

The consequences of mortgage arrears and possessions in a depressed housing market

One important legacy of the late 1980s housing boom and subsequent downturn is the continuing number of mortgage arrears and possessions. This research by Janet Ford identifies the changing management of arrears in the early 1990s, and the continuing social and financial consequences of the arrears and possession process for households and housing providers. The research found that:

- f** During the early 1990s, lenders offered a higher percentage of borrowers temporary 'concessionary' payments, where less than the normal monthly amount is paid. This development contributes to the drop in borrowers summoned for possession since 1991, but leads to a continuing build-up of debt for the borrower.
- f** Around three-quarters of borrowers in arrears have no claim on the Income Support safety net. Amongst those claiming, three-fifths received less than the full amount of mortgage interest due and remained at risk of possession.
- f** More suspended orders are now granted to borrowers because a higher proportion of defendants are attending court. The court process can slow the possession process by giving more chances to borrowers to repay. It helps some people keep their homes, but more frequently delays rather than prevents possession, because borrowers often lack the financial resources to sustain the repayments agreed.
- f** Falling house prices, negative equity and the costs associated with arrears and possession have resulted in a growing number of households with a continuing liability for debt following the loss of their property.
- f** Local authorities initially re-house up to half of all households in possession. Improved liaison between lender, borrower and the local authority would be necessary in order to reduce the uncertainty experienced by households facing possession.
- f** A majority of borrowers in possession believe they will not re-enter owner-occupation in the foreseeable future, either because of their exclusion from financial resources or because of a re-assessment of their vulnerability to unemployment and any future interest rate increases. Many, however, retained a general commitment to and belief in the desirability of owner-occupation.

The growth and persistence of mortgage arrears and possession

Between 1989 and 1993, as both interest rates and unemployment rose, the number of households in mortgage arrears increased. The growth was most pronounced in the South where the late 1980s' boom was greatest, borrowers most highly geared and the recession most pronounced. Arrears peaked in 1993 when more than 602,000 households owed three or more months payments. By June 1994, the number of households in this situation had fallen to 484,790.

Possessions were highest in 1991 at 75,450, falling to 58,540 in 1993. During the first half of 1994, 25,000 properties were taken into possession.

Previously, borrowers experiencing arrears but unable to repay them quickly could respond by selling their property and trading down or moving into the rented sector. Persistent arrears typically led to possession. The depressed housing market of the early 1990s precluded many sales while the depth and length of the recession limited the ability of borrowers to sustain 'recovery schedules' that required them to meet the normal monthly payment plus some additional payment for arrears. However, too high a level of possession and resale was counterproductive in an already depressed market.

This research, based on a survey undertaken in Luton and Bristol, examined some of the consequences of arrears and possessions over the period 1989-1993. In particular:

- the way in which arrears were managed in these changed circumstances and the nature of the outcomes for borrowers;
- the experience and consequences of possession for households and housing providers.

Twenty-one per cent of households surveyed in Luton had defaulted on their mortgage payment at some point between 1989 and 1993 and 12 per cent in Bristol. By July 1993, the percentages in arrears were 10.8 and 4.3 respectively. Both places have above average rates of owner-occupation, saw prices rise steeply in the late 1980s and are in regions where, by 1989, households had high average loan-to-income ratios. House prices fell sharply in both places in the early 1990s, and unemployment rose to exceed 12 per cent, although the extent of both the boom and the subsequent downturn was greater in Luton than in Bristol.

Managing mortgage arrears in the economic downturn

The management of mortgage arrears is both an administrative and judicial process. Administrative procedures predominate in the early stages as lenders seek to establish forms of 'forbearance' that will recover arrears and prevent possession.

Administrative processes

Of 47 households identified by the household survey as currently in arrears, around a third had conventional repayment agreements with their lenders to pay their monthly mortgage payment plus something towards arrears. A further third had concessionary payments which enabled them to pay less than the normal payment for a period of time. Although lenders have reported efforts to improve their communication and negotiations with borrowers, 30 per cent of respondents in arrears had not yet come to any agreement about repayment. Compared to earlier studies, however, the level of contact between borrower and lender has improved and a key change (in response to market changes) is the growth in concessionary agreements.

