# Giving up home ownership

## A qualitative study of voluntary possession and selling because of financial difficulties

www.communities.gov.uk
community, opportunity, prosperity

# Giving up home ownership

## A qualitative study of voluntary possession and selling because of financial difficulties

Janet Ford, Joanne Bretherton, Anwen Jones and David Rhodes
Centre for Housing Policy
University of York

August 2010
Department for Communities and Local Government

The findings and recommendations both in this report are those of the contractors and do not necessarily represent those of the Department for Communities and Local Government.

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000
Website: www.communities.gov.uk



If you require this publication in an alternative format please email alternativeformats@communities.gsi.gov.uk

Communities and Local Government Publications
PO Box 236
Wetherby
West Yorkshire
LS23 7NB
Tel: 030 0123 1124
Fax: 030 0123 1125

Email: product@communities.gsi.gov.uk
Online via the Communities and Local Government website: www.communities.gov.uk

August 2010
ISBN: 978 1 4098 2516 6

# Acknowledgements

Lenders, advice agencies and local authority housing units played an important part in this project, helping us to access borrowers who had given voluntary possession or sold because of financial difficulties. The project would not have succeeded without this help and we are grateful to all those who contributed in this way.

Sixty (ex) borrowers responded to the request for an interview (of which 41 were interviewed). Many had just been through very difficult experiences and were sometimes in temporary accommodation. We are very grateful to them for the time they gave and the detail they provided to us about why and how they had decided to leave owner occupation.

The project was commissioned by Communities and Local Government and we are grateful to the project steering group for their support and input to the project, and in particular to Shane Brownie, the Department's project manager.

We would like to thank Jane Allen who prepared the report for publication.

# Contents

# List of tables and figures

# Executive summary

## Giving up homeownership: a qualitative study of voluntary possession and selling because of financial difficulties

1. Borrowers who cannot pay their mortgages leave homeownership either via compulsory possession; by handing back their property to their lender or abandoning it (together termed voluntary possession); by selling the property on the open market; or (less frequently) via a sale and rent back scheme. As the current housing market recession developed, voluntary possessions rose, and in 2009 they accounted for 26 per cent of all possessions. Voluntary possessions also rose in the 1990s recession.

2. Relatively little is known about the drivers, experiences and outcomes for borrowers who have voluntarily given back their home or sold because of financial difficulties. To address this gap, Communities and Local Government commissioned qualitative research from the Centre for Housing Policy at the University of York to provide the borrowers' perspective on these issues.

3. Qualitative interviews were undertaken with 41 (ex) borrowers accessed via lenders, advice agencies and local authorities. Twelve contextual interviews were undertaken with lenders, advisors and a sale and lease back company and an analysis of data from the Survey of English Housing (SEH) provided information from a representative sample of borrowers who had left homeownership at some point in the past because of mortgage payment difficulties.

## Research findings

4. The SEH (2005-08) indicated that an annual average stock of 381,000 households in England contained someone who had in the past experienced voluntary possession (80,000) or compulsory possession (55,000) or sold to alleviate financial pressures (246,000). The SEH notes the *current* characteristics of households who had one of these experiences in the past. There are some differences between those who give up homeownership in these different ways but, overall, they have broadly similar characteristics. There are, however, marked differences between these households and mortgagor households with no experience of losing a home.

5. The qualitative study showed that the majority of those giving voluntary possession or selling had relatively marginal financial positions when they took

their mortgage, although most did not perceive their position as such. Only a minority believed they had borrowed too much. Further borrowing then followed rapidly, sometimes for lifestyle purchases but in a significant minority of cases to manage tight budgets. This further borrowing preceded the event that triggered arrears. Households giving voluntary possession or selling had similar patterns of secured and unsecured debts.

6. The key reasons for arrears were reduced earnings from employment, failed self employment and/or relationship breakdown. The largest group of borrowers experienced both unemployment and relationship breakdown. Relationship breakdown left many couples with their income intact, but decreased their commitment to paying for the shared home not least as additional accommodation had also to be funded.

7. Those giving voluntary possession and those who sold followed similar pathways to try and resolve their arrears. A small minority made a rapid decision to exit the sector, but for most it was a 'creeping decision' that emerged as potential recovery strategies failed. These households sought to reduce expenditure and increase income. Many tried to manage their debts by borrowing further, by looking for additional or alternative employment, and a significant minority tried to sell their property, but most failed due to market constraints. The majority had no option to sell because of their negative equity.

8. Household respondents and lenders had different perceptions about the extent of contact between them and lenders often doubted households' serious engagement in the arrears recovery process at an early stage. Most households had made contact with their lender but where forbearance was offered they typically perceived it as beyond their financial means, too short term, or too limited to be a realistic option, and contact dwindled to an administrative process. In some cases advisors or lenders suggested selling or voluntary possession where they viewed the situation as unrecoverable.

9. A majority of household respondents were not eligible for help from the state safety-net, Support for Mortgage Interest, (SMI) as many households who had lost income still had one person in employment, or were self-employed and had difficulty meeting the criteria for support. Where relationship breakdown was the key driver of arrears there was no eligibility for SMI as typically borrowers did not experience a loss of income (but increased costs). However, while those in receipt of SMI could address their mortgage arrears, additional, unresolved secured and unsecured debts remained a pressure to leave the sector. Only one household had private payment protection insurance.

10. Overall, three, often inter-related, factors accounted for the failure of borrowers to manage arrears: the extent of borrowing over and above the mortgage (which both increased the number of creditors borrowers had to manage and

constrained the prospects for any holistic debt management process); a loss of income that was ‘final’ and in the case of relationship breakdown the wish to avoid the responsibility for joint debts; and the failure to make or sustain forbearance arrangements.

11. A third of households had been subject to court proceedings and the remainder knew that court action could be instituted at any time. Avoiding eviction was one reason why respondents opted to hand the keys back. Other drivers of voluntary, as opposed to compulsory, possession were insolvency provisions and the availability of alternative housing.

12. Over two thirds of households interviewed who gave voluntary possession were households where one or more person was, or was in the process of being declared bankrupt or had an Individual Voluntary Arrangement (IVA). Bankruptcy could trigger voluntary possession (where one partner was declared bankrupt, the second partner might also take this step and hand the house back), but was also a consequence of voluntary possession. Here (ex) borrowers with little income and other debts could file for bankruptcy whereby the responsibility for the shortfall debt was transferred to the bankruptcy settlement (and after a time written off).

13. Few giving voluntary possession cleared their outstanding mortgage, and most had remaining second charge or unsecured debts. Those who sold usually cleared their mortgage but often not other secured loans. The majority of households moved initially into the private rented sector. Some households secured accommodation from local authorities under the homelessness legislation but there were other households who might well have been considered unintentionally homeless but who believed they would not be considered as such. There was some uncertainty amongst advisors as to how well local authorities were following the new supplementary guidance on intentional homelessness.

14. Those giving voluntary possession and selling to address financial problems found the process extremely stressful and often experienced ill health. Avoidance of further stress also contributed to the decision to give voluntary possession.

15. Compared to the 1990s, many of the reasons for, and experiences of, those giving voluntary possession or selling voluntarily are unchanged. There are, however, two key structural differences. First, the changed mortgage and credit market offered new entry products (for example, an initial mortgage loan in association with an unsecured loan); the growth of sub-prime lending facilitated entry to more marginal borrowers; and second-charge lending and borrowing became extensive. Second, wider use of the insolvency framework since the mid-1990s has resulted in the role of bankruptcy being more significant in

explanations of voluntary possession than was the case in the 1990s. This clearly interacts with the increased availability of credit.

## Policy considerations

16. The research raises questions about the framework that informs current policy:

- the assumption that the current categorisations of possessions (and voluntary sale) reflect distinct motivations and behaviours
- as a consequence, the use of the categories as the basis for determining access to resources or policy initiatives
- a policy focus solely on preventing possessions

17. The research suggests a number of further actions that might help minimise voluntary possessions and/or support the sale process:

- two key drivers of voluntary possession and sale are failed self-employment and relationship breakdown. Neither is addressed adequately by the current public and private safety-nets (although it is the case that following relationship breakdown, should one partner remain in the home with dependent children they may be eligible for SMI). The development of an effective safety-net that provides support in the event of a loss of income for a wider range of reasons would reduce the number of possessions
- borrowers can be slow to seek professional advice and can be poorly informed about potential options. Borrowers often took the least helpful or wrong actions because they acted in isolation and without good information. Publicity and communication initiatives remain important and need to be bolstered
- the research showed that borrowers could face delays in accessing advice. Further, increasingly lenders look to the advice sector for confirmation of whether, and what, recovery might be achieved. The clear implication is that the role of the advice sector has much further to run and that additional resources and training are required
- lenders should consider the widest range of forbearance approaches and provide forbearance that is affordable. There are implications for policy makers and the regulator about how to encourage more lenders to offer what are increasingly referred to as ‘loan modifications’ at an earlier stage rather than after failed early ‘payment plus’ approaches
- mortgage arrears are increasingly one component of multiple debts. To prevent possessions (voluntary and compulsory) there needs to be an

agreed, enforceable, routine and holistic approach to debt recovery that precedes the legal remedies of IVA or bankruptcy

- policy makers and lenders should consider actively supporting voluntary possession rather than compulsory possession where exit from the sector is inevitable

# Chapter 1

## Introduction

1.1 One characteristic of housing market recessions is the significant increase in the proportion of borrowers who lose their property because of mortgage arrears or payment problems*.* The 'exit' from owner occupation can take one of three forms:

- via judicial proceedings whereby possession is enforced by the court
- by borrowers giving possession 'voluntarily' by which is meant without court enforcement. They either abandon their property without notifying the lender or hand the keys back to their lender
- by borrowers selling in the open market because of arrears or payment problems, a course of action usually only possible where they have equity in their property or if they seek a sale and lease back arrangement either with a specialist private company or through the Government's Mortgage Rescue Scheme (MRS)[1]

1.2 Further details on the definitions of, and the administrative framework surrounding, voluntary possession and sale are given in Appendix 1. It needs to be borne in mind throughout the report that the term voluntary sale refers to those sales that are undertaken to resolve mortgage payment problems*.* Excluded from the study are sales driven by 'lifestyle' purposes (whether or not the householder remains a homeowner), for example, the purchase of a smaller property on grounds of a smaller household or a wish to reduce maintenance or to be able to access support, or capital.

1.3 The current housing market recession has seen a rise in the number of both compulsory and voluntary possessions*.* Of the 46,000 possessions in 2009, 26 per cent of them were classed as voluntary (CML (2010)[2]*.* As a proportion of all possessions, voluntary possessions have increased since 2004 when

[1] The Mortgage Rescue Scheme (MRS) is a publicly funded scheme that allows vulnerable mortgagors facing repossession to avoid homelessness by arranging for a housing association either to purchase their home and rent it back to them as a social housing tenant (Mortgage to Rent) or to provide an equity loan to the borrower to provide more sustainable mortgage costs. MRS was introduced in January 2009*.* By March 2010, 630 households had been accepted onto the scheme*.*

[2] These figures refer to properties taken into possession by CML members and facilitate comparison with earlier years where the data were reported on this basis. Since Q1 2009, the CML has changed their reporting of arrears and possessions and the statistics now refer to the entire first charge mortgage market. On this basis there were 47,700 possessions in 2009*.*

they accounted for only 8.5 per cent of all possessions. A growth in voluntary possessions also characterised the housing market recession in the early 1990s when they peaked above the current level (CML, statistical data). Only after this recession has passed will it be possible to confirm the peak level of voluntary possessions and how the peak, as well as the overall numbers and percentage level, compare with the last recession. Currently, as noted above the percentage figure and absolute numbers are lower. This is likely to be the result of speedier and more effective lender forbearance, low interest rates, Government initiatives and communications and support for the advice services. However, even though arrears and possessions have moderated, there are concerns about a further rise in unemployment and in interest rates as well as the possible ending of a number of time limited Government initiatives such as the temporary improvements to Support for Mortgage Interest. Collectively, these factors may lead to a resumption of an upward trend in arrears and possessions including voluntary possessions.

1.4 The Council of Mortgage Lenders does not report data on voluntary sales due to financial distress but the Survey of English Housing indicates that the percentage of mortgagors leaving in any one year for this reason is fairly consistent, although, in contrast to voluntary possessions the percentage declines slightly in recessionary periods.

1.5 The policy interest in voluntary possession arises for a range of reasons. Some potential examples are noted below:

- voluntary possession may jeopardise a household's entitlement or perceived entitlement to alternative accommodation under the homelessness legislation and so increase the likelihood of homelessness amongst households already in a vulnerable position[3]. Voluntary possession can therefore contribute to many of the issues that Government is seeking to diminish (e.g. poverty, homelessness, empty properties) and indirectly raise public sector costs
- abandonment is likely to be associated with a deterioration in physical housing standards. The sale of such properties may prove difficult or require substantial discounting. They may blight areas in which they occur depressing the local housing market. Voluntary possession may be an indication of attitudes to homeownership and so understanding whether this is the case can contribute to decisions on the balance of tenure

[3] In August 2009, the Government issued Supplementary Guidance to local authorities on intentional homelessness amongst households who had become homeless because of difficulties in meeting mortgage payments. A copy of the guidance can be found at http://www.communities.gov.uk/publications/housing/intentionalhomelessnessguide

- voluntary possession may occur because of inadequate forbearance from lenders and provide one indication of a short fall in lenders' and advisors' policy and practice, that if addressed would limit possessions
- assuming that forbearance is available, there is a current presumption that voluntary possession is driven by poor information, poor lender and borrower communication, lack of advice etc., and is, as a result, 'misguided'. Policy initiatives could be directed towards mitigating these factors. However, if voluntary possession is driven by a disregard for responsibilities, the case for policy support to limit its impact may be less
- voluntary possession may be influenced by an erroneous belief amongst borrowers that any responsibility for outstanding debts ceases once the property is handed back. To the extent that this is found to be the case, it points towards the need to strengthen consumer education
- it may be that voluntary possession is the preferred response amongst a proportion of those households facing imminent statutory possession. Deeply held social and cultural factors such as shame at the public nature of eviction may influence this choice or borrowers may simply wish to speed the ending of an inevitable process. Changing the ways in which orders are executed might enable people to face the compulsory process with less anxiety

1.6 Because voluntary possessions had risen in the early 1990s recession there was a policy concern that they would also increase as the 2007 recession gathered pace. Further, it was recognised that despite the potential policy interest there had been relatively little research on voluntary possession. There is only limited evidence and understanding about, for example: why the proportion giving voluntary possession increases in a recession; what are the key drivers and characteristics of those giving voluntary possession; what are their housing options and more significantly their housing outcomes; what are the financial implications and other wider consequences associated with these actions; to what extent are the characteristics and circumstances of those giving voluntary possession similar to or different from those who experience compulsory possession

1.7 In the absence of systematic evidence, there are inevitably anecdotal accounts and beliefs about what drives voluntary possession. Some lenders perceive that they are frequently associated with relationship breakdown, or driven by a belief amongst borrowers that by handing back the keys they are no longer liable for meeting any shortfall debts. It is sometimes said by lenders and advisors that borrowers have their 'heads in the sand' and ignore their problems which, by the time they are eventually confronted, leaves few options other than some form of exit. The research reported here provides more systematic support for some of these assumptions but challenges others.

