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Shelter Cymru

A sustainable option?

Home ownership and mortgage possession actions in Wales

Who we are:
Shelter Cymru, the housing and homelessness charity.

What we believe:
Bad housing wrecks lives and that everyone should have a decent, suitable home.

What we do:
We help people find and keep a home.
We campaign for decent housing for all.

What we are:
- Independent
- Challenging and authoritative
- Positive
- Inclusive
- Responsive
- Passionate and knowledgeable

What we want:
- An end to homelessness
- A greater say for people over their homes and lives
- A suitable, affordable and secure home for all
- Access to support for anyone who needs it
- Neighbourhoods that are safe, well served and where people choose to live.

A sustainable option? Home ownership and mortgage possession actions in Wales.
Written by John Pritchard, researched by John Pritchard, Mal Devonshire and Tessa Colquhoun.
Edited by Caroline Rees.

Shelter Cymru, 25 Walter Road, Swansea SA1 5NN
Phone: 01792 469400
Fax: 01792 460050
Email: policy@sheltercymru.org.uk
Web: www.sheltercymru.org.uk
Registered charity number: 515902

Design & Production **Accent ADC** 01792 774939

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1. Introduction and research background

The Welsh Assembly Government New Ideas Fund provides the opportunity to undertake short research projects in line with the priorities within the Social Justice and Regeneration portfolio. Shelter Cymru was successful in obtaining funding for research into the experiences of people with mortgage arrears who had recently lost their homes or who were facing possession action or the threat of action. The project primarily explored the reasons behind the trend in actions and whether, when and how households access advice and assistance with the aim of identifying actions that could prevent arrears occurring and leading to repossession.

This research aims to assist in addressing the priorities of the Social Justice and Regeneration portfolio and housing policy as well as the wider policy aim of the Assembly Government to improve access to sustainable home ownership opportunities.

The National Homelessness Strategy 2006-2008 states:

'The incidence of repossessions amongst homeowners is rising, although still at relatively low levels. Every effort must be made to ensure home owners are appropriately insured and are able to negotiate repayment arrangements with the mortgagee.'

The strategy makes a further commitment to consider other measures to promote sustainable home ownership.[1]

The study is also relevant to the objective of Wales: A Better Country to contribute to stronger and safer communities through sustainable and affordable housing. As debt and financial problems affect health and well-being, measures to ensure that housing is affordable, sustainable and of good quality, contribute to the cross-cutting agenda of improving health and well-being.[2]

More recently, improving the supply of affordable and sustainable housing is a key issue within the One Wales agenda published by the Welsh Government.[3]

The sustainability of home ownership is of underlying importance as ownership is an aspiration of the majority of households and facilitating access to ownership is the major policy aim of both the Assembly and UK Governments. Ensuring that lenders operate responsibly and that people know the risks and have access to advice, assistance and an adequate safety net if problems occur, are key issues for consideration.

Research Aims
This study has three main aims:

- To gain a better understanding of the experiences of households in arrears, facing repossession or that have lost their homes and to further explore the reasons behind possession actions
- To explore if, when and how households access advice and assistance
- To identify practices and practicable changes that could reduce repossessions

[1] National Homelessness Strategy 2006-2008 (Welsh Assembly Government, 2005). [2] The Wales centre for Health is currently exploring the links between indebtedness and poor health. See www.wch.wales.nhs.uk. [3] One Wales – A progressive agenda for the government of Wales, (An agreement between the Labour and Plaid Cymru Groups in the National Assembly, 27 June 2007).

2. Method

The research began in January 2007 with the fieldwork undertaken between April and October. The project was guided by a Steering Group comprising of representatives from the Research Unit and Communities Directorate of the Social Justice and Local Government Department of the Welsh Assembly Government, Principality Building Society and Shelter Cymru. The Steering Group met several times during the project, received progress reports and provided advice and comment on the method and final report. The methodology was as follows:

Literature review
The section provides context for the study and explores factors such as the growth of home ownership in the UK and Wales, the housing market in and beyond the UK, trends in possession action, and the impact of repossession on borrowers.

Fieldwork
Fieldwork for the research consisted of a survey of households in Wales that had experienced mortgage problems during 2006 and 2007 and questionnaire interviews with mortgage lenders and the Council of Mortgage Lenders (CML). The fieldwork also incorporated a sample of repossession cases appearing at Wrexham County Court between October 2006 and March 2007.

Household Survey
Interviews were conducted with households across Wales. All had experienced, and in many cases still were experiencing, mortgage problems during 2006 and 2007. The survey comprised 30 questionnaires and the questionnaire used is in Annexe 1.

Households were identified through the casework of Shelter Cymru and the Mortgage Rescue Schemes implemented by Cymdeithas Tai Clwyd and Hafod Housing Association.

Table 1 - Geographical Profile

Welsh Region	Number
North East	8
North West	6
South East	9
South West	5
Mid	2
Total	**30**

Table 2 illustrates the household type of participating households.

Table 2 - Household profile

Household type	Number
Single Man	1
Single Woman	1
Couple with children	12
Couple	5
Lone Parent Man	1
Lone Parent Woman	9
Adult Household	1
Total	**30**

Age profile of borrowers
The majority of borrowers were in the 35-44 age group, with most of the remainder being from the 45-54 and 25-34 age groups. 30 households were interviewed as part of the survey of borrowers and table 3 includes the age group of joint borrowers.

Table 3 – Age profile of borrowers

Age group	Number
18-24	1
25-34	8
35-44	20
45-54	12
55-64	3
64+	1
Total	**45**

Age profile of dependent children and other household members
The households in the sample included 42 dependent children from 0 to 17 years of age. Most of these were aged between 11 and 17. There were also other household members from both the 18-24 and 25-34 age groups.

Table 4 - Age profile of dependent children and other household members

Age group	Number
0-5	9
6-10	10
11-17	23
18-24	10
25-34	2
Total	54

Current tenure
The majority (19) of the households remained in their property at the time of interview although many were imminently facing losing their homes.

Table 5 – Tenure profile

Tenure	Number
Privately rented accommodation	3
Social Housing	5
Owner-occupation	19
Shared ownership	2
Other temporary accommodation	1
Total	30

Stage of Possession Action
Participants were at a range of stages in the possession process, from early difficulties to Suspended Possession Orders and Warrants. The majority (23) had reached the court stage of action.

Table 6 – Stage of Possession Action

Possession Action	Number
No claim	3
Claim was entered for possession	4
Suspended Order	11
Order Made	3
Warrant Issued	7
Warrant Executed	2
Total	30

Lender Survey
This section comprised the distribution of questionnaires to 10 lenders, with replies received on behalf of six of these, and correspondence with the CML on a range of questions. The survey included questions regarding specific areas that had emerged from the household survey. Those contacted included mainstream lenders and those providing sub-prime mortgages. The lender questionnaire is in Annexe 2.

Wrexham County Court data
This work involved gathering data from 63 mortgage repossession cases appearing at the court between October 2006 and March 2007. Available information included details of the lenders and borrowers, the level of arrears and, in some cases, reasons for default.

3. Literature Review and Context

This section provides a review of the literature on home ownership, the housing market, and repossessions in the UK. The purpose is to provide context and to inform the empirical survey.

Home ownership in the UK and Wales
Owner-occupation is predominantly the tenure of choice in the UK with high levels of ownership particularly in Wales, England and Northern Ireland.

The drive towards home ownership is a product of the politics of aspiration, creating wealth and civil participation that is seen as superior to that of renting. It is strongly linked to stabilisation, having a stake in a *'property owning democracy'* and as the tenure of responsibility, individual opportunity, rights and self-reliance, or control.

The early 20th Century witnessed the beginning of a change in UK housing tenure. Whilst private rented accommodation was the most prevalent tenure until the late 19th Century, the beginning of the 20th Century witnessed more discontent with housing conditions, a Labour Party that prioritised the improvement of conditions and also less investment in private renting with more pressure to adhere to planning and public health standards.

'Public renting and home ownership emerged as the alternative as there was little sympathy for private landlords or confidence that this sector could still support the housing system.' [4]

Home ownership emerged as the preferred alternative to private or public rented housing. There was also a political motive as ownership was seen as a means of discouraging collective or class action.

'Indeed, the failings of private landlordism contributed to the new demands and organisation of the urban working class. State housing was not likely to be a bulwark against bolshevism as there was a danger identified by some that it would encourage the growth of demands for collective and state action.' [5]

The number of Local Authority mortgage loans increased significantly in the 1920s and the majority of the houses were built for sale. The Housing Act 1923 also reduced the subsidies available for local authority housing. Home ownership is therefore seen as a stabilising force, as the tenure of responsibility and individual opportunity, and this remains the case today.

"The Britain I believe in is a Britain of ambition and aspiration where there is no ceiling on talent, no cap on potential, and no limit on opportunity. And this Britain of ambition and aspiration is a Britain where more people must and will have the chance to own their own home." [6]

Even the left in British politics in 1977 gave a strong indication of its position with regard to owner-occupation and viewed it as a way of resolving housing problems.

'For most people owning one's own home is a basic and natural desire… The widening entry into home ownership for people with modest incomes will help solve housing problems which used to be faced by the public sector, as well as satisfying deep seated social aspirations.' [7]

The progress of ownership was not however uninterrupted and enthusiasm waned in the 1940s as the advent of the welfare state brought about a change in policy with an emphasis on public housing.

[4] Richard Ronald, Housing Policy and Home Ownership Ideology: The Normalisation of Owner-Occupation and the Ideological Context, (Nottingham Trent University, 2002). [5] Ibid., p.6. Taken from A.Murie, Secure and Contented Citizens? Home Ownership in Britain, in A.Marsh and D.Mullins (Eds.), Housing and Public Policy (OUP, 1998). [6] Gordon Brown, Chancellor of the Exchequer, 1st April 2005. [7] Labour Government 1977 Housing Policy Review, quoted in Richard Ronald, Housing Policy and Home Ownership Ideology: The Normalisation of Owner-Occupation and the Ideological Context, (Nottingham Trent University, 2002).

Between 1953 and 1971 however owner-occupation increased from 32 per cent to 51 per cent while the proportion renting social housing also increased – from 18 to 28 per cent. By the end of the 1980s the majority of households owned their own homes.

Since the 1970s there have been two key imperatives in UK housing policy i.e. reducing public expenditure and the desire to expand home ownership.[8] While the Labour Party's 1977 Green Paper was in favour of the concept of home ownership the most significant policy of the time was the Right to Buy introduced by the Conservative Government in 1980. This accelerated the progress towards higher levels of ownership and, although popular across the UK, its impact is most clearly seen in Wales, Scotland, the north east of England and London.

The current policy emphasis on ownership is also partly driven by the proportion of people who aspire to home ownership. Surveys from 1986 consistently show that around 80 per cent of households aspire to own in 10 years time and that between 72 and 81 per cent would like to own within 2 years.[9] Although aspirations to own have grown across all age groups, those in the 25 to 34 age group are the most eager to become home owners within 2 years.[10] However, because of declining affordability there has been a decrease in the number of households under 25 year old able to access home ownership. In a 2007 breakdown of tenure preference in UK countries and regions, only in Scotland is the proportion of those wanting to own within 10 years below 80 per cent.[11]

Wales

Owner-occupation in Wales is higher than in any of the other UK countries, although some English regions such as the south-east and south west have rates of 75 per cent.[12] Recent published figures, depending on the basis of the sample, provide slightly varying assessments on the percentage of owner occupation in Wales, with levels of between 71 and 74 per cent.[13 14]

This is a continuation of a recent historical pattern with Wales also having high owner-occupation levels in the 1960s, 70s and 80s. While ownership remained static at 71 per cent during most of the 1990s, the period between 1998 and 2004 has seen a further increase of 3 per cent.

There are several reasons for the higher levels of ownership in Wales, including the correlation between ownership and skilled manual labour e.g. in the coal and steel industries, and the traditionally higher levels of owner-occupation in rural areas.

During the early 20th century ownership was actively promoted through building societies and building clubs *'as well as the concepts of self-help, thrift and 'respectability' which were well established features of the Welsh working class.'*[15] In this respect, owner-occupation was seen as a way of breaking the domination that coal owners and industrialists had over people's lives.

Additional reasons include the higher proportion of older people living in Wales as compared to either England or Scotland and the 'clear correlation' between older people and home ownership.[16] Historically, lower house prices have also contributed to this growth.

Table 7 - Percentage of home ownership in the UK

	1961	1971	1981	1991	2000
Wales	48	55	62	71	72
England	44	52	58	68	70
Scotland	30	31	36	52	63
Britain	43	51	56	66	69

(Source: Welsh Housing Statistics 2005, Table 1.3. Burrows and Wilcox, Low-income home ownership in Wales, 2004)

[8] Sarah Brown and John G. Sessions, Housing, privatisation and the 'Right to Buy', Applied Economics 1997, 29, 581-590. [9] Bob Pannell and James Tatch, Improving attitudes to home-ownership, CML Housing Finance, March 2007). The article uses data from the BMRB Omnibus Surveys and MORI research. [10] Ibid. [11] Ibid., p.7. [12] Roger Burrows and Steve Wilcox, Low-income homeowners in Wales (Joseph Rowntree Foundation, 2004). [13] Living in Wales 2004 – Tenure, (National Assembly for Wales, SDR 94/2005, September 2005). [14] Welsh Housing Statistics 2005, (National Assembly for Wales, 2006). [15] Peter Williams, Ownership and the Private Housing Market, in Robert Smith, Tamsin Stirling and Peter Williams (Eds.), Housing in Wales – The Policy Agenda in an Era of Devolution, (Chartered Institute of Housing, 2000). [16] Jackie Bennett, Home ownership in Wales: issues and challenges, (Council of Mortgage Lenders, Housing Finance, Summer 2004).

House prices, affordability, and poverty

The growth in house prices has fuelled a sustained debate about people's ability to access and sustain home ownership in the UK.

House prices

'In some ways the housing market has resembled a drunk standing at the bar in some back-street boozer. With every drink he has, people think he must soon stagger and tumble over. But he doesn't. He keeps drinking and he remains standing. He stays up for so long that eventually people decide they were wrong to think he would fall over. But then, just as they decide he will never fall, he takes the last drink and finally tumbles to the ground.'[17]

House price increases in the UK have been some of the highest in Europe and, alongside Spain, the UK saw the highest yearly increases in house price inflation between 1971 and 2002. Between 1995 and 2002, amongst the Organisation for Economic Co-operation and Development (OECD) countries, only the UK, Ireland and the Netherlands have had average annual house price inflation of over 8 per cent.[18 19]

The OECD reports that the recent period of growth has seen the largest real rises in house prices. Countries such as Ireland, Australia, Norway, Sweden, Denmark, France, the Netherlands, the US and the UK have all experienced increases in excess of those during previous periods of growth. The duration of growth has also been longer and the increases have been more common across the countries than those witnessed previously.[20]

The reasons for the increases in prices include a favourable economic climate with low interest rates – base rates were at around 12 per cent in the 1980s and early 1990s before falling to 5.25 per cent in 1994, reaching a low of 3.5 per cent in 2003 before increasing in recent years – and low unemployment, as well as earnings growth, access to new financial products, the buy to let market in the UK, Ireland, US and Australia, and consumer confidence.[21]

Research also points to supply as one of the drivers for increasing prices.[22 23] While house prices have continued to grow, inflation has remained relatively low at, or just above, 2 per cent throughout the current growth period, only recently increasing to 3 per cent. This means that real house price growth during the early years of this century is stronger than during previous growth periods, at the beginning of the 1990s for example, because inflation has remained low.

