

Pathways Through Mortgage Arrears

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Background

- Consistent growth in arrears since 2007:
 - 8.1% of residential mortgages in arrears by end Q3 2011
 - A further 4.7% are restructured but not in arrears
- Government response to date:
 - Forebear – mainly
 - Foreclose – rarely – 162 dwellings repossessed in Q3 2011
 - Forgive – never!*



*while perhaps if you make a good case to NAMA

Research

- Commissioned by Money Advice and Budgeting Service/ Citizens' Information Board
- In-depth interviews with 50 interviewees representing 46 MABS client households
- Review of income/ borrowing history
- From Arklow, Blanchardstown, Dublin South East, Loughrea, Cork, Tralee, Tipperary and Waterford
- First phase of longitudinal study



- Aims:
 - Document MABS' clients' pathways into, through and out of mortgage arrears
 - Examine their interaction with systems – government, lenders
 - Examine their own interpretations of their situation and its implications
 - Approach draws on Clapham (2005) *The Meaning of Housing: a pathways approach* (Bristol: Policy Press)



Pathways in

- Principal cause of arrears was loss of employment or failure of self employment
- Smaller number of cases due to relationship breakdown, gambling etc
- Debts often modest but complicated by multiple indebtedness debt and debts ‘rolled up’ into mortgages
 - 11 households had top up/ debt consolidation mortgages
 - 41 had unsecured debts
 - 3 had buy-to-let mortgages
 - 24 had sub prime mortgages



Pathways in

- 'what you do find is that people who have difficulty with their mortgage, tend to have experience of borrowing in all areas. You know they would borrow for a car, borrow for a holiday, have a credit card balance and be paying a minimum amount. So their practices would be to have access to credit at all times'. (MABS money advisor)
- 'I would find the same we would have a lot of multiple debt' (MABS Money Advisor).



- Interviewees emphasised their personal responsibility for their borrowing decisions
 - ‘The bottom line is we borrowed the money and we’re responsible for it. We didn’t have to take the money, we didn’t have to buy a house’ (MABS client from Tralee)
 - ‘No-one forced me to get a mortgage, I’m the first to admit that. But the flipside to that is that I was working and I was able to pay it’ (MABS client from Arklow).
- but:
 - Highlighted their lack of financial literacy
 - Role of professional advisors (mortgage brokers, accountants) in their decisions
 - Imbalance between the responsibilities of borrowers and lenders



- For instance:
- 'The next thing was I didn't have any proper accounts because I didn't have an accountant.... Conversations probably took place between the bank and mortgage broker... that I wasn't even aware of. They didn't need an accountant, they didn't need accounts; they just needed a letter saying that things were looking good. And that's what I got, I got a letter from an accountant who hadn't done my accounts, who just said Mr [X]'s business looks very good, and that was it. And then I got the mortgage approved '(MABS client from Dublin)
- 'Nobody explained to me sub-prime mortgage. I signed the contract but I'm not Irish or English and nobody told me what I was signing.... I asked them did they follow the European Bank [ie. track the ECB base rate] and they said 'yes', and it was wrong.... But I didn't know that the bank [prime interest rate] might reduce to 2 per cent in the recession but [sub-prime lender rate would] increase to 8 per cent and the gap will be 6 per cent. I didn't know this; nobody explained' (MABS client from Dublin)



Pathways through

- Debt problems had very negative physical and mental health consequences.
- Eg:
 - 'I'm on anti depressants, I'm on sleeping tablets. Anxiety, panic attacks, I'm not sleeping. That's going on now for about a year and a half. I don't go out any more. I sit at home. I'm in my pyjamas by 5 o'clock in the evening' (MABS client from Tralee)
 - I don't sleep. I haven't slept for 18 months. It's a huge worry, there's no doubt about it. You wouldn't worry about anything else, but the roof over your head is the one thing that everyone does worry about (MABS client from Cork).



Pathways through

- Mixed experiences of interaction with lenders
- Some clients reported negative experiences of mortgage lenders in the past:
 - '... as soon as I ran into difficulties I contacted the [prime-lender]... .. advising them that I was running into difficulty... and asking for any advice that they could give or any assistance that they could give... But I didn't hear back from them at all. I got no communication from them, I think until September of that year when I contacted them again because of course the situation was just deteriorating. I was emailing somebody backwards and forwards and I was writing to them again. I was trying to interact with them. They weren't coming back to me to try and see even could I go in and talk to them... So then at a certain point... in late 2007 or early 2008 they decided to take proceedings against me' (MABS client from Arklow).
 - 'my [sub-prime] lender was ... literally on the phone three or four times a day, every few hours. The stress was getting unreal at that stage' (MABS Client from Tralee)