1.8 Research about voluntary sales is also limited to date but again the extent and form of sales have potential policy significance for a number of reasons:

- a comprehensive account of the impact of the current recession on homeownership is not possible if voluntary sales are not considered. The extent of the impact of risky lending and imprudent borrowing, and of unemployment, is not fully captured by information on arrears, voluntary and compulsory possession, as it excludes those borrowers who cannot sustain homeownership but who seek to manage their situation so as to avoid possession
- voluntary sale is a downward pressure on the number of possessions and may also reduce losses to both lenders and borrowers. It may facilitate a return to homeownership for households at a later date (not least because it is less likely to carry with it an impaired credit status). Understanding more about voluntary sales might provide policy makers with information to consider if there are forms of assistance that can be offered more widely as part of the preventing possessions initiative. For example, Ford and Wallace (2009) reported that at least one lender was providing material support for voluntary sales, such as help with the 'up-front' costs of the Home Information Pack or with legal fees

1.9 The research reported here is concerned with understanding the motivations, processes and outcomes associated with some of these voluntary exit routes, namely abandonment and handing back the keys (collectively termed voluntary possession), and non-possession exits via open market sale or sale and rent back that result from financial difficulties.

1.10 Cases within the Government's mortgage support schemes, compulsory possession and sales unconnected with mortgage difficulties are outside the scope of the research. The Government's mortgage rescue schemes are the subject of a separate evaluation commissioned by Communities and Local Government[4]. Although compulsory possession is not considered here it is recognised that there are flows between voluntary possession, compulsory possession and sales undertaken because of financial difficulties. For example, an initial compulsory possession process can result in an agreed sale rather than possession. Equally, failure to achieve a voluntary sale may

---

[4] The findings from the interim evaluation have now been published and can be found at:

http://www.communities.gov.uk/publications/housing/evaluationmortgageschemes activate the compulsory possession process at which point a borrower may determine to 'cut through' the process and give voluntary possession. Thus the extent and reasons for voluntary possession and voluntary sale need to be referenced to each other and also to the wider context of the compulsory possession process. Where appropriate and feasible, compulsory possession is used as a comparator category against which the characteristics of those giving voluntary possession or selling voluntarily to resolve mortgage payment problems are examined.

## The current context

1.11 The information on voluntary possession that is available relates to the early and mid 1990s (Ford, 1993; Ford *et al*, 1995). Although there seem to be some similarities between the previous recession and the current one in terms of the rising percentage of voluntary possessions and the dip in voluntary sales, there are important structural changes between the two periods that may influence current behaviour and outcomes (who leaves, why and by which route?). These changes should be seen against the continuity in other structural factors that are known to predispose arrears and possessions or affect their management, namely labour market disruption, relationship breakdown and ill health.

1.12 The key structural changes over the last decade that might be influential include the extension of homeownership, the growth of more marginal borrowers and the changing pattern of mortgage provision. The considerable innovation in the mortgage market in the 2000s has given potential borrowers with adverse credit ratings more ways to enter the market than previously existed (Munro *et al*, 2005). In addition, the explicit packaging of both a mortgage and an unsecured loan together as a way of facilitating access, products associated with the early and mid 2000s, was clearly attractive to more marginal as well as cash strapped borrowers. How risky these products were and whether they are drivers of voluntary possession or open market sale on grounds of financial distress is not known but there is a potential impact from the changed market in terms of increased levels of debt in relation to income and potential unsustainability.

1.13 Separate, but related, an important structural change is the development of the credit market *per se,* and the growing use of credit in the context of rising house prices. In particular, the increasing availability of equity in property has fuelled the growth of second charge or secured lending often for home improvements and luxury goods, holidays etc. but also as a debt consolidation tool.

1.14 There has also been some recent change in lenders' policies and practices towards the management of arrears and possessions. One key influence on these changes was the introduction of statutory mortgage regulation in 2004 in the form of The Mortgage Code of Business (MCOB) and more particularly recent assessments of its efficacy amongst lenders by the Financial Services Authority (FSA). Other important influences have been the adoption of a Mortgage Pre-Action Protocol by the Civil Justice Council in 2008 and a financial and cultural shift amongst lenders in respect of an increased willingness to forbear in a falling market (Ford and Wallace (2010). Government interventions from 2009 onwards in the form of enhanced support for mortgage interest (SMI) where borrowers lost all income, a guarantee to lenders to encourage a final attempt at forbearance for borrowers who had a temporary drop in income (Homeowners Mortgage Support) and the Mortgage Rescue Scheme have all assisted in widening the extent of forbearance (Ford and Wallace, 2009; Wilcox *et al*, 2010). The previous Government also implemented a Preventing Repossessions Awareness Campaign, using a range of media to disseminate information. Potentially, these changes provide a greater range of information and options whereby borrowers can be assisted to remain as homeowners and one impact might be to limit voluntary possession or sale.

1.15 A further change relates to the use of the insolvency provisions. It was already possible in the 1990s housing market recession for borrowers to file for bankruptcy or seek an Individual Voluntary Agreement (IVA) (Ford *et al*, 1995). By 2000, there were 21,550 bankruptcy orders in force and almost 8,000 IVAs. The number in both categories has grown steadily since. In 2009 there were 134,142 bankruptcy orders made and almost 48,000 IVAs entered into, although it is not known how many related to mortgagors. Although some lenders reported in the last recession that they thought any stigma associated with bankruptcy had been lost, it is clear that there has been further limitation of any stigma and potentially a greater willingness by financial advisors to recommend insolvency as a course of action. The growth of unsecured lending underpins the ability to use the bankruptcy process. Appendix 3 provides further details on bankruptcy and IVAs.

1.16 A number of the structural changes noted above may, in principle, impact on the decision to give voluntary possession or to sell. They may change the assessment borrowers make of compulsory versus voluntary exit or the assessment between forbearance and possession.

1.17 Finally, an important context to voluntary possessions and voluntary sale is the level of housing market activity and particularly house price movements. These factors may facilitate or undermine the sale of a borrower's property (so avoiding or encouraging possession). Figure 1.1 shows house price movements between 2004 and 2009, and in particular the rapid 15 per cent fall from the peak in late 2007 and early 2008, although prices still remained more than 50 per cent higher than at the start of 2002.

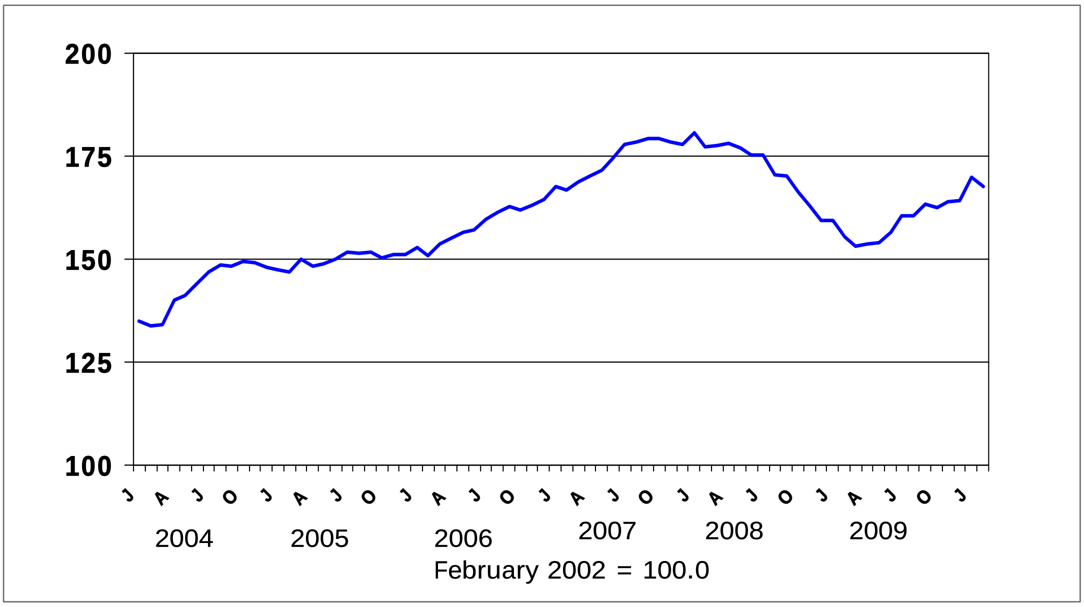


**Figure 1.1 English house prices movements 2004-10**

Source: CLG Mix Adjusted House Price Index

1.18 House price falls have been more rapid in the current recession than in the 1990s, and in association with higher overall levels of borrowing (including remortgaging) have resulted in a significant incidence and level of negative equity. CML data indicate that around 1.3 million homeowners were in negative equity in early 2009, with the figures now easing back under 900,000 as prices have recovered (Tatch, 2009).

## Structure of the report

1.19 Chapter 2 reviews the existing evidence on voluntary possession and voluntary sale, outlines the aims and objectives of the research and sets out the research methodology.

1.20 Chapter 3 explores the characteristics of households leaving by voluntary routes and the key drivers of their actions.

1.21 Chapter 4 examines the extent of arrears on household mortgages and other loans and assesses the level of financial commitment.

1.22 Chapter 5 considers the processes and experiences of households in the run up to voluntary possession or sale including their engagement with lenders, advice agencies and housing authorities.

1.23 Chapter 6 explores some outcomes of voluntary possession and voluntary sale.

1.24 Chapter 7 draws the findings together to offer some conclusions and identifies some policy implications.

# Chapter 2

## Voluntary possession and voluntary sale: existing knowledge and new research

**Existing research on voluntary possession and voluntary sale on grounds of financial distress**

2.1 The recession in the early 1990s resulted in a small number of studies that considered the extent of voluntary possession and the process and experience of mortgage possession including voluntary possession (Coles, 1992; Dwelly, 1992; Kinson and Robertson, 1992; Ford and Wilcox, 1992; Ford, 1993; Ford *et al*, 1995). Early information on voluntary possession from the borrowers' perspective comes from Ford (1993). In a study of lenders' records and in-depth interviews Ford's analysis showed that those giving voluntary possession were younger than those experiencing compulsory possession, and that 14 per cent of voluntary possession cases did not have arrears although may have been under financial stress. On average, those giving voluntary possession ultimately faced a larger shortfall on the sale of their property than those who were compulsorily possessed. In-depth interviews with households who had given voluntary possession indicated the following drivers of their action:

- stress associated with arrears
- the recognition that they were likely to lose the property anyway and so the wish to give it up rather than continue to accumulate losses
- a wish to avoid the court process
- the availability of alternative housing

2.2 The availability of alternative housing was usually the key driver in households that handed in the keys or abandoned their property

2.3 In 1995, the first national survey of borrowers in arrears and giving possession was undertaken (Ford *et al*, 1995). This included interviews with 111 borrowers who had given possession, 32 of them on a voluntary basis. Compared to all borrowers in arrears, those giving voluntary possession were overcommitted on their mortgage, and compared to those experiencing compulsory possession, they were less likely to have dependent children, and more likely to have equity in their property. The majority were still in full-time work. More than 50 per cent of those giving voluntary possession had no agreement with their lender to repay. A small number of cases had no arrears.

2.4 The sift questions used to identify borrowers who had given possession in the above study were subsequently incorporated into the Survey of English Housing (SEH). As a result, the SEH can, in principle, provide information on voluntary possessions (including abandonment). Analysis of the SEH data on possessions is available in both Ford *et al,* (2001) and in many of the annual SEH reports, but voluntary and compulsory possessions are not disaggregated. However, since 2004-05 the numbers giving possession identified by the SEH have been small, which precludes meaningful analysis on an annual basis.

2.5 Research on selling voluntarily, both by trading down and moving out of the sector, was undertaken by Dodd and Hunter (1990). Based on a follow up survey to the Labour Force Survey, they focused particularly on those who had been forced to move due to financial circumstances. Eleven per cent of movers had been behind with their mortgage payments at the time of the move and eight per cent behind with another debt. They estimated that over a five year period:

> *"..there were 310,000 households containing somebody who had moved from owner occupation or traded down….and who had financial reasons for doing so or financial problems at the time of the move which is considerably higher than the number of properties repossessed by the building societies in that period."*

2.6 The current housing market recession, while also characterised by rising voluntary possessions has not yet seen a detailed analysis of the phenomenon. There has been no consideration of whether the reasons driving the rise in voluntary possessions in the current recession are the same as in the early 1990s. There are grounds for thinking that there may be some similarities but also some key differences, as discussed in the introduction.

