



Government Office for the South West
Analysis of Mortgage Repossessions in the South West
Interim report – Outlining trends

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1. Background

Analysis of mortgage repossessions in the South West

The Chartered Institute of Housing (CIH) is working with the Government Office for the South West (GOSW) to undertake an analysis of mortgage repossessions in the South West.

The analysis will provide new research into rising repossessions levels in the South West region, building on existing data from the Ministry of Justice (MoJ), Cabinet Office and Department for Communities and Local Government (CLG).

The information from this study will help the Government Office for the South West, working with regional partners and CLG, to assess the scale and nature of repossessions in the South West region. This understanding will enable a more strategic targeting of resources to ensure that the most vulnerable households in the region are protected from losing their homes.

The principal aims of the research are to:

- Build an accurate picture of rising repossessions in the South West region
- Identify current and future hot spots
- Assess the court mortgage repossession process in two hotspot areas to identify:
 - levels of court attendance by defendants
 - awareness of protocols amongst lenders, advocates and district judges
 - lender behaviour
 - availability and demand for local advice, advocacy and support services
- Identify whether there has been an increase in housing enquiries to the local authority and voluntary sector agencies related to mortgage repossessions in these hot spot areas
- Provide a qualitative insight into the mortgage process by interviewing a minimum of five case studies of households subject to proceedings in each hotspot area to assess:
 - Reasons leading up to mortgage repossession
 - Defendants' understanding of the process
 - Defendants' awareness of advice and support provision
 - Where, how and at what stage in the process, defendants access services
 - Eligibility for schemes relating to mortgage repossession
 - Defendants aspirations for the future outcome of the case
 - Actual outcomes of the case.

The research will be reported on in two stages:

- | | |
|---------|---|
| Stage 1 | Interim report on quantitative data outlining trends |
| Stage 2 | Final report presenting primary quantitative and qualitative research into two hotspots, exploring the actions and experiences of courts, lenders, advice agencies, and households. |

The final report will be presented to the South West Housing and Infrastructure Action Group, the Regional Housing Forum, and the Regional Economic Task Group in July 2009.

Some headline trends

A great deal of analysis into mortgage repossessions has been carried out at national level over the last 18 months.

- There has been a steep increase in repossession cases but, as highlighted in the research specification, analysis of trends is difficult because there are problems with data collection.
- The most common causes of repossession are known to be reductions in income resulting from changes in employment, relationship breakdown, critical illness, or death of a working adult.

- A significant number of repossessions have been driven by second charge lenders¹ (often pursuing arrears on quite a small proportion of the overall debt secured on the property), and by sub-prime lenders who have more assertive approaches to arrears than many mainstream lenders.
- There are quite noticeable differences between regions in the scale of increase in repossessions, indicating that differences in economic circumstances or the activities of households, lenders, courts or support services, play an important role.

The national response to rising repossessions

The challenge of mortgage repossessions is present nationwide, and a suite of tools is now available to help homeowners and organisations to avoid or mitigate the impact of repossession. These tools have built on approaches used in the recession of the early 1990s, and have been adapted to respond to lessons learned then and to incorporate contemporary products and aspirations. They have been established quickly in response to rapid declines in the credit and employment markets and consequently are still largely unfamiliar to practitioners and households alike.

Resources to avoid repossession

There is a 'suite' of resources available to help households avoid repossession, which includes options overseen by lenders, government, and householders themselves:

- Household savings
- Payment protection insurance / critical illness insurance
- Lender forbearance
- Government mortgage rescue
- Homeowners Mortgage Support
- Support for Mortgage Interest
- Small loans offered by local authorities
- Trading down.

It is now well accepted that behind the use of all of these must sit comprehensive and accessible advice services, to ensure the most appropriate decisions are made.

The South West experience

An overview analysis shows that the number of mortgage possession orders in the South West increased dramatically in 2008, with particularly notable increases in some parts of the region. Housing advice agencies have reported an increased demand for their services, and some are struggling to meet this demand in a timely manner. Park homes owners have reported an increased use of their caravans, as local authorities struggle to meet an increased demand for temporary accommodation.

Unemployment in the South West is lower than in other English regions, although it has increased rapidly through the latter months of 2008. There is a high proportion of part-time workers in the South West, largely owing to the nature of work available. Incomes are low compared to the national average (92%), again because of the type of work and hours available. All of these factors could have an impact on repossessions trends in the region.

It is difficult to understand the reasons behind the repossessions situation in the South West without more detailed exploration. It could be that the regional context (e.g. low incomes and high house prices); traits in court, lender or homeowner behaviour; accessibility of other tenures; or the physical geography (high concentrations of the population in rural areas) can offer some explanation for the South West experience.

¹ These are lenders that provide loans which are not related to the purchase of the property but which are secured against its value. These loans are 'second charge' because they are additional to the initial mortgage and the lender takes second place to the main lender when seeking repayment based on sale of the property if there is a default on the loan.



2. Introduction

This interim report presents a picture of repossession trends across the region and likely future repossession hotspots. It then recommends two areas for further study using on primary research.

The information given is based on an analysis of data held by GOSW and government departments.

Repossessions data is presented, and a commentary given. However, there are a number of known weaknesses in repossessions data, for example it is not possible to track actual repossessions as opposed to repossession orders at regional level, and information for individual courts is not always accurate.

