

# Analysis of Mortgage Repossessions in the South West

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FINDINGS

September 2009

## Overview

ConsultCIH, the consultancy arm of the Chartered Institute of Housing, was commissioned in April 2009 to develop a better understanding of the reasons behind the increasing number of homeowner repossessions in the South West region.

By undertaking fresh, 'on the ground' research, building on publicly available data, ConsultCIH has painted a picture of the trends and explanations for unusually high rates of repossession, illustrating the experiences and behaviour of households, lenders, courts advice agencies and local authorities. Drawing on the findings, ConsultCIH suggests a range policy and practice interventions to help tackle the problems of homeowner repossessions, to be adopted by key stakeholders in the region. ConsultCIH also puts forward a model for anticipating which areas and householder groups will be worst affected in future so that they can be supported through preventative action.

It is hoped that the South West experience can be used to inform policy and practice interventions across other regions, as well as nationally.

## Key Points

- Properties being repossessed are most likely to be lower value, in lower council tax bandings and concentrated in areas with more deprivation and in which housing markets are weakest
- Unemployment and reductions in income are the main causes of repossession, compounded by relationship breakdown and by completely stopping payments
- Non-prime lenders, specialist lenders, and banks that have received government assistance because of the effects of the credit crunch dominate repossessions cases
- Banks which collectively have a very small share of the lending market (5%) represent half of all repossessions actions
- Almost all households facing repossession have been found to be paying a higher than average or unusually high rate of interest on their mortgage, and some interest rates call into question the sustainability of ownership from the outset of the mortgage
- Whilst some repossession actions are brought quickly (with just two month's arrears) others seem to be left so long (over 5 month's arrears) that there is no real prospect of recovering from the arrears or avoiding repossession
- Many loan values are very close to lower quartile house prices, suggesting that householders took a high loan to value, or are now in negative equity, or both. This reduces the likelihood of successful negotiation with the lender
- Only half of householders attend court. If you do attend court, go to an advice agency, complete the defence forms and use the court desk you are much more likely to get a better outcome
- Advice services are not always very accessible and can have long waiting times. Also, they are not the natural point of contact for many homeowners who get into trouble with their mortgage payments

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- The South West seems to have suffered particularly from rising numbers of repossessions due to a larger number of marginal homeowners who have 'stretched' themselves, coupled with higher numbers of sub-prime mortgages where people are paying higher rates of interest
- ConsultCIH has found that repossessions are likely to disproportionately affect households and areas where properties were at their most affordable to lower income households at the time of purchase, where there has been an influx of marginal home owners into the market and where there are low levels of equity in the property e.g. because of recent first time purchase; re-mortgage that increases loan to value; or falling value
- On this basis, ConsultCIH believes that it is possible to predict when and where future rises in the number of home owner repossessions are most likely to occur, thus giving the opportunity for organisations and agencies to take preventative action

## Findings

### Location of repossessions

- Properties being repossessed are most likely to be lower value properties in lower council tax bands
- In rural areas they are likely to be concentrated in the more urban centres, and in parts of these centres which are more deprived in economic and social terms
- In urban areas, concentrations of repossessions are likely to be found at ward rather than Lower Super Output Area level; in areas which show

some signs of deprivation

- In urban areas, in a house price slump, concentrations of repossessions may be found in areas with above average falls in house prices (weaker housing markets)
- Regional or district-wide modelling of repossessions trends should not be transposed onto local areas because it may mask local differences in behaviour
- Trends identified in council tax records, deprivation levels and house price changes may help local authorities to target prevention strategies

### Causes of mortgage difficulties

- Unemployment and reduction in income are the main causes of arrears cases proceeding to court
- Households' problems may be compounded as sometimes do not have or they are unable to claim against payment protection insurance
- Unemployment is often followed by relationship breakdown, which further compounds repayment problems
- Households generally stop paying altogether rather than making reduced or erratic payments, which may indicate they feel defeated or that they have not sought advice. This means that their arrears increase faster than necessary

### Local authority homelessness and strategic services

- The number of people seeking to register as homeless has not increased in line with repossessions activity
- More households could be priority homeless than present as homeless to the local authority, suggesting that households do not turn to the local authority to meet their housing needs after repossession
- Local authority housing strategies do not routinely include action around homeowner

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repossessions. Guidance on how to fit repossession into local authority strategies may be of benefit to local authorities.