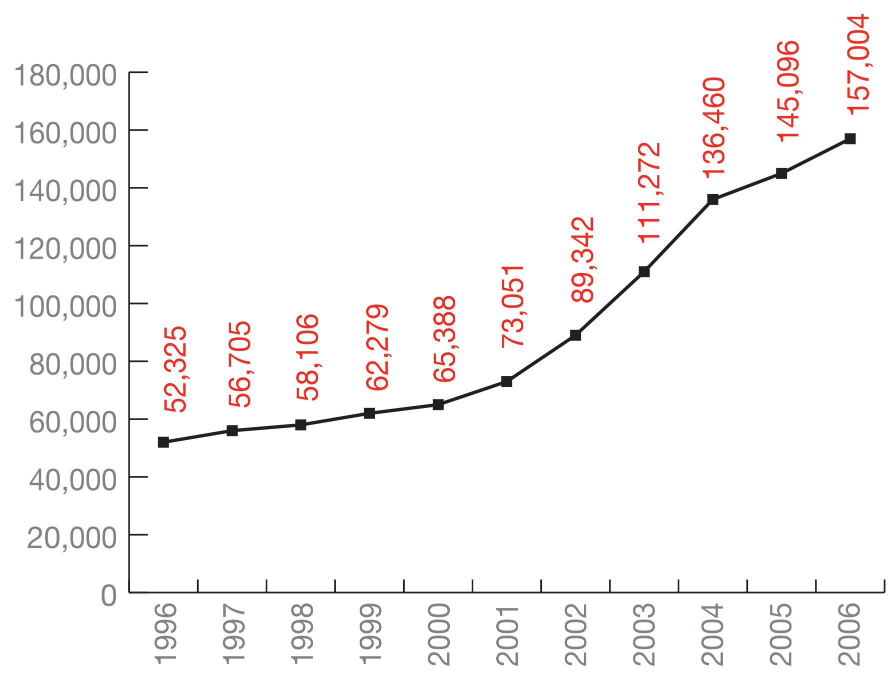
Demographic changes such as migration, a reduction in the size of households and a growth in the population in household formation age groups (such as people in their thirties), have also increased demand and therefore prices.[24]

As in the UK generally, Wales has witnessed a period of rapid house price growth. The average house price in the final quarter of 2006 was £157,004, compared with £65,388 in 2000 and £52,325 in 1996.[25]

Average prices in Wales increased by 200 per cent between the end of 1996 and the end of 2006 and 115 per cent of this growth occurred between 2001 and 2006. The trend has increased in the early years of the Century, compared to the later 1990s with increases of 22, 23 and 25 per cent between 2001 and 2004.

[17] Ashley Seager, The boom is over, the price must yet be paid, (The Guardian, 19 February 2007). [18] OECD Economic Outlook, Preliminary Edition, Housing Markets, Wealth and the Business Cycle, (OECD, 2004). [19] Susan J. Smith, Banking on housing? Speculating on the role and relevance of housing wealth in Britain, (Paper prepared for the Joseph Rowntree Foundation Inquiry into Home Ownership 2010 and Beyond, February 2005). [20] op.cit., N.Girouard, M.Kennedy, P.van den Noord and C. Andre, Recent House Price Developments: The Role of Fundamentals, (OECD, Economics Department Working Papers No.475., January 2006). [21] op.cit., Peter Williams and Bob Pannell, Sustaining affordable housing: facing up to the challenges in the UK, (June, 2004). [22] op.cit., Jennet Vass, Affordability: testing times ahead, Council of Mortgage Lenders, Housing Finance, Autumn 2004). [23] op.cit., N.Girouard, M.Kennedy, P.van den Noord and C. Andre, Recent House Price Developments: The Role of Fundamentals, (OECD, Economics Department Working Papers No.475., January 2006). [24] Ibid. [25] Residential Property Price Data July – September 2006, (Land Registry, November 2006).

House Prices in Wales 1996 – 2006**



(Source: HM Land Registry, Residential Property Price Reports – October to December Quarter)
**The figures are based upon the average price across all property types during the October-December quarters.)

Data from early 2007 shows that the growth in prices in Wales between April 2000 and December 2006 was 141 per cent, compared to 87 per cent in the south east of England and 82 per cent in London.[26]

In comparison, while house prices have been growing strongly, median gross weekly earnings in Wales between 1997 and 2006 increased by 31 per cent - from £251 (£13,052 annually) to £330 (or £17,160).[27]

The annual increase in house prices has reduced in 2007 and, as also happened in late 2007, Hometrack, the CML and individual lenders are forecasting the growth in prices to decline in 2008 as economic conditions continue to become more challenging.[28]

Affordability
There are two main elements of the ability to afford home ownership:

- Access to the market – e.g. paying a deposit, and
- Servicing debt re-payment[29 30]

Borrowers can be affected by either or both of these factors, with rising house prices leading to the need for larger deposits and greater borrowing; and economic changes, such as interest rate rises or fluctuations in employment, affecting the borrower's ability to service the debt. During the recent period in Wales, while house prices have accelerated, the general economic climate of low interest rates and higher employment levels have meant that it is access to the market rather than servicing the debt that have caused most concern.[31]

More expensive borrowing in 2007 has clearly made repayment more difficult, and this situation is predicted by many in the industry to continue during 2008.

There are indications of consumer financial problems, such as record levels of insolvency, and increasing mortgage possession activity.

'Total UK personal debt has continued to grow and stood at around £1.3 trillion as at November 2006. In early 2006, the consumer-credit cycle appeared to be turning as the growth rate in consumer lending slowed for both mortgages and unsecured lending. However, as the year progressed, growth in consumer lending picked up and registered 10.4% for the year to November 2006.'[32 33]

[26] Street Ratings 2007, (www.mouseprice.com, January 2007.) Based on data from The Land Registry. [27] Office for National Statistics, Annual Survey of Hours and Earnings 1997 – 2006. [28] op.cit., Ashley Seager, The boom is over, the price must yet be paid, (The Guardian, 19 February 2007). [29] Jennet Vass, Affordability: testing times ahead, Council of Mortgage Lenders, Housing Finance, Autumn 2004). [30] Peter Williams and Bob Pannell, Sustaining affordable housing: facing up to the challenges in the UK, (June, 2004). [31] op.cit., Jennet Vass, Affordability: testing times ahead, Council of Mortgage Lenders, Housing Finance, Autumn 2004). [32] Financial Risk Outlook 2007 (Financial Services Authority, 2007). [33] Roger Hamilton, Trends in Households Aggregate Secured Debt, Bank of England Quarterly Bulletin, (Autumn 2003).

The Financial Services Authority (FSA) reports that, although most consumers are able to manage their financial commitments, rising numbers have experienced difficulties. This situation is likely to be exacerbated as the global and domestic economic climate continues to become more challenging, and borrowing becomes more difficult.[34]

Research suggests that *'all aspects of affordability are beginning to worsen'*[35] with the increase in house prices meaning that buyers require larger deposits. In 1997, the average house price in Wales was £56,000 and a 10 per cent deposit was therefore £5,600. In 2006, the average house price was £157,000 and the deposit required was over £15,000. Deposits are now one of the biggest barriers to the housing market and first time buyers are taking 50 per cent longer to save a deposit than was the case a decade ago.[36]

This situation has meant that more people are borrowing from family in order to access the market. The Survey of English Housing reports that while seven per cent of buyers in 1995 borrowed deposits from family or friends, this had increased to 17 per cent in 2002/2003. The Royal Institute of Chartered Surveyors (RICS) reports that similar concerns exist in Northern Ireland, where first time buyers are facing the worst affordability problems since 1991 due to the disparity between house prices and income.[37]

The relationship between house prices and incomes is central to determining affordability. While prices have increased, household earnings are growing at a much lower level and this in turn puts pressure on the ability of households to service their mortgage debts.[38]

First time buyers have been seriously affected during the latest period of price growth. Wilcox highlights the increasing pressure on affordability for first time buyers in Wales. In 2005 the price of a 2/3 bedroom dwelling was 4.6 time the average annual earning for those in full-time employment; a much higher ratio than the 2.9 times earned income that was reached during the housing boom of the early 1990s.[39] Similarly, data for Ireland shows that the average price of a new house increased from 2.6 times disposable income in 1994 to over four times the income level in 2002.[40]

As a result of low interest rates, mortgage costs as a percentage of income have not risen in the same way as the house price to income ratios. However, even at current interest rates, mortgage costs represent 27.5 per cent of the average earnings of first time buyers compared to 31 per cent of the earnings during 1989 when interest rates were at over 14 per cent.[41]

In her 2004 report, Kate Barker links the growing unaffordability of the housing market with the weak supply of housing in the UK.[42] While house prices have increased, house building in the UK has remained low and unresponsive to demand and Barker cites this as a contributory factor to the growth in house prices.[43]

Recent work by the OECD supports this assertion and identifies complex planning rules, inefficient regulations and a slow process of authorising planning permission as reasons for supply problems and the rising trend in house prices.[44] Similar factors are said to be at work in Ireland, the Netherlands, Korea and the US.

However, in Ireland, the major factors behind house price growth have been identified as demographic change, rising disposable incomes and a decrease in mortgage interest rates rather than weak supply. While supply has not kept pace with demand it has remained strong with 60,000 units built in 2002 and more again in 2003.[45]

[34] op.cit., Financial Risk Outlook 2007 (Financial Services Authority, 2007). [35] op.cit., Jennet Vass, Affordability: testing times ahead, Council of Mortgage Lenders, Housing Finance, Autumn 2004). [36] Ibid. [37] RICS, January 2007. [38] op.cit., Jennet Vass, Affordability: testing times ahead, Council of Mortgage Lenders, Housing Finance, Autumn 2004). [39] op.cit., Young Working and STILL Homeless – Housing market affordability in Wales in 2005 (Chartered Institute of Housing Cymru, September 2006). [40] Tony Fahey, The housing boom in Ireland: causes, effects on affordability and policy responses (The Economic and Social Research Institute, Dublin, June 2004). [41] op.cit., Young Working and STILL Homeless – Housing market affordability in Wales in 2005 (Chartered Institute of Housing Cymru, September 2006). [42] Kate Barker, Review of Housing Supply – Delivering Stability: Securing our Future Housing Needs, (HM Treasury, March 2004). [43] op.cit., Jackie Bennett, Home ownership in Wales: issues and challenges (Council of Mortgage Lenders, Housing Finance, Summer 2004). [44] Nathalie Girouard, Mike Kennedy, Paul van den Noord and Christophe Andre, Recent House Price Developments: The Role of Fundamentals, (OECD, Economics Department Working Papers No.475., January 2006), p.22. [45] op.cit., Tony Fahey, The housing boom in Ireland: causes, effects on affordability and policy responses (The Economic and Social Research Institute, Dublin, June 2004).

In Wales some of the major reasons behind house price increases have included sustained economic growth and low interest rates; with factors such as a growth in buy to let and a rise in inherited wealth also contributory factors.

'The key point…is that the marginal shortfall in house building levels in Wales since 1981 can, at most, only have been a very minor factor in the house price rises experienced during that period.' [46]

For younger working households in Wales affordability problems are acute with 43 per cent unable to buy a 2/3 bedroom house within the lowest quartile of house prices. [47] 22 per cent could not afford to buy within the lowest decile of prices for 2/3 bedroom houses. On a regional level this means that the ratio of prices to income can be over 5.5 to 1. [48]

While increasing house prices have continued to make home ownership unaffordable for many households, there is also an effect on other parts of the housing sector and available accommodation options. Research by Cambridge University identifies an inverse relationship between house price increases and lettings in the social housing sector. As prices increase there is more demand for social housing but fewer lettings and also higher levels of homelessness. [49]

Poverty and home ownership
Some research suggests that there is causal confusion within the debate regarding home ownership i.e. between the idea that more affluent households become owner-occupiers because of the quality of service in this sector and that owner-occupation creates affluent and secure households.

'There is an observation that more affluent, stable and secure households become home owners in circumstances where the quality of service provided in that sector is greater than available elsewhere. This association however becomes converted into a view that it is home ownership which creates affluent stable and secure households.' [50]

This in turn leads to the significant emphasis placed on promoting owner-occupation and a resistance to investing in other forms of tenure even though there is evidence that people renting accommodation have an equal amount of household security and stability.

Because of the unaffordability of the market many households are currently excluded from home ownership and research suggests that ownership per se does not provide people with a way out of poverty.

- 72% of all unfit properties are in the owner-occupied sector. The average repair cost for each owner-occupied property is £4,800. The investment required for the whole sector is £439 million. [51]
- Three-fifths of all households living in dwellings without central heating are owner-occupiers. Approximately 50% of households without double-glazing are owner-occupiers. [52]
- The average mortgage cost/income ratios for first-time buyers in Wales are higher than those in Scotland and also higher than the northern regions of England. [53]

Burrows and Wilcox suggest that this means that the levels of low-income homeowners in Wales are higher.

'Taking all these measures together it can be broadly argued that homeowner households in Wales, as in England, comprise 'half the poor'. [54]

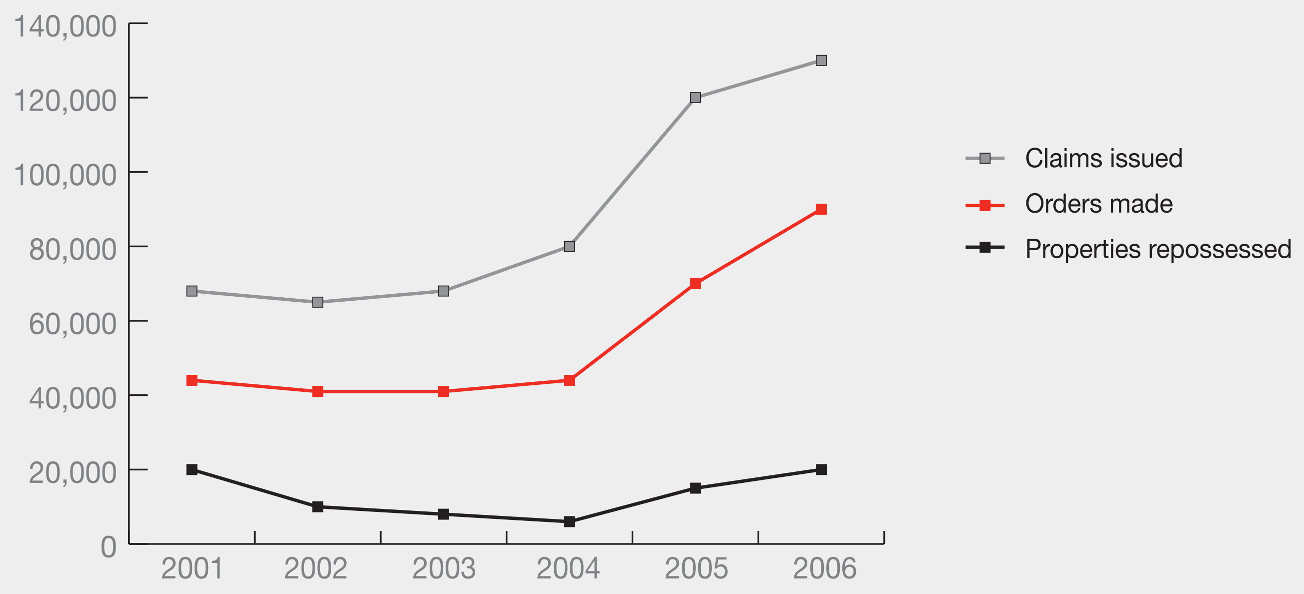
Rowntree Foundation research highlights that half the poor in Britain are owner-occupiers while 41% live in social housing and 9% in private rented accommodation. [55]

Repossessions
The British Household Panel Survey between 1992 and 2004 shows that Wales has the highest incidence of mortgage repayment problems, whilst Scotland has the lowest reported levels. [56]

Data from the Ministry of Justice shows that possession actions in England and Wales have increased during recent years.