2.7 Very limited information on voluntary possessions is available as a result of the recent scoping report into voluntary possessions (Ford, 2009). Three interviews were held with lenders. The predominant purpose was to improve the understanding of the classification and handling of voluntary possession cases, but some information was gained on lenders' perception of the drivers of voluntary possession. Lenders perceived that both abandonments and voluntary possessions were triggered by a range of circumstances. In particular where:

- borrowers declared themselves bankrupt, had negative equity and were advised to hand in the keys

- borrowers experienced relationship breakdown and especially where one party had left and could not be traced the other party handed back the keys
- borrowers were pursued by second charge lenders and were unable to see a resolution to their debts
- borrowers with a court order against them, and where they recognised that the loss of the house was inevitable, did not want to experience eviction and so handed back the keys
- buy-to-let landlords who could not find tenants sometimes gave voluntary possession (not abandonment as many landlords can be traced via their residential mortgage)

2.8 The occasional case of a second charge lender giving the first charge lender voluntary possession was noted. Here the second charge lender might have taken statutory possession only to find greater negative equity than originally calculated. The likelihood of significant losses motivated them to hand the property to the first charge lender.

2.9 Based on this very small body of evidence there are suggestions of some continuities with the previous recession (for example, the role of relationship breakdown and the wish to avoid eviction) in terms of the pressures to give voluntary possession and some important differences (for example, the greater willingness to use the insolvency provisions and more extensive use of credit).

2.10 As noted, the above study relies on lenders' records and perceptions. By definition these cannot provide the detailed information on borrowers' motives and decision-making processes that are required if the drivers of voluntary possession and the decision to give voluntary possession - when other options exist - are to be better understood. Lenders also have diminishing information about households' subsequent housing destinations, or their overall financial circumstances. For these reasons Communities and Local Government commissioned a qualitative study of borrowers who had given recent voluntary possession in order to understand the household's perspective. To ensure that a fuller account of leaving homeownership because of financial difficulties (but short of possession) was developed, the research also included a limited consideration of voluntary sales undertaken to address financial difficulties.

## Research objectives

2.11 The aim of the research is to provide evidence and understanding of the drivers, experiences and outcomes for borrowers who have voluntarily given back their home to their lender or sold to avoid or recover arrears. Specifically, the research explores:

1. the key factors or drivers that led to these households falling into arrears and/or subsequently giving voluntary possession or undertaking a voluntary sale
2. the experience these households went through in the run-up to voluntary possession or a voluntary sale
3. the outcomes for these households following possession or sale (including the type of housing/tenure, family circumstances, extent of any remaining debt etc)

2.12 Where possible the research sought to understand whether and how the borrowers experiencing voluntary possession or voluntary sale differed from each other, from mortgagors not experiencing arrears and from those giving compulsory possession. The research has also considered how the current experience of voluntary possession differs from, or is similar to, that of the previous recession.

## Research design and data collection

2.13 In 2009 Communities and Local Government commissioned a methodological scoping paper to identify and assess the options available for accessing borrowers giving voluntary possession (Ford 2009). Based on that report, a two-stage design was adopted for the research reported here. Stage 1 focused on clarifying the context and administrative structures surrounding both the definition and processes governing voluntary possession and voluntary sale. In addition the first stage involved some analysis of the SEH to provide contextual statistics and comparator data where possible. Contextual interviews were undertaken with five lenders, four local authority advisors (one of whom could provide a regional overview), representatives of two advice agencies and a representative of a sale and rent back company.

2.14 Stage 2 involved qualitative telephone interviews with 34 borrowers who had given voluntary possession and seven who had voluntarily sold.

2.15 Respondents were approached to take part in the study in one of three ways:

- through four lenders (but covering a much wider range of mortgage ‘brands’ due to the process of consolidation that is a recent feature of the sector). The focus was on residential mortgages and buy-to-let portfolios were excluded

- through four advice agencies
- through a number of local authority homelessness sections who were also often responsible for the current Government Mortgage Rescue Scheme

2.16 Organisations providing access to potential interviewees were asked to identify those who had given voluntary possession or exited via a sale relatively recently and where possible between December 2009 and March 2010. This was in order to maximise both the chance of accurate recall by respondents and the currency of forwarding addresses provided by borrowers on giving voluntary possession or notifying their exit by selling.

2.17 The research used an opt-in process but in two different forms. Lenders forwarded a letter from the research team to appropriate households asking them to take part in the research and enclosing an information sheet and a consent form for them to return to the researchers if they were willing to be interviewed. They could also phone or email their consent. Two advice agencies and most local authorities also adopted this approach. An alternative approach was adopted by one advice agency and one local authority. They requested their staff to identify cases and after telling the individuals in the identified cases about the study asked them if they were willing to take part. If they were, advisors also asked for their permission to forward the contact details to the researchers. No information was provided by the researchers to the advice agency as to who had been contacted and who had finally agreed to take part.

2.18 Telephone interviews were undertaken using a topic guide and lasted on average 40 minutes. Interviewees were then sent a thank you in the form of a shopping voucher and had been aware of this 'incentive' before agreeing to take part.

2.19 The use of lenders, local authorities and advice agencies for contact helped ensure a wide spread of respondents, both geographically and in terms of the range of mortgage lenders. Thirteen interviews (of 41) came via advice agencies, five via local authorities and 23 via lenders. The respondents had mortgages with 21 different mortgagees[5].

[5] Given the different ways in which respondents were accessed it is not possible to provide a conventional response rate for the study. However, a response rate for access via lenders can be provided. Lenders mailed 660 requests that resulted in 48 people agreeing to be interviewed, a response rate of 7.3 per cent. Of the 48, only 23 were interviewed as interviewing ended as a result of the election purdah. The percentage interviewed of those mailed was 3.5 per cent.

2.20 The primary research findings are not based on a representative statistical sample and as such the findings cannot be generalised to the population of voluntary possession and voluntary sale cases. It is, however, possible to make some judgement as to whether the interviews provide a good guide to the likely experiences of a wider pool of cases. Several factors suggest this might be the case. First, as noted above the interviewees were drawn from a range of sources and cover borrowers' experiences with many lenders (and other creditors). Any danger that the interviews reflect the particular market segment and practices of just one or two lenders is therefore minimised. Second, some understanding of the larger picture has been obtained via the contextual interviews with lenders and advisors who have experience of a larger pool of borrowers giving voluntary possession and selling to address their financial difficulties. To the extent that this contextual information and the qualitative interviews are broadly consistent, this increases the confidence that the interviews do reflect the wider picture. Further, any significant inconsistencies can be explored in detail. Thirdly, on some issues, the analysis of the SEH data can help in assessing the extent to which the interview data are consistent with the account based on a representative sample. These checks allow us to conclude that overall the interviews are a good guide to the experience of the larger number of borrowers giving voluntary possession or selling (although the very small number of interviews within the latter category is an important caveat).

# Chapter 3

## The characteristics of households leaving homeownership by voluntary routes and the key drivers of their arrears

### The socio-economic characteristics of households giving voluntary possession or selling in response to financial difficulties

3.1 The research explored the characteristics of households who gave voluntary possession or sold as a result of financial difficulties in two ways. First by undertaking an analysis of data from the Survey of English Housing (SEH) and secondly by considering the characteristics of the 34 respondents interviewed following their voluntary possession and of the seven who sold. These two data sources are not comparable. The SEH provides representative, statistically robust findings but for a relatively limited number of variables. In contrast, the interviews are not representative of all those giving voluntary possession, but they provide a deeper level of detail as well as additional variables. However, as already noted, there are grounds for suggesting that the interviews offer a good reflection of the range of borrowers who experience these voluntary outcomes.

### Analysis of the Survey of English Housing

3.2 The SEH asks all those who have given up a home at some time because of difficulties paying the mortgage whether they did so by:

1. selling the property to avoid getting into arrears
2. selling because of arrears and to avoid court action by the mortgage lender
3. leaving voluntarily with the mortgage lender taking it over
4. leaving because the mortgage lender got a court order

3.3 Categories 1 and 2 indicate voluntary sale on the grounds of financial stress and they are combined in the analysis that follows. Category 3 defines voluntary possession and category 4 defines enforced or compulsory possession.

3.4 The SEH analysis was based on the combined data for 2005-06, 2006-07 and 2007-08 in order to provide sufficient numbers to allow disaggregation on some issues by whether borrowers undertook voluntary possession, sold or experienced compulsory possession. No data were available after 2007-08.

3.5 Table 3.1 indicates when the possession or sale took place. Because of the small number of cases during the 2000s it has been necessary to combine voluntary and compulsory possessions together.

**Table 3.1 Percentage giving possession/selling by year of giving up the home (2005-06 and 2006-07 combined)**

| | | Households who left their home | |
|---|---|---|---|
| | | **Voluntary sale (%)** | **Voluntary & compulsory possession (%)** |
| Year home was given up | 1990 and before | 29 | 30 |
| | 1991 to 1995 | 22 | 40 |
| | 1996 to 2001 | 26 | 21 |
| | 2002 to 2007 | 23 | 10 |
| | Total | 100 | 100 |

Source: Survey of English Housing 2005-06 to 2007-08

3.6 Table 3.1 identifies four time periods. The time categories broadly reflect the period leading up to the early 1990s recession, the recessionary period, the recovery from the 1990s recession and the lead up to and early stages of the current recession.

3.7 Of all households where a person had sold because of financial difficulties, this experience was relatively equally spread across the four time periods considered, with the slightly lower percentage of sales occurring at times when the housing market was faltering. By contrast, the percentage of possessions occurring in the different time periods varied considerably. Of all households giving possession at some time, the considerably lower percentage doing so since 2002, despite increasingly difficult market conditions and rising arrears - particularly towards the end of this period - has been the subject of considerable discussion (Stephens, 2007; Ford and Wallace, 2009; Williams and Wilcox, 2009). These studies have identified the potential contribution of factors such as shifts in lender forbearance, Government initiatives, macro-economic policy (particularly low interest rates), the rapid fall in house prices and transactions and the introduction of the Pre-Action Protocol for mortgage cases. In the early part of this period it is also likely that rising house prices enabled many of those in financial difficulties to trade down or out.

3.8 The SEH analysis using 2005-08 data estimated that an annual average stock of 381,000 households in England contained someone who had experienced voluntary or compulsory possession or sold (on grounds of financial pressure) at some time in the past. Of these, an estimated 246,000 households had sold. A further 80,000 had given voluntary possession and a further 55,000 compulsory possession. A key conclusion is that the focus on possessions (and even arrears), while important, underplays the extent to which homeowners cannot afford to remain as owners. Some who sell voluntarily because of financial stress will downsize but others will give up homeownership completely, some temporarily and some permanently.

3.9 Thus, not all of these households are now homeowners but the SEH can also be used to estimate the number of current owners who have had an experience of voluntary possession or who sold in the past. Based on the 2005-06 and 2006-07 surveys an estimated 89,000 had had an experience of voluntary sale and 30,000 had experienced voluntary possession at some point. (The unweighted numbers for compulsory possession are too small to provide a reliable weighted estimate). Thus, while voluntary possessions and sales may be numerically limited in any one year, the number of cases over time is substantial, yet infrequently explored.

3.10 Table 3.2 provides information on the current characteristics of the household reference person in households where someone had given compulsory possession, voluntary possession, or sold to address financial problems at some point in the past. These responses were compared with all households with a mortgage not containing a person who had been possessed.

**Voluntary possession**

3.11 Table 3.2 shows that households containing someone who had had an experience of voluntary possession were socio-demographically distinctive in a number of ways both compared to those giving compulsory possession and to those mortgagor households who had never experienced possession. For example, when compared with households containing someone who had experienced compulsory possession, there appear to be more couples without dependent children (33 per cent compared to 22 per cent) and fewer with dependent children (25 per cent compared to 32 per cent). There was a higher percentage of households where the reference person was currently in full-time employment amongst those giving voluntary possession compared to those who had experienced a compulsory possession (61 per cent compared to 54 per cent); a higher percentage of professional and managerial households (35 per cent compared to 24 per cent); and a much lower percentage of those in semi-routine and routine occupations (16 per cent compared to 34 per cent). The table shows little difference between households experiencing either voluntary or compulsory possession with respect to whether they had a 100 per cent mortgage or had bought as Right-to-Buy tenants or with respect to age.

3.12 When households containing someone who had experienced voluntary possession are compared with all mortgagor households where no-one had experienced any kind of possession, the household reference person was more likely to be divorced or separated; more likely to be a sole parent; less likely to have dependent children; less likely to be in full-time employment; and more likely to be unemployed. There was little difference between voluntary possession households and all mortgagor households with respect to them now having a 100 per cent mortgage or having bought as a Right-to-Buy tenant.

**Voluntary sales**

3.13 The socio-economic characteristics of those who sold were compared with those who gave voluntary possession. Those with a previous experience of selling were more likely currently to be aged over 55; retired; less likely to be couples both with and without dependent children; and more likely to be single.

3.14 Table 3.2 also shows that a proportion of households containing someone who had experienced either form of possession or had sold had returned to owner-occupation and were currently buying with a mortgage: 26 per cent of those who once sold because of financial problems; 30 per cent of households where someone had once given voluntary possession; and 24 per cent of households where someone had been compulsorily possessed. The percentage of all households in England buying with a mortgage was 38 per cent (SEH analysis - not shown). So, while those who have experienced possession or sold are less likely to be current mortgagors, between a quarter and almost a third in each category are, indicating that possession or a forced sale depressed subsequent home ownership but did not preclude it. A similar picture emerges if all owner occupiers are considered, i.e. both mortgagors and outright owners (analysis not shown).