Data on incomes, affordability, unemployment and house prices have been combined to indicate areas where there is likely to be a high concentration of households that are most vulnerable to repossession.

Information on likely locations of vulnerable households is cross referenced with repossessions data to give a more detailed understanding of what is happening in the South West. To help identify possible future trends, and to make an informed choice of the two hot spot areas for further study, the report maps concentrations of households likely to be vulnerable to repossession against the repossessions data held.

Future analysis to support research in the hot spot study areas will also map the circumstances that households experiencing possession action would face, by considering data on household composition and incomes, and affordability and availability of private and social rented accommodation. This will give a picture of the likely impact of repossession or voluntary sale on the households most likely to be repossessed, showing the housing options available to those who must leave their homes as well as demonstrating their ability to make use of the new procedures and protections around repossessions that have been introduced in the last six months.

3. Analysis and commentary on data relevant to repossessions in the South West

Direct data on repossessions: availability and limitations

The main data on repossessions which can provide an insight into trends and hotspots within a region are the Ministry of Justice mortgage repossession statistics. These are produced on a quarterly basis and are in two separate series: mortgage possession order made and mortgage possession claims issued. Both series are broken down by county court and so potentially provide a good source of information of what is going on at a more local level with the region. There are 20 county courts in the South West region each roughly corresponds to an area covering approximately, but not exactly, two district councils (pre April 2009 local government boundaries), or in the case of the major urban centres a single authority². However, not all the courts are connected to the on-line data recording system and so detailed county court level statistics for orders made are only available for 13 out of the 20 courts.

Participation of South West county courts in the online recording system

County Court (Ref No.)	Online recording
Barnstaple (119)	Yes
Bath	No
Bodmin	No
Bournemouth (139)	Yes
Bristol (151)	Yes
Cheltenham	Yes
Exeter	Yes
Gloucester (203)	Yes
Penzance ()	No
Plymouth (296)	Yes
Poole	No
Salisbury (317)	Yes
Swindon (345)	Yes
Taunton (347)	Yes
Torquay & Newton Abbot	No
Trowbridge	No
Truro (354)	Yes
Weston-super-Mare	No
Weymouth & Dorchester (371)	Yes
Yeovil	No

The missing court level data for the remaining seven courts is aggregated. The total number of orders from these areas represents 31% of the total orders made for the GOSW region in 2008³. The aggregated data from these seven court areas for the percentage change in possession orders is consistently close to the overall average for the whole region which suggests that these seven areas might not be those at the highest risk – although there remains the possibility that the overall average conceals an area of high activity.

Even in those areas where individual court level data is available the limitations of the data that is available should be recognised. Although the statistics for mortgage possession orders are the best source of information on repossessions, the number of orders made does not translate directly into the number of owner occupiers who are taken into possession. First, and most

² Full information on the local authority areas covered by courts is being sourced from MoJ

³ All of the courts in Hampshire and the Isle of Wight are included in online reporting so the figure for “Other South West” represents the aggregate of all those courts in the GOSW region only rather than in the (wider) MoJ South West region.

importantly, even though an order may be made this does not mean that the lender will take the property back into possession, since not all possession orders are executed and it is possible for a debtor to avoid repossession even after an order is awarded against them. MoJ figures are therefore widely accepted as being an overestimate of the actual number of homes repossessed⁴. Scottish research found that that only about 40% of repossession decrees (the equivalent to a possession order in England) resulted in possession⁵. The same research concluded that statistics on repossession decrees “do not provide a reliable indicator of trends in repossessions because the proportion of orders resulting in repossession can change in response to lenders’ practices”. Over the past year the Government has been able to apply considerable pressure on lenders to change their policies as part of the overall conditions of providing lenders with support. Early findings of research conducted by the Government Office for the East Midlands suggests that around 10-15% of orders lead to actual repossessions.

MoJ figures count all possession actions regardless of the nature of the loan (1st charge, 2nd charge, other) and will include properties where the borrower is not in occupation (e.g. buy-to-let and second homes). However they exclude voluntary possessions (including abandonments)⁶ which may account for a reasonable proportion of all repossessions⁷.

Summary

- Areas covered by courts that do not use the online reporting system are not suitable for further study – it is not possible to track repossession orders in those areas.
- High numbers of possession orders made may indicate high numbers of repossessions, but numbers of actual repossessions will be much lower than possession orders and there may not be direct correlation.
- MoJ data includes some possession cases that are not relevant to this study, and excludes others so cannot be an accurate indicator of areas for further study.

Other sources of direct data on mortgage possessions

There are two other recognised sources of statistics on mortgage repossessions and mortgage arrears published by the Council of Mortgage Lenders (CML) and the Financial Services Authority (FSA). Like the MoJ figures both of these sources have their limitations. The most serious is that both series are only produced at the national level and so would only be of limited use for analysis at the regional level and below.