Only a minority of borrowers in default were eligible for the 'safety net' and the payment of mortgage interest through Income Support. This study supports earlier research, confirming that the majority of home owners in arrears face their payment difficulties without any support akin to that available to low-income renters via Housing Benefit. Of those in receipt of payments towards their mortgage interest through Income Support, three-fifths received less than the full interest due to the lender.

These households were potentially at risk of possession depending on their lender's interpretation of the understanding reached between the Government and lenders in December 1991 that those in receipt of mortgage interest would not be possessed. The sustainability of home ownership at its current level is critically dependent on the maintenance of the already limited safety net.

Judicial recovery

There have been a number of changes in the use and outcomes of the judicial process for mortgage possession over the 1990s. Prior to 1991, the number of possessions at least matched the numbers of households with arrears of 12 and more months. From the end of 1990, housing market conditions were such that as long-term arrears rose, from 36,100 to 151,810 in December 1993, applications from lenders to the courts for possession fell from a peak of 186,649 to 116,181.

The percentage of suspended orders granted by the county courts has, however, increased over the 1990s from 47 per cent of orders made in 1990 to over 59 per cent in the first half of 1994. This is a consequence of the growth in the percentage of defendants making representations to the court and in the changing pattern of discretionary decisions made by the district judges. By 1993, more than half of all defendants attended in Luton and Bristol. Two-thirds of those attending initially received a suspended order compared to only two-fifths of non-attenders. The single most effective action a defendant can take, if the objective is to retain the property, is to attend the hearing. This increases the opportunity for the district judge to consider the exercise of discretion.

One of the key areas of discretion available to district judges is the period over which defendants are required to repay their arrears (referred to as the 'reasonable period'), alongside the payment of the normal monthly mortgage payment. Between 1991 and 1993, there was an increase in the average 'reasonable period' from just over two years to in excess of four.

Although average arrears at the first hearing also grew, from £4600 to almost £7000 between 1991 and 1993, the lengthening of the 'reasonable period' ensured that by 1993 more borrowers fell within the scope of a suspended order. The percentage additional repayment per month for arrears fell from almost 50 per cent of the average monthly payment to a third. On average this was around an additional £100 per month.

The growth in suspended orders has contributed to the reduction in possessions since 1992. However, defendants with suspended orders have to comply with stringent repayment schedules for a considerable period of time. The data provide indicative evidence that a majority of borrowers with suspended orders subsequently default. This need not necessarily lead to possession as orders can be varied and applications for possession warrants suspended. However, on balance, the evidence points towards the court process enabling some households to remain within owner-occupation, but more typically delaying rather than preventing possession.

The consequences of possession

In 1991, when mortgage possessions were at their highest, local authorities in England re-housed 18,206 households, approximately a quarter of the total 58,540 possessions. (This was no more than 40 per cent of compulsory possessions.) The majority of households initially re-house themselves with friends or family, or in the private rented sector or occasionally by re-entering owner-occupation. In practice, the number of

households re-housed by the local authority as a result of mortgage possession may be higher in the long run as households initially re-housed with family and friends have to leave.

Uncertainty: the need for advice and information

Households experiencing possession are relatively mobile, and outside the local authority sector often lack security of tenure. Households have little choice of accommodation, limited financial resources and little opportunity to plan or control their post-possession housing. The majority felt uncertain about where and how they would achieve rehousing:

'Obviously you worry about where you are going and whether you'll be on the streets'

'We knew the building society would take possession, but we couldn't be sure of the council until it happened'

Prior to possession, there is a clear need for more advice and information from the local authorities about acceptance for rehousing, its location and likely duration and how households' moves would take place.