**Table 3.2 Current characteristics of the Household Reference Person (2005-06 and 2006-07 combined)**

| Current characteristics of the Household Reference Person | | Households who left their home via: Voluntary sale (%) | Voluntary possession (%) | Compulsory possession (%) | Current mortgagors who have never left their home (%) |
|---|---|---|---|---|---|
| Age | 18-24 | 1 | 0 | 0 | 2 |
| | 25-34 | 8 | 5 | 6 | 21 |
| | 35-44 | 28 | 39 | 36 | 34 |
| | 45-54 | 26 | 30 | 31 | 27 |
| | 55-64 | 22 | 18 | 20 | 13 |
| | 65+ | 16 | 9 | 7 | 3 |
| | Total | 100 | 100 | 100 | 100 |
| Marital status | Not divorced or separated | 72 | 76 | 69 | 89 |
| | Divorced or separated | 28 | 24 | 31 | 11 |
| | Total | 100 | 100 | 100 | 100 |
| Economic status | FT employment | 47 | 61 | 54 | 86 |
| | PT employment | 13 | 8 | 11 | 7 |
| | Unemployed | 5 | 4 | 6 | 1 |
| | Retired | 18 | 9 | 7 | 4 |
| | Other inactive | 18 | 19 | 22 | 3 |
| | Total | 100 | 100 | 100 | 100 |
| Socio-economic classification (NS-SEC) | Professional & managerial | 30 | 35 | 24 | 54 |
| | Intermediate | 10 | 8 | 9 | 8 |
| | Small employers & own account workers | 12 | 16 | 15 | 11 |
| | Lower supervisory & technical | 14 | 17 | 17 | 11 |
| | Semi-routine & routine | 33 | 16 | 34 | 15 |
| | Never worked & long-term unemployed | 1 | 1 | 0 | 0 |
| | Total | 100 | 100 | 100 | 100 |
| Household composition | Couples without dependent children | 28 | 33 | 22 | 37 |
| | Couples with dependent children | 22 | 25 | 32 | 38 |
| | Lone parents with dependent & non-dependent children | 18 | 19 | 24 | 8 |
| | Single males | 12 | 9 | 11 | 9 |
| | Single females | 15 | 9 | 7 | 7 |
| | Multi-family households | 4 | 5 | 4 | 2 |
| | Total | 100 | 100 | 100 | 100 |

**Table 3.2 continued….**

| Current housing characteristics | | Households who left their home via: Voluntary sale (%) | Voluntary possession (%) | Compulsory possession (%) | Current mortgagors who have never left their home (%) |
|---|---|---|---|---|---|
| Broad region of England | Provinces | 68 | 68 | 72 | 70 |
| | South East | 22 | 25 | 24 | 17 |
| | Greater London | 10 | 6 | 4 | 13 |
| | Total | 100 | 100 | 100 | 100 |
| | | | | | |
| Whether right to buy | Right to buy | 3 | 5 | 6 | 6 |
| | Not right to buy | 97 | 95 | 94 | 94 |
| | Total | 100 | 100 | 100 | 100 |
| | | | | | |
| Whether 100% mortgage | Not 100% mortgage | 85 | 86 | 86 | 88 |
| | 100% mortgage | 15 | 14 | 14 | 12 |
| | Total | 100 | 100 | 100 | 100 |
| | | | | | |
| Current tenure | Own outright | 10 | 8 | 4 | 0 |
| | Mortgagors and shared ownership | 26 | 30 | 24 | 100 |
| | Social rented | 39 | 35 | 49 | 0 |
| | Private rented | 25 | 28 | 24 | 0 |
| | Total | 100 | 100 | 100 | 100 |

Source: Survey of English Housing 2005-06 to 2007-08

3.15 Households who had lost their home were, in some ways, distinct from those who had not. There were also some differences in the socio-economic characteristics of borrowers who lost their homes in different ways, but these were less marked than the differences between them as a whole and all mortgagors with no experience of losing a home. One potential implication of this analysis is that the form of losing the home is contingent, less on the socio-economic characteristics of the household, and more on other factors which might include: the reasons for arrears; the relationship with and attitudes of lenders; the extent of debt; and the commitment of the household to the property. These issues are explored through the qualitative interview data.

## Analysis of the qualitative data

3.16 Data are available from 34 interviews with households who have given voluntary possession or who are just on the point of doing so, and seven households who have sold because of financial difficulties. This section presents descriptive data from the interviews on the households' socio-economic and loan characteristics. The tables report numbers rather than percentages and provide the reader with a snapshot of the range of households that were interviewed.

3.17 Whereas the SEH provides data on the current circumstances of households who contain someone who has ever given voluntary possession or sold, the interviews provide information on the circumstances of households at the point they bought their home as well as their current circumstances.

3.18 Table 3.3 indicates that, at entry, the interviewees were overwhelmingly joint mortgagors; a majority were first-time buyers and the majority in employment. Couples with and without dependent children were much more prevalent than single people. Although the numbers are small and so need to be treated cautiously, those exiting via a voluntary sale tended to have longer-standing mortgages. The majority of mortgages in each group were below £100,000, although whether this constitutes a 'low' mortgage depends on when it was taken and the borrower's income at the time. In addition to the characteristics set out in Table 3.3, three households were in the process of buying under shared ownership arrangements.

**Table 3.3 Socio economic characteristics of voluntary possession and voluntary sale households**

| Characteristics | Voluntary possession households | Voluntary sale households |
|---|---|---|
| | **No.** | **No.** |
| **Household structure at point mortgage granted** | | |
| Couples without dependent children | 14 | 4 |
| Couples with dependent children | 16 | 1 |
| Single person | 4 | 0 |
| Lone parent | 0 | 2 |
| **Mortgage** | | |
| Joint | 29 | 7 |
| Sole | 5 | |
| **Employment status at point of taking the mortgage** | | |
| Couples: Both partners in full-time employment | 19 | 3 |
| Full-time and part-time employment | 4 | 1 |
| Employed and inactive | 1 | 1 |
| Self employed | 3 | 2 |
| Missing data | 3 | |
| Single: Full-time employment | 4 | |
| Unemployed | 0 | |
| Retired or inactive | 0 | |
| **Experience of buying** | | |
| First time buyer | 23 | 3 |
| Repeat buyer | 6 | 3 |
| Not recorded | 5 | 1 |
| **Date of taking mortgage** | | |
| Before 2000 | 7 | 3 |
| 2000-2004 | 10 | 3 |
| 2005-2008 | 16 | 1 |
| 2009 onwards | 1 | 0 |
| **Property price at purchase** | | |
| Under £100k | 19 | 5 |
| £100-150k | 10 | 1 |
| £151-200k | 1 | 1 |
| £200k plus | 3 | 0 |
| Don't know | 1 | |

Source: 41 qualitative interviews

3.19 It would be useful to compare the voluntary possession households with the characteristics of the general population of mortgagors at the point of taking the mortgage to gauge the extent to which they started out broadly in line with the profile of all other entrants. However, respondents took out their mortgages at different times ranging from 1990 to 2009, and this precludes such an analysis within the scope of the project.

3.20 One of the reasons noted in the literature as potentially contributing to arrears is financial over-commitment and in particular the contribution of both irresponsible borrowing and irresponsible lending. There are a number of measures that might be used to indicate a risk of financial over commitment. For example, high loan-to-income ratios, the absence of a deposit when taking the mortgage or mortgages at 100 per cent of the value, mortgage arrangements that offer additional (unsecured) credit alongside the mortgage offer, or mortgages where income is unverified (self-certification). In addition to these more numerical indicators (many of which have problematic aspects), borrowers can provide their own assessment of whether they borrowed too much in relation to income. A number of these measures are used here to identify the level of financial commitment at the start of the homeownership that was eventually lost.

### Initial financial commitments

3.21 Table 3.4 shows that the largest group of borrowers had initially taken out a mortgage only. However, almost as many had taken a 'package' of a mortgage and an unsecured loan granted simultaneously by the mortgage lender either to allow the deposit to be paid, solicitors' fees met or work on the house /furnishings to be funded[6]. Across all respondents, many of the mortgages granted were 100 per cent loans.

**Table 3.4 Loan commitments at the point of buying the property**

| Financial commitments at the start of the mortgage | Borrowers giving voluntary possession | Borrowers selling in response to financial problems |
|---|---|---|
| Mortgage only | 16 | 4 |
| Mortgage plus associated unsecured loan | 14 | 2 |
| Mortgage plus second secured loan | 4 | 1 |

Source: 41 qualitative interviews

3.22 Five of the loans were self-certified mortgages and/or borrowed from a sub-prime lender. Two borrowers had been bankrupt previously and one borrower was in an Individual Voluntary Agreement when they took their mortgage.

3.23 In addition, many borrowers had credit card commitments and some had personal loans and/or overdraft facilities.

3.24 Whether or not these levels of credit constituted a risk has to be set in the context of both income and employment. It was not possible to provide a measure of initial borrowing to income for all borrowers, largely because a

[6] The Northern Rock 'Together' mortgage is the best known of these products as it was a widely marketed arrangement, but the interviews showed that a range of mortgage lenders provided similar facilities.

number had taken their mortgage several years ago and their recall of the exact detail of their income at that time was poor. Borrowing information was more frequently known, in part because it travelled with them over the life of their mortgage. Further, the long time line over which these borrowers had taken the mortgage which subsequently led to them giving up homeownership also limited the ability to identify sensible comparator data.

3.25 As an alternative, the study approached the question of potential financial over-commitment at the start of the mortgage qualitatively. All respondents were asked to assess whether, looking back, they believed they had borrowed too much. Eight respondents were clear this had been the case, but the remaining 33 interviewees reported that neither the mortgage nor the other borrowing they had *at the start* had posed payment problems:

> *"We had £37,000 a year coming in* [around £2,000 a month after tax] *and the mortgage was £600 a month. We were both working and we paid easily."*

> *"It was easy to pay at first we had three wage earners."*

Another couple bought a property for £120,000 and had saved the deposit of £6,000. One of them worked full-time and the other part-time, earning £18,500 between them. The mortgage was £690 a month but almost as soon as they took it one partner had a pay rise and the other increased their hours. Paying the mortgage *"seemed quite easy"*.

**Subsequent borrowing**

3.26 Many households borrowed further following their entry to homeownership, that is, over and above the initial commitments described in Table 3.4. Sometimes this subsequent borrowing was in the form of a re-mortgage, a first or additional second charge secured loan, greater use of credit card borrowing or personal unsecured loans.

3.27 Twenty-three of the 41 respondents interviewed took further secured borrowing giving a total of 27 with second charge loans. However, it is important to recognise two different drivers of this additional borrowing. A small number of borrowers (four) used their rising equity and/or enhanced incomes to take loans to improve their properties. This borrowing was not problematic until an event such as unemployment or relationship breakdown struck, when their financial position was obviously more difficult than it would have been without the extra borrowing. The largest group (11), however, borrowed from an early point in their mortgage life, re-mortgaging or taking further secured borrowing to reduce the costs of borrowing or consolidate borrowing. In a further three cases borrowers looked to do both, borrowing again to enhance their life style and property and to pay off other debts. For these 11, and possibly the further three, additional borrowing was an early sign of emerging financial stress. Respondents did not have mortgage arrears when they first took this extra borrowing but many were finding it harder to pay and more expenditure was being placed on credit cards etc:

*"I'd take a loan to pay off a loan, just moving things around to pay."*

*"We had collateral and decided to take a secured loan to help out-stop smaller debts from running up. Things were getting more expensive as we had the children."*

*"We remortgaged to reduce our costs, pay off a credit bill and we thought we had a clean slate."*

3.28 Thus, although only eight borrowers reported that, in their judgement, they had borrowed more than they could manage, the need to borrow further to manage routine commitments suggests that a higher number had significant and potentially problematic commitments early on and ahead of any key trigger that led to arrears. Again, these findings cannot be compared with those giving compulsory possession or with mortgagors without problems in any systematic way. Nevertheless, as noted above, about a third of cases had borrowing that was in response to tightening financial circumstances ahead of any arrears. The use of yet further borrowing in relation to managing arrears is considered in more detail in Chapter 5.

## Summary

3.29 Analysis of the SEH showed that voluntary possession was more variable over time than sales undertaken in response to financial difficulties and rose in recessionary periods. It also showed that there were some differences in the socio-economic characteristics of borrowers who lost their homes in different ways. Further, all three groups were distinct, in some ways, from those who had not lost their homes. Notwithstanding this, the differences between borrowers experiencing possession or selling were less marked than the differences between them as a whole and all mortgagors with no experience of losing a home.

3.30 Qualitative data on 34 borrowers giving voluntary possession and seven selling showed that, at entry, they had similar socio-economic characteristics. The key difference was that those subsequently exiting via a voluntary sale tended to have longer standing mortgages.

3.31 At entry, just over half of respondents had both a mortgage and either an associated unsecure loan or a further secured loan. One in eight had a self-certified mortgage and/or a sub-prime loan. Only a minority reported that they believed they had borrowed excessively. The majority of respondents supplemented their borrowing post entry and in most instances this was as a response to emerging financial stress (ahead of any trigger that resulted in loss of income and so arrears) suggesting the level of financial commitment was potentially more excessive than perceived at the time.

# Chapter 4

## The extent of and reasons for mortgage arrears amongst those giving voluntary possession or selling

4.1 This chapter looks first at the extent of arrears amongst the borrowers giving voluntary possession or exiting voluntarily. It then considers why arrears emerged.

### The extent of arrears

4.2 Thirty-two of the 34 voluntary possession cases considered had mortgage arrears, with two cases in particular having very limited arrears which in one case had only accumulated in the short time between handing back the property and the paperwork for voluntary possession being finalised. Two cases had no arrears at all. One was a case of voluntary possession due to harassment while in the second case the borrower was a shared owner who had rent arrears but not mortgage arrears. Problems emerged as a result of a secured loan on the owned share of the property which he was unable to pay. Despite there not being mortgage arrears he returned the property to the mortgage lender to avoid the results of the court action taken by the second charge holder. All those who sold had experienced mortgage arrears. The distribution of arrears is shown in Table 4.1.

**Table 4.1 Mortgage arrears at voluntary possession or voluntary sale**

| Amount of mortgage arrears | No of voluntary possession households | No of selling households |
|---|---|---|
| None | 2 | |
| Under £1000 | 3 | 1 |
| £1000-£2000 | 5 | 1 |
| £2001-£4000 | 5 | 2 |
| £4000+ | 12 | 2 |
| No idea | 7 | 1 |

Source: 41 qualitative interviews

4.3 Earlier studies have shown that borrowers who give voluntary possession or sell do not always have particularly high levels of arrears on their mortgages. This was also the case here. Ten of the 39 had arrears of less than £2,000 (often only a few months' missed payments) at the point of giving possession or selling (although they all had further charges associated with their arrears, such as interest or fees for letters, phone calls) and as already noted two borrowers had no arrears at all. The highest amount of mortgage arrears noted was in excess of £8,000.