Scottish research found that the CML figures provided a reasonably reliable estimate of the trends “but underestimate the actual numbers by about a quarter (because non-CML members and secondary lending are excluded)⁸”. Both FSA and MoJ data include second charge lenders, but FSA data on second charge lenders includes regulated firms only. FSA figures cover possessions on both first and second charge lenders and report on the total number of loan accounts in possession and so will exceed the CML’s figures which just cover first charge loans. In some cases (normally where subsequent charges are held by a different lender) the FSA figures will report possession of a property more than once. Only the MoJ series counts all possession actions regardless of the nature of the loan (whether 1st charge, 2nd charge or other type of lending)⁹.

⁴ Ministry of Justice (2009) *Comparison of published data sources on mortgage possessions and mortgage arrears* <http://www.justice.gov.uk/about/docs/mortgage-lending-stats-note.pdf>

⁵ McCallum, E and McCaig, E (2002), *Mortgage Arrears and Repossessions in Scotland*, Scottish Executive Research Findings No.158/2002

⁶ See note 4 above.

⁷ There were significant numbers of voluntary possessions during the previous recession in the early 1990s

⁸ See note 5 above.

⁹ Ibid.

These differences mean that it is not possible to make accurate inferences about the MoJ data based on trends in the CML or FSA data.

CML figures do provide a baseline figure for estimating the proportion of properties that are taken into possession voluntarily i.e. where the homeowner surrenders ownership without execution of a court order. They suggest that in 2008 25% of repossessions were abandoned properties or voluntary cases. Voluntary repossessions are most likely to be decided on by fairly recent borrowers with an initially high loan to value mortgage loan, now clearly in negative equity. Such cases may also include some buy-to-let borrowers in a similar situation.

Summary:

- CML and FSA data cannot be used to gain direct information about repossessions in the South West
- It is not possible to make accurate inferences about the MoJ data based on trends in the CML or FSA data
- The likely proportion of voluntary repossessions should be considered and included in the study.

Commentary on Ministry of Justice data for the South West

Tables 2 and 3 show the total number of mortgage possession orders made during the final quarters in 2007 and 2008 together with the percentage change since the corresponding quarter for the previous year and the total over all four quarters in the same year.

The figures show all orders made and so will include suspended as well as outright orders made. Prior to 2007 the figures for suspended and outright orders were given separately. For the final year in which this breakdown was given the proportions of suspended and outright orders was almost exactly 50% for each. The proportions for 2005 were similar (54% suspended, 46% outright). None of the courts stand out as varying widely from this average. All are within 40% to 60% proportions (either way) although the figures for Gloucester County Court show slightly higher than average proportions for suspended orders in both years (58% and 59%).

Assumptions about the number of outright orders given now could be made based on previous trends, but there would be a risk of inaccuracy because it would not reflect where practices of courts and lenders have changed over time.

Mortgage Possession orders made 2007

County court	2007 Q4		2007 Q1-4	
	Total	% Change in Total since 2006 Q4	Total	% Change in Total since 2006 Q1-4
Barnstaple	39	44%	138	27%
Bournemouth	90	-12%	420	-3%
Bristol	199	-8%	819	-13%
Exeter	69	-15%	297	-8%
Gloucester	108	27%	441	8%
Plymouth	110	7%	483	2%
Salisbury	17	-	65	-25%
Swindon	166	37%	539	6%
Taunton	55	20%	230	-3%
Truro	43	2%	136	-12%
Weymouth & Dorchester	26	-13%	126	10%



Other South West*	512	8%	2013 ¹⁰	1%
Total GOSW	1434	4%	5707	-2%
Total England	23984	7%	95374	5%

Mortgage Possession orders made 2008

County court	2008 Q4		2008 Q1-4	
	Total	% Change in Total since 2007 Q4	Total	% Change in Total since 2007 Q1-4
Barnstaple	72	85%	214	54%
Bournemouth	145	61%	531	26%
Bristol	266	36%	1125	38%
Cheltenham	56	-11%	209	11%
Exeter	82	19%	367	22%
Gloucester	186	72%	550	24%
Plymouth	147	34%	684	42%
Salisbury	19	-	89	33%
Swindon	154	-8%	619	15%
Taunton	56	2%	283	23%
Truro	39	-9%	170	26%
Weymouth & Dorchester	45	73%	165	30%
Other South West*	560	23%	2286 ¹¹	22%
Total GOSW	1827	27%	7292	28%
Total England	27250	14%	114296	19%

The data shows that the SW had significantly greater increase in the number of possession orders made in 2008 compared to England as a whole. This is striking, not least because of the change in figures from 2007 where increases in the South West were smaller than for England overall. It is difficult to show whether individual court areas are running above or below the regional average because court and local authority boundaries (where population data is available) are not contiguous.

It is worth noting that the ratio of possession orders to households is lower for the South West than for England as a whole. Around 1:303 households in the South West had a possession order made against them in 2008, compared to around 1:190 households in the whole of England¹². This may go some way to explaining why early interest in the mortgage rescue seems lower in the South West than most other regions¹³.