Financial and social consequences

Households in possession had lower average incomes than borrowers in arrears, and considerably lower incomes than owner-occupiers in general. Many also retained a liability for the outstanding debt following the sale of their property. The national extent of continuing liabilities is not known, but this is a development specifically dependent on the circumstances that have pertained since 1989. Amongst the 16 instances of possession considered in detail in Luton and Bristol, four properties were as yet unsold. Amongst the 12 sales, six households had continuing liabilities as a result of the sale price, the original and additional loans, interest charges on arrears, administration costs, litigation costs and the costs of the sale.

Mortgagees can initiate recovery of the shortfall for up to 12 years and only two households had been approached so far about repayment. Only one was repaying. Further, for those with county court judgements against them, and outstanding debts, access to banking facilities and mainstream credit is problematic.

For most households the process of possession was a salutary lesson in the basic conditions necessary to sustain owner-occupation, revealing the nature of the risk attached to purchase and their vulnerability to such risks:

'...now I'll have a county court judgement against me and it'll be difficult to get any sort of mortgage ever again'

Amongst this group, the most prevalent response was not a rejection of owner-occupation per se, but an individualistic response that currently owner-occupation was not for them. The majority did not foresee that they would buy again, either on the grounds of their exclusion from credit, assessment of the risks, or preference. However, where the circumstances were right, they would recommend ownership to others:

'I won't buy, but I would tell others to if the money wasn't tight and perhaps if jobs were safer.'

Conclusion: a continuing problem

An important conclusion of the research is that with respect to mortgage arrears and possessions, the impact of the 1980s boom and subsequent downturn continues. There is a legacy of around 300,000 households who owe the equivalent of six or more months payments, amongst whom those with concessionary payments have rising debts. Amongst this group, the incidence of possession may well rise if borrowers cannot increase the level at which they are paying to the lenders' satisfaction, and under these circumstances borrowers themselves may well recognise and welcome an end to unsustainable home ownership. The research also indicates the very specific implications attaching to possession since 1991, namely real financial losses, continuing liabilities and future constraints on access to financial resources.

About the study

The research was carried out at Loughborough University by Janet Ford, with research assistance from Charlotte Green. The study formed part of the Housing and National Economy initiative undertaken by the Joseph Rowntree Foundation. The local studies element of this programme included an interview survey of over 1200 owner-occupiers in Glasgow, Luton and Bristol

which was carried out by MORI. The author analysed the responses of those in arrears in Luton and Bristol. In addition 16 interviews were undertaken with borrowers who had lost their homes through the possession process, and an analysis made of the records of mortgage possession actions in the Bristol and Luton County courts. The assistance of the Lord Chancellor's Department is gratefully acknowledged.

Further information

A full report of the study - **Problematic Home-ownership** - is published by the Department of Social Sciences, Loughborough University.

Related *Findings*

The following *Housing Findings* look at related issues:

- 90** *The state of the private rented sector* (May 93)
- 92** *Imbalances in the housing market* (Jun 93)
- 95** *Fiscal incentives to regenerate the private sector* (Jul93)
- 101** *The spread of negative equity* (Dec 93)
- 109** *The impact of higher rents* (Mar 94)
- 119** *Mortgage equity withdrawal: causes and consequences* (Jul 94)
- 120** *Home owners in negative equity* (Jul 94)
- 122** *Changes in the relationships between housing and the rest of the economy* (Aug 94)

The following summaries are also relevant:

Private Renting after the BES
A Competitive UK Economy: The challenges for housing policy

For further information on *Findings*, and summaries, please call Sally Corrie on 0904 654328 (direct line for publications queries only).



Published by the
Joseph Rowntree Foundation
The Homestead, 40 Water End
York YO3 6LP
Tel: 0904 629241 Fax: 0904 620072
ISSN 0958-3084

The Joseph Rowntree Foundation is an independent, non-political body which funds programmes of research and innovative development in the fields of housing, social care and social policy. It supports projects of potential value to policy-makers, decision-takers and practitioners. It publishes the findings rapidly and widely so that they can inform current debate and practice.