRIVATE RENTERS

The measures proposed here are designed to protect private renters from the near term potentially catastrophic impacts of Covid-19. These should be read in conjunction with the report we have also uploaded on our website today called *Consumer Rights in the Private Rented Sector*. The measures in that report are designed to provide longer term protections and rights for private renters.

Proposal: What is intended to be a three month ban on evictions does not go far enough. Evictions should be suspended for as long as it takes to provide time for more permanent legal and consumer protections for renters to be put in place.

Proposal: Government should fast track legislation in the pipeline to protect renters from 'no fault' Section 21 evictions which leave renters in such a vulnerable position. Automatic evictions due to arrears built up as a result of Covid19 related financial difficulties should be banned. This could be done by amending Section 8 notices. These notices are issued by landlords as the first step in the eviction process. If a Section 8 notice is issued, tenants should be able to cite special circumstances to stop the eviction process until their case has been independently assessed – see below.

Proposal: Landlords should not be able to make tenants bankrupt as a result of rent arrears.

Proposal: A new, enforceable pre-action eviction protocol should be urgently agreed requiring landlords to treat tenants fairly, and cover the steps landlords and tenants must take before any attempt at eviction is made. Critically, tenants should be given the right to challenge whether a landlord has complied with the protocol and, if necessary, have this dispute ruled on by the Housing Ombudsman Service. The Ombudsman should have emergency powers during the crisis to suspend rent payments in certain circumstances where tenants are in serious financial difficulties.

Proposal: New rules brought in by the FCA allows borrowers who are experiencing (or reasonably expect to experience) payment difficulties because of Covid19 to ask for a mortgage payment holiday from their lender. The FCA expects lenders to do this unless the lender can offer a better option. This measure should be extended to renters. Renters should be able to request a rent payment holiday and, if refused, take this to the Housing Ombudsman Service for a decision binding on landlords.

Proposal: A new pre-action protocol should ensure that any plan to recover arrears does not place undue strain on tenants' finances. Tenants should have the legal right to refer any proposed agreement to debt advice charities for arbitration and, if necessary, to the Housing Ombudsman Service. The Ombudsman should have the powers to impose a total payment cap consisting of the underlying rent plus any amount set aside for recouping arrears. In exceptional cases, the Ombudsman should be able to set aside accumulated arrears to allow the tenant to start with a clean slate.

Proposal: The position of smaller landlords must also be considered. Any decision by the Ombudsman should also take into account the financial position of landlords. If the landlord has a buy-to-let mortgage, and a plan recommended by the Housing Ombudsman causes financial difficulty for the landlord, the FCA should ensure that mortgage lenders offer payment holidays under the treating customer fairly rules. Government should also set up a special support fund for smaller landlords. Landlords subject to Housing Ombudsman decisions, and who do not have a buy-

to-let mortgage, should be able to apply to this support fund for relief. Larger landlords should be required to absorb any loss of rent caused by Ombudsman decisions.

Proposal: The measures outlined above would provide a good level of protection for renters during the crisis and *assuming there is a sustained recovery*. But, we must be ready for the worst case scenario. Millions of private renters are already experiencing financial difficulty. If we do not see a sustained recovery in the economy, jobs, and incomes millions of renters will find it difficult to pay their rent. This will require extraordinary measures over and above requiring landlords to offer payment holidays. Remember, we are not dealing with just another consumer good/ service. This is about making sure people have somewhere to live. If the worst case scenario does unfold, rents will have to be reduced for those tenants who are facing prolonged financial difficulties connected to Covid19. This will involve landlords and, where relevant, buy-to-let mortgage lenders taking a 'haircut' on their rental and mortgage income, with the state also paying more towards the rent. How this is to be shared between landlords, mortgage lenders, and the state would depend on specific circumstances. But, the general principle should be that larger landlords and smaller landlords making significant profits from rented properties shoulder a greater share of reduced rent.

Proposal: Until comprehensive statutory protections for renters are introduced, local authorities should be given emergency powers to cap rents and limit increases if needed.

Proposal: We call for a new statutory Private Rented Sector Regulator to be established with similar powers and duties as the Financial Conduct Authority (FCA), and statutory rights for renters – see below. As an interim measure, the Housing Ombudsman Service should be given emergency resources and emergency powers (similar to the Financial Ombudsman Service) to deal with disputes between landlords and tenants such as those outlined above. As with the FOS, decisions by the Housing Ombudsman should be binding on landlords. These measures would just provide renters with the same protections available to financial consumers.

Proposal: A register of approved landlords should be urgently established to ensure the market is properly regulated and renters protected.

Proposal: The improved protections and rights outlined above should be rolled over if a landlord sells a property to another landlord.

Proposal: To make the rental market work better in the longer term, legislation is also needed to close the rights and protection deficit facing renters by introducing statutory protections similar to those available to financial consumers. We need a new system for protecting renters built along the lines of the FCA, FOS, and FSCS system. Key to this is a new statutory Private Rented Sector Regulator Details. Details are set out in the report Consumer Rights in the Private Rented Sector. Note, our proposals would not be a case of giving special treatment to renters, simply giving them the rights and protections well-off financial consumers take for granted.

FUNDING SOCIAL HOUSING, REBUILDING THE ECONOMIC AND SOCIAL INFRASTRUCTURE

Clearly, improving the rights and protections available to private renters is just one part of the equation. We need to increase the supply of affordable, decent quality housing. To do this, we are proposing a set of cost effective funding mechanisms to channel resources into building affordable social housing post as part of the response to the post Covid-19 recovery effort.

Proposal: We propose the government issues a series of dedicated National Recovery Government Bonds (gilts) to fund activities in core areas Regeneration, Social Housing, Social Lending, and Greening the Economy. Alternatively, government could just issue tranches of general purpose National Recovery Bonds with government deciding on how to allocate the proceeds in consultation with civil society and industry.

Proposal: In addition, to complement National Recovery Bonds, government should use National Savings & Investment (NS&I) to issue Regeneration, Social Housing, Social Lending Bonds, and Green Bonds. This would be slightly more expensive than government raising money directly (though still significantly cheaper than using pension fund and insurance company investments etc). But, the additional cost we think is worth it in terms of allowing ordinary savers to participate in this national programme of recovery and rebuilding.

Proposal: Similarly, government should support metropolitan and local authority areas in issuing bonds to meet specific needs for housing.⁴ Again, this would be slightly more costly than government directly raising money through the government bond markets. But, it would allow local communities to participate directly in the rebuilding programme.

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July 2020

⁴ Organisations such as Network Rail and Transport for London are able to finance development by issuing bonds at a fraction above gilt rates. It would be feasible for a new agency called Homes for London to issue bonds at similar pricing structures. Local authority bonds used to be the rated the second safest after gilts until the market was closed.

ABOUT THE FINANCIAL INCLUSION CENTRE

The Financial Inclusion Centre is an independent, not-for-profit policy and research group. Its mission is to promote a financial system and financial markets that work for society. The Centre works at two main levels.

Promoting system-level change We undertake research and develop policy to promote sustainable, resilient, economically and socially useful financial markets that: benefit the environment; encourage responsible corporate behaviours and create a positive social impact; and efficiently allocate long-term financial resources to the real economy.

Promoting economic and social justice We promote fair and inclusive, efficient, well-governed and accountable, properly regulated financial services that meet households' core financial needs. To do this, we undertake research into the causes of market failure in the sector, formulate policies to address that market failure, develop alternative solutions where the market cannot deliver, and campaign for market reform.

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