[46] op.cit., Young Working and STILL Homeless – Housing market affordability in Wales in 2005 (Chartered Institute of Housing Cymru, September 2006). [47] Ibid. [48] Ibid. [49] Michael Jones, The Social Housing Cycle: Lettings and Homelessness in Wales 1980 – 2005, (Cambridge Centre for Housing and Planning Research, 2006). [50] op.cit., Richard Ronald, Housing Policy and Home Ownership Ideology: The Normalisation of Owner-Occupation and the Ideological Context. [51] op.cit., Roger Burrows and Steve Wilcox, Low-income homeowners in Wales (Joseph Rowntree Foundation, 2004). [52] Ibid. [53] Ibid., p.5. [54] Ibid. [55] op.cit., Susan J. Smith, Banking on housing? Speculating on the role and relevance of housing wealth in Britain, (Paper prepared for the Joseph Rowntree Foundation Inquiry into Home Ownership 2010 and Beyond, February 2005). [56] Hollie-Anne Bowie-Cairns and Gwilym Pryce, Trends in mortgage borrowers' repayment difficulties, (Council of Mortgage Lenders, Housing Finance, July 2005).

Mortgage Possession Actions and repossessions in England and Wales 2001-2006



(Source: Statistical Bulletin, (Department of Constitutional Affairs, Issue Q4/2006, February 2007). The figures for properties repossessed are provided bi-annually by the Council of Mortgage Lenders. These are not provided separately for Wales.

The number of claims entered in England and Wales increased by 16 per cent between 2003 and 2004 with a further 48 per cent increase from 2004 to 2005. While the increase in England and Wales slowed to 14 per cent in 2005-2006, on a Wales only level, there was a 26 per cent increase in the number of claims issued.

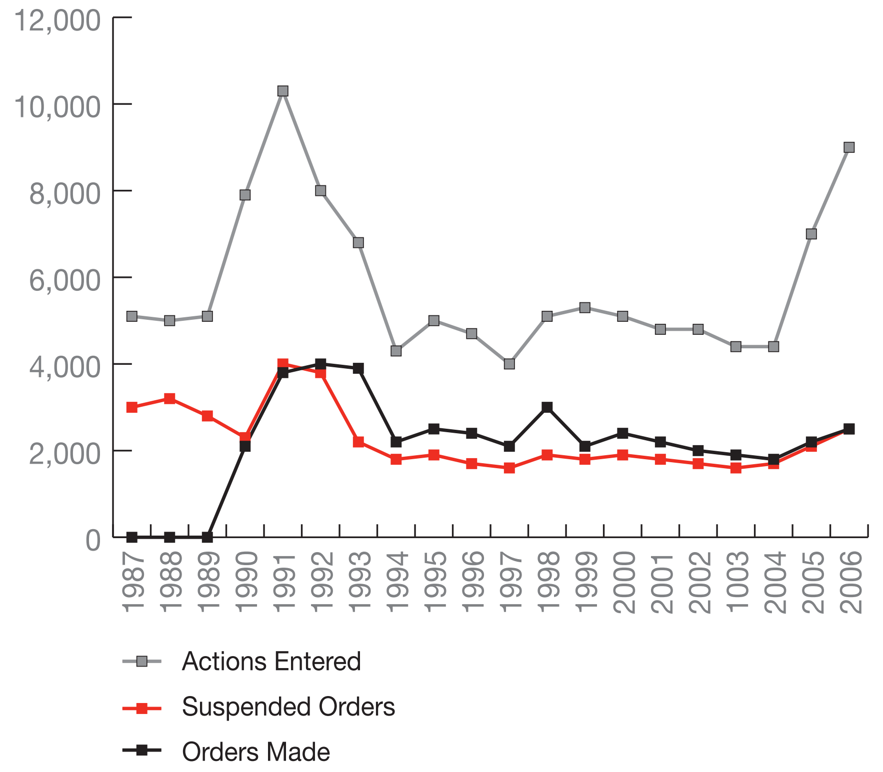
Possession actions in Wales
While 34 per cent of owners own their properties outright, the majority of owner-occupiers in Wales have mortgages. [57]

There have been yearly increases in possession action in Wales in the period between 2004 and the end of 2007. The number of claims issued by lenders increased by 109% between 2004 and 2007, while the number of orders (including those suspended) were up by 137%.

There was a 49 per cent increase in the number of claims issued between 2004 and 2005, with 6559 actions compared to 4394. The number of orders also increased by 49 per cent. [58]

[57] 2001 census. [58] Mortgage and Landlord Possessions Proceedings Issued in the County Courts, (Economic and Statistics Division, Department for Constitutional Affairs, August 2006). Also, Mortgage Repossession in Wales March quarter 2005 (Welsh Assembly Government, SB 43/2005, June 2005).

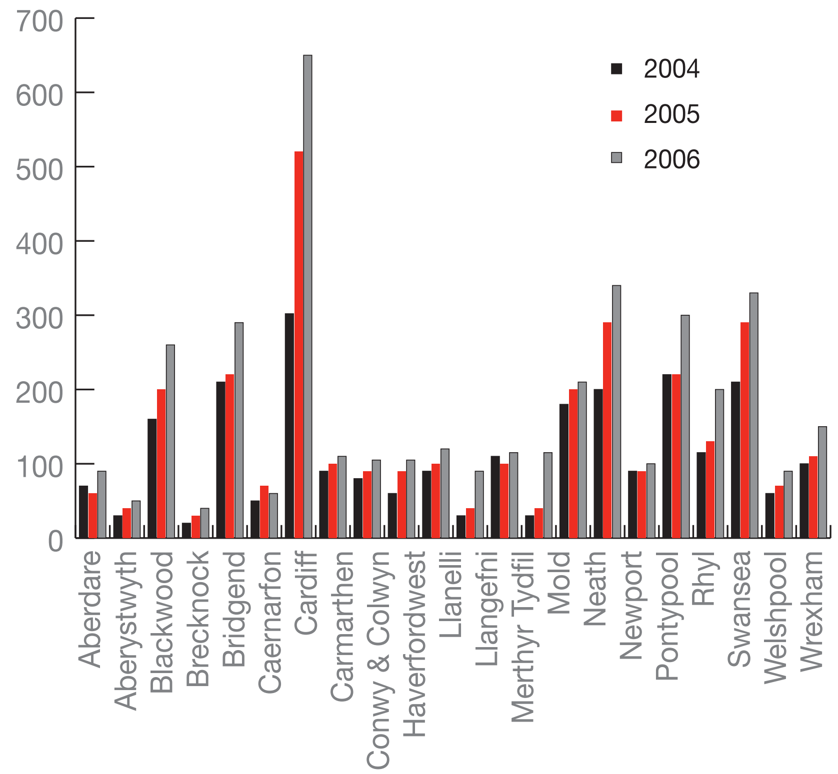
Mortgage possession actions in Wales 1987 - 2006



In 2006 there was a 26 per cent increase in the number of claims issued, from 6559 to 8294 while the number of orders increased by 42 per cent. In 2007 lenders began more possession procedures in Wales than during any year since 1992 with a further 11 per cent increase in claims issued, while the number of orders were up by 12 per cent.[59]

A consequence of the increase in court actions has been an increase in the number of warrants issued and executed by county courts in Wales. There was 25 per cent increase in the number issued between 2004 and 2005 with 2641 issued in 2005, compared to the 2117 in 2004. This number increased by a further 32 per cent to 3496 during 2006.

Warrants issued in county courts 2004 – 2006

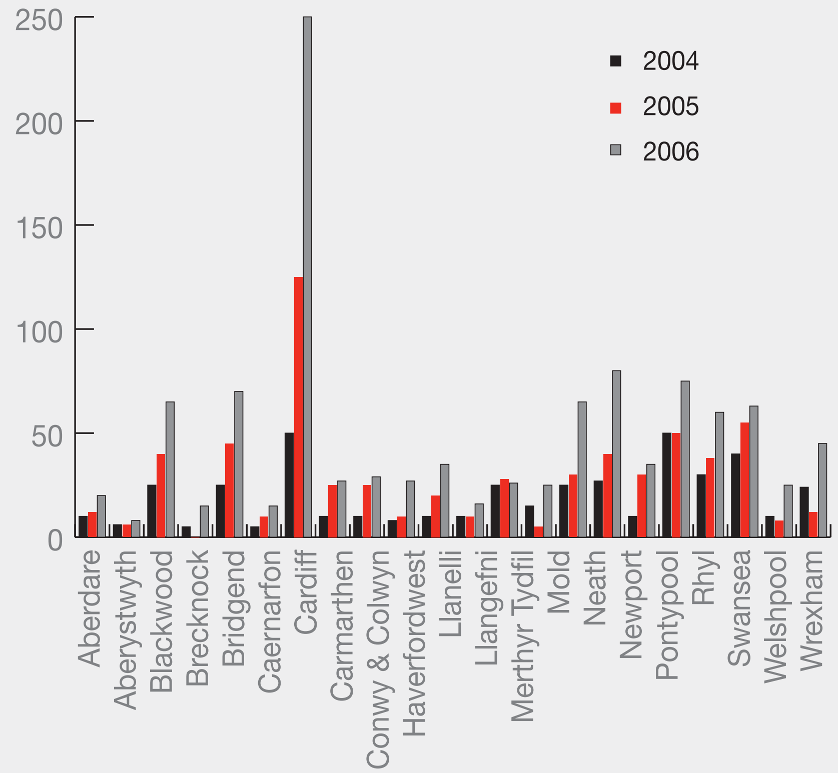


(Source: Economics & Statistics Division, Department of Constitutional Affairs, February 2007)

Between 2004 and 2005 there was a 62 per cent increase in the number of warrants successfully executed (from 333 to 540) with a further 75 per cent increase between 2005 and 2006 (from 540 to 947). Increases can be seen in the warrants executed in all of the county courts with the exception of Merthyr.

[59] Statistical Bulletin, Statistics on Mortgage and Landlord Possession Actions, (Ministry of Justice, England and Wales, November 2007, Issue Q3/2007).

Warrants successfully executed 2004 – 2006



(Source: Economics & Statistics Division, Department of Constitutional Affairs, February 2007)

Reasons for repossessions

Research published in 2001 explored the impact of repossession on households with children in England. The study initially used questionnaires and subsequently semi-structured interviews to gather data from 30 households and examined the reasons why households experienced repossession action, the coping strategies developed and the impact on the households and the children.[60]

Research undertaken for the Scottish Executive in 2002 examines the number of repossessions in Scotland, mortgage lender practices and policies, and also the experiences of households facing the loss of their homes.[61]

There are several main reasons for repossessions, including:

- Structural factors such as interest rates, loan to income ratios and social security support levels.
- Income and expenditure factors such as unemployment, reduced income, sickness, relationship/ marriage breakdown, unanticipated costs and financial problems.
- Factors such as money management.[62]

Data from the White Horse Mortgage Service, based on an analysis of borrowers who received arrears counselling, provides an indication of the reasons for mortgage arrears over the period from the mid 1990s.

[60] Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness', (Community, Work & Family, Vol. 4, No. 3, 2001). [61] Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland, (Scottish Executive Social Research, 2002). [62] René Böheim and Mark P. Taylor, My home was my castle: Evictions and repossessions in Britain, (Institute for Social and Economic Research and Institute for Labour Research, University of Essex, 2000).

White Horse Data for Wales 1996 – 2006

%	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Unemployment (Resolved)	10.67	12.33	10	5.08	9.09	8.15	12.60	4.92	5.97	3.28	3.73
Unemployment (Unresolved)	15.73	10.96	7.22	8.47	5.45	8.15	5.51	3.28	2.99	1.64	5.22
Reduced Income (Resolved)	11.24	13.70	10.56	9.04	9.70	11.11	15.75	11.48	8.96	24.59	23.13
Reduced Income (Unresolved)	12.92	13.71	15	19.77	17.58	14.81	12.60	6.56	13.43	16.39	19.40
Over Indebtedness (Resolved)	0.56	0.68	1.67	2.26	1.21	0	3.15	1.64	1.49	1.64	4.48
Over Indebtedness (Unresolved)	3.93	1.37	3.33	1.69	0	3.70	1.57	1.64	1.49	0	3.73
Financial Mismanagement	14.04	15.07	9.44	14.69	12.73	16.30	15.75	9.84	26.87	14.75	14.93
Relationship Breakdown	8.99	10.96	14.44	11.30	9.09	11.11	7.09	1.64	4.48	4.92	7.46
Ill Health (Recovered)	5.13	3.42	4.44	3.39	4.24	4.44	6.30	6.56	7.46	1.64	8.22
Ill Health (Long-term)	4.99	7.53	6.11	11.30	11.52	10.37	7.08	0	7.46	6.56	5.22
Other Reasons*	11.80	10.27	17.79	13.01	19.39	11.86	12.60	52.46	19.40	24.59	4.48

(Source: White Horse Mortgage Arrears Results 1996 to 2007, White Horse Mortgage Services Limited.)
* These include wilful non-payment, fraud and technical disputes.

While, during the early to mid 1990s, unemployment was the largest single reason for arrears, reduced income or 'underemployment' is now the major driver in Wales and the UK.[63 64 65] Financial mismanagement, relationship breakdown and ill-health are also significant reasons for household difficulties.

Many of those who lose their homes to repossession do so because of the interaction of several problems while those who were able to recover suffered a single temporary problem.

'A common characteristic of those who were repossessed was that they suffered from a range of interacting difficulties, e.g. job loss, health problems and relationship breakdown.'[66 67]

Research on mortgage debt published in 1998 suggested that indebtedness was likely to continue as long as the trends seen in the labour market, housing market and social security policy continued.[68] In essence, that the underlying problems are a product of the current economic system and social policies.

'Many of the features most closely associated with a more flexible labour market are the very factors which lead to increased odds of mortgage indebtedness: part-time working; self-employment; increased job insecurity; and so on. At the same time current levels of social security and private insurance support for mortgagors experiencing the periodic downside of the flexible economy…are clearly inadequate and likely to become even more so.'[69]

This is supported by Nettleton and Burrows who describe a *'new landscape of precariousness'*. This environment comprises of several elements including greater labour market flexibility and job insecurity, and prevalence of relationship breakdown and insufficient provision of social welfare.[70] Structural changes have had more of an affect on the Welsh labour market with higher levels of flexible working patterns amongst both male and female employees than in the UK in general.[71]

[63] White Horse Mortgage Services, Annual Bulletins 1992 – 2005. The size of the sample of borrowers from Wales is unclear. [64] See also Peter Williams, Ownership and the Private Housing Market, in Robert Smith, Tamsin Stirling and Peter Williams (Eds.), Housing in Wales – The Policy Agenda in an Era of Devolution, (Chartered Institute of Housing, 2000). Data from 1994 – 1998. [65] op. cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland. [66] Ibid. [67] op.cit., Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness', (Community, Work & Family, Vol. 4, No. 3, 2001). [68] Roger Burrows, Mortgage Indebtedness in England: An 'Epidemiology', (Housing Studies, Vol.13, No. 1, 5-22, 1998). [69] Ibid. [70] op.cit., Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness', (Community, Work & Family, Vol. 4, No. 3, 2001). [71] op.cit., Peter Williams, Ownership and the Private Housing Market, in Robert Smith, Tamsin Stirling and Peter Williams (Eds.), Housing in Wales – The Policy Agenda in an Era of Devolution, (Chartered Institute of Housing, 2000).