Pathways Through

- Experience of dealing with mortgage lenders has recently improved
 - For instance:
 - 'Now I'm dealing with a lovely girl [at the sub-prime mortgage provider], she just rings me up and I make a payment and everything is fine. Before that, they were always onto me, it was awful. I remember missing weeks because my child was sick or something and they would say, 'it's not our concern; we want our money'. It was unbelievable. Thank God it's past that' (MABS client from Tralee)
 - 'Initially sub-prime [lenders] were terrible they were, they wouldn't negotiate at all. Now there's no difference between sub-prime and ordinary [prime lenders] they're all glad to get getting anything. They'll certainly still say we'll pursue it or whatever but the attitude has totally changed from 'we can't take that and we're going to court or we're whatever' whereas now it's like if you put forward a financial statement which you can back up with their income... and realistic households expenditure on it they'll accept it....' (MABS money advisor)



Pathways through

- Consistently negative reports of interaction with unsecured lenders, eg:
 - 'I'll give you one example of one company who rang us, well rang me, 20 times in one day and that was just for a small amount, well €5,000. It was a credit card company... You know they were tormenting us, every day for a week and one guy used to ring me every morning at ten past eight and I used to answer the phone to him and I used to give him a pile of abuse because I would be getting [daughter] out to college and you know, ten past eight in the morning and Sunday morning. So eventually I started taking the phone off the hook at eight o'clock and putting it back on at half past eight' (MABS client from Arklow).



Pathways through

- Overwhelmingly positive reports of MABS' service
 - MABS advisers listened to their worries
 - and they negotiated with lenders and utility companies on clients' behalf
- Mortgage Interest Supplement
 - Allegations of inconsistent decisions
 - Only covers loans for the purchase or repair of primary residences.
 - Reasonable stipulation but can create hardship eg:
 - 'Our childrens' allowance is €487 a month, our dole was €425 a week and our Mortgage Interest Supplement was €349.50 so ... we'd have to out €275 out of one weeks dole into our mortgage account, we took it as gospel that the children's allowance and the mortgage supplement went in [to pay the mortgage] but from January [following reductions in benefit levels] we had to put €375 from out dole into the mortgage. So we are really only living off three weeks dole for household bills and living' (MABS client from Arklow).



Pathways out

- MABS clients' are desperate for a solution to enable them move on with their lives
- But solutions must reflect the nature of their problems.
- Existing forbearance arrangements meet the needs of those who in short term difficulty or whose mortgages are viable in the medium term



Clients' experiences: pathways out

- EG:
- 'I'm not a hopeless case. I can work my way out of this. We're looking forward to milk at 32/33 cent a litre which is good. I hope to be able to deal with my arrears in the next two to three years, but I won't be able to deal with them immediately. And I hope to start paying both my mortgages [in full] from the end of May and I'm confident that I can keep my agreement with them to do that. ... I will work. And I want to pay my way' (MABS client from Galway).
- 'I switched from construction into fitness which I had previous qualifications in, so I went back to the college and done a bit of studying and I'm working part-time in a fitness studio' (MABS client from Cork).



Pathways out

- When the research was conducted people with unviable mortgages had no pathway out, eg:
- 'I want to work, but at the moment because this bill is getting bigger, there's no point in me finding work until they throw us out of the house. I can't sell my house – even if I wasn't in negative equity I couldn't sell my house – because I would have made myself homeless, so the State would not give me a house. So I have to wait until they start proceedings to throw us out. But... there's about €100,000 of negative equity. Which means they'd be pursuing me for that €100,000. (But) I'd have no house, no job, no nothing' (MABS client from Cork).
- Several interviewees in this category didn't want to stay in their home, eg:
- 'The frame of mind I'm in, I just want to end it all [the mortgage] at the moment. I just can't take any more. I just want to move out and let them have it - just take it [the house]. I don't know where I'd go' (MABS client from Tralee).



Pathways out

- Is the Personal Insolvency Bill a solution?
 - Debt relief Certificates
 - for unsecured debt <€20k
 - not available to anyone with assets
 - Debt Settlement Arrangements
 - For unsecured dept >€20k
 - Available to homeowners
 - Must be supported by 65% of creditors
 - Debt repaid for 5 years, then remainder written off
 - Personal insolvency Arrangements
 - For secured and unsecured debt between €20k-€3m
 - 55% of unsecured and 75% of secured creditors must agree
 - Debt repaid for 6-7 years, then remainder written off
 - Potential to remain owner of the family home
 - Judicial Bankruptcy
 - ‘automatic’ discharge after 3 years
 - But can be obliged to service debts for up to 5 further years
 - Loss of all assets inc family home
 - No need for creditors’ agreement