### Lenders and loans

- Non-prime lenders, specialist lenders, and banks that have received government assistance because of the effects of the credit crunch dominate repossessions cases
- Banks which collectively have a very small share of the lending market (5%) represent half of all repossessions actions
- Almost all households facing repossession have been found to be paying a higher than average or unusually high rate of interest on their mortgage, and some interest rates call into question the sustainability of ownership from the outset of the mortgage
- Almost all households have at least two months arrears before they are entered for court, technically giving enough time to get professional advice and to seek a solution
- A surprising number of households have 5 months or more arrears before they are entered for court, which may mean that arrears are too high by this time for a repayment arrangement to be made. Long periods before court action can be as damaging as short ones for the overall prospects for retaining possession
- HMS lenders account for around two thirds of cases, which suggests that now the scheme is established it could provide effective help for homeowners – assuming lenders accept householders onto the scheme
- There is an indication that the letter of the pre-action protocol is being followed more than the spirit, and that judges are not being sufficiently proactive in seeking clarity and depth in the actions undertaken by lenders
- The housing market affects lenders desired outcomes from possession cases, and so more actual possessions may be seen as the market strengthens
- The pre-action protocol may be more beneficial for households who have professional help to negotiate with their lender than those who do not
- There is a very short time between the mortgage being taken out and the borrower getting into difficulty (under 4 years in almost all cases), suggesting households are overstretched from the outset or very vulnerable to income shocks
- Households facing repossession are generally established homeowners who have re-mortgaged (usually to access equity) within the last 5 years, rather than first time buyers who have only recently bought their home
- Arrears on second charge lending may take slightly longer to come to court than on first charge loans, possibly because of the greater equity within the property
- Repossessions driven by second charge lenders may be more of a problem in urban areas, and seem to affect lower or higher income groups more than moderate income groups
- Loan values are very close to lower quartile house prices, suggesting that householders took a high loan to value, or are now in negative equity, or both. All of these reduce likelihood of successful negotiation with the lender
- Cases are being brought to court with relatively little money owed, although current loan to value and household loss of income may explain why negotiation with the lender was not always possible
- The interest rate on loans subject to possession action has generally increased between start of loan and start of arrears, and again between start of arrears and court hearing. It suggests that home owners have borrowed right up to the limit that they could afford and would be consistent with the finding that the majority of home owners are getting into difficulty after a very short period from when the loan

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commenced

- Voluntary sales are reasonably common to resolve arrears problems, although the current slow market hinders this

### In court

- Those attending court and those who receive advice or submit further information to court get much more favourable outcomes than those who do not attend
- Completion of defence forms is remarkably low, and the forms are not well structured – changes to the content and structure of forms and the guidance sent by court (on who and how to complete it) could increase this, and therefore improve the outcomes of cases
- Of those cases which reach court, few households attend court, have made an agreement with their lender previously, or have received detailed advice
- Households may benefit from follow up work after an order is made to help stabilise their financial situation or promote their financial inclusion / financial capability; but advice agency funding does not enable this
- Court desk usage is low, even amongst households who do attend court for their hearing
- Households have only a low awareness of the options to avoid repossession that can be available at court
- Many households either do not believe they will really lose their home; or that it is a foregone conclusion by the time their case gets to court
- Many households have not sought or received advice before they get to court, which means opportunities to prevent repossession are being lost
- Court desk intervention, although last minute, can reduce the incidence of outright possession orders

