

Sale and Rent Back again

A letter to the Herald, February 2009

Sir -

In May last year I wrote to the Herald about so-called sale-and-rent-back arrangements. At the time, we had just had a flyer through our door in Alton advertising this “service”. In October, the Office of Fair Trading issued a report. Last week the government finally announced emergency regulation of the sector, due to take effect in July. But it doesn’t go far enough.

With sale and rent back, a company buys your home, usually at a significant discount to its market value, then you rent it back from them at an agreed level. With the current state of the economy and the spectre of repossessions, householders in distress are targeted. Some 50,000 sale and rent back transactions have already taken place.

Such decisions involve very serious and complex choices for people who may be under severe strain – and the deal can seem like a lifeline. But there are two major problems. First, you may get a bad deal on the value of your house (even given the state of the market at the moment). Second, you exchange the security of ownership for a tenancy. Adverts may suggest you can stay as long as you want, but the real guarantee may be only six or twelve months.

Citizens’ Advice Bureaux have aptly described sale and rent back as “a disaster waiting to happen”.

While so much of business and society is subject to heavy regulation, when it comes to financial services we are remarkably laissez-faire. Until recently, sale and rent back wasn’t even subject to monitoring by the Financial Services Authority. Even now the government’s emphasis seems to be mainly on getting the firms involved to substantiate advertising claims and improve disclosure.

In general, it is not the place of government to intervene in a deal freely entered into by two parties. But some financial decisions are so momentous – and people’s financial capability so varied – that to just leave it to disclosure and the market is to let people down. Just about every other major nation has far tighter rules on consumer credit than we do – even America.

Never is the decision more momentous than when it comes to selling your home at a knock-down price. I fear the new emergency regulation will not be enough – and operators will find ways around its provisions.

Some have suggested that a government-sponsored form of sale and rent back could offer a responsible alternative. It is an option worth consideration.

When the government finally manages to put in place a full, permanent regulatory framework, I hope it will feature a very robust code of practice, with proper protection for householders.

In the meantime, I hope people will be very wary of these deals that may seem to solve problems – but often create worse ones instead.

Yours

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