Deregulation and expanding home ownership
The growth of sub-prime lending has facilitated access to the market for households that are considered more of a risk by established lenders.[72] This type of lending began following a process of financial de-regulation from 1984 which saw a growth in the range of lenders providing loans to households who would formerly have found accessing ownership difficult. The process was boosted in the 1990s by an increase in the number of households with poor credit, debt repayment problems and a larger number of marginal borrowers seeking to access home ownership.[73 74]

Although the majority of homeowners are able to service their mortgages, the structural changes in the economy coupled with greater rates of relationship breakdown mean that home ownership can now be a more challenging choice. At the same time, ownership has continued to grow and – as the tenure of choice for the majority – has drawn in more economically vulnerable households. Low inflation means that the cost of mortgages remains higher for longer and social and private safety nets have failed to protect many mortgagors.[75]

It is difficult to indicate the size of the sub-prime sector but, in 2001 it was estimated that sub-prime mortgage lending was worth around £6 billion.

In 2005 the sector was estimated as being worth approximately £25-30 billion and, although the CML believes it to be a smaller market, it still estimates that it is the second largest specialist section of the industry after buy to let mortgage provision, constituting around 5-6 per cent or £15-16 billion of gross lending.[76 77]

The type of borrowers that are commonly associated with the sub-prime market have been defined by the Office of Fair Trading as *'those with impaired or low credit ratings and who would find it difficult, generally to obtain finance from traditional sources on normal terms and conditions.'*[78]

Deregulation provided borrowers, traditionally assessed as being too high risk by traditional lenders, with greater opportunities for home-ownership.[79] However, these borrowers face higher interest rate charges, higher lending charges and also, research suggests, sub-prime lenders are quicker to levy charges on those in arrears and pursue repossession action.[80 81]

Sub-prime lending can be seen to militate against sustainable home ownership in that costs and charges are higher, there is more of a willingness to lend money to those on welfare benefits and lower incomes, and to extend repayment terms into retirement.[82]

Impact of repossession
Unsurprisingly, the threat of repossession is a stressful experience for those affected. Families face a situation of uncertainty, anxiety and a loss of control. Nettleton and Burrows found that households faced uncertainty as to whether lenders would evict, what the court decision would be, what assistance would be available from local government and, ultimately, where they would live. Linked to this uncertainty were emotions such as helplessness, resentment, anger and devastation. The subsequent impact of the loss of control related to repossession includes poor mental and physical health.[83]

'Imminent eviction or repossession is also associated with a decrease in mental well-being, particularly if it is as a result of persistent payment problems.'[84]

Some authors suggest that – given the more flexible labour market and inherent job insecurity – the experience of mortgage arrears and the prospect of eviction is such a stressful event that it should be viewed as a public health matter.[85]

[72] Sub-prime mortgages are those that do not conform to standard or prime lending criteria and cater for customers with adverse credit histories. [73] Moira Munro, Janet Ford, Chris Leisham and Noah Kofi Karley, Lending to higher risk borrowers – sub-prime credit and sustainable home ownership, (Joseph Rowntree Foundation, 2005). [74] Christine Whitehead and Katrina Gaus, At any cost? Access to housing in a changing financial marketplace, (Shelter, September 2007). [75] Ibid., p.269. [76] Ibid., p.47. Datamonitor figures quoted in the JRF study. Total mortgage lending in 2001 was £122 billion. [77] Adverse credit mortgages, (CML Housing Finance Issue 10 2006). [78] op.cit.., Munro et al., Lending to higher risk borrowers – sub-prime credit and sustainable home ownership, (Joseph Rowntree Foundation, 2005). [79] op.cit., Adverse credit mortgages, (CML Housing Finance Issue 10 2006). [80] Daylight Robbery, (NACAB, 2000). [81] op.cit., Munro et al., Lending to higher risk borrowers – sub-prime credit and sustainable home ownership, pp.50-51. [82] Ibid. [83] op.cit., Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness', p.259. [84] Mark P.Taylor, David J. Pevalin and Jennifer Todd, The Psychological Costs of Unsustainable Housing Commitments, (Institute for Social & Economic Research, Working Paper 2006-08). [85] op.cit., Roger Burrows, Mortgage Indebtedness in England: An 'Epidemiology', (Housing Studies, Vol.13, No. 1, 5-22, 1998).

Other consequences include the impact of the uncertainty on the health and education of children. The repossession process places pressure on the household unit and if families are evicted children may have to move schools, adding to their feelings of insecurity.[86]

The process affects people's view of themselves i.e. in terms of values, self-confidence and esteem. The loss of the home has an impact on people's sense of identity – both in categorical and ontological terms. Having striven to become owners people realise that they are being classed as homeless or as tenants with the perceived affect on how this is viewed by other individuals and the state.

'People look at you in a different way. You fill in forms – the first thing it says is 'homeowner' the last thing on the list is 'rented/unfurnished/tenant'.[87]

Households most likely to be repossessed

The households most at risk of possession action include those who are self-employed, in transient employment, younger households, first-time buyers, those with 100 per cent mortgages, or borrowing close to this level, and ethnic minorities.[88, 89] Other categories include those who are divorced or separated, single parent households, households with three children and, manual workers, while difficulties with repayments also increase among borrowers in the first few years of their mortgage.[90, 91, 92]

'Households with certain characteristics are significantly more likely to experience financial problems with their housing. For example, households with younger heads are at greatest risk of having mortgage arrears.'[93]

Clearly certain socio-economic groups are more at risk of mortgage problems and being unable to service their mortgage debts. Analysis of the British Household Panel Survey 1992 - 2004 shows that those in a higher social class – professionals, and those in managerial/technical groups – are less likely to experience arrears, while those in partly skilled or unskilled occupations experienced the highest levels of mortgage difficulties.[94]

The mortgage safety net

Some protection exists for borrowers who experience problems with mortgage repayments. State assistance comprises of provision for people on income support or job seekers allowance, i.e. Income Support Mortgage Insurance (ISMI) while private insurance such as Mortgage Payment Protection Insurance (MPPI), critical illness cover, permanent health insurance and unemployment insurance is also available. This protection has been reformed several times i.e. in 1987 and 1993.[95] Further reform, introduced in 1995, changed the assistance available e.g. borrowers have to wait 9 months before the state provision is triggered. An aim of this reform – in-line with the Government's belief that homeowners should protect themselves against changes in circumstances rather than rely on the state – was to reduce the costs to the state by promoting the take-up of MPPI policies.

Although the rate of MPPI take-up increased post 1995, this growth was small and only a minority of lenders made MPPI compulsory even for those considered as more high-risk borrowers. There are problems with the clauses and exclusions incorporated in such policies, and the cost of premiums can also deter the most vulnerable households.[96] Recent research notes that that the proportion of mortgages protected by MPPI is now falling, possibly as a result of declining affordability.[97, 98]

[86] op. cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland, pp.99-100. [87] op.cit., Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness'. [88] op.cit., Roger Burrows, Mortgage Indebtedness in England: An 'Epidemiology', (Housing Studies, Vol.13, No. 1, 5-22, 1998), p.7. [89] Janet Ford and Jude England, Data and Literature on Mortgage Interest: State Provision and Private Insurance – An Evaluation Report and Source Book, (DWP, in-house report 65). [90] op. cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland. [91] op.cit., Hollie-Anne Bowie-Cairns and Gwilym Pryce, Trends in mortgage borrowers' repayment difficulties, (Council of Mortgage Lenders, Housing Finance, July 2005). [92] Matthew Hancock and Rob Wood, Household secured debt, Bank of England Quarterly Bulletin: Autumn 2004, (Bank of England, 2004). [93] op.cit., René Böheim and Mark P. Taylor, My home was my castle: Evictions and repossessions in Britain, (Institute for Social and Economic Research and Institute for Labour Research, University of Essex, 2000). [94] op.cit., Hollie-Anne Bowie-Cairns and Gwilym Pryce, Trends in mortgage borrowers' repayment difficulties, (Council of Mortgage Lenders, Housing Finance, July 2005). [95] Peter A.Kemp and Gwilym Pryce, Evaluating the Mortgage Safety Net, (Department of Urban Studies, University of Glasgow/Council of Mortgage Lenders, March 2002). [96] op.cit., Hollie-Anne Bowie-Cairns and Gwilym Pryce, Trends in mortgage borrowers' repayment difficulties, (Council of Mortgage Lenders, Housing Finance, July 2005). [97] op.cit, Chrisitne Whitehead and Katrina Gaus, At any cost? Access to housing in a changing financial marketplace, p.18. [98] op.cit., Hollie-Anne Bowie-Cairns and Gwilym Pryce, Trends in mortgage borrowers' repayment difficulties.

Nettleton & Burrows also question the usefulness of both MPPI and ISMI to households facing the greater insecurity of the current labour market. Research by the University of York found that 30 per cent of MPPI claims were rejected in 1997, with reasons for rejection including pre-existing medical conditions and the ending of temporary contracts.

Two fifths of borrowers receiving ISMI suffered arrears before ISMI commenced payments while 80 per cent of those who received payments had a shortfall (because ISMI is based on a standard interest rate – calculated using the average rate of mortgage interest charged by the biggest 20 banks/building societies – rather than on the actual rate paid by individual borrowers). A 2004 study for the then Office of the Deputy Prime Minister (ODPM) found that only a minority of people claiming ISMI received full interest payments and that the waiting time causes problems for households.[99, 100]

The research also found that a significant minority of borrowers are poorly informed about the insurance cover available and that MPPI policies can be expensive and therefore did not represent value for money. Further research found that borrowers were unaware of MPPI or that they thought they had taken the insurance when they hadn't.[101, 102]

Behaviour of borrowers

Research on the behaviour of borrowers when identifying mortgage products was undertaken for the FSA in 2001. The findings demonstrate that borrowers place a significant reliance on interest rates to indicate the least expensive option and do not consider the costs in the medium to long term. The Miles Review in 2004 found that consumers focus on the monthly cost of their repayments and not on the risk of rising interest rates while recent research indicates that expectations of changes in interest rates do not influence the levels of debt undertaken.[103, 104] Borrowers also do not seek information on mortgage related products such as life insurance or MPPI. This is mainly because consumers see these as part of the mortgage, that there is limited choice regarding these products or that to shop around would jeopardise the deal with the lender.[105]

When asked about strategies to cope with repayment problems caused by rising interest rates, many mortgagors seek to re-mortgage without realising that other lenders would also very probably have increased their own variable rate mortgages. Evidence from consumers also suggests that a significant proportion of households would accept a mortgage rate that was fixed for more than 5 years – 26 per cent of respondents in a CML survey and 49 per cent in a survey undertaken by Cheshire Building Society in 2003 – compared to much lower proportions of borrowers that actually have these deals.[106]

The FSA review identifies that consumers were satisfied with the information available, while the importance of clarity in both information and advice provided is also a significant factor. The findings suggest that most borrowers use a range of information sources during the process e.g. family/friends, internet, lenders and intermediaries. Consumer behaviour when selecting a mortgage product is influenced by a range of factors. Among these are:

- A limited knowledge of long-term financial planning, including concepts such as the annual percentage rate
- Too much jargon, and a perception that most deals are the same
- A lack of trust in the financial sector – including mistrust of intermediaries because they may be influenced by commission payments
- Satisfaction with the lender e.g. selecting a lender because they invest with them
- Efficiency – the decision is influenced by the time or inclination the consumer has to find a mortgage.[107]

[99] Janet Ford, Deborah Quilgars, Roger Burrows, David Rhodes, Homeowners Risk and Safety-Nets – Mortgage Payment Protection Insurance (MPPI) and beyond, (ODPM, April 2004). [100] Elaine Kempson, Janet Ford and Deborah Quilgars, Unsafe Safety Nets, (Centre for Housing Policy, The University of York). [101] op.cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland. [102] op.cit., Janet Ford, Deborah Quilgars, Roger Burrows, David Rhodes, Homeowners Risk and Safety-Nets – Mortgage Payment Protection Insurance (MPPI) and beyond. [103] David Miles, The UK mortgage market: taking a longer term view, Final report and recommendations, (HM Treasury, March 2004), p.27. [104] op.cit., Sarah Brown, Gaia Garino and Karl Taylor, Mortgages and Financial Expectations: A household level analysis, (University of Leicester, Department of Economics, Working Paper No. 05/09, April 2005 (updated in December 2005), p.4. [105] Choosing a mortgage – Report of a research review and qualitative research on the mortgage buying process, (Financial Services Authority, 2001). [106] op.cit., David Miles, The UK mortgage market: taking a longer term view, Final report and recommendations. The CML survey was carried out by MORI while the Cheshire Building Society survey was completed by YouGuv. [107] op.cit., Choosing a mortgage – Report of a research review and qualitative research on the mortgage buying process, (Financial Services Authority, 2001).

Qualitative research with a sample of 90 consumers also found that households had a general understanding that a mortgage was a loan to buy a house and that defaulting on payments could lead to the loss of the house. Consumers generally knew that interest rates affected their repayments but did not know the significance of how or when rates were calculated.[108] Recent FSA research finds that consumers are now more likely to shop around for their mortgages with 77 per cent receiving information from more than one company.[109]

Advice
Research on arrears and repossessions in Scotland identifies that advice to borrowers is poor and that a third of the households interviewed had not taken advice from formal sources such as solicitors or financial advisers.[110]

An FSA study in 2006 found that several improvements were required to the process of giving advice on mortgages. The study assessed 252 companies and found that more attention was required on customer needs, record keeping and overall systems and control.

The Miles Review explored borrowers' understanding of the mortgage market and recommended improving the:

- level of verbal advice provided to borrowers
- standard of documentation provided by lenders
- understanding and decision making capabilities of borrowers.[111]

Advice services should provide borrowers with more information about the implications of interest rate rises and the characteristics of various mortgage products, and advisers should look at personalized 'what if' scenarios and attitudes to risk.

'Monetary policy will be easier to manage if households make well-informed decisions about mortgage products that are priced in a transparent and sustainable way and where the risks of different types of mortgage are well-understood. Risks of over-indebtedness, debt affordability and excess volatility in the housing market – problems that can make monetary policy more difficult to operate – would be reduced.'[112]

Home ownership is the aspiration and goal of a majority of households and with current affordability concerns this aspiration is difficult for many to achieve sustainably. While most borrowers can currently service their debts, deregulation and the growth in sub-prime lending has also given more vulnerable households the opportunity to access home ownership. The increasingly challenging financial environment will also make it more difficult for households to access credit and pay their housing costs. The literature shows that there is a lack of understanding with regard to mortgage products, the effect of interest rates and a need for improved pre-purchase advice. Current mortgage protection products can also be unaffordable and complex. Changes in the market and structural changes in the economic and employment environment have made home ownership a more challenging choice for many people.

[108] Ibid. [109] Mortgages effectiveness review – Stage 1 Report, (FSA, September 2006). [110] op. cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland. [111] op.cit., David Miles, The UK mortgage market: taking a longer term view, Final report and recommendations, (HM Treasury, March 2004), p.27. [112] Ibid. It is also recommended that the Financial Services Skills Council ensures that advisers are qualified to deliver the comprehensive advice required e.g. on interest rates, mortgage products, risks etc. (p.98.).

4. Research findings

This section presents the findings of the empirical research undertaken with households experiencing mortgage difficulties and the views of lending institutions and the Council of Mortgage Lenders.

Summary of main findings

- The major motivations for home ownership are security, long-term investment and providing an inheritance for children.
- Households often do not shop around before taking a mortgage.
- Households are initially confident about their ability to pay their mortgage.
- Some households are committing to unaffordable mortgages and experience difficulties at very early stages.
- Three main groups of problems caused mortgage difficulties.
    - Ill-health (leading to loss of income)
    - Relationship breakdown and family problems
    - Unemployment or reduced income

There are significant overlaps between these main groups and a combination of factors, including financial over-exposure and the pressure of additional loans caused problems.