Many of the county court areas show a decrease in possession orders during the final quarter of 2008 compared to the first to third quarters. This quarter reflects the introduction pre-action protocol (as well as other Government pressure on lenders to forbear). Although the protocol will undoubtedly have a long-term impact on preventing unreasonable or unnecessary orders it seems unlikely that the same degree of downward pressure will be maintained. Figures are likely

¹⁰ There are 7 courts amalgamated into this data, which gives each an average of 287 orders made

¹¹ There are 7 courts amalgamated into this data, which gives each an average of 326 orders made

¹² Based on ONS population estimates for 2006

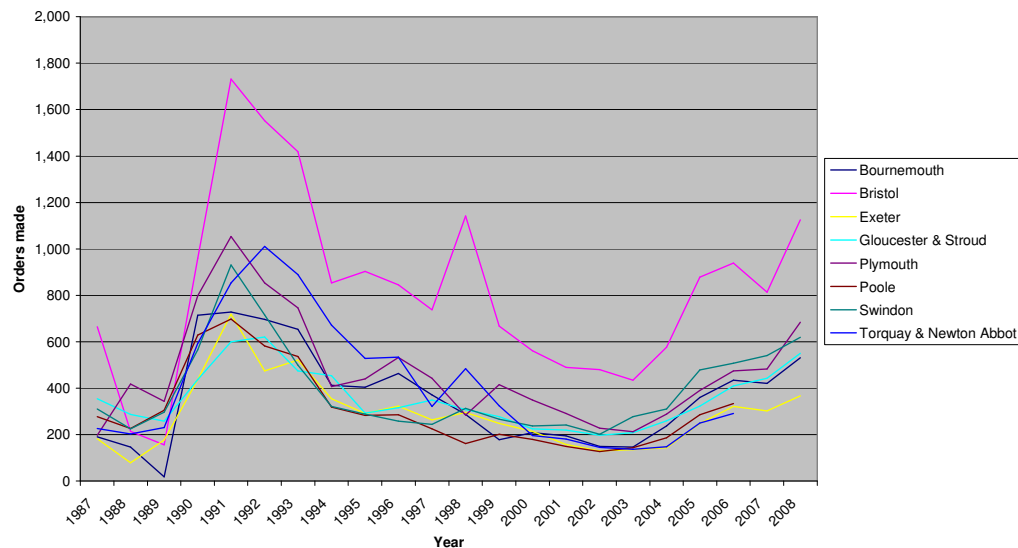
¹³ There have been 240 expressions of interest in mortgage rescue in the first three months of the year with 26 proceeding to application

to be over depressed during the early stages of the new protocol as lenders adjust their practices to accord with the new administrative procedures.

The change in orders made for the region between 2006 and 2007 was marginal and in fact fell slightly (down 2%) but there was a sharp rise across the whole region in orders made during 2008. Barnstaple county court stands out in both 2007 and 2008 as showing much higher than average increases. Barnstaple also experienced a particularly sharp increase during 2008 (54% compared with 28% for the whole region) and also in comparison with the same period (quarter four) (85% compared with a 27% average increase for the region). Plymouth and Bristol are the areas which show the next biggest rise in orders made during 2008 (42% and 38% respectively).

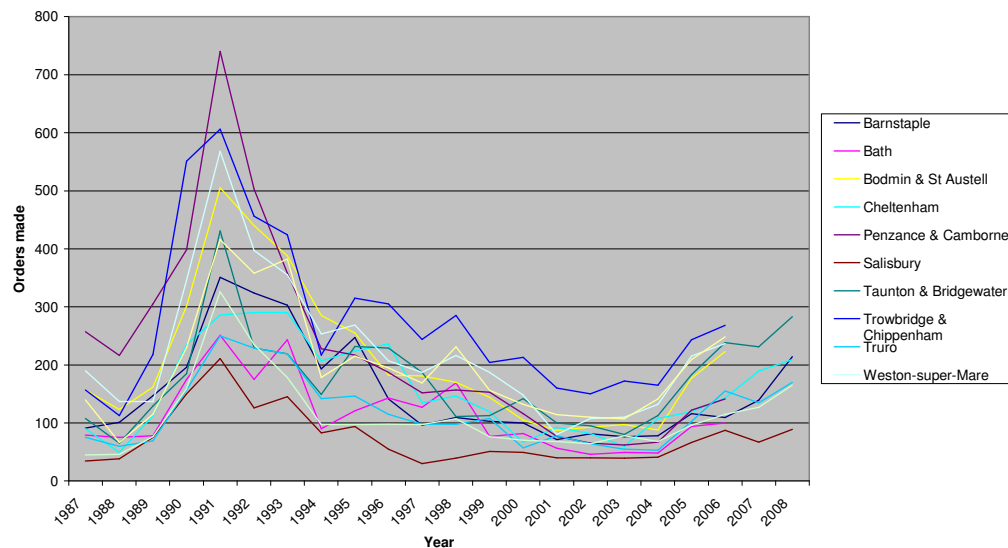
The following two charts show the trend in possession orders made in the county courts during the period 1987-2008 for the major urban areas and the other areas where a full data set is available. Both charts show clearly the step rise in possession orders made during the last recession (which peaked in 1991). Bristol stands out amongst the urban areas not only for the particularly steep rise but also for the volume of cases being almost twice as large as the next worst area (Plymouth). Torquay was the next worst area with the peak occurring a year later and the following recovery happening more slowly than other areas. Both Plymouth and Bristol show a particularly steep rise over the past year (although there is a discontinuity in the data series in many areas from 2006).