### Advice services

- The number of people seeking advice for mortgage problems has increased
- Advice services have a high success rate in defending repossession cases
- Waiting times for professional advice can be long (around 3-4 weeks). Although urgent cases will be seen, the waiting time is problematic in terms of interaction with lenders and court processes to address arrears and prevent repossession activity
- Gaining access to face to face advice is difficult for some people because of limited opening hours and waiting times
- Households who are used to gaining professional advice from solicitors, rather than charitable organisations, will struggle to access accredited housing advice in many areas
- Advice services are focused on preventing loss of the home rather than preventing recurrence of financial problems. There is little link to services which could help households develop skills around money management / financial capability over time<sup>1</sup>. This situation is driven largely by funding arrangements for advice services.
- The dependence on free advice agencies to provide housing advice may deter some client groups from seeking advice at all – those who more usually get advice from solicitors
- Households facing repossession are not the usual client group seen by advice agencies and often want advice in a different form. Local authorities and courts tend not to provide the type of service that households wish to receive. However, professional advocates manage to

<sup>1</sup> Successful pilot and subsequent roll-out of the government's Money Guidance service may address this problem.

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secure better outcomes than households negotiating on their own

- Where advice services in an area are only funded by the Legal Services Commission, households who are not eligible for legal aid will struggle to access a face to face housing casework service because solicitors' housing services are not widely available
- There is little information on outcomes from, or satisfaction with, housing advice relating to mortgage problems. This information could be used to refine services in future
- In some areas, the number of all housing cases that can be seen seems very close to the number of mortgage possession actions going through the court. This, combined with waiting times, suggests more advice provision is needed. Ability to make this provision is restricted by the availability of skilled advisors as well as by funding
- There is little targeting of services by advice agencies, and their performance is measured by number of cases not outcomes (or outcomes compared to local need). A shift to more targeted services could change overall repossession outcomes for an area
- Campaigns to raise awareness of advice services with households may not be effective unless they are seen at the point of need. This suggests more subtle targeting of services is needed to get to households facing problems
- Many people using advice services do not self-refer but are directed there by other agencies. This may have implications for identification of an intended audience for future advertising or targeting campaigns

### National support schemes

- More homeowners are eligible for Mortgage Rescue than are taking it up – probably because they are finding alternative solutions

- Support for Mortgage Interest is helping currently, but may be deferring rather than resolving, repossession risk
- Households in court who are eligible for SMI are very likely to find their interest charges are higher than the SMI payment
- Homeowner Mortgage Support has the potential to help around two thirds of households who would otherwise face possession in court; but take-up will need monitoring to ensure this potential is fulfilled

### Why has the South West suffered more than the average for English Regions?

It is difficult to give a clear answer for why repossessions have risen faster in the South West than the English average. However, the most likely reason seems to be that households have fallen into difficulties with mortgages because there are high numbers of households who have been vulnerable to income and expenditure shocks due to:

- House price rises which have created a cohort of marginal owners – lower income households who had re-mortgaged to borrow against the equity in their home
- Higher numbers of sub-prime mortgages - lower income or indebted households paying above average interest rates which have quickly become unaffordable as rates rose during 2008
- A rise in employment problems (reduced hours or redundancy)

Arrears have turned into possession action and possession orders because:

- Insufficient numbers of households faced with possession action are seeking specialist advice
- There is insufficient ease of access to advice services – households need advice on demand rather than having to wait
- Households are unaware of the depth of support that can be offered by advice agencies and so do not seek it

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- Households struggle to negotiate effectively with lenders (professional advocates get more positive outcomes)
- Households are unaware of court processes and think there is no way to save their home once the court summons is served
- Court processes do not always lend themselves to supporting households

### Predicting and preventing repossessions

Based on a much better understanding of lender and household behaviour ConsultCIH predicts that repossessions are likely to disproportionately affect households and areas where:

- Properties were at their most affordable to lower income households at the time of purchase
- There has been an influx of marginal home owners into the market
- There are low levels of equity in the property e.g. because of recent first time purchase; re-mortgage that increases loan to value; or falling value
- The Property was purchased / borrowed against since 2004
- House prices have fallen more rapidly than other areas
- The property has been purchased through the Right to Buy
- There is both marginal ownership and a high level of secured debt

ConsultCIH has concluded that it is not possible to get much advance warning of a rise in repossessions, but it is possible to know in advance:

- where a rise will happen and which households will be most affected within these areas
- that repossessions will happen when:
  - interest rates rise compared to what they have been over the previous 5 years or so

(giving approximately a 4-8 month advance warning)

- unemployment is rising or local incomes are falling<sup>2</sup>
- economic productivity is falling (these figures are reported annually so will be a slow source of information).