- Insurance cover is inadequate. Many households have some insurance but are often confused as to what is covered and the length of the policy. It is often felt to be costly and complicated.
- The sample highlights the growth of sub-prime lending, its influence in the market and the level of action associated with this sector.
- Households often attempt to deal with financial problems by borrowing further.
- The insecurity and threat of losing the home places pressure on households, leading to mental and physical ill-health. Children are also affected by the insecurity of the situation.
- Advice services are not sufficiently well promoted to people with mortgage difficulties.

Preparing to buy

Previous tenure
The majority of those in the survey were first-time buyers, having previously been tenants in social or privately rented housing or living with family (Table 8). Nine who lived in social housing purchased their home under the Right to Buy scheme.

Table 8 – Tenure pre home ownership

Tenure	Number
Renting privately	**5**
Social housing	**15**
Owner-occupation	**7**
Family	**3**
Total	**30**

Aspiring to own
'It worked out that it would be more expensive to buy than rent but (we) wanted to better our situation.' (HH1)

As can be seen in Table 9 below, households gave diverse reasons for aspiring to owner occupation. The main factors that influenced households were long-term security, investment, self-esteem/status, something to leave their children and the cost of renting accommodation.

Table 9 – Motivations for owning

Reason	Number
Long-term security	**16**
Investment	**14**
Children's inheritence	**12**
Self-esteem/status	**5**
Cheaper than renting	**11**
Needed a larger property	**2**
Only way of obtaining a decent standard of accommodation	**2**
Other	**5**
Total	**67**

The 'other' reasons highlighted by households included marriage, accessing the property ladder and relocation. Two households originally viewed their purchase as a short-term project e.g. before moving abroad or relocating.

'I felt really proud of myself because of coming from nothing, leaving Halifax with literally nothing to buying my own house… it felt like quite an achievement.' (HH2)

Accessing advice
'It would have been nice if you could have gone to somebody and asked for help. If you go to like a…broker… they only want you to have their stuff, it would be nice to go to an independent…' (HH3)

Many of the households had approached a broker, lenders or their own bank and not sought independent advice on options and affordability. Several times the broker was recommended by a friend and brokers also visited households following responses to advertisements.

'I had a loan but it wasn't a big one, nowhere near what it is now, and I was advised (by the bank) it would be better if I bought the property. I didn't take advice from anyone other than what was within the pack.' (HH4)

A couple of households contacted financial advisers who had provided them with advice, while two respondents were not involved in the mortgage process as their partner controlled this. One household had just contacted an estate agent to see the properties that were available, while two had visited estate agents and spoken to a broker. In the case of people who bought council properties, several had responded to companies canvassing the area or to televised advertisements encouraging them to exercise the Right to Buy.

He was only after his commission, he wasn't interested whether or not we could afford the repayments.' (HH5)

Another respondent was less sure of the value of taking advice before buying.

'I don't think it would help either way, either you are lucky and you keep your job all the way through your mortgage and you get the great deal, or you get the bad luck that we have had.' (HH6)

21 households stated that they had not shopped around for mortgage options. Four accepted the recommendations of family, estate agents or solicitors on which lenders to approach, while three households who bought through the Right to Buy either were informally advised by the council about a possible lender or were canvassed by companies who were at that time targeting tenants in the area.

'Two of my mates worked for the lender selling insurance. I happened to mention to one of them I was thinking of buying my house and he said he could get in touch with one of their mortgage advisers and see what they (could) do. He brought the adviser to us.' (HH7)

One household said that they had visited a few lenders before deciding on their mortgage.

'Yes, we went round a few places before we went to this lender.' (HH8)

Two households said that they had personally made efforts to consider their mortgage options while three had visited lenders before deciding and four had engaged an independent broker, who had looked at the options on their behalf. Two others also approached financial advisers who looked at their options and recommended financial products. One respondent could not recall getting advice.

One respondent had simply visited an estate agent and seen a house in which she was interested. Personnel in the estate agent's office gave her 'advice' about the property and getting a mortgage, deposit requirements and so on.

'Because I thought that she must be right…I had never done it before and I saw the house and I wanted it and that was it.' (HH2)

Others had seen televised advertisements or received telephone calls from companies about mortgages and loans.

'Yes, well they actually rung me up to say they'd moved into mortgages as well (as loans) and that's the number they gave me.' (HH9)

Types of mortgage, borrowing and insurances
Several participants, including four households that had originally taken mortgages between 10 and 19 years previously originally had endowment products before re-mortgaging several times on repayment deals as the financial environment changed. Many respondents were unaware of, or could not remember, the interest rate that they were paying.

Twenty-two respondents did not feel under pressure to take additional borrowing when taking their mortgage while five did arrange loans but, at the time, felt confident about this decision.

'We were encouraged to borrow more than we should have. At the time we were fine with this as we were both working and easily covering the mortgage.' (HH10)

Two households felt that lender put them under pressure to borrow and that access to additional finance for home improvements etc. was easy, while one was 'not discouraged' from borrowing by the lender.

'Well, each time you paid your mortgage they'd say we've got this deal going on, would you like to take a further advance or would you like a loan.' (HH11)

Similar to the findings of existing research, and an ODPM survey in 2004, the majority of households had bought insurance protection.[113 114] The most popular policies included protection in case of illness or redundancy. Initially people were either advised to take insurance by their lender or broker, or they personally felt that they needed policies. One respondent wasn't advised to arrange insurance.

There was considerable confusion with regard to insurance protection i.e. whether insurance was part of the loan or not, the period and extent of the cover provided, and whether they continued after a re-mortgage. The cost of insurance was also prohibitive.

'Well we swapped mortgages didn't we. Unknown to us that (insurance) didn't come with the mortgage. They failed to tell us about the insurance policy in the swap over.' (HH12)

[113] op.cit., Janet Ford, Deborah Quilgars, Roger Burrows, David Rhodes, Homeowners Risk and Safety-Nets – Mortgage Payment Protection Insurance (MPPI) and beyond, (ODPM, April 2004). [114] CML news & views (Issue No.7, 27 April 2004)

Four respondents weren't sure whether they had insurance or had bought it originally (two as they did not deal with the original loan), while cost was a factor that dissuaded several respondents from taking policies. [115]

'No, nothing like that. They were about another £100 a month so, no.' (HH5)

Five participants had found that they were unable to claim on their insurances when illness or redundancy affected their ability to pay the mortgage, while five were able to claim successfully. One was able to make a successful claim initially but was subsequently unable to continue with their monthly insurance payments.

'I was off ill. But they wouldn't pay and said it's not part of the cover. They give you a list of what you have got to have before they'll pay any of your mortgage.' (HH8)

While one household was able to claim for 6 months on a policy covering illness, they paid £7,000 for their insurance policy for 7 years of cover.

'We did originally but we had to pay the insurance policy up-front so that went on the mortgage. So that was £7,000. And that was only a seven year policy.' (HH13)

Several people felt that protection against illness and unemployment was important but one respondent commented that it was too easy to stop paying the premiums when there were financial problems and another that better information was required on the length of protection offered. Previous studies also found that mortgage protection insurance was expensive and that exclusion clauses and the length of cover were problems. [116]

Selecting a lender
I've always been with this bank. I've never been with anyone else, I don't intend to. I've always liked their attitude. (HH14)

Thirteen borrowers selected their lenders on the recommendation of brokers or in one case a solicitor, while two approached specific lenders because of their own poor credit history. One household selected the lender because they banked with them – and re-mortgaged with another bank because they were friendly with the branch manager - while another already had a mortgage with the lender. Two borrowers secured their mortgages after recommendations from their bank while other households decided after considering re-payment rates or because they believed that the deal offered to them was 'what was available' at the time, and four accepted the recommendation of friends/family, an estate agent or responded to television or newspaper advertisements.*

*Other participants in the survey did not provide specific reasons for their choice of lender and two were not involved in the decision.

Table 10 – Lenders

Lender	Number
Southern Pacific	1
Abbey National	3
Platform	2
Preferred Mortgages	1
Principality	2
Nationwide	2
Advantage Home Loans (subsequently Derbyshire Home Loans)	1
Yorkshire Building Society	1
Bradford & Bingley	1
Northern Rock	1
Mortgage Express	1
CIS insurance	1
Woolwich	1
1st National	1
Lloyds TSB	1
Swift	1
Ocean Finance	1
Barclays plc	1
GMAC rfc	1
Royal Bank of Scotland	1
Halifax	1
Kensington	1
HSBC	1
Cheltenham & Gloucester	1
Bristol & West	1
Total	**30**

Table 10 illustrates that a third of borrowers had taken their mortgages with lenders associated with providing 'sub-prime' mortgages. 'Sub prime' refers to lending that is targeted at consumers who do not fit with the standard criteria expected by lenders e.g. those with little credit history, impaired or low credit ratings, county court judgements or those who are self-employed or have irregular incomes, and who might otherwise experience difficulty in obtaining finance from more traditional lenders. [117]

In addition to the household survey we also considered sixty-three mortgage possession cases at Wrexham County Court between October 2006 and March 2007. 68 per cent of the mortgages (43 out of the 63 cases) involved sub-prime lenders.

Table 11 - Lenders involved in actions at Wrexham County Court

Lenders	Number
Abbey National	1
Black Horse	1
Cheltenham & Gloucester	2
CitiFinancial Europe Plc	2
Derbyshire Home Loans Ltd	1
Future Mortgages Ltd	1
GE Money*	13
GMAC RFC Ltd	6
Halifax***	6
HSBC	2
Kensington Mortgages Company Ltd	1
Mortgage Express	1
Mortgages 1 Ltd	3
Nationwide	3
Northern Rock	6
Ocwen (An unlimited company, formerly Ocwen Ltd)	1
Platform Funding	3
Preferred Mortgages Ltd	1
Southern Pacific Mortgage Ltd	6
Swift 1st Ltd**	2
The Mortgage Business Plc	1
Total	**63**

*GE Money – includes GE Mortgages, GE Home Lending, GE Secured Loans
**Swift – includes Swift Advances
***Halifax – includes Birmingham Midshires and Intelligent Finance

While sub-prime lending accounts for approximately 5-6 per cent of the overall market it appears from this research and other recent work that it accounts for a significantly higher proportion of possession actions. [118] Work by the CML shows that the arrears rate in the non-prime sector was four times higher while possessions were ten times those in the mainstream market. [119]

Confidence
Unsurprisingly, a majority of participants said they felt confident when buying their home. Many felt that they were in a good financial position and were not concerned about managing the re-payments. Of the four exceptions, two felt that they were either 'tricked' by the adviser or 'persuaded' when they were more confident in rented housing. One household was 'scared' of the challenge but also proud of having succeeded in buying their home. One household had mortgaged for business reasons and therefore felt that they did not have an alternative.

'I thought it was security for my wife and children because my wife had lived with her mum and dad before, she lived in a situation where they were paying a mortgage but I'd always lived as a council tenant. I wasn't over-confident, I was a bit wary.' (HH4)

Seventeen were satisfied or unconcerned about the risks associated with taking a mortgage while twelve respondents were less certain, with three commenting that in retrospect they did not have enough information or realise the risks involved. (One household did not provide information on this aspect.)

[115] op.cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland. [116] op.cit., Hollie-Anne Bowie-Cairns and Gwilym Pryce, Trends in mortgage borrowers' repayment difficulties, (Council of Mortgage Lenders, Housing Finance, July 2005).

[117] Bob Pannell, adverse credit mortgages, (CML Housing Finance, Issue 10, 2006), pp.1-2.
[118] Howard Springett, Raging Bull, (ROOF May/June 2007). [119] M.Stephens and D.Quilgars, Managing arrears and possessions, CML Housing Finance, Issue 5 2007, (CML, July 2007)

Seventeen participants stated that they did not consider the future affordability of their property in the event that circumstances changed i.e. loss of income or increased interest rates, while others referred to having sufficient income and feeling that their employment situation was secure. Four of these households said they did not consider future affordability and that they were not encouraged to do this by their financial advisers.

'It was manageable at the time but a lot of people don't look to the future.' (HH15)

In several cases participants felt that the circumstances that caused them to experience financial problems were difficult to foresee e.g. family bereavements and relationship breakdown. Five felt that they had considered and discussed this issue. Some had taken insurance as protection against changes of circumstances while others felt that they had borrowed within their means.

Coping

Many households in the survey had held their mortgages for only short periods of time prior to experiencing difficulties. This was further supported by the court data.

One household had held their mortgage for approximately 18 months before beginning to experience difficulties. Ten households had only held their mortgages for between 2 and 4 years, while a further seven were between 5 and 9 years into their term. Twelve households had mortgages for between 10 and 23 years.

Except for one borrower, all those who had held their mortgages for between 2 and 4 years and 5 and 9 years had re-mortgaged, taken a secondary loan or both. This pattern was replicated for those who had held their mortgages for longer.

'Get me another loan, my idea was to get another loan - one debt all in one blah, blah – but I was desperate and I wanted to keep hold of my house. I thought, things can't get any worse. I was working all I could, things had to get better.' (HH2)

'To obtain lump sum to be able to buy nice things for the home. Also, my husband had some credit card debts (we) wanted to clear.' (HH16)

In total, fifteen of the households with mortgages for between 2 and 9 years had taken secondary loans and the reasons for these loans included paying credit card/store card debts, home improvements, buying cars and paying for holidays.

'To go on holiday. 'Phone calls from the lender encouraging us to take more money. (They) made it sound affordable.' (HH17)

The pattern is similar amongst those who had mortgages from between 10 and 23 years with eleven of the twelve having secondary loans or re-mortgages. Again, many of the loans are taken in order to facilitate home improvements such as conservatories, replacement windows and flooring, while one household had borrowed £20,000 against their home in order to buy a car.

(The interest was) *'over 10% I think. I don't know exactly but it was due to go up later on this year again. But of course when you are in a mess financially and they offer you a lifeline you don't look at the small print and that's why I think the small print should be in big letters…' (HH15)*

Similarly, with the exception of 4 long-term mortgagors, the majority of households against whom action was being taken by lenders at Wrexham County Court had only had their current mortgages for between one and four years. 44 per cent of those in difficulties had borrowed during 2005, and a majority of these (15) had taken their mortgage during the last six months of 2005, meaning that they were experiencing difficulties from very early during the mortgage term.

Table 12 – Wrexham County Court Data*

Date of mortgage	No. cases
1986	1
1990	1
1995	2
1999	1
2000	1
2002	3
2003	6
2004	10
2005	28
2006	5
Total	**58**

*This data was not available for 5 cases.

The availability of credit has encouraged and enabled borrowers to use their housing assets in order to finance other objectives, without always considering the associated risks. [120]

Although in a MORI survey in 2003 only 3 per cent of households said that, if they faced repayment problems, they would borrow money in an attempt to alleviate the situation, it is apparent that some households are becoming more indebted as a means of servicing existing debt problems. [121]

Difficulties – when and how

There were three main groups of problems that led to households experiencing mortgage debt.

- Ill-health (leading to loss of income)
- Relationship breakdown and family problems
- Unemployment, reduced income or financial problems

Reflecting existing research findings, there were significant overlaps between these problem groups and, in many cases a combination of factors, including the pressure of additional loans, caused the crisis. [122] Table 13 shows the primary reason for mortgage debt within the survey.

Table 13 - Causes of debt

Primary reason for debt	Number of households
Ill-health	8
Relationship breakdown	7
Unemployment or reduced income	12
Financial problems	3
Total	**30**

This pattern is further illustrated by the data from Wrexham County Court shown in table 14. Although the reasons why households were defaulting was not always available, data from 20 cases illustrated that relationship breakdown and family problems, reduced income and unemployment, and financial debt were all causal issues. Similarly, in several cases, although the primary reason was given as unemployment/reduced income, other factors such as relationship breakdown and ill-health also had an impact.