Mortgage possession orders made major urban areas 1987-2008



In the rural and other urban areas the pattern is similar – although (not surprisingly) on a much smaller scale. Western and central Cornwall stand out during the last recession as being the worst affected area – this probably reflects changes in unemployment. West Wiltshire was also particularly badly affected. Barnstaple county court area falls within the mid range but appeared to recover more slowly than the other areas. The very steep rise over the last year also shows up clearly, although again it is difficult to make a full comparison due to the discontinuity in the data from 2006.

Mortgage possession orders made rural and other areas 1987-2008



Indirect sources of data

Work undertaken by the Government Office for the East Midlands shows that Council Tax data held by local authorities can give a very helpful insight into the number of properties which are actually repossessed in an area. Council Tax offices do record when a property is vacant because it has been repossessed, and the data held can be presented at quarterly intervals over the past 8 years. Lenders are very likely to pass this information to Council Tax offices because they will want to be exempt from liability for the tax, and so records should be fairly accurate. By mapping local authority data to court areas should be possible to get a full picture of how many claims and orders made actually lead to loss of a home. This will be easier in urban than rural areas, where boundaries are less likely to be contiguous, but will be possible for the whole region. This data is currently being collected by GOSW to inform this research.

Summary:

- Past trends suggest that 50% of possession orders made are outright orders rather than suspended
- Annual data on possession orders can smooth the peaks and troughs seen in quarterly data and therefore give a more accurate indication of possession activity
- Repossession trends at local level in the last recession were similar to those seen currently
- Areas with a combination of high numbers of possession orders and significant recent increases in numbers will be the most useful for further study
- Economic trends at local level can be used to indicate repossession trends.

The relationships between repossessions, affordability and negative equity

The relationship between repossessions and affordability is not as straightforward as might first be expected, as is shown by the pattern of repossessions in other regions. The highest levels of repossessions do not necessarily occur in those regions which are the least affordable (in terms of income to house price ratios). For example, London has by far the highest property prices but is one of the least affected regions. This is not simply because incomes tend to be higher. In order for a property to be repossessed it must have been affordable to the purchaser in the first place. We need to consider the role of equity in the property, which will come from a long period of ownership or a substantial upfront deposit being paid. In most areas in London, property prices

are so high that there is little or no prospect that a household with a low or moderate earnings with an aspiration to buy could get on the property ladder unless they have some kind of assistance from family or friends with a deposit. Help with a deposit will not prevent someone who later experiences a sharp drop in income from getting into difficulty, but it does mean that if they do they are less likely to be repossessed. In most cases, provided that the householder's long-term employment prospects are good, the spare equity will provide the lender with sufficient confidence to agree to forbear without risking a future loss.

Given that a substantial share of spare equity (i.e. 20% or more) will in most cases be sufficient for a homeowner who is experiencing temporary difficulty to benefit from forbearance this suggests that in most cases the following households are likely to benefit from forbearance:

- Existing homeowners who have purchased their second or subsequent home.
- First time buyers who have been in their home for a substantial period (i.e. they have acquired equity from the long-term growth in property prices plus any equity purchased through their repayments).

As a general rule a first-time buyer who purchased their home prior to 2003 will have sufficient equity in their property to be able to benefit from forbearance and this is a rule that seems to apply across all English regions.

Percentage rise / fall in equity in the South West by type of buyer and mortgage¹⁴

	First Time buyers		Former Owner Occupiers	
	Repayment mortgage	Interest only	Repayment mortgage	Interest only
2007	-13.74%	-15.54%	-5.65%	-7.45%
2006	-7.10%	-10.98%	4.57%	0.72%
2005	-5.35%	-11.27%	13.33%	7.88%
2004	-1.50%	-9.39%	13.97%	6.60%
2003	14.26%	4.76%	25.39%	16.93%
2002	21.67%	11.85%	32.33%	22.76%
2001	39.47%	28.84%	50.36%	41.64%

Overall it seems that data on affordability (and therefore also data on incomes) may not be that useful in predicting areas at risk of repossession. In fact to some extent the reverse may be true. Areas which are currently the least affordable are probably least at risk of future repossessions because those whose incomes are low or modest could only afford to buy if they have a significant deposit.

Home owners who get into difficulty are at greater risk of being repossessed if their home is in an area where there has been a sharp fall in property prices. Lenders are more likely to repossess if it looks like they will not be able to make good their loss because the owner is falling deeper into debt. Clearly this means that owners are more at risk if they purchased their home in 2006 or 2007 when property prices reached their peak.

¹⁴ Source CLG Table 508. Based on Q4 for each year from Q4 2008. Table A is based on regional house prices for purchases made in the Q4 of the relevant year relative to Q4 2008 with an interest rate of 6.08% for 100% 25 year repayment mortgages and 100% interest only loans. In practice, mortgage loans to first-time buyers since 2004 have often been made with a lower interest rate than 6.08% and a loan to value of about 80%, so the tables below reflect the negative equity of those who took a high loan to value loan.

Our analysis that it is the level of equity retained by the owner that is crucial in determining whether a property is actually taken into possession (rather than just an order being made) is supported by the Scottish research. The same research also supports the proposition that it is marginal homeowners who are most at risk. It found that half of borrowers in arrears had loans equal to 100% of the property value; 40% had bought low value properties and 7% were buying under the right to buy scheme.