4.4 In many cases these may seem relatively limited sums over which to lose a property. However, a focus on mortgage arrears alone is not a good guide to the financial difficulties of these households. As already noted in Chapter 3, following the commitments made at the point of entry, of the 41 households, 23 had taken a further secured loan. In addition, one household was managing mortgages on two properties. Of these 24 cases, 16 developed arrears on the second charge loan as well as the mortgage. The arrears occurred both on loans that had been taken when income was ample and on secured loans taken to try and ease financial pressures. In addition, all but one household had unsecured loans, typically credit cards or personal loans, many of which were also in arrears. Sixteen of the 41 households had an unsecured loan in association with the mortgage and the majority were in arrears.

4.5 Thus, both households who gave voluntary possession and those who sold ultimately had significant levels of borrowing, (although not necessarily at the start of their mortgage) and significant levels of arrears, considerably higher than the level shown on the mortgage. What is clear, and is discussed in more detail later in this chapter, is that the multiplicity of loans, arrears and demands are one component of borrowers realising that they cannot continue managing these circumstances and so seeking to end what they frequently describe as *"a nightmare"* or *"...just a hole that's getting bigger and bigger."*

4.6 It is not possible systematically to compare these interviewees to the commitments amongst a group giving compulsory possession (or to all mortgagors without default). However, given that many who hand back their properties are close to compulsory possession and have many socio-economic and loan characteristics in common with those so possessed, it is plausible that the indebtedness pattern is similar. Qualitative research on enforced possession households shows significant levels of debt and similar patterns of secured and unsecured debt (UK Advice, CAB and Shelter 2009).

## Initial reasons for arrears

4.7 The reasons given by both sellers and voluntary possession respondents for their initial arrears were similar to the reasons given by all borrowers in arrears (as identified in the SEH and other studies of mortgage default): unemployment; reduced hours of work; relationship breakdown; ill health and financial over - commitment.

4.8 Amongst the 32 borrowers with arrears giving voluntary possession, these were triggered as follows. The voluntary sale figures are shown in brackets:

- ill-health – two cases (3)
- unemployment/reduced earnings - eight cases (2)

- relationship breakdown - eight cases (0)
- financial over-commitment (as a primary driver) - three cases (1)
- unemployment/reduced earnings and relationship breakdown - nine cases (1)
- other – two cases (0)

4.9 In total, half of all the voluntary possession households interviewed reported that labour market change was a key factor in their initial payment problems while a similar proportion noted the role played by relationship breakdown. The number affected by unemployment and reduced earnings is a reflection, in part, of the timing of the research (early 2010) and that the cases of voluntary possession considered had overwhelmingly taken place during a recessionary period. That so many cases cited relationship breakdown is perhaps best understood as, in part, a reflection of the high incidence of respondents who had started out as joint mortgagors and the unsustainability of many mortgages if one income is removed. Of the seven respondents leaving homeownership via a sale three had experienced unemployment or reduced hours of work; three had accidents or sickness that led to them being unable to work while in one case a key contributor to the mortgage (but not a mortgagor) had died leaving the mortgagors financially over-committed. However, while amongst these seven cases there were instances of relationship breakdown, none cited this as a cause of arrears, although it was cited as a contributor to the decision to sell. Some illustrations of the causes of arrears are given below:

One partner in a first-time buyer household where both were employed lost their job three months into the mortgage, and was not able to find new employment. Shortly afterwards the couple separated and the in-work partner who remained in the property could not afford the payments.

A couple bought more than 10 years ago and paid without difficulty for many years. Three years ago one partner was laid off and then only had intermittent employment. Arrears in the early period were subsequently paid off but unemployment has now become prolonged and arrears accumulated again. The partner worked part-time but was not earning enough to meet the mortgage.

A couple bought three years ago, both in full-time employment, with a mortgage that was ‘doable’ if sometimes it required them to think about other expenditures. Shortly after purchasing they separated and although both remained in full-time employment, they could not meet the costs of both the mortgage and rent on a second property.

A couple with an adult child found their mortgage easy to pay as all were wage earners. They paid the mortgage and an additional secured loan. The man became ill as a result of an assault and was in hospital a number of times. His wife had to give up work to care for him. Responsibility for the mortgage was taken over by the adult child but after a period of time he said he would not continue as it left him no money for any social life.

The costs of renovating a property which started in the late 1990s led to an initial loan of £35,000 escalating via two re-mortgages and a change of lender to £250,000 by the mid 2000s. The rising value of the property supported the mortgage increases. Payments were met via wages and the contribution of a non-dependent relative. There were no payment problems for eight years but then the costs of a development-related legal dispute, plus the death of the relative resulted in them not being able to pay the mortgage.

## Voluntary possession without arrears

4.10 Two borrowers gave voluntary possession even though they did not have mortgage arrears. A similar finding was reported in earlier work (Ford, 1993). The two cases were very different. In one case there were financial problems at the root of the possession which was given on a property that was being bought under shared ownership arrangements. The borrowers paid initially without difficulty but relatively quickly found their expenditure was outstripping their income largely due to the wife having to give up employment to look after two young children. A second charge loan was secured on their equity portion of the property, and appeared to involve a sub-prime lender over-valuing the property as eventually loans to the value of £70,000 were secured on an equity share of 40 per cent of a property valued at purchase at £45,000 in the late 1980s[7]. This second charge loan and the mortgage were paid for a year with great difficulty by ‘robbing Peter to pay Paul’, but eventually that was not sustainable and the second charge lender took the borrower to court. There were still no arrears on the mortgage at this stage which was somehow paid. Discussions with the landlord about the option to downsize or hand back the property to the landlord but remain as tenants failed because the household’s finances did not stack up. Before the court order could be implemented the borrower handed the keys back to the housing association and moved in with relatives. The resolution of the case – for example who owns what and who should take what action – was still being considered at the time of the interview. In the meantime rent arrears were accruing.

4.11 In the second case a borrower and his family faced behaviour and taunts from their neighbours that they found intolerable and intimidating. Anti-social behaviour and actions perceived as dangerous (for example, young children driving vehicles on the local streets) had led them to complain about their neighbours to the police which in turn escalated the tension. They had discussed handing the keys back on a number of occasions but were reluctant to do so as they believed it would result in an adverse credit record. However, a further incident which caused material damage to their home triggered a rapid decision. They had maintained their mortgage payments without difficulty throughout their occupancy of the property only ceasing to pay at the point they decided to leave. Within a few weeks of notifying the lender all the paperwork was complete and they had moved to the private rented sector. They recognised they would have to meet the inevitable shortfall that would result from the sale of the property.

4.12 These two cases are atypical of the voluntary possession experience. They have been discussed in detail not simply because they are unusual but because particularly in the case of shared ownership it is useful to highlight some of the potential complexities and requirements that can characterise the management of financial difficulties for borrowers in shared ownership (e.g. requirements to notify any further loans, to manage the terms and conditions of both ownership and renting, the scope for ‘staircasing down’, the increased number of players involved).

[7] Although by the time of the second charge loan there had been some appreciation in value, the borrower understood from the money advisor he subsequently consulted that it had exceeded the likely equity in the property. Further, the householder had not complied with the formal requirement to seek permission from their RSL partner before taking a further loan.

## Summary

4.13 Thirty-nine of the 41 interviewees had mortgage arrears. Amounts owed ranged from under £1,000 to in excess of £8,000 but in the majority of cases arrears were under £4,000. In addition, a majority with second charge loans had arrears on these loans. Personal loans and unpaid credit card commitments were common and many borrowers faced demands from multiple creditors.

4.14 The reasons for default cited by interviewees are little different to the reasons given by any borrower who defaults (SEH), most of whom do not go on to give voluntary possession or sell.

4.15 The comparable levels of arrears and the similarity in the reasons for default indicate the importance of exploring the extent to which the decision to give either voluntary possession or sell reflects subsequent events and actions for example, the failure to seek advice or to agree forbearance or the lack of commitment to retaining the home. These and other related issues are discussed in Chapter 5.

# Chapter 5

## The route to voluntary possession or a sale in response to payment difficulties

**The speed of decision making**

5.1 The interviews show that the decision to give voluntary possession or to give up homeownership by selling is either almost immediate following the development of arrears or by contrast only arrived at following a long process of trying to manage arrears, a process which typically exacerbates the problems*.*

> A man was made redundant in 2007 but found work immediately in a previous trade. He was made redundant again in 2009 and given the depressed local economy he knew that he would probably be unemployed for some time. He said he knew he could *"sort something out by limping along, repaying bits, but he would never catch up and could not see any light at the end of the tunnel."* He had a mortgage and a secured loan and after consulting an IFA he decided to *"jump ship."* He was made redundant in the September and the same month he notified the lender that he was leaving, rejected an offer of a mortgage holiday or reduced payments – *"it was just delaying the inevitable"* – found and moved into alternative accommodation and filed for bankruptcy. His wife had already been declared bankrupt in the summer.

When a single man lost his job in August 2009, family pressures were exerted on him to return nearer his mother who had been recently widowed. His property was valued indicating he had negative equity in excess of £20,000. He did not believe he could rent his property out for a rent that would cover the mortgage and a new dwelling and he decided *“not to hang on to the property.”* In August he had no arrears but stopped paying the mortgage. He moved back to the parental home. He was not aware of SMI. Lacking any significant income and with credit card debt mounting and an unsecured loan about to default, he decided to file for bankruptcy and handed the keys back to the mortgage lender several weeks after he had moved out.

5.2 The examples above chime with a view from a number of lenders who were interviewed who described voluntary possession as *“often a rational process”* on the part of borrowers. Lenders perceived that borrowers were increasingly well-informed, often consciously planning their actions and calculating the best financial outcome. They often acted quickly. In contrast, other lenders and advisors noted that in their view many households delayed their actions and decisions were protracted and sometimes muddled. Often these borrowers were seeking to retain their homes against any rational assessment that this was possible.

5.3 The majority of borrowers interviewed reflect the latter situation above where there is a protracted process before the decision to give voluntary possession is made. This group is the main focus of the analysis below which explores the responses of borrowers to their arrears, the ways in which they try to manage and recover their arrears and their interactions with their first charge lender and other creditors. It also explores why, ultimately, these borrowers were unsuccessful and what then determined whether they left via a voluntary sale or voluntary possession.

5.4 Previous research on borrowers’ management of arrears has stressed that borrowers with arrears look for ways both to reduce expenditure and increase income while also looking to lenders for support in terms of forbearance. However, research undertaken in the 1990s as well as more recent research (for example, Orton, 2009) has also noted a tendency whereby households in debt appear slow to engage and are often described (and some describe themselves) as *“having their heads in the sand.”* Borrowers’ responses to arrears are discussed below.

## Early arrears: contact with lenders and forbearance

5.5 The five lenders interviewed as part of the project noted that borrowers who gave voluntary possession or who sold often had limited contact with them at the early stage of arrears and hence they were often unable to offer appropriate forbearance:

> *"If they don't speak to us we don't know if it's because they can't pay or don't want to pay...once we can confirm it's an ability problem we can help them as much as we can."*

5.6 It was only once arrears were at a significant level or the decision had been made to give voluntary possession that lenders felt they were really given a chance to see if other alternatives were possible. However, they also noted that by then most borrowers were too committed to leaving, or their circumstances were so complex and debts so substantial that their options were significantly reduced (the main one remaining being compulsory possession or, for a small number of lenders, an assisted sale).

5.7 The interviews with borrowers included a number of cases which supported the lenders' perspective on contact. Seven mortgagor households had not had contact with their lender until they were either at or very close to the point of giving voluntary possession or selling. One of these borrowers said:

> *"I didn't ring them up until I'd tried everything I could do myself, but nothing was working, nothing was coming out for me."*

5.8 The other 25 cases however reported phoning or writing to their lender when arrears first occurred and in one or two cases when borrowers knew arrears were likely to emerge. A range of initial forbearance offers resulted:

- mortgage holiday — 4 households
- switch to interest only mortgage — 7 households
- reduced payments — 10 households
- normal payment plus some arrears — 6 households
- extend the life of the mortgage — 1 household
- nothing agreed — 6 households

5.9 In one further case it was not clear what had been offered. Occasionally, households were offered a combination of the above, for example, conversion to an interest only mortgage after a payment holiday.

5.10 In no case was the forbearance offered sustainable, either not at all, or it faltered after a few weeks. In some cases the forbearance was declined because it was offered for such a limited period of time or was unachievable *per se.* Amongst these 25 households, typically, contact with the lender then dwindled to the routine administrative process of automated letters and phone calls. Thus, in one sense the lenders' perspective can be understood as, to the extent that the interviews are a guide to all those giving voluntary possession, there was only limited engagement between borrowers and lenders and this was primarily of an administrative kind.

5.11 Respondents' views on mortgage lenders' behaviour were polarised. A small number felt they had been treated well, and fairly, despite the fact that in the end the interventions were not successful. These borrowers appreciated being offered time to pay but also some borrowers perceived they were not being pressurised and that an undemanding lender was a supportive sign.

5.12 A respondent who saw his income halved when his partner left contacted his lender. They reduced his payment for six months by 40 per cent which he felt was very fair. However, ill health followed and he could not manage the payments and handed back the keys:

*"They [the lender] were fine. We were not able to pay but they didn't come after us, and they didn't ask us to make an arrangement."*

5.13 Many more respondents however were critical of their lender, claiming they were variously disinterested, inflexible, unrealistic, disorganised and threatening:

One couple defaulted on their monthly mortgage payment of £340. The man had been laid off work and his wife had a part-time job. They spoke to their lender who asked them to pay the normal monthly payment plus £100. *“This was not possible and we only managed to pay about twice. We then started to get letters, they threatened to visit, they phoned and every letter added more charges.”* After three months the lender applied for a possession order at which point the borrowers handed in the keys.