[120] op.cit., Steve Wilcox, Home-ownership risks and sustainability in the medium term, (Joseph Rowntree Foundation, December 2005).
[121] MORI Omnibus Survey 14th & 16th March 2003. Also quoted in Mutual Advice: BSA and Shelter's Guide to Mortgage Arrears, (Shelter, August 2003). [122] op.cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland and Sarah Nettleton and Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness'.

Table 14 - Cause of debt within Wrexham County Court Data*

Primary reason for debt	Number
Unemployment or reduced income	**6**
Relationship breakdown/family problems	**9**
Financial problems	**4**
Ill-health/reduced income/relationship breakdown	**1**
Total	**20**

* Reasons were not available in 43 cases.

These findings are in line with existing research which indicates that people experience problems as a result of a combination of factors such as unemployment or reduced in-work income, ill-health, family breakdown or financial mismanagement.[123 124 125 126]

'I missed a few (payments) I think when I was working or in between jobs.' (HH18)

Several households identified health problems as the main reason for their mortgage arrears. Poor health led people to leave existing employment and return to lower paid positions or to become dependent on welfare benefits. Others found that when illness struck their income reduced but their insurance would not pay for pre-existing conditions.

'I think they should have said to Tony, have you got an ongoing condition? Have you got any sickness? But they never asked him. So he signed these forms, and then we thought oh well we've got this repayment, that'll cover the mortgage, we won't have to worry. So he went into hospital, and then he came out in July and we sent in the form, but they said you've got an existing complaint. It comes as a shock, because you think, I've been paying that and the insurance will pay. So when they said no, you think well, why didn't they ask when we took it out, have you got anything wrong with you or have you had any problems, have you been in hospital. Waste of time and money, and a waste of confidence in them. It comes back to asking the wrong questions.' (HH19)

Respondents also identified that relationship breakdown, leading to a loss of income, made it difficult for them to pay their mortgage.

'One month before we separated my ex was made redundant. However, this could have been resolved as he had a redundancy payment and soon got another job. It was the relationship breaking down that caused the arrears with the mortgage.' (HH20)

A reduction in income, from either unemployment or erratic employment patterns, also led to households defaulting on mortgage payments. In one case a household lost the husband's salary and still had to pay child support costs of £100 per week. Another respondent was a healthcare worker and her income decreased as a result of losing shift work, combined with a period of ill-health.

One couple that had taken a mortgage for £40,000 based on a joint income of around £26,000 in 2001, began experiencing difficulties within 2-3 years. They took a secured loan of £17,000 within 2-3 years of their mortgage, and subsequently re-mortgaged in 2005 and again in 2006. Their debt problems started with the secured loan and court action followed. Although they originally had a repayment mortgage they re-mortgaged on an interest only basis and the monthly loan repayment was higher than anticipated. In 2006 she lost her job and he had a car accident that also resulted in him losing his job.

In another case the household felt that the majority of problems occurred within a 12 month period. They had bought their council house under the Right to Buy in late 2001 with a mortgage of £19,000 on an interest rate of 9.8%. They had a monthly income of around £1,200. A secured loan for £19,000 was subsequently arranged in 2002. They felt that the problems began in 2005.

'The biggest mistake I made was to swap jobs. I was told what I would be getting would be the same as I was on. When I got there, it wasn't, and it was £300 a month less than what I was getting before, and there was a couple of other things…like I was getting ill. Sian was ill…and the stress was making me ill. I was in hospital, I had pains in my chest. She was ill and had postnatal depression so I had to look after her and try and work and juggle this and juggle that and I was getting stressed and this was going over a period of a year really.

[123] White Horse Mortgage Services, Annual Bulletins 1992 – 2005. [124] op.cit., Peter Williams, Ownership and the Private Housing Market, in Robert Smith, Tamsin Stirling and Peter Williams (Eds.), Housing in Wales – The Policy Agenda in an Era of Devolution, (Chartered Institute of Housing, 2000). Data from 1994 – 1998. [125] op.cit., Emma McCallum and Ewan McCaig, Mortgage Arrears and Repossessions in Scotland. [126] op.cit., Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness', (Community, Work & Family, Vol. 4, No. 3, 2001).

I was ill with chickenpox, I had to have three weeks off, nearly four, then I had to tell them (employer) my little boy was in a school (where there was an) ecoli outbreak…and I had to have a month off with no pay. Six months in a row I never had more than 4 or 5 hundred pounds a month.' (HH21)

This pattern was also found amongst cases appearing at Wrexham County Court. In one case, the arrears had been caused by a breakdown of the marital relationship and unemployment. Separation followed and the mortgagor was unable to cope financially. She had experienced depression and tried to 'bury herself away'.

Action when in default

'The lender wasn't prepared to negotiate with me to work out some kind of a repayment plan and they repossessed me for £1,500 arrears. I lost this house – a £120,000 house – for £1,500 arrears, because they weren't prepared to negotiate with me.' (HH22)

The majority of participants (27) said that they contacted their lenders in order to try and negotiate repayment plans. This reflects a similar finding by a MORI study in 2003, in which 91 per cent of households said that, if they experienced mortgage debt, they would contact their lender.[127]

The household survey highlighted difficulties in the communication between lenders and borrowers with, in some instances, lenders not offering repayment options or accepting offers with regard to varying repayment plans. Several respondents said that lenders did not recommend accessing independent advice. In two cases the lender did arrange interviews with their own debt advisers at a cost to the borrowers between £100 and £150. Several respondents reported that their mainstream lenders were helpful and willing to negotiate while lenders with whom they had taken sub-prime mortgages were inflexible and would not discuss options for repayment.

Respondents perceived that some lenders were uninterested in negotiating on repayment and that they were either unwilling to communicate or, in the other extreme, were constantly telephoning or writing letters demanding payments.

'It was simply, you owe us £x amount of arrears and we want it now. When Dave went back to work, he rang them up and said we need to know what we owe you and can we come to some arrangement to pay it, and she said we'll accept £95 a week off the arrears. So I said I can't afford £95 a week and she said that is all we will accept because we will not give you more than six months to clear these arrears. So I said I can't afford that. By the time I'd paid £95 a week, and the £200 a week I was paying them normally anyway. And she said I won't discuss the matter with you any further, that's what we want. Dave rang them several times and said, we've worked the money out and we can only afford to pay you £25 a week, and she said it's not acceptable. We will make no arrangement except that. "We'll take you to court and we'll have you out within 28 days". They simply didn't want to know." (HH14)

In one case the household attempted to negotiate with three mortgage lenders but found this difficult.

'No they were all similar really. What they were saying was, if you don't pay this, we go to court and get you evicted.' (HH23)

Another householder described his experience with a lender.

'A nightmare. Hounded me day and night. If I didn't get phone calls I was getting letters every other day, threatening repossession and eviction. It started 9 o'clock in the morning, sometimes right up to as late as 8 o'clock at night, and that was Saturdays and Sundays as well. You tell one of them in the morning and in the afternoon you get another phone call and you're telling that person the same as you told the person in the morning.

No (they wouldn't negotiate). We were voluntarily paying £10 a month off the arrears just to get them off my back because of the stress of them ringing every day. But then as soon as we started paying them that, they slapped us with a £40 a month late payment fees. So anything we did, they were counteracting.' (HH22)

This type of approach would appear to be contrary to the expectations of clause 13.3.2 in the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) with regard to using reasonable efforts to reach agreement with customers. Section 13.5.3 of MCOB also states that companies should not put pressure on customers through excessive telephone calls or correspondence.

[127] op.cit., MORI Omnibus Survey 14th & 16th March 2003.

Several households in the survey had approached Housing Associations and been assisted through mortgage rescue or shared ownership arrangements. Private companies offering sale and leaseback schemes also approached a couple of households. One household had taken this option and was renting the property back. They were unsure at that time whether housing benefit would cover the rental.

Further evidence from Shelter Cymru casework indicates that this is an option promoted to households in mortgage arrears. Companies almost always pay the home owners a price significantly lower than the market value and offer the household little security of tenure. The Treasury is currently being lobbied to allow the FSA to regulate sale and leaseback schemes and the practice and the way households are approached may warrant further research.[128]

Several households also referred to the additional charges levied for being in arrears. Lenders who responded indicated that they did not charge defaulting borrowers for telephone calls or letters but that there were fees e.g. £20 or £50 per month for accounts which were in arrears and where there was no arrangement to repay. Fees were also charged for debt counselling and this was at a rate of between £88 and £100. Further research on the costs of debt counsellors shows that, although the costs vary, a borrower can typically, be paying between £94 and £150 for a visit from the lender's debt counsellor.

Table 15 – Lender debt counsellor charges

Lender	Cost of debt counsellor
Lender 1	**£94**
Lender 2	**£94**
Lender 3	**£94**
Lender 4	**£100**
Lender 5	**£110**
Lender 6	**£150**

*Source: Information published by lenders.

In some cases the counsellor was sent without notifying the household or asking their agreement.

'Well, they did send someone out to see about my finances (after court action had begun) and what I could do to try to resolve the situation and that cost me £100! They sent him without asking and it cost me £100. "You'll have to work more hours then, won't you?" That was his advice.' (HH9)

Other fees include a monthly administration charge that is levied on accounts in arrears and these costs can be between £20 and £55 per month. The costs of sending letters and making telephone calls can also be between £10 and £27.50, while some lenders charge between £20 and £40 for providing a statement of the arrears. These charges (in addition to any legal fees etc.) are added to the mortgagor's account, on which interest is then charged.

The CML indicated that lenders charges should reflect the actual cost of the service provided.

'We do believe that it is fair that these are charged to the customer in default – otherwise the costs would need to be cross subsidised by other borrowers.' (CML representative)

Lenders reported similar practices in terms of borrowers that defaulted on mortgage repayments. The main methods of contact include letters, telephone calls and, if necessary, personal visits. Contact usually begins when the borrower misses one month's payment and continues via telephone and letters.

'We contact customers by phone and letter within the first 3 days of them falling into arrears. We always try to contact our customers by phone to discuss their circumstances and resolve the issue however letters are also issued to the customer to advise of arrears levels and any impending action. Litigation action tends to start around the level of 3 months of arrears however this is looked at individually on a case by case basis. Throughout the Collections/Litigation process, telephone is the primary method of contact.' (Lender response)

Of the six lenders that replied, five indicated that they would use debt counsellors while one lender rarely provided this service. Those using debt counsellors stated that this was offered when they had difficulty in contacting customers or they were unable to reach agreement in correspondence or by telephone.

'We will offer debt counselling as a service if we are unable to reach agreements by telephone or letter.' (Lender response)

[128] Sale-and-leaseback schemes need regulation: CML, Citizens Advice and Shelter (November, 2007).

Each lender said that a decision about proceeding to litigation was made on a case-by-case basis. Two lenders indicated the risk of loss would be a factor in any decision about when to begin litigation.

'Yes. Litigation proceeds more promptly if there is a risk of loss.' (Lender response)

In terms of making arrangements with borrowers, three lenders said that they would be able to extend the loan period and capitalise arrears. Four could offer to convert the loan to interest only.

Two lenders did not offer payment holidays, while one lender did offer this option if the loan had the facility and the criteria was met, and the other lender stated that this was an option that was currently used less often. Lenders also reported that other arrangements they could make included:

- Allowing people to pay less for a short period;
- Making additional monthly repayments; and
- Making new arrangements over a specified period e.g. such as between 2 and 5 years.

Lenders stated that the implications of these offers were always explained to the borrowers.

'Yes. There is a script used applicable to each variation e.g. term extension may reduce repayment but will have to be paid for a longer period, which in the long-term costs more.' (Lender response)

Advice

Twenty one households in the sample had accessed advice services such as Shelter Cymru, Citizens Advice, financial advisers and solicitors at some point during the time they were in difficulty. The majority of households had only accessed advice services during the later stages, when their debts were escalating and often only when possession action had been instigated. As the sample was mainly drawn from Shelter Cymru advice services it will not reflect the lower proportion of households that generally access advice services.

Several households were referred or directed to advice services through contacts such as health visitors, solicitors, social workers, Job Centres, the local council and friends and family, while others were aware of the advice provision through, for example, a court duty scheme. Citizens Advice referred one household to Shelter Cymru while others used the yellow pages/ telephone directory or a general search on the Internet.

'I was talking to my mum and she suggested going there. So, once I went in there, they gave me a lot of help.' (HH9)

Some of those who contacted advice services at a later stage i.e. at court or afterwards (including those whose partners had been dealing with the mortgage) were referred either directly by the council or via the court to the council and subsequently to an advice organisation.

Similarly to the households interviewed in the survey, the court data indicates that few people appear to have sought advice on dealing with their financial difficulties. Although it is difficult to be certain whether households had received any advice at all, very few had representatives. Even in those cases where the defendant attended the court hearing, there is often no reference to advice or representation.

22 defendants – 35 per cent - attended the court. Additionally, in seven cases the parties had already made an arrangement and attendance was not required.

A minority of files refer to representation at court or advice. Although this does not necessarily mean that the household had not received advice prior to court, it may in effect indicate that they had not.

In terms of advice, lenders reported that borrowers are encouraged to access agencies such as Shelter, Citizens Advice and the National Debt Line. FSA leaflets are also promoted.

Table 16 – Representation at Wrexham County Court

Appearing in court	Number
Defendant with adviser	5
Defendant without adviser	22
No defendant and no adviser	36
Total	**63**

In the 36 cases where neither the defendant or an adviser was present in court, possession orders were made in 18 cases while possession was suspended in a further 6 cases. In 8 cases the matter was adjourned (often with liberty to restore) as the defendant had made an arrangement with the lender or paid a proportion of the debt. Two of the claims were either struck out or withdrawn. In one of the remaining two cases a warrant was ordered, while in the other an order was made but set aside so that the house could be sold.

In the cases where either the defendant, an adviser or both, were present, possession was ordered but suspended in thirteen cases on the basis that the borrower paid the mortgage instalment and an additional amount of the arrears each month, while in a further 5 cases a warrant for possession was suspended. In four cases possession was awarded to the lender. In one case a warrant was raised while in another a warrant was raised but subsequently withdrawn. Two cases were adjourned with liberty to restore as the parties had agreed repayment terms. In one case an order for possession was made but was not to be enforced without leave.

In the household survey, sixteen households made arrangements with their lenders to pay the mortgage plus an amount of the arrears while fourteen were unable to reach an agreement. Possibly reflecting the unaffordability of the arrangements made, eleven defaulted on the agreement and either lost the property, were in the process of selling or being evicted, or had accessed a mortgage rescue scheme.

Three of the households were assisted by Cymdeithas Tai Clwyd or Hafod Housing Association and subsequently became tenants. Eight are still in their homes but remain in precarious positions with the monthly repayments and additional payments towards the arrears. One household felt that they would eventually be able to make the required repayments although they had defaulted on their current agreement.

A similar pattern emerges with regard to the fourteen households who were unable to make agreements with their lenders. Five households had lost their homes and were living in either privately rented or social housing while another two respondents were attempting to sell their home because they were still unable to afford the agreed repayments. Two households were continuing to make the repayments but considered this an ongoing struggle. One household was looking to re-mortgage again and had secured an adjournment of their court hearing to allow time for this. Three households had secured repayment agreements with their lenders and were still living in their properties, however the lenders in these cases had instigated court action for possession and the households were struggling with their financial commitments under suspended possession orders. One household had been accepted onto a mortgage rescue scheme.