Data on current affordability is probably of limited value in predicting areas which are most at risk. This is because it is affordability *at the time of purchase* which indicates whether ownership is likely to be marginal. Current very high loan to income rates are more of a reflection of areas in which it would not be possible for new marginal owners to enter the market. Nevertheless overall changes in affordability may provide an indication for the future as to when the next rise in repossessions (i.e. after the current downturn) will take place. Following the rapid rise in house prices during 2001-2002 there was a decline in overall affordability levels which rose to more than 3 times average incomes for the first time since the previous recession. At the same time there was also a fall in the average proportion of the purchase covered by a deposit to levels below 25%.

Changes in affordability for first time buyers in the South West 2002-2008 (averages)¹⁵

	Purchase price	Advance	Income of buyer	Ratio	% Deposit
2002	£115,634	£84,684	£31,491	2.69	26.7%
2003	£125,155	£93,448	£31,651	2.95	25.3%
2004	£145,393	£108,179	£34,268	3.16	25.6%
2005	£151,398	£116,606	£36,224	3.21	22.0%
2006	£151,842	£124,157	£40,187	3.08	18.2%
2007	£163,377	£131,246	£40,816	3.21	19.7%

Summary:

- Areas with the highest repossession levels are unlikely to be those with the highest prices
- Owners with little or no equity are most at risk of repossession if they have difficulty paying their mortgage.

A model for predicting repossessions hotspots

The knowledge that a major factor in determining whether a household that experiences difficulty with repayments will be vulnerable to repossession is the level of equity in their property provides a useful starting point for developing a model as to which households in which areas will be at the greatest risk. A rise in repossessions occurs when there is an influx of marginal owners onto the market which is followed by an economic downturn.

Marginal owners (i.e. those with no significant deposit) can only enter the market if there is property available locally which is affordable at the point in time that they enter it. This suggests that local information on lower quartile house prices should help identify those areas at risk. We should identify property in the appropriate price range for people on modest or moderate incomes in the period from 2003 onwards. Before this date most owners should have sufficient equity from the increase in prices and their repayments to sustain them if they get into difficulty. We suggest that by modest or moderate incomes we mean incomes in the £25k-£40k range. Any higher and they should have sufficient income to afford a reasonable deposit or to reschedule payments if they experience difficulty. Any lower and then they are unlikely to be able to afford to enter the market (assuming a maximum income multiplier of 3 or 3.5 times income) with little or no deposit.

¹⁵ Source CLG Table 513

Overall this model suggests that those areas most at risk will be those where there was affordable property available for lower income first time buyers at the start of the risk period for marginal first time buyers (i.e. 2003). In 2003 the average lower quartile house price for the South West was £100k. Sixteen local authority areas stand out as having average lower quartile prices at £97k or below suggesting that there was plenty of property available for people within these income ranges. These areas are set out in the table below.

Changes in average price and equity of lower quartile property prices in the South West¹⁶

Authority	Av price Q1 2003 £1000's	Peak price £1000s	Current price (Q3 2008) £1000s	Fall in equity since peak £1000s
Plymouth	67	125	113	12
Torbay	85	141	130	11
Caradon	89	148	139	9
Kerrier	95	150	135	15
North Cornwall	90	160	155	5
North Devon	94	165	145	20
Teignbridge	95	160	150	10
Torridge	94	155	148	7
West Devon	95	168	159	9
Weymouth	97	162	147	15
Forest of Dean	83	150	135	14
Gloucester	85	132	117	15
Mendip	95	153	141	12
Sedgemoor	80	137	125	12
South Somerset	92	146	135	11
West Wiltshire	97	145	135	10
Bristol	97	152	148	14

All of these areas correspond to the areas that were badly affected during the last recession. They also correspond to the areas which have seen the sharpest rise in possession orders (for which we have information) during the past year. Gloucester (with Forest of Dean), Bristol, Weymouth, North Devon and Kerrier stand out as those areas which have seen the sharpest falls in equity.

Plymouth, Torbay, Gloucester (with Forest of Dean) and Sedgemoor stand out as having the lowest property prices, although property may not be as affordable in the rural areas because local incomes are likely to be lower.

Given that our model suggests that the rise in repossessions follows an influx of marginal home owners in to the market then potential repossession hotspots may occur in areas which have recently experienced high numbers of right to buy (RTB) sales. This proposition is supported by Scottish research. To some extent RTB owners may be protected from possession because they benefit from the discount which acts as a deposit. On the other hand RTB purchasers are less likely to receive help from relatives or have savings and so the discount is likely to represent the full extent of their equity. At the start of 2003 the maximum discount (£30,000 for the South West Region) would have been the equivalent of 30% equity of the average lower quartile house price. By the peak of the market in Q3 of 2007 its relative value had fallen to 19.5% equity¹⁷. RTB purchasers who bought at the top of the market may not be protected from repossession by their equity.

¹⁶ Source CLG Table 583

¹⁷ CLG Table 583

CLG data shows that RTB sales have fallen sharply in all areas over the past 10 years. This probably reflects the sharp rise in property prices that have occurred combined with the declining relative value of the maximum discount which has been frozen since 1998. By 2005/06, numbers had fallen to such low levels in all areas that they would only have a negligible impact on the overall market. Going back to 2003/04 there were just three local authority areas in which RTB sales represented 4% or more of all sales (or at least 50 sales). RTB sales fall to negligible levels in all areas from 2006/07 onwards.