In another case, financial stress but short of arrears, led a couple to re-mortgage. The first administrative issue was when the lender failed to inform them when payments were to start. They missed some payments that were expected and although they were compensated for the lender’s muddle, the compensation did not meet all the charges they had incurred. Later problems arose over an increase in the interest rate that appeared excessive. Eventually when they were missing payments they were offered an interest only mortgage but the saving was small and insignificant against their debts. These respondents felt the lender threatened them by phoning and they reached the point they would not answer the phone: *“I rang them and said I was going bankrupt and all they said was ‘put the keys in the post.’”*

## Other sources of advice

5.14 It is sometimes suggested that borrowers are reluctant to seek advice (Orton, 2009) and that outcomes such as possession might be prevented if they were more willing to do so or had done so earlier.

5.15 In assessing the information on the use of advice services presented below it should be noted that advice providers were used to access borrowers alongside lenders and local authority housing services. Thirteen cases came via advice services, 23 from lenders, five from local authorities. Thus the respondents might include a higher percentage of borrowers seeking advice than is in fact the case overall, potentially overstating the role of advice.

5.16 Of the 39 borrowers with arrears, 30 sought advice from one or more of advice agencies (principally CAB and the Consumer Credit Counselling Service (CCCS)), independent financial advisors, solicitors, and occasionally private sector debt management companies such as Payplan or Paymex. A few respondents also made use of the internet either to discover information or learn from the experiences of others in similar situations via discussion groups.

5.17 Advisors assisted borrowers in a number of ways: setting out the options for repayment; negotiating with lenders and other creditors on behalf of borrowers; setting out the options when forbearance faltered and the loss of the home was moving to the fore, including consideration of voluntary possession and bankruptcy; advice on insolvency options after the keys had been handed in:

> *"I first went to CAB 18 months ago and they helped me to set up paying something off my debts by standing order."*

> *"I went to CAB 12 months ago when I couldn't pay anything and they* [creditors] *were phoning constantly* [about 15 months after defaulting started]. *I was extremely stressed and ill. They set out the options and I decided to hand in the keys and go into an IVA."*

Joint respondents had first sought advice from the CAB for arrears in 2006. They were advised that the best option was to try and sell and they found a buyer who would pay the asking price for immediate possession. They arranged alternative accommodation and moved out. However the sale was blocked by a second charge lender to whom they owed more than £70,000 and who would not have recovered this sum. The second charge lender then pressed for repayment of the loan. They decided to hand the keys back to the first charge lender (to whom they owed nothing) because they felt they were being intimidated and wanted it to end. After 18 months they were notified by the first charge lender that the shortfall debt had been passed to a debt collection agency and they would be in touch. They went to the CAB again for legal and financial advice and on reviewing their options with them decided to file for bankruptcy as they had no money to repay

5.18 This study therefore offers little support for the view that borrowers in general are reluctant to seek advice (but see the caveat above). The interviews show that advice is used to try and negotiate realistic forbearance and advice agencies are one place where a robust assessment can be made of the options for recovery and the likelihood of recovery being achieved. Advice agencies therefore sometimes played a role in crystallising borrowers' decisions to hand back the keys or sell their property. There was, however, evidence from a small number of borrowers that it was difficult to access advice services because of the length of time required before an appointment could be obtained.

### Borrowers' strategies to meet mortgage payments and recover arrears

5.19 The interviews show that many borrowers initiated a range of actions to try to meet their mortgage payments. It would therefore be a mistake to assume that because there was little contact with lenders, these borrowers were not committed to clearing their arrears and trying to remain as homeowners – at least initially. Indeed, many interviewees were explicit in saying that their goal had been to save their house if at all possible.

Table 5.1 shows the range of actions noted in the interviews.

**Table 5.1 Borrowers' actions to limit and reverse arrears**

| Action taken to manage arrears | No. of voluntary possession cases citing these actions | No. of borrowers who sold citing these actions |
|---|---|---|
| Family contributed to the mortgage or provided help in kind | 3 | |
| Sought extra employment | 2 | |
| Reduced expenditure | 32 | 7 |
| Took in lodgers or rented property out | 5 | |
| Paid by taking additional borrowing | used credit cards to pay bills: 12<br><br>had taken a second secured loan to reduce their overall debt repayments: 16 | 7<br><br>6 |
| No action taken | 2 * | |

Source: 41 qualitative interviews

*Includes those borrowers who made an early decision to hand back the keys and whose arrears sometimes arose following their decision particularly where the administrative process took some time.

5.20 Setting aside those borrowers who took no action to manage their arrears (because they had decided to leave homeownership almost as soon as they lost income or when arrears first emerged), borrowers' arrears management could be complex, unstructured and reactive as shown in some of the illustrations below:

A couple with children had always found that their mortgage payments left them with little to live on. Often they paid the mortgage by living on their credit cards and the wife found part-time employment. In time they reached their credit limit and took a consolidation loan in order to reduce their monthly outgoings. Prior to the consolidation, servicing the debts took 90 per cent of their income (including benefits), which reduced to 80 per cent after the consolidation loan. The man was then off work due to ill health and was subsequently unemployed. Arrears on all their loans rose (mortgage, consolidation loan, credit cards). They contacted their mortgage lender who seemed to be relaxed and did not pursue them or, as far as they could recall, suggest any forbearance arrangement. The second charge lender, however, was proactive in seeking the loan repayments. They decided to try and sell the house, initially through a sale and rent back arrangement and on a property valued at £120,000 they were willing to accept the £80,000 that was offered. However, the company then *"disappeared – they never turned up when they said they would."* They then tried to sell the property on the open market but had no interest. Throughout they had paid something to their mortgage lender most months but eventually they ran out of options for meeting this in full and for paying the other creditors. In this case there was no claim for SMI which appears to be a result of the part-time hours of work and the absence of any advice.

In another case, the mortgage was paid easily until the couple separated. The man, who remained in the marital home, and wanted to keep the home if at all possible, found himself with responsibility for all the costs as his partner refused to pay anything. He was unable to meet the costs and to limit and recover the arrears he took a lodger and then looked for additional work (overtime) which proved impossible to find. To make some mortgage payments he paid other bills (food and utilities) with his credit cards, which over time became a commitment he could not meet. His mother contributed to the mortgage. He stopped work in order to access SMI (and his lender changed his mortgage to interest only) but he had no means of bridging the first 13 weeks, so arrears increased further before help was available.

A woman in full-time employment became responsible for the mortgage when she and her partner separated and he failed to keep up the payments despite their agreement that he would do so. To manage the arrears down and make the normal payment she took three lodgers into the property. This worked for a while and then it became harder to replace the lodgers as they left and she had no savings to deal with any voids and so the strategy failed.

A couple experienced reduced income, in one case because of the recession and in the other because of a deliberate decision to take a lower grade, less stressful post. When they realised they could not keep up their payments and arrears developed they reviewed their expenditure and cut back wherever they could, for example, cancelling a TV subscription and their mobile phone contracts. The husband looked for additional work but did not find any. They had a payment holiday for six months but at the end of the period the missed payments simply increased the arrears they owed.

5.21 By definition, all the borrowers interviewed had failed to put together an arrears management strategy that enabled them to repay their arrears, although many tried initially and many for several months. This was the case whether they eventually gave voluntary possession or sold.

5.22 The interviews show that several factors contributed to the failure to manage arrears, three occurring repeatedly:

- further borrowing to manage financial commitments and particularly arrears. The key issue here is that further borrowing to manage arrears in almost every case made the problem worse. This was the case whether borrowers retained their original income or had reduced income. Further borrowing increased the number of creditors chasing a household for money and increased the charges associated with these actions. If additional creditors were secured creditors this increased the number who could threaten possession or refuse to accept a debt management plan or a shortfall sale. Further, where borrowers were able to claim SMI, however effective it was in relation to their mortgage costs, borrowers usually had other non-performing loans
- loss of income that was ‘permanent’ and ‘final’ as in cases of relationship breakdown where one party to the mortgage ended their commitment to, and responsibility for, the property. The wish to avoid responsibility for the

other partner's portion of joint debts also contributed to the unwillingness to manage arrears

- the failure to make or sustain effective forbearance options in the face of significant debt, low income and second charge creditors. This could result from too-late contact between borrower and lender or from forbearance arrangements that were seen as short term or making insufficient difference to the financial demands of creditors, and which were therefore rejected. Forbearance agreements could be jeopardised by the unwillingness of other creditors to agree repayment plans, or because one creditor pressed to be given priority by frequent phone call and threats, resulting in other forbearance arrangements being set to one side. The interviews showed particular problems in the case of shared ownership borrowers

## Access to Support for Mortgage Interest (SMI) or private insurance

5.23 There is a state safety-net for mortgagors in receipt of other specified income-related benefits, which meets their mortgage interest up to a defined limit. The safety-net is longstanding but has been subject to modifications over time, significantly in 1995 when amongst other things the waiting time before receipt of benefit was lengthened and a standard rate of interest introduced. These measures were later evaluated and found to contribute to the development of arrears in a proportion of cases (Kempson *et al*, 1999). In January 2008 the Government introduced further modifications to SMI, implementing earlier payment of the benefit (at 13 weeks) and higher capital limits. The full details of the current SMI provisions are provided in Appendix 2.

5.24 Households who were interviewed straddled the period during which the Government introduced the most recent SMI revisions. However, relatively few households reported that they had claimed SMI. This was because, despite a considerable incidence of unemployment, typically in partner households one partner remained in full-time employment work or took up part-time work at a significant level. A number were also self-employed and not eligible for the qualifying benefits. Further, almost half of the respondents had financial problems because their costs rose as a result of relationship breakdown (often without any change to income) and these circumstances are not covered by SMI[8].

[8] SMI however may be available if after relationship breakdown one partner remains in the owner occupied home and if they meet the eligibility for income related benefits.

*“When my business ran into the ground I tried to claim SMI but because my wife works* [and had started to work full-time in response to the business faltering] *I was turned down.”* This respondent said that before then he had investigated a claim but had been told that self-employed people were not eligible. He had contacted his MP who had taken up his case but with no success.

Another respondent whose employment was precarious, including several periods where he had been laid off or on very short time, commented*: “I stopped work completely in order to sign on and get some help. It’s a strange scheme, you have to wait three months and then they help you just when the lender’s less keen* [on forbearance] *and chasing you.”* This person had received SMI for three months (which had assisted with the mortgage) but in the context of other debts had then decided he could not go on: *“I’d been trying to keep the house but I’d few options left and there was negative equity too*.*”*

Another couple’s problems started with default on a second charge loan which spread to their credit cards when the man was unemployed. *“We had insurance on the loan and for the cards. The loan was £300 a month and the policy paid out £296.”* Later they experienced a further spell of unemployment and believed they could claim on an insurance policy they had taken with the mortgagee. But it did not cover them for unemployment.

## The decision to end homeownership

5.25 Despite attempts to manage and recover arrears by many, all the households arrived at a point where they recognised that they were losing the battle to retain the property and that its loss was inevitable. In some cases they no longer had the energy or will to fight to save their home and a number said it was making them physically or psychologically ill. This contributed to the decision:

*“I became depressed, crying, I felt ashamed. What man wants his mother paying for his food?”*

*“It made my wife physically ill.”*

and the same person said of the associated shortfall:

*"I couldn't care a monkey's. It was just too much, we just wanted out."*

*"I was in complete limbo, depressed, I can only describe it as if there was always a thick mist ahead."*

By the time they managed to sell:

*"We were just physically and mentally drained."*

*"I lost weight, constant chest infections and now I've given it back the depression has hit me. It was only my anger that kept me going."*

*"I just wanted it all over, get it over and done with and move on."*

5.26 The interviews also indicated that there was a broad, qualitative relationship between the level of stress and anxiety experienced and the extent to which borrowers tried to recover their arrears. As noted earlier, a small number of households made a very rapid decision to hand back the keys or sell, and in these circumstances there was much less evidence of the anxiety and stress noted above.

5.27 In most instances, giving up the property was seen as the best outcome in the circumstances by all parties to the mortgage, but in a small minority of cases one party to the mortgage would have preferred to try and keep the house. The fact that the outcome was largely seen as inevitable did not alter the regret and disappointment experienced by some households, which could delay their recognition of the likely way forward in some cases. In contrast to those who made no attempt to manage their arrears because they decided on an early exit, those who did first try to manage their arrears saw the decision to give up the house 'emerge' as other options became exhausted. The decision is perhaps best described as a 'creeping' decision.

5.28 An important part of this crystallisation process for borrowers was the discussion about the possibility of selling their property in order to end their on-going problems and repay their debts. Seven succeeded in selling while amongst those who ended up giving voluntary possession, 11 had their house on the market at some point while others had seriously discussed the possibility of doing this. A period of trying to sell, but failing, typically increased the arrears in a context where the value of the house was continuing to fall along with the price asked.

5.29 One key distinction between the seven exiting households and those giving voluntary possession was the availability of equity in the property (six cases) and very limited negative equity in the seventh instance. Like their voluntary possession colleagues, most had taken second secured loans which reduced their equity. The fact that there was still remaining equity was probably because many of these borrowers had longer standing mortgages, (five of the seven cases took their initial mortgage more than eight years ago and none less than four years ago), and therefore most had accrued equity. In contrast, among the 32 giving voluntary possession because of arrears, many mortgages were younger; 13 were less than four years duration and only nine were of eight or more year's duration. For many of the households interviewed the absence of any equity constrained their ability to exit without a possession process.

5.30 Thus for both groups, the drivers of arrears are broadly the same, as is the wish initially by the majority to manage the problem of arrears. However, once it became clear that the arrears could not be recovered (for whatever reason) then the presence or absence of equity shaped their exit options.

## Voluntary or compulsory possession?

5.31 For those who could not sell, or who did not consider this option, the choices were either to give voluntary possession or to wait for an enforced possession. The interviews did not show one clearly defined process or trigger whereby the voluntary possession was given but rather there is a wide range of triggers and approaches by which borrowers pass their property back to their lender. Three of the clearest triggers were the threat of court action, the decision to apply for bankruptcy and the identification of alternative housing.