Impact on well-being

'Its put pressure on the marriage, we were rowing, even arguing with the kids, and it's not the kids' fault but at the time you don't realise what you are doing because you're taking your anger out on everybody.' (HH24)

Many participants in the survey described the stress of living under the threat of losing their homes. This pressure manifested itself in different ways e.g. through both physical and mental ill-health, tension, family relationships, and problems for any children in the households.

'I think we've gone more grey-haired. I've had palpitations until I've gone purple-lipped and felt myself sitting on the floor. So it's been a real, real worry. And with him at work all the time, you tell him what you can, but there's only so much you can tell him because he's on the road, he can't cope with these ringing you up because he's off doing his job. The whole thing has been a nightmare. I've got different tablets because of the blood pressure. And thinking…and when you're alone all day, you don't half think.' (HH25)

Many people refer to the effect the situation had on their mental health in terms of stress, depression, anxiety, low self-esteem and also by exacerbating physical ill-health such as high blood pressure, diabetes, and other problems, including insomnia and weight loss. Two respondents said that they contemplated suicide. Households also referred to the impact on their personal relationships. These findings are similar to those of recent research in terms of the effects on mental and physical health, feelings of helplessness, stress, low esteem and loss of personal identity. [129]

'My self-esteem, I got into a very depressed state where it was a case that I didn't care anymore, didn't care about myself. I didn't know where I was, I was in limbo, I felt like I didn't exist.' (HH5)

Several participants described the impact of the experience on their children. While the parents were struggling to cope with the financial strain – sometimes working long hours – they had less time to devote to their children and, especially in the examples where households lost the family home, children had to move schools and lost touch with friends.

'They're asking all the time where we're going to end up living. We've told them that as long as we're all together it doesn't matter where we end up living and we've also told them that we'll start again. We've made mistakes, we've dealt with them and now we're going to start again.' (HH26)

In some cases the impact on the children had repercussions on their education, with absences from school.

'No, one of them hasn't been going to school. Just thinking that something was going to happen with me because of the court case and everything.' (HH2)

Making the difference

'I think what happens is – and I think it's not just with us but with a lot of people – you put your head in the sand, hoping it's all going to go away, which you know damn well it's not, and you just try to do the best you can and pretend it's all not happening until something all of a sudden happens and then it hits you and you think, that's it. For the past 12 months, it's this typical thing, put it in the drawer, we don't want to look at it.' (HH30)

Better communication with, and more flexibility from lenders, emerge as the main factors which borrowers perceived would have been of assistance. Respondents found that lenders were unwilling to negotiate and communicate reasonably, and felt that unaffordable agreements were useless to both parties.

'I think if someone could have talked to me in my language, not in the professional terms they use, maybe explained a little bit more, especially about the insurances etc. For example, I didn't know that I could claim on it if I was off sick.' (HH2)

Several people commented that improved and affordable mortgage protection products would be useful. A clear understanding of whether mortgage protection insurance is included with the loan, the length of period covered, and checking that the policy/policies continue when re-mortgaging is also essential. Similarly, participants also referred to the length of time taken to receive mortgage support through the social security system and suggested that this should be available at the point when difficulties began rather than after 9 months.

'When I was on JSA, I was told that they couldn't pay anything off my mortgage for 40 weeks. Put it this way, they were quite happy for me to be sitting in the bed and breakfast, but they're not happy to pay for your own home. Without the payment protection…people are obviously going to get evicted. People should be made to take out insurance policies at the time of mortgages and have it explained that if you're out of work that social security don't pay, and then people will take them out.' (HH27)

Two respondents had bought mortgage protection insurance for illness and redundancy but were unable to claim successfully because of issues around pre-existing conditions and the limited period for which they had bought insurance.

'Better protection products I would say is a definite one because you pay thousands of pounds for these insurance policies and 99% only cover you for 12 months. Well, that's ok if it's a short-term injury but if it's somebody like me, where you're taken ill long-term, it doesn't matter how much you pay, you can pay £20,000 insurance, you're still not going to get more than a year's cover. Plus, I think there should be more regulations on the money lending system. Because even

[129] See also, Sarah Nettleton & Roger Burrows, Families coping with the experience of mortgage repossession in the 'new landscape of precariousness'.

though we had the £40,000 debt, they were still dangling the carrot for us to take more and more. Knowing that we already had £40,000 with them. I suppose from their side, they know that if you don't pay, they're going to take the house from you, so they're going to get their money either way no matter how much they lend you.' (HH7)

There was recognition in a couple of responses that a lack of knowledge about mortgages, interest payments and the risks attached to non-payment contributed to problems.

'(You) don't appreciate that possession action can be such a threat. (I) didn't think that you could reach that level of arrears to initiate action so early but (the) addition of interest made the total higher.' (HH12)

One household suggested that personalised information and analysis of their budget (which they had received on one loan) was useful.

'With this one I've got personalised information on the risks and that would be useful at the time of re-mortgaging. Some kind of more detailed analysis of your budget.' (HH11)

Households commented that advice and advocacy had made a positive difference to their situations and that accessing these services earlier could have been beneficial. While it is often difficult for customers to contact and negotiate with lenders, advice services have the knowledge and expertise to do this more successfully.

'Well, the staff at the housing advice centre are absolutely brilliant, absolutely fantastic. She really did have some good advice. She even had to stand up in court for me…' (HH3)

In terms of looking back and learning from the experience, households gave mixed responses when asked if they would have done something differently. While some still aspired to own again in the future, for others the experience meant that they felt unable to contemplate home-ownership again.

Several said they would have borrowed less and that credit was too easily available and a number of households regretted taking secondary loans which later became a drain on their resources and which threatened their housing security and felt that they should have sought advice earlier. Others felt that better budgeting and financial management would have helped.

'It's easy to borrow but harder to pay it all back.' (HH28)

However, some felt that they could not have taken a different approach as they were left exposed by a swift change of circumstances such as the end of a relationship. In these situations improved and affordable mortgage protection products are important.

'At the time, I was with someone who had a good wage. I didn't think six months down the line he'd be gone and I'd be left…' (HH29)

Lenders agreed that borrowers often required improved understanding in terms of finance and money management, particularly in terms of younger and first time buyers. Some felt that this should include improving borrowers' understanding of the long-term nature of a mortgage commitment.

'Many borrowers do not think long-term. They are unaware of the obligations they enter into under the mortgage deed.' (Lender response)

One agreed that improvements were required to mortgage payment protection products. However one lender thought that improved mortgage protection would be costly while another felt the current protection was sufficient but required better promotion.

An important area where improvement was felt to be necessary was in the promotion of communication between lenders and borrowers. Two lenders stated that any practices that encourage the borrowers to communicate with lenders would be positive and that this was more likely to lead to a successful outcome.

'Keeping open communication and some level of payment is more likely to result in the customer retaining their home.' (Lender response)

Another respondent referred to the perception that borrowers, rather than contact the lender, ignore the debt and exacerbate the situation.

'Many borrowers choose to ignore arrears thinking it will be alright next month. They are happy to defer payments in order to catch up later – some think it is their right! I wonder how long they would wait if their employer didn't pay them on pay day.' (Lender response)

5. Conclusion

This research again illustrates that mortgage problems and court action continue because of a combination of factors such as illness, relationship breakdown, reduced job security and financial mismanagement. Greater financial insecurity and exposure caused by the cost of housing and, consequently, the level of borrowing required is also a factor.

The growth of sub-prime lending and the ease of borrowing means that more households have the opportunity of home ownership, however, this also means that lenders are prepared to authorise mortgages to households with lower and more erratic incomes and poor credit histories. Housing costs, continuing preference for home ownership and the lack of government investment in other suitable options mean that borrowers are more exposed to changes in personal circumstances and the macro economic environment.

The household survey demonstrated the current flexibility of the borrowing and lending environment. Mortgages are now short-term agreements which are often re-negotiated after 2, 3 or possibly 5 years. De-regulation means that the mortgage industry has developed a broad range of products and there has been a growth in the organisations providing mortgages for a spectrum of households. Many of those who were facing the loss of their homes had only held their mortgages for 2-3 years and although most households were initially confident when purchasing the house, given the speed with which they defaulted, it is questionable whether their borrowing decision was ever affordable.

In response to recent events, such as the crisis in the US housing market and the expected period of lower house price growth or even a short-term decline in prices, some lenders are developing more restrictive lending criteria with the result that potential buyers could be further excluded from the market and re-mortgaging with lenders will become more difficult and costly.[130]

The market in the UK is experiencing a period of reduced growth with government figures showing growth of only 0.5% in August 2007. The cost of housing, the effect of five recent interest rate increases, only slightly mitigated by the quarter percentage cut in December 2007, and the tightening of lending criteria means that there are less first time buyers entering the market and industry reports, such as those by the Council of Mortgage Lenders, Hometrack and Nationwide, indicate that the decrease in the rate of house price growth will continue in 2008.[131] Additionally, the CML is forecasting an increase in repossessions during 2008 as people face higher borrowing costs and existing borrowers come to the end of their fixed term agreements.[132]

The research findings indicate that a range of responses are required by the Welsh Assembly Government and its partners in terms of initiatives to improve the supply of affordable housing to rent and buy and promote sustainable home ownership, but also from the lending industry and stakeholders with regard to improving the implementation of regulation and the pre-purchase advice, and the longer-term actions to improve the financial capability of households.

[130] Paul Willis, Mortgage rejections set to soar, The Guardian 8 October 2007. [131] Hilary Osborne, Housing market set for slowdown, says Nationwide, The Guardian 16 November 2007. [132] Jim Cunningham and Paul Samter, CML Housing and mortgage market forecasts: 2007-2008, (Council of Mortgage Lenders, October 2007).

Responses and Recommendations

Home ownership and affordability
The survey again underlines the powerful drivers behind the desire for home ownership. Principal reasons include security, investment, self-esteem and children's inheritance. These factors mean that home ownership is likely to continue being the aspiration for people even though the economic environment is becoming more precarious.

Many households in the survey had borrowed from lenders on a sub-prime basis and continued to borrow in order to try and buy their way out of debt. Although households were initially confident of re-paying their mortgages, the survey and evidence of cases appearing before Wrexham County Court illustrate that many began experiencing difficulties within the first few years. The approach of some lenders towards consumers experiencing arrears is of concern with regard to the way in which the customer is approached and the apparent inflexibility of the lender in discussing prepayment options.

When faced with repayment problems the majority of households in the survey had attempted to negotiate with their lenders but many had found this difficult and the lender inflexible. This was particularly apparent with sub-prime lenders and may require more robust implementation of regulation in terms of how lenders make reasonable efforts to reach agreements with customers and how contact between lender and borrowers is undertaken.

The way mortgages are sold and the level of possession in the sub-prime sector is a particular concern and it may be necessary to improve the effectiveness and the implementation of regulation and monitoring for this part of the sector. The FSA has very recently raised a similar concern and stated that some sectors of the mortgage lending market are not following the guidance set out in the mortgages conduct of business sourcebook, are unwilling to consider cases on an individual basis and unwilling to agree a client specific solution. It will investigate this further during early 2008 in order to see whether lenders are adhering to the principle of Treating Customers Fairly.[133]

Households in the survey indicated several reasons for entering home ownership, however, the current housing market often excludes low-income households from sustainable ownership. With the diminishing stock of social housing and an insecure and expensive private rented sector, households also have few other accommodation options.

As the housing market is currently beyond the reach of many households that are on an average or lower income in Wales there is a need for more investment in affordable housing to rent and buy.[134 135]

Recommendations

Affordable housing
There are several factors that drive the policy of greater home ownership. However, buying on the open market is currently difficult for many people and more resources should be made available to provide suitable affordable housing.

1. The Welsh Assembly Government and partners should invest in the supply of social rented housing.

2. In addition to current commitments the Welsh Assembly Government should increase the resources available to develop a range of low cost home ownership options.

Regulation
3. Implementing regulation effectively
This is particularly relevant with regard to sub-prime and self-certification mortgages i.e. on the advice given, the assessment of affordability and risk and the approach when a household experiences repayment problems.

Improving legal procedures
4. Mortgage Arrears Protocol
The Welsh Assembly Government should support the development of a protocol that would require a court to be satisfied that lenders and borrowers had taken the relevant steps before possession was awarded. This agreement would cover the steps that lenders and borrowers should take from initial contact, negotiating affordable repayment, making agreements to pay etc. and would act as record that reasonable steps had been taken in each case. Such a protocol could augment improved regulation.

[133] FSA calls on lenders to protect themselves against possible worsening of liquidity and credit risks (FSA/PN/125/2007, December 2007). [134] Housing Corporation, Twelve shortlisted as shared equity competition enters second phase, (http://www.housingcorp.gov.uk/server/show/ConWebDoc.11519/changeNav/431, 18 July 2007). [135] A review of the Homebuy scheme in Wales, (Welsh Assembly Government, March 2007).

(This matter is currently under discussion with the Civil Justice Committee.)[136]

Financial capability
Financial deregulation has lead to a major growth in the number and complexity of financial products - most of which are sold through intermediaries – and this means that mortgagors require a level of knowledge and understanding of the available choices.

The household survey highlighted that many people displayed a lack of awareness of financial products and the associated risks of borrowing. Most households had multiple debts and this is also borne out in existing research and literature. Improved money management and awareness is crucial in preventing debt problems and this requires a greater emphasis on financial literacy and capability within schools and educational environments and the provision of better advice to inform financial decisions.

There is considerable activity in this area. The FSA has developed a UK strategy on financial capability and inclusion.[137] It leads on the strategy and works with Governments, the financial services industry and the voluntary sector to improve knowledge and understanding of personal finance.

In terms of the national curriculum in schools it has been announced that financial literacy will be included in mainstream education in Wales. The Personal and Social Education and Mathematics frameworks have been revised so that by September 2008 financial literacy will be taught within these subjects from ages 7 to 19 and 7 to 16 respectively.

The Assembly Government works in conjunction with organisations such as the Basic Skills Agency and Citizens Advice Cymru to improve the provision of debt advice for those of adult age. The Assembly is also investigating available resources and mapping advice services in order to ascertain the challenges faced while also working closely with the credit union movement to ensure access to affordable credit. Borrowing from less scrupulous lenders such as loan sharks is also being tackled by Trading Standards who have received an award of £500,000 from the Department for Business, Enterprise and Regulatory Reform to create a team to seek prosecutions in this area.

Given the relative autonomy of schools and local educational authorities, the Assembly Government does not dictate which learning materials should be used but there is a range of resources available from organisations such as Personal Finance Education Group (PFEG), while Shelter Cymru's *Housmate* pack is being revised to include modules on financial literacy and housing and therefore should assist in raising of awareness of financial literacy and mortgages in particular.

It is likely that a Welsh Unit for Financial Education will be established in 2008. Any such unit will bring together the available resources and advise schools and teachers on how best to deliver the financial literacy elements of the revised curriculum. The FSA is committed to funding a Financial Capability Adviser to work within the unit in addition to the funding of a post to provide support and training to local authorities on financial education.[138 139]

Recommendations

Pre-purchase assistance
5. Advice and risk assessment
The advice and assistance given to borrowers by lenders and intermediaries should take account of affordability, attitudes to risk and implications of changes in circumstances.

Financial inclusion and capability
6. Improve the promotion of learning materials and their use with schools and further education colleges
It is important that the materials used give a clear message and, in relation to housing costs such as mortgages, improved joint working between the education establishment and housing organisations is required for the materials available and how they should be presented.

7. Awareness raising and tackling over-indebtedness
Ensure that the Welsh Unit for Financial Education works with advice agencies to promote the availability of services and of educational material.