Four authorities with the highest right to Buy sales in the South West 2003-6¹⁸

Authority	2003/04		2004/05		2005/06	
	Number	% of all sales	Number	% of all sales	Number	% of all sales
Bristol	570	6.2%	278	3.1%	258	2.8%
Plymouth	429	6.9%	290	5.6%	131	2.3%
Swindon	197	3.9%	87	1.7%	83	1.6
Taunton Deane	135	5.2%	86	3.8%	32	1.4%

Not surprisingly the two largest urban centres, Plymouth and Bristol, stand out. This reflects the higher stock sizes and relatively low value property levels which made it more affordable for council tenants to buy their home during the peak of the economic cycle.

Summary:

- Areas where higher numbers of marginal owners purchased homes are likely to see the highest levels of repossessions, and should be used for further study – these will be areas which had large amounts of affordable property between 2003 and 2008, and which have seen steepest price falls since 2007
- Right to buy purchasers who bought at the top of the market may be at higher risk of repossession, and so areas with higher numbers of right to buy sales should be considered for study.

Drivers of possession action

It is well known that repossessions rise and fall with the economic cycle. UK repossessions last peaked in 1991 at the bottom of the last recession in 1991 at 75,540 and they reached their lowest point in 2004 at just 8,200. In the SW region the number of possession orders made also peaked in 1991 at 6,468 and reached their lowest point in 2002 at just 1,013¹⁹. Changes in repossessions not only reflect wider changes in the economy they are driven by them.

This presents the possibility that if a suitable model can be constructed it may be possible to identify when and where possessions are likely to occur from other sources of economic data such as changes in house prices, house sales, incomes and affordability measures. If a suitable model could be found then not only could it be used to corroborate the Ministry of Justice data it may also provide an insight as how to predict future trends in repossessions before they occur.

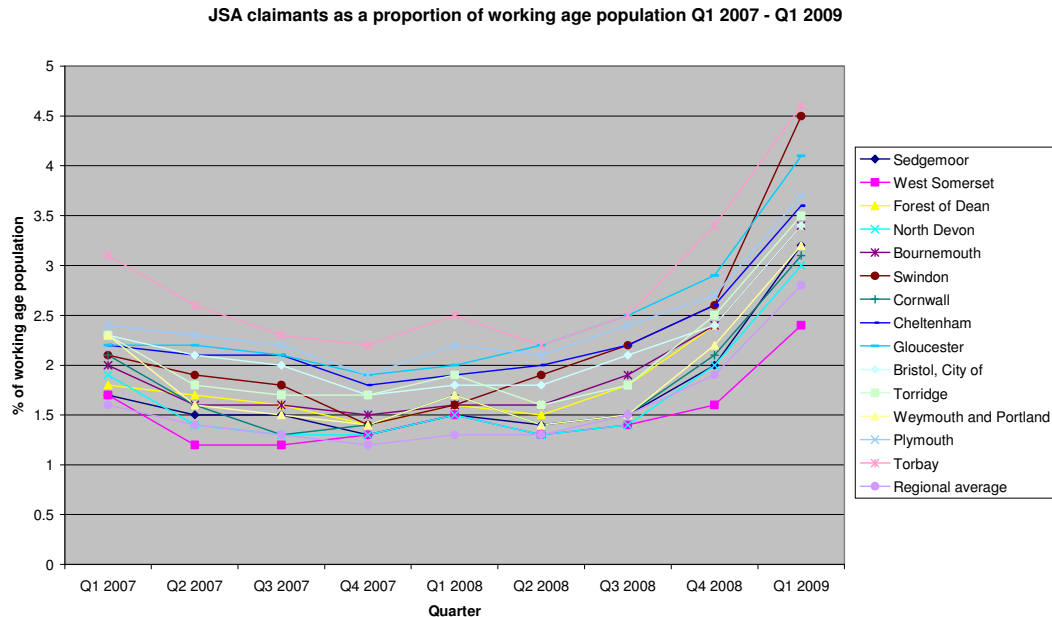
Marginal homeowners will be at risk of repossession if they experience a drop in income as a result of changes in the household (e.g. relationship breakdown) or unemployment/reduced hours.

Unemployment is increasing in the South West as it is all over England. 14 local authority areas in the South West consistently have a higher proportion of the working age population unemployed than the regional average. Trends within these 14 are broadly similar and follow the regional trend. Torbay consistently experiences the highest unemployment by head of working

¹⁸ CLG Tables 584 and 648

¹⁹ CIH (2008) UK Housing Review 2008/2009, tables 51, 53c and 53f. Note figures for SW in 2002 based on Ministry of Justice Region.

age population. Swindon and Gloucester stand out as being affected more severely by the recession than other areas. Torrridge and Weymouth are badly affected after a short period of resilience early in 2008, and Bristol and Plymouth are affected somewhat earlier than many other areas.



Trends in unemployment claims do not fully reflect changing incomes, of course. Employees may have their hours or salary reduced in the early months of a recession rather than actually losing their jobs. It is not possible at this time to track changing incomes in the South West, although this would be of interest for later study.