### Judicial action

5.32 In practically every case with arrears, borrowers had letters sent to them stating that the lender had the right to sue for possession and would start possession proceedings if arrangements to recover the arrears were not made. In the majority of cases no further action was taken by lenders but in 12 cases the first charge mortgage lender had started court proceedings for possession against the borrower(s). In two further cases a second charge lender had instituted proceedings, giving 14 cases in total where court action was proceeding.

5.33 The role played by the threat of court possession in the decision to give voluntary possession was central in some cases. A small proportion gave voluntary possession once they knew or perceived that the court action was 'serious' and that bailiffs might evict them in the near future. Another small proportion found their lender suggesting that voluntary possession was an alternative to going through the court process and this was sometimes the trigger:

> *"After a while when I couldn't pay* [what had been agreed for the arrears] *I rang the lender and told them. They said we could hand the keys back or be compulsorily possessed. I didn't want this- I don't know why – I didn't like the idea of court- and so we did that* [handed the keys in] *and started to look for somewhere to live."*

In a second example the borrower sought a debt management agreement with his creditors to pay each one a small amount per month. The mortgage lender and three other unsecured creditors agreed but a second charge lender would not. The loan to this creditor was initially £15,000 but had risen to £18,000 as a result of arrears and charges. He applied to the court for possession. The borrower believed the action was bound to succeed and that he had as good as already lost the property. He applied successfully to the local authority for accommodation and sent the keys back to the lender.

5.34 In one case the judge had dismissed the application for possession and in two cases possession had been granted to the mortgagee, but with agreement that the borrowers could remain in the property. In one case the order was not to be enforced for 56 days (during which time the borrowers handed in the keys), while in the second case an order had been granted, but not enforced, and the borrowers remained in the property. This case was very complex, involving a home that was also a business. Many months ago the judge had granted an indefinite period for the mortgagors to sell although they knew this was unlikely to happen and when interviewed they had found a rental property and were about to hand the keys back, so avoiding any enforcement action.

**The impact of bankruptcy**

5.35 A second important trigger of voluntary possession relates to bankruptcy. This is perhaps one of the areas of clearest difference with the 1990s, influenced in all probability by the growth of unsecured debt, over-indebtedness *per se* and changing attitudes to the use of the insolvency provisions. In order to set the context for considering the impact of bankruptcy on homeownership, a brief description of the current bankruptcy framework is provided in Appendix 3.

5.36 Owners and renters can file for bankruptcy but for mortgagors there are some particular issues. For mortgagors, the key implications of bankruptcy are as follows:

- where the mortgage is a joint mortgage, and one partner is declared bankrupt, responsibility for the mortgage passes, in full, to the remaining borrower, including responsibility for any mortgage arrears
- if there is equity in the property (for both single and joint mortgages), it may be used to satisfy the bankrupt's unsecured creditors. In the case of joint mortgagors, where one goes bankrupt, the other is offered the opportunity to buy out the bankrupt's beneficial interest in the mortgage
- possession sales are distinct from bankruptcy. Where there are mortgage arrears, possession and a shortfall sale, the responsibility for the secured debt and shortfall remains with the borrower(s) and legally the latter can be pursued for up to twelve years from sale[9]. If one partner is bankrupt, the mortgagee can require the other joint mortgagor to pay the shortfall in full
- by contrast, possession, where the sole mortgagor or both joint mortgagors are bankrupt, removes the on-going liability for any shortfall as it becomes part of the bankruptcy arrangements. This is the case whether the possession is voluntary or compulsory
- where one of joint borrowers goes bankrupt, under certain circumstances this can create a pressure for the second to follow to avoid additional responsibilities
- where the house is to be sold as part of the bankruptcy settlement, and where the bankrupt has a partner or children living with them, the sale may be delayed by up to a year in order for the occupants to secure adequate alternative housing
- once bankruptcy is in process there is often little reason to retain the property, and often no gain in doing so

5.37 Twenty of the 32 households with arrears giving voluntary possession were households where one or more person was subject to some kind of insolvency procedure, or was in the process of becoming so. None of the seven who sold became bankrupt, despite having arrears on unsecured loans and in some cases second charge loans, and little income, as in all but one case the sale proceeds paid off all the outstanding debts and in the one case

---

[9] In addition, the FSA requires that borrowers are notified of the shortfall within six years of the sale while the CML have agreed that lenders should start pursuing the shortfall within six years of the sale.

where it did not, the borrower made an arrangement with the mortgage lender to repay the shortfall at £20 a month.

5.38 All those giving voluntary possession had seen their incomes diminish and/or costs rise and had reached a point where they could not pay their mortgages and other loans, and where attempts at forbearance had failed. In no case had any borrower who wanted to remain in the property been able to achieve this by becoming the sole mortgagor. Selling was blocked by the market and the existence of negative equity. Once borrowers had reached this point, and where they sought face to face advice or looked on the internet, the option of bankruptcy was usually raised. The stumbling block in some cases was the £600 fee required to go bankrupt and this often delayed or prevented them taking this route.

5.39 The interviews show two different relationships between bankruptcy and voluntary possession. The first is where bankruptcy is a driver of voluntary possession and the second is where it is a response to voluntary possession

5.40 In some cases, particularly those cases where relationship breakdown was the major impetus to arrears, bankruptcy was often a driver of voluntary possession. Here, neither party could afford to buy the other out (even when they would have liked to), and neither party wanted to be left with full responsibility for the shortfall. In such situations when one party initiated bankruptcy, this was a pressure for the other partner to do likewise. The keys were then handed back. Thus, while bankruptcy and handing back the keys resulted, fundamentally, from a lack of income, there was a further pressure from the connections between the joint mortgages and arrears that resulted from relationship breakdown as the example below indicates:

A respondent and his partner had separated but for a short while he had attempted to pay the mortgage and retain the house resulting in rising debts. He had sought advice but had been told that there was no way things would get better. He did not want to hand the keys back and carried on trying to find work and make some payments on the mortgage, but with little success. His lender started possession proceedings a few weeks before we interviewed him. *"My lender started possession proceedings. Then I heard that my ex-partner* [with whom he had a joint mortgage] *had gone bankrupt and that decided me."* [and the property was handed back].

5.41 In other cases, voluntary possession occurred and subsequently the parties to the mortgage filed for bankruptcy. This was usually to ensure that responsibility for the shortfall debt was transferred into the bankruptcy settlement (where it was effectively written off) and that the partners were left with enough to live on:

In one case a couple had handed their keys back and the property had been sold in late 2008. They understood that if there was a shortfall debt they were liable for it but they had no idea of the sale price achieved, or of charges set against their account and their ultimate financial liability. As they had heard nothing from the lender they (unwisely) presumed that they owed nothing. In early 2010 they were contacted by a debt collection agency on behalf of the lender about the shortfall debt. Neither partner is working now as both have reached retirement age. Following advice both are filing for bankruptcy in order to avoid the shortfall debt.

**Identifying alternative housing**

5.42 Chapter 6 considers the post possession housing circumstances of those leaving homeownership via selling or voluntary possession. Here the focus is on the more immediate question of whether issues around alternative housing shaped the decision to leave. Evidence from studies in the 1990s showed that identifying alternative housing was the most significant trigger of voluntary possession.

5.43 For most of those interviewed, the issue of alternative accommodation was not central to their decision to give voluntary possession. However, there were a small number of cases where future accommodation was a critical issue and where they felt they could only give back the keys when they had found the right alternative accommodation. These cases often involved households where one or more members had particular needs:

In one case a family had court proceedings taken against them but were keen to hand the keys back in order to avoid eviction. This hinged around being able to secure a local authority property that was not temporary, in a hostel or hotel with bed and breakfast, because one of the children had special needs. They had little success in discussions with the local authority but an intervention by their child's liaison worker secured them appropriate property days before they believed they might have been evicted. They returned the keys to their lender.

In another case a couple with one child knew that because of one partner's illness, which was worsening, they could not pay both the mortgage and rent in their shared ownership property. They were anxious about being homeless if they just gave the keys back voluntarily and about being allocated unsuitable property given their health requirements. They were actively looking for both cheaper and more suitable accommodation via the local authority housing options bidding process. They had little success for some time but eventually they were alerted at short notice to a likely suitable property for which they bid and obtained and they moved. They handed back the keys immediately but not before debts on their mortgage and rent had increased.

5.44 Most households looked for alternative accommodation once they had arrived at the point where they knew they had to hand the keys back. In just one case was the process completely unplanned.

This household had a very tight budget and the mortgage was only paid with the help of adult children. They already owed on practically every loan and bill and then they lost some earnings. They knew they could not remain as owners but they felt under such stress that they said it affected their ability to act, including looking for accommodation which they knew they needed first. While at work one day a chance comment led to one party breaking down and confiding their problems to a colleague. He had a friend who rented out property and, by that evening, a rental agreement had been made. They removed their furniture and left. *"We shut the door and have not been back."*

5.45 The case above is one of a very small number of examples of abandonment in the study. For this reason, the case is discussed a little further. Once the respondents left it was four months before they told their lender they had done so and sent the keys back. This only happened because they heard the house had been broken into and set on fire. At that point a friend intervened and helped them contact their lender. In the meantime their lender had started possession proceedings (in accordance with many lenders' procedures where they cannot contact the borrowers and believe a property to be abandoned). They were advised to file for bankruptcy and the knowledge that the shortfall would be written off was an important part of the decision to become bankrupt.

## Summary

5.46 In the majority of cases the decision to give voluntary possession or sell was arrived at after a long process of trying to manage arrears, a process which typically exacerbated borrowers' problems. Although lenders believed many borrowers were reluctant to make contact, a majority of respondents did so and most made some forbearance arrangement. These were sustained, at best, for short periods of time or not at all. The key reasons for the limited impact of forbearance included it being instituted too late and its inability to address the further borrowing that had often taken place. In some cases the loss of income was such that not only was a reduced payment difficult for the borrower but there was no likelihood of adequate income in the future.

5.47 Many borrowers assessed their situation as beyond recovery and too stressful to continue. The first option was typically a sale but the current market conditions were a significant constraint. The borrowers' debt position was worsened by a lengthy sale process in a falling market. The decision to give voluntary possession rather than experience enforcement was influenced by wishing to avoid the eviction process and/or the impact of agreeing to bankruptcy proceedings in the context of wanting to bring to an end a very stressful experience. Borrowers were concerned about alternative housing but it was a less significant driver of voluntary possession than it had been in the 1990s recession.

# Chapter 6

## The outcomes of voluntary possession and sales to address financial problems

6.1 This chapter considers three outcomes of voluntary possession and voluntary sale: housing outcomes; financial outcomes; and ex-borrowers' assessment of the impact of giving possession or selling on their future housing aspirations. It starts, however, with a snap shot of respondents' current household structure and employment status.

## Households' current characteristics

6.2 Table 3.3 provided information on the household structure and employment status of respondents at the point they took the mortgage. Chapter 4 also showed that the key causes of arrears that ultimately led to possession and exit were labour market change and relationship breakdown.

6.3 In contrast, Table 6.1 indicates respondents' current household structures and their labour market status. When compared with Table 3.3, it indicates a considerable change in households' circumstances.

**Table 6.1 Current household structure and employment status**

| **Current household structure** | **Hhs giving voluntary possession** | **Hhs exiting via a sale** |
|---|---|---|
| Couple without dependent children | 4 | 3 |
| Couple with dependent children | 12 | - |
| Single person (always) | 3 | |
| Separated/divorced and living alone | 10 | |
| Separated/divorced and living with a new partner | 2 | |
| Lone parent | 3 | 4 |
| **Current employment status** | | |
| **Couples:** | | |
| Both in full-time employment | - | |
| Full-time and part-time employment | 3 | |
| One employment and one unemployed | 11 | 1 |
| Both unemployed | 2 | 1 |
| Both inactive/retired | 2 | 1 |
| Other | | |
| **Single people (always; separated/divorced and living alone; lone parents):** | | **Lone parents** |
| Full-time employment | 13 | 1 |
| Part-time employment | - | |
| Unemployed | 2 | 2 |
| Inactive/retired/other (eg training) | 1 | 1 |

Source: 41 qualitative interviews

6.4 The categories used in the above table are not identical to those used in Table 3.3 as Table 6.1 reflects some of the household complexities that contributed to, and resulted from, possession or sale. The impact of relationship breakdown on housing demand is well documented and visible here. Of the 26 households who bought jointly, in 10 cases the partners are now each living in new accommodation and of the seven one parent households, five were formed as a result of relationship breakdown and the loss of the property. In total, amongst this group the demand for housing has increased by almost half again tempered in the short run by a small number of people returning to live with their parents (see Table 6.2).

6.5 Table 6.1 also looks at current employment status. Compared to the position when these households took their mortgage, and where employment was a condition of the mortgage, 19 households now include someone who is unemployed and five contain someone who is inactive or retired. Conversely, some households have lost their property, despite some members remaining employed. This position reflects that reported in a recent analysis of possession cases in the county courts (Advice UK et. al. 2009). They note that possession is a consequence of the limitations of the safety-net which offers little help to borrowers in work but with reduced incomes[10]. However, the study of voluntary possession and sales cases also points to the significance of additional borrowing over and above the mortgage as one factor that helps explain the exit from homeownership of those who remain employed.

**Housing outcomes of voluntary possession and exit**

6.6 Following voluntary possession or sale, households found a range of alternative housing. Table 6.2 shows the immediate housing that respondents obtained.

6.7 The majority of households went into the private sector and this was particularly the case for households without children or a disabled adult. Only 11 of the 41 households were housed initially in social housing.

---

[10] Reduced income can result from, for example, reduced overtime, a percentage reduction in pay or, following unemployment, re-employment on part-time hours that exceed the eligibility for income related benefits (and so SMI) but are less than previous full-time employment.