[136] Hansard, 10 May 2006:Column 316, Regulation of Mortgage Repossession. It was put forward as part of a parliamentary bill introduced by George Mudie, MP for Leeds East, in May 2006. [137] Financial Capability in the UK: Delivering Change (FSA, 2006). [138] Speech by Clive Briault, Managing Director, Retail Markets, FSA (25 April 2007). [139] Thanks to Gareth John, Financial Inclusion Unit, Communities Directorate of the Department for Social Justice and Local Government at the Welsh Assembly Government for information in this sub section.

The safety net
The survey found that borrowers often do not understand mortgage protection products, with concerns including the period of cover provided, whether products were sold as part of the mortgage or separately and the exclusion clauses within such policies. The cost of such insurance is also prohibitive to many households.

There is support in existing research and from organisations such as the Council of Mortgage Lenders for a reform of mortgage protection vehicles.

'Mortgage payment protection is not as effective as was hoped – take up is reducing, insurance may not be being taken out by those most in need and cover does not deal with risks such as relationship breakdown. We believe that income support mortgage interest needs urgent review as its cover is limited.' (CML representative)

A better understanding of what is available, the circumstances in which payments can be claimed or not, would benefit borrowers. Although research has highlighted that borrowers purchase some level of insurance, it also demonstrates that there is a low level of understanding of what is insured and the duration of policies. Borrowers are often confused about where this can be purchased and also when state assistance becomes available. [140] More economically vulnerable households are often not able to afford insurance.

Recent research has suggested several amendments to mortgage protection. [141] These include compulsory insurance and amending the available state assistance so that ISMI is immediately triggered when default occurs with a financial charge activated when problems are resolved.

Although making insurance compulsory means that borrowers who feel that they do not require insurance (i.e. who have resources to draw upon or who face little risk of unemployment) would also have to purchase protection, it is felt that all borrowers would benefit from some level of insurance protection e.g. against sickness, accidents etc., for which there are many more claims than for unemployment. [142]

The majority of borrowers in this research had not accessed substantial advice prior to purchasing their home or selecting a lender, and this is also a factor identified in previous studies. [143] As well as being provided by brokers, lenders and solicitors there may be a role for advice services in giving borrowers pre-purchase advice.

It is important that owner-occupiers and potential homebuyers recognise the benefit of approaching advice services at an early stage during any repayment problems. Currently, households often look to borrow more money in order to 'buy' their way out of financial difficulties. This clearly leads to greater financial exposure. Credit has been easy to access and often seen as a quick fix and, with the growth in lending to households with more vulnerable credit history, it is often one of the first routes explored.

With financial products in general, the FSA identifies that many consumers purchase without taking regulated advice. This might reflect an unmet need for advice provision and also *'a lack of trust in financial advisers, or difficulties in accessing advice'*. [144]
In 2007, the FSA also found that only a third of small mortgage networks and advisers had effective and robust procedures for providing customers with suitable advice and information services.

Many lenders now use Key Facts Illustrations (KFI) and these simplify information about a mortgage and any charges relating to it and usually have a similar format across lenders. However, both households and lenders in the survey agreed that borrowers would benefit from improved and personalised pre-purchase advice on the long-term implications of a mortgage.

[140] CML news & views, (Issue No.7, 27 April 2007). [141] op.cit., Peter A. Kemp and Gwilym Pryce, Evaluating the Mortgage Safety Net, (Department of Urban Studies, University of Glasgow/Council of Mortgage Lenders, March 2002), pp.46-48.
[142] Ibid. [143] op.cit., Emma McCallum and Ewen McCaig, Mortgage Arrears and Repossession in Scotland, (Scottish Executive, 2002), p.10. [144] Financial Risk Outlook 2007 (Financial Services Authority, 2007).

In addition to improved insurance products and advice provision it is also possible to better resource and develop other routes to assist borrowers facing mortgage difficulties. These include mortgage to rent schemes, mortgage rescue initiatives and flexible tenure.

Mortgage to rent schemes assist people who face repossession to remain in their home but as tenants of a social landlord. The house is sold to the social landlord and then rented back to the household. Such a scheme should be linked to the need for the borrower to have accessed independent advice on their options beforehand.

The schemes managed by not for profit organisations provide a preferable alternative to some private companies that offer sale and leaseback schemes which often require home owners to sell the property at considerably less than the market price and rent it back with short-term security.

Mortgage rescue schemes where a household sells their home or a share of it to a housing association, for example, can provide the solution for some people in mortgage debt. Several of these schemes exist in Wales e.g. Cymdeithas Tai Clwyd operates a scheme in Denbighshire and Flintshire and Hafod Housing Association operates a scheme in south east Wales.

Currently, mortgage rescue receives little support from the Welsh Assembly Government and there is no identified fund of money for this activity. Some housing associations use part of their Homebuy allocation to fund this assistance however, with the review of Homebuy, regional housing association consortia had not (at time of publication) received any allocation for this for 2008-2009. Although associations can make in year funding applications (if they have a budgetary under-spend) these are often complicated and do not enable providers to make effective decisions within required timescales.

These interventions however have a vital role in preventing repossession and homelessness for the households involved as well as allowing them to remain in the area and any children in the household to remain in local schools. The Tai Clwyd scheme in Denbighshire, for example, depends on referrals from Denbighshire County Council's homelessness team, an individual assessment by the association in relation to the circumstances of the household, the amount of assistance required and the viability of the assistance e.g. the level of debt, value of the house and so on. Only after exploring other available options, and in cases where there is an identified need, is mortgage rescue offered. Assistance can vary between relatively small loans to complete purchase of the property. Those households whose properties are bought outright become tenants of the association with assured tenancies.

Flexible tenure would allow households to staircase up or down depending on their financial and other circumstances. This, for example, is used by the Joseph Rowntree Foundation, and enables households to purchase more of a share in their homes and also, if their financial circumstances deteriorate, to staircase down. [145] The option of staircasing down is financed by the proceeds from equity sales made by the Foundation (i.e. from people staircasing up) and this is an option that other housing associations could explore.

[145] Joseph Rowntree Foundation, How flexible tenure can prevent mortgage repossessions, (Joseph Rowntree Foundation, February 2007).

Recommendations

Safety net and mortgage protection
Existing research has identified several possibilities for improving the mortgage insurance products available.

8. Reform ISMI so that payment is available immediately. A charge would be placed on the property so that the financial assistance is recouped later or upon sale.

9. A single scheme, which integrates the state and private assistance for borrowers, and to which all borrowers, lenders and the government would contribute.
This sustainable home ownership partnership (SHOP) would involve borrowers contributing half the costs, through a monthly levy, while lenders and the government paid a quarter each.[146]

10. Improve consumer understanding with regard to the costs and risks of mortgages and home ownership.
Improved advice provision and, in the long-term, work through the new school curriculum would be beneficial in improving consumer knowledge.

11. Advice and assistance
Improve the promotion of, and access to, advice and advocacy services for home owners who experience repayment difficulties. This includes organisations re-assessing service promotion.

Lenders should actively promote the availability of independent advice to consumers and work with advice agencies to do this.

12. Advice at court
The development of a more extensive duty adviser schemes.

13. Communication
Lenders, FSA and advice providers should continue to promote the importance of early communication with lenders to households in or anticipating difficulties.

14. Information to borrowers
Ensure that customers know the policy and procedures that companies will follow for borrowers in arrears, and that this is available in a customer-orientated format. (This follows guidance in MCOB 13.3.3)

15. Charges
Lenders should re-consider the charges made for services, particularly debt counselling, and make more effective use of independent debt specialists.

16. Private sale and leaseback schemes
Further investigation is required of the practices of companies that offer sale and leaseback schemes. FSA regulation of this practice should be explored.

17. Lender-Local Authority Protocol & invest to save
Develop a protocol under which lenders (with the householder's permission) would notify the relevant local authority homelessness prevention team that possession could occur.[147]

In line with the principles of invest to save, Local Authorities could proactively consider using homelessness prevention funds to assist households threatened with repossession.

18. Mortgage rescue scheme
The Welsh Assembly Government should establish a central fund to support mortgage rescue. This fund would be available to assist in undertaking mortgage rescue and be sufficiently flexible to enable providers, following an individual assessment, to allow any level of loan that would assist the household.

19. Flexible tenure
The Welsh Assembly Government and housing providers should investigate the use of staircasing initiatives.

[146] Steve Wilcox, Home-ownership risks and sustainability in the medium term, (Joseph Rowntree Foundation, December 2005).
[147] Section 11 of the Homelessness etc (Scotland) Act 2003 places a duty on landlords and banks to give notice to the local authority when they raise proceedings for possession. This allows local authorities to plan for potential homelessness and to prevent homelessness in individual cases.

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Annexe 1
Household Questionnaire

Household profile

Name and position of interviewee

1. Household characteristics
Single man
Single woman
Couple with children (+ how many children)
Couple
Lone parent man (+ how many children)
Lone parent woman (+ how many children)

Age of household members

2. How many people within the household are in the following age categories?
0-5
6-10
11-17
18-24
25-34
35-44
45-54
55-64
64+

3. What is your current household income?
Up to 5,000
5,001-10,000
10,001-15,000
15,001-20,000
20,001-25,000
Over 25,000

4. Area (town, village etc)
In which area do you live now?
(If you lost your home)

5. In what type of property do you live now?
Private rented
Social housing
Owner-occupation
B&B
Family
Friends
Other temporary accommodation

For interviewer:
Please circle stage reached with possession action
Claim was entered for possession
Order was made
Suspended order made
Warrant issued
Warrant executed
Household lost the property

Preparing to buy your house

6. Where were you living before you bought your house (i.e. tenure)?
Private rented
Social housing
Owner-occupation
B&B
Family
Friends
Other temporary accommodation

7. Were you working?
Yes (Full-time) (Part-time)
No

If you had a partner was she/he working?
Yes (Full-time) (Part-time)
No

8. Why did you want to buy? (Interviewee can select several)
Long-term security
Investment
Something to leave the kids
Self-esteem/status
Cheaper than renting privately
Difficult to access social housing
Needed a larger property (family circumstances etc)
Only way of obtaining a decent standard of accommodation
No alternative
Other

Please give more detail on this

Was it a first mortgage?

9. Did you take advice before buying your mortgage? If yes
What did it include? (e.g. did it refer to risk – interest rates, changes in circumstances, discuss different kinds of mortgages, how much you were borrowing etc, any general budgeting advice)
How could this advice have been improved?
Who provided the advice?

10. Did you shop around for the mortgage and advice?
Yes No

If yes, how did you go about this (e.g. recommendations from family, friends. Went to a broker, lender, advert on television, newspaper?)

11. What kind of mortgage do you have/did you have?
Is it/Was it a joint mortgage?
Yes No

If yes, what are/were the arrangements for paying the mortgage monthly (i.e. responsibility for this)?

12. How much did you borrow?
Details
What was your household income at the time and what was the monthly repayment?

Household income
Monthly mortgage payment (inc. any insurances) –

Do you know what interest rate you were paying on the loan?

Were you encouraged to borrow more e.g. by a broker, lender? (e.g. for improvements to the property, garden, furniture, etc.)

Details
How did you feel about this?

13. Did you buy insurance e.g. mortgage payment protection insurance, critical illness, permanent health insurance, unemployment insurance?
Yes No

(a) Which ones?
(b) Why?
(c) If not, why not?
(d) Have they helped or have there been problems with claiming? (delays in paying etc)

14. Who was/is your lender?

What factors made you choose this one? (rates, customer service, access, product)

15. When you took out the mortgage
(a) did you feel confident?
(b) did you feel well-informed/did you understand the implications and risks?
(c) were you concerned about paying in any way?
(d) did you consider future affordability (if your circumstances changed – income, or interest rates etc.)
(e) Did you consider other housing costs assoc with buying e.g. repair/furniture/insurance)?

Your Situation

16. How long have you had/had you had the mortgage?

17. Have you re-mortgaged in that time?
Yes No

If, yes

When and who with?

Why did you re-mortgage?

Did you take out a secondary loan?
Yes No

If yes

Who with and for how much?

Why did you do this (was there pressure from any source to do this e.g. lender, adverts etc.)?

18. When did you begin to get into debt with the mortgage? (Date and length of time into the mortgage)

19. Can you describe the situation that lead to you being in debt with the mortgage?
- Loss of income/ changes in employment
- Unemployment
- Family breakdown
- Ill health
- Financial difficulties i.e. other debts, credit card debts
- Other

Details

Coping

20. What did you do and how did you cope? (Select more than one if appropriate)
(a) Contacted the lender to discuss the matter
(b) Contacted Local Authority
(c) Contacted other advice agency
(d) Tried to do extra work to pay the debt
(e) Tried to sell the property
(f) Did nothing

Details

Advice

21. Did you seek advice?
Yes No

(a) What was the advice provided (eg payment plans, sell)?

22. How did you go about getting advice? (eg finding out about advice, getting in touch)
If you didn't seek advice

Why not?

Lender's approach

23. What was your lender's position about your mortgage arrears? (communication, responsiveness, did they give/mention advice)
(a) What happened next?

Did you make an agreement with your lender?
If you defaulted on this, why did this happen?
Did your lender issue possession action?
What happened during this time?

24. If you were re-possessed what happened e.g. where did you go, did you seek advice etc)?

Impact & current circumstances

25. What is your current housing situation?

26. What has been the impact on you? (in terms of health, family circumstances, pressure/stress, credit rating etc)
What has been the impact on your children?

27. What would have improved the situation for you?
- Earlier advice/more accessible/ better promoted
- Better communication between you and the lender
- Improved system for paying housing costs through Income Support
- Improved mortgage protection products (eg more flexible)
- Improved understanding of how mortgages work, personalised information on the risks (financial literacy)
- Other

The future

28. What do you think your housing options are now?
(a) Would you want to buy a house again?

29. In hindsight would you have done something differently? (Sought advice, borrowed less, not had a mortgage, budgeted better, other)

Annexe 2
Lender Questionnaire

Lender profile

Name of lender

Contact person & position

Bank   Building Society

Lending policy

1. What is your standard policy with regard to authorising mortgages? (ie on income to borrowing ratios etc)

2. What is the source of your mortgage application (e.g. introduced by branch/broker)?

3. On what do you base your underwriting criteria pre-offer?

4. Do you offer advised or non-advised mortgage interviews?
YES   *NO*

Details

5. Do you know if people seek independent advice (ie is it noted as part of the assessment)?
Details

Communication with borrowers

6. Are arrears collections/ litigation handled centrally or at branch level?

7. What is your approach to people who default on mortgage re-payments? (ie at what stage do you first contact people, what are the stages in this process including court action, how do you contact them, etc)

8. Are Debt Counsellors used in every case or only occasionally? What determines when one is used?

9. Are Debt Counsellors used for a Full Fact Find Interview (and at what stage)? First Instalment Default/Collections Visit/ Suspended Possession Order Visit/ Pre-Eviction Report

10. Is your litigation procedure affected by your view of the risk of loss in a default situation? (In other words if the risk is higher do you litigate quicker?)

Arrangements with borrowers

11. What arrangements are you prepared to make with defaulting borrowers? (For example:
Extending the loan terms
Capitalising arrears
Payment holidays
Conversion to interest only Other
(If so, what?)

11b. What implications are there to these arrangements? (For example, if a payment holiday is agreed do you report it to Credit Reference agencies?

12. Are any implications there may be explained to the borrower?

13. Are borrowers encouraged to seek independent advice on the available options and how is this promoted?

14. What are your charges for communicating with people in arrears?
Telephone call £
Letter £
Visits?
Debt counselling £

15. When taking action, are you aware of other loans/debts that borrowers may have? (ie their overall financial position.)

16. What can be done to improve practices with regard to people who default on mortgage payments?

- Strengthen the regulatory code e.g. on advice, communication between mortgagor and lenders etc.
- Accessible advice and support services
- Improved insurance vehicles
- Financial education
- Other