Summary:

- Unemployment trends are a good indicator of repossession trends and can be used to understand the current situation as well as to predict future problems.

Homeowners with other secured debts

Some households will lose their home because of arrears on secured borrowing rather than necessarily being marginal homeowners. Obviously this cannot be predicted from lower quartile sales. However, we suspect that those who are most inclined to borrow heavily are also likely to be those who are the most marginal first time buyers. Marginal first time buyers will have stretched themselves to meet their monthly mortgage repayments so that the only way they can afford to furnish their home to a standard they aspire to will be to borrow further. If this is the case then to a large extent home owner with other debts will not form a separate group but will be the same group of marginal owners who will have increased their risk. It is also possible that some households who were comfortably off but have a high amount of credit are facing repossession because of arrears arising following redundancy. There is no direct data which can be drawn on to support this hypothesis but is one that we can test at the interview stage.

Summary:

- It is likely that there is a link between marginal ownership and high levels of secured debt, but this cannot be explored through existing data.

4. Recommendations for hot spot study areas

Lessons from the analysis set out in section 3 have been used to inform the choice of hot spot areas for closer study.

There is no one data source that gives a clear indication of which areas should be chosen for study, because the relevant factors affecting repossession trends are found across a number of data sources.

The analysis in section 3 suggests that further research should be conducted in areas where:

- court level data is available (courts are part of the online reporting system)
- court areas are reasonably co-terminus with local authority boundaries, so that researchers can use other local level data to corroborate findings
- there was a large amount of affordable property in the risk period (2003-2007), because this is where there will be the highest number of marginal owners at risk of repossession (low income households with low equity)
- there are existing indications of high repossessions (annual not quarterly trends)
- there was a comparable experience in the last recession
- there is high risk of negative equity (i.e. there have been rapid price falls recently)
- there are reasonable volumes of Right to Buy sales in the risk period (2003-2007), because these are likely to be marginal owners.

Selection of areas which have these traits should enable a robust study to be conducted. There will be a sufficient number of possession cases to explore and draw conclusions from; it will be possible to access and cross reference court and local authority data with reasonable accuracy; and there will be enough possession orders proceeding to full repossession of the property to enable a full analysis of repossession processes and experiences from possession claims through to actual loss of a home.

Taking all these factors into account, three county court areas stand out as being suitable potential hot spot study areas:

- Plymouth
- Bristol
- Barnstaple.

These were not the most affordable places in the risk period (2003-7), so may not have the highest proportions of marginal owners in the region, but they are the areas that provide sufficient volumes of cases and fit well with the conditions suggested above.

However, it is just **Barnstaple** and **Bristol** which have been chosen as the hot spot study areas for the focus of the rest of this research.

Barnstaple (covering North Devon and Torridge councils) will add a rural dimension to the study, reflecting the rural context of large parts of the South West.

Bristol has been chosen rather than Plymouth because it will give the research better geographical coverage of the region (Plymouth and Barnstaple are quite close together), and has a wider economic hinterland and influence in the region. Bristol is disproportionately large compared to other urban areas in the South West, but it is expected that its experience of repossessions should be similar enough to other urban areas to make lessons learned relevant throughout the South West.

5. Conclusion

Analysis of the available data provides a number of lessons for how to approach research into mortgage repossessions in the South West:

- It is necessary to work with MoJ data rather than that provided by CML and FSA, because it is the only data available at regional level.
- Analysis of MoJ data based on CML and FSA trends will only offer an indicative picture which is at risk of inaccuracies, because of differences in data collection methods.
- Current trends in repossession match those seen in the last recession, and it may be possible to draw implications from this or to spot future trends.
- Affordability is secondary to equity in property when assessing a household's risk of repossession. Falls in property prices and length of occupation are key pieces of information, and historic affordability must be considered to identify those owners at most risk.
- Marginal owners should be the focus of study – those with a high repayment to income ratio and little equity in their property.
- It is only possible to make broad assumptions about the number of people who will actually lose their homes through repossession. Trends identified through Council Tax data will enable much more accurate assumptions to be made.

Analysis and cross-referencing of data on repossessions, incomes, affordability, and house prices give a reasonable indication of areas which merit more detailed study to help understanding of repossessions in the South West. They are areas which already have a high number of possession orders issued and which have a high concentration of households at higher risk of repossession.

The primary research phase of this research will focus on Bristol and Barnstaple county court areas, and will help to fill key gaps in understanding of repossessions which cannot be addressed by data analysis.

The analysis presented in this report has also highlighted some areas of interest which merit exploration in the next phase of research. Working within the research brief already agreed with the Government Office, the next phase of research could usefully consider:

- How secured debt affects households' risk and experiences of repossession
- Whether households that recently remortgaged with a high loan to value ratio are at the same risk of repossession as marginal first time buyers that purchased after 2003.
- Whether MoJ data on claims issued (rather than orders made) provides useful early indications of where possessions may follow
- Whether MoJ data on claims issued (rather than orders made) provides some indication of those areas where more effective prevention measures in place.

The final report on our analysis of repossessions in the South West will be submitted to the Government Office at the end of June and it is expected that it will be publicly available by the end of July.