Organisations with a responsibility for preventing repossessions (regional government, local authorities, advice agencies) should therefore:

- Use credit profiles for local areas to identify high risk groups or locations
- Map concentrations of council tax bands to identify high risk groups or locations
- Map comparative trends in property values to identify high risk groups or locations
- Seek information on geographical trends in re-mortgaging to identify high risk groups or locations
- Monitor interest rates, and allow an increase to trigger preventative action
- Monitor unemployment rates, and allow an increase to trigger more action
- Target information about options and support services at household types/profiles. This means having different materials and messages for different groups to improve take-up.

### Additional ways to reduce repossessions in the South West

Local authorities should consider:

- Including repossession prevention in strategic housing documents and processes

<sup>2</sup> Unemployment is a lagging indicator for economic performance and seems to be so for repossessions too. However, much of the time is a coincident indicator for repossessions (outside of the peak and nadir in trends).

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- Including voluntary - as well as enforced - possession in strategic planning and modeling
  - Ensuring that schemes to support households into private renting are available and suitable for households who are repossessed
  - Liaising with advice agencies to target service provision at households that most need support
  - Seeking to increase take-up of advice by households, using household profiles to inform communication materials produced
  - Seeking to improve households' understanding of their options when faced with mortgage problems
  - Prepare for a possible increase in repossessions as the housing market strengthens
  - Actively seeking to improve levels of householder attendance at court and completion of the defence form
  - Linking mortgage support promotion to unemployment support activities
- Advice agencies should try to:
- Seek to reduce waiting times for face to face advice
  - Develop data collection methods that enable customer profiling and service targeting
  - Investigate ways to re-target service provision within current capacity, considering need and service user preference
  - Investigate ways to increase take-up of services by those who could most benefit
  - Prepare for a possible increase in repossessions as the housing market strengthens
  - Actively seek to improve levels of householder attendance at court and completion of the defence form
- Regional government could also:
- Investigate the long term impact of repossession on households' housing options
  - Identify the potential for developing the money management skills of 'at risk' households
  - Oversee a co-ordinated response to repossessions – factoring in profiling, service provision, and targeting of services
  - Consider whether data on economic productivity and household incomes could be reported more regularly and be brought more up to date
  - Model and respond to the number of households facing repossession who are excluded from free advice due to legal aid rules
  - Review the match between advice provision and demand for services, including the impact of increased repossessions on provision of non-mortgage related housing advice
  - Identify ways to improve household knowledge of options and the best course of action
  - Encourage local judges to be more active in their scrutiny of adherence to the pre-action protocol, especially as the housing market strengthens
  - Work with the courts to ensure individual court desks are prominent, used, and their role is understood
  - Ensure services are in place to support SMI claimants regain a position where they can pay their mortgage
  - Link mortgage support promotion to unemployment support activities

Court possession cases have been falling in the South West over the time this research has been completed. However, thousands of households are still affected in the region, and there is a risk that there will be a possible increase in repossessions when the housing market starts to recover and when interest rates start to rise again from their current, historic, low. Repossessions have a negative impact on the household, community and economy, as well as undermining a key national policy objective.

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Armed with a better understanding of repossessions in the South West, ConsultCIH has put forward a number of actions which organisations involved with repossessions can undertake to improve the situation in coming months and years.

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This Findings note has been prepared by ConsultCIH, who undertook the project with colleagues in CIH Policy.

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