**Table 6.2 First housing destinations following voluntary possession or sale (n=37)**

| First housing destination | Voluntary possession households | Voluntary sale households |
|---|---|---|
| New partners' owner occupied property | 1 | |
| Private rented sector | 15 | 3 |
| Social housing | 10 | 1 |
| Parents | 4 | |
| Friends | 1 | 1 |
| Sale and rent back | | 1 |

Source: 41 qualitative interviews (31 voluntary possession and 7 voluntary sales)

Note: three households were still in the property that was the subject of voluntary possession; one household had sold but had not yet identified alternative housing.

6.8 The majority had searched for their post possession housing on their own, occasionally with advice from one of the advice agencies. A small number had applied to the local authority on the grounds of housing need and, in some cases they met the statutory criteria for being accepted as owed the main homelessness duty (to secure suitable accommodation):

> A single mother had significant mortgage arrears but was able to sell her property and clear them, if not her other debts. She believed from what she had heard from other people, that she would not be considered by the local authority as homeless until her house had been sold. It was a weekend when she left the house and so she went to a friend but then she went to the local authority. There was an investigation of her circumstances but the evidence that she had sold because of arrears and was unemployed due to health problems led subsequently to her being accepted as unintentionally homeless and offered bed and breakfast accommodation. After a short while, she left as she considered it was unsuitable for her and her child and she was moved into a temporary flat where she remains. This too has few facilities and she is waiting to be offered settled housing. She regards herself as still homeless.

6.9 However, not all households who were likely to meet the statutory homelessness criteria applied to the local authority. A small number of respondents assumed that because they had given up their property they would be classified as intentionally homeless and so would not be owed a duty to secure accommodation. It is possible though that some of these cases would have been accepted as unintentionally homeless. However, one interviewee from the advice agencies as well as some local authority specialists questioned whether the new supplementary statutory guidance on intentional homelessness issued in 2009 was always being followed:

> “[The] *change in guidance on intentional homelessness has had no impact. Both households and to some extent local authorities don’t know enough about the legislation or ignore it.”*

6.10 Another agency interviewee noted that while lenders were working with local authorities in terms of notifying them about enforced possessions, they were much less likely to be notified about voluntary possession cases.

6.11 Another small number of households would have preferred to apply for social housing (often because many private rented sector landlords would not accept tenants with pets) but believed that they would have to wait a long time before they accessed a property as they did not have dependent children.

6.12 Many of these findings about the prospects for re-housing are not dissimilar to those reported in the mid 1990s (Ford *et al*, 1995), although that study considered the first housing destinations of voluntary and compulsory possession cases together. Both studies showed that the greatest number relied on the private rented sector (PRS) initially and the way in which the households’ understanding of ‘intentionality’ often informed their decisions. An important difference between the two time periods, however, is the recent supplementary guidance about intentional homelessness which reminds local authorities that households who leave their home voluntarily may already have been statutorily homeless due to their financial difficulties and, if so, should not be considered as intentionally homeless. However, as noted earlier, there were questions about how systematically the change in this supplementary guidance was being applied, and some borrowers giving voluntary possession were unaware of it.

6.13 In a very small number of cases respondents had disregarded or withheld information in order to access social housing. In one case the female partner of a couple with children had implied that she was a single parent and been provided with accommodation. Her partner had then joined her. In a second case, friends of a couple looking for social housing told them of a potential sublet in the sector which they took. In time this was discovered and they were evicted.

6.14 To date, only five respondents had made a subsequent move, but most of those interviewed had left homeownership very recently and were still in their first property. It is, however, likely that many more will move again in time. Of the five subsequent movers, two had moved from living with friends to a local authority property (in one case into temporary accommodation), a third had moved from living with parents to a PRS property, a fourth had started in the PRS but had recently moved in with a new partner who was a mortgagor and the fifth had originally entered a sale and rent back agreement with a private company but moved into the PRS when the company failed to undertake the repairs they had agreed. These patterns of movement are very similar to those seen after the 1990s recession.

## Financial consequences

6.15 The major financial consequence of voluntary possession or sale due to arrears is the extent of, and on-going responsibility for, any shortfall debts. These are the debts that remain after the property has been sold. The mortgage lender has the first call on the sale proceeds and only if they are sufficient to repay the outstanding mortgage and associated charges in full can second charge lenders be accommodated. Borrowers may also have debts on unsecured loans. Under normal circumstances, unsecured creditors have no claim on the proceeds of a mortgage sale.

**Table 6.3 Crystallised or estimated mortgage shortfall, second charge shortfall and outstanding unsecured debt on giving possession**

| Nature of shortfall | No. of households giving voluntary possession with shortfall debts |
|---|---|
| Mortgage shortfall | 21 |
| Shortfall on other secured debts | 24 |
| Unsecured debts still outstanding | 24 |
| Left with a surplus | 1 and 1 not sure |

Source: 34 qualitative interviews

Note: in about a third of cases an estimate of the potential shortfall was made due to sales not having been finalised or notified

6.16 The above table shows the post-possession position of households giving voluntary possession and before any insolvency action is taken into account. The majority of households interviewed were not able to clear their first charge mortgage debt. They had lost their property and still owed money. The highest shortfall was £85,000 ranging down to a few thousand pounds. Some respondents who were able to pay off their mortgage in full following the possession sale still owed on second charge loans. In most cases these could not be discharged in full:

Young, first time buyers handed back their property owing £123,000 to the mortgagee for their outstanding mortgage and arrears. Following voluntary possession they understand the house is on the market for £75,000. If this price is achieved they will have a shortfall of £48,000. They have a further £7,000 owing on unsecured debts.

A borrower with very limited arrears on their mortgage gave voluntary possession to the first charge lender because of arrears on a second charge loan. The property sold for under £68,000 and repaid the mortgage of about £27,000. This left a surplus of £41,000 which they could not access because of the claims of the second charge lender. They heard nothing from them for many months after handing back the property, and ceased paying the second charge loan. They (incorrectly) formed the view that as the second charge lender would have received something following the sale perhaps the rest of the debt had been written off. Eventually they heard that the second charge loan now stood at £85,000. The debt had been passed to a debt management company who requested monthly instalments of several hundred pounds or alternatively a one-off full and final settlement of £63,000. Following advice, the couple have filed for bankruptcy as they have only a state pension as income.

6.17 The financial outcomes for those selling were rather different. Of the seven selling, only one had a remaining debt to their mortgage lender after the sale and that was for a sum under £20,000 where an arrangement was made to repay this on a monthly basis. With respect to other secured debts, two respondents had none, a further three were able to pay off the secured debts they had from the proceeds of the sale, one could not repay in full and made a ‘full and final settlement’ offer which they believed would be accepted, and the seventh case was able to pay one of the secured debts in full but was left with two others they were unable to pay. Only one borrower who sold had a surplus after all debts had been met.

6.18 Borrowers who gave voluntary possession and those who sold therefore faced different situations in respect of a surplus on the mortgage debt. Borrowers who sold were more likely to clear their mortgage debt with a little to spare (an outcome related to their equity position) and so had a better chance of paying something towards any other outstanding secured loans. The financial outcomes for voluntary possession cases were more pessimistic. Few cleared their mortgage debt and so faced shortfall payments on the first charge as well as their other secured loans. Overall, however, only one of the 41 borrowers who left (or were about to leave) homeownership had a surplus (and this related to a case without arrears) although a further two thought they would ‘break even’.

### Responses to shortfall debt

6.19 Where a shortfall debt remains, either to the mortgagee or the second charge lender, these debts can be pursued. There is often a period of time before this recovery process is put in place. Consequently, many borrowers were unclear about this process and what it would involve. However, as discussed earlier, the option of insolvency meant that many households would not be pursued.

6.20 The vast majority had unsecured debts and so could, in principle, consider some insolvency response, depending on their income. Twenty households giving voluntary possession had become, or were in the process of becoming insolvent and therefore their shortfall debts would be, or had already been, written off. Two other borrowers were making arrangements to repay and in one of these cases the remaining debt was to a second charge lender. One other borrower with housing debt that was inter-related to a business had an IVA ahead of giving voluntary possession and his shortfalls were managed under this arrangement.

### Attitudes to insolvency

6.21 Earlier, the changing attitude to insolvency was noted. The interviews indicated that a majority of borrowers saw it as the best option and had little concern about it:

> *“I’d been bankrupt before some years ago. I didn’t really want to do it again* [but] *my partner made it inevitable. Last time I was only the 200th case in the court that year, this time I was number two thousand and something so it’s no big deal now.”*

> *“I’m young enough for it not to affect the long term.”*

> *“Bankruptcy felt very final and a bit scary, but others told me it was nothing, and it was OK.”*

6.22 The biggest hurdle for many is not accepting the necessity for bankruptcy but finding the fee required before the application can be made:

> *“We’re applying to a charity for the fee to go bankrupt.”*

> *“It’ll cost £1,200 for both of us to go bankrupt and that’s what we should do as we’ve already lost the house, but we don’t have £1,200.”*

6.23 A very small number of households did though regret the step and felt uncomfortable:

> *"I'm angry about having to go bankrupt...I feel responsible and it's not nice. But I want nothing to do with him* [her ex-partner] *and if I don't go bankrupt I'll be tied to him."*

6.24 Just two borrowers who could have gone bankrupt noted that they had a responsibility to find some way to repay.

## Longer term housing aspirations

6.25 A key question for both housing policy and for lenders is whether mortgage arrears and possessions affect attitudes towards, and enthusiasm for, homeownership? This report has already noted that a proportion of those experiencing possession return in time to homeownership suggesting that the experience does not deter everyone.

6.26 For the majority of the 41 interviewees in this study, the experience of losing their home was recent and often their feelings were still quite raw. The interviews asked if they would consider a return to homeownership at some time, and what advice they would give to people looking to buy.

6.27 The largest group of respondents (18) said they would not consider a return to the tenure:

> *"I will never buy again. I don't ever want to be in this mess again."*

> *"The worst thing I ever did was moving out of my council house. I've paid for 10 years and I've got nothing-horrible memories."*

> *"I will not buy again. I don't like the financial pressure."*

> *"Buying was the biggest mistake of my life. For a single bloke to pin themselves down - stupid. I just got carried away."*

> *"I would not buy again for a long time. It's been a bad experience."*

> *"I'll never have another mortgage, but if I could buy outright ...."*

6.28 Just under a quarter (12) however would consider buying again and some were keen to do so. In one case a property had already been found and was being purchased formally by a family member although the respondent was paying the mortgage. A further eight respondents did not regret buying but would not repeat the experience. (There were three cases where there was no information).

6.29 The main drivers of not intending to buy again were the recognition that the costs of buying and running a home were significant but that both employment and potential relationship breakdown constituted risks. Others knew they would not qualify for a mortgage because of their age and reduced pension income. A number were surprised by the quality of property they were able to access on leaving homeownership and their experience to date that renting removed many of the responsibilities and anxieties they had previously experienced as a mortgagor.

6.30 Most of those who did envisage buying again said they would borrow less. The reasons they remained keen on buying were the perception of rent as 'wasted money' and the wish to create and leave a home for their families.

6.31 In so far as it is possible to make any comparisons with earlier studies of borrowers giving possession (Ford, 1993 and Ford *et al*, 1995), a cautious assessment would be that the current group of interviewees seem less inclined to want to return to homeownership than was the case amongst those giving possession in the early and mid 1990s.

6.32 Analysis of the 1998-99 SEH data (Ford *et al*, 2001) noted that those who had an experience of possession but then returned to homeownership (in the same or a new household) were more likely to experience payment difficulties and arrears on their new mortgage. Ten per cent reported arrears and a further 29 per cent had difficulties meeting their mortgage payments. An analysis of the position using the combined SEH data for 2005-06 and 2007-08 was undertaken to see if the pattern was a persistent one. The analysis disaggregated voluntary sale from voluntary and compulsory possessions which were combined because of the relatively small numbers.

6.33 Table 6.4 shows that compared to all mortgagors without a previous experience of possession or selling because of financial problems, a higher percentage of returners found it more difficult to pay. With respect to arrears, borrowers who had once experienced a sale, on return had the highest percentage of arrears, but both voluntary sales and possession cases had a greater chance of arrears than other borrowers. The majority of returners however paid their mortgage without difficulty and without arrears developing.

**Table 6.4 Current mortgage payment difficulties amongst those giving up their home and later returning to owner occupation (2005-06 and 2006-07 combined)**

| | | Households who left their home | | Current mortgagors who have never left their home (%) |
|---|---|---|---|---|
| | | Voluntary sale (%) | Voluntary & compulsory possession (%) | |
| Year home was given up | 1990 and before | 29 | 30 | - |
| | 1991 to 1995 | 22 | 40 | - |
| | 1996 to 2001 | 26 | 21 | - |
| | 2002 to 2007 | 23 | 10 | - |
| | Total | 100 | 100 | - |
| Ease of meeting current mortgage payments | Have no difficulty | 69 | 79 | 88 |
| | Find it rather difficult | 24 | 15 | 10 |
| | Find it very difficult | 7 | 6 | 2 |
| | Total | 100 | 100 | 100 |
| Current mortgage payment situation | Up-to-date | 92 | 97 | 99 |
| | Less than 3 months behind | 6 | 3 | 1 |
| | 3 to 6 months behind | 2 | 0 | 0 |
| | Over 6 months behind | 0 | 0 | 0 |
| | Total | 100 | 100 | 100 |

Source: Survey of English Housing, 2005-06 to 2007-08.

6.34 Thus, in principle, those that aspire to return to homeownership may well be able to do so successfully. A major stumbling block in the short term, however, is the growing use of bankruptcy and the extent of adverse credit records. How significant these constraints will be, not least if the mortgage market is more tightly regulated with potentially fewer sub-prime lenders, continuing problems with credit availability, and risk-averse lenders, remains to be seen.

## Summary

6.35 There were considerable changes in the household circumstances of those who gave voluntary possession or who sold. More households contained someone who was unemployed and there were more separated or divorced households.

6.36 The majority of households moved initially to the private rented sector. Potentially there were some further households who might have been accepted as statutorily homeless but there was some question as to how they interpreted ‘intentionality’. Advisors expressed some concern as to whether the new supplementary guidance on intentional homelessness was always being followed.

6.37 There were significant, but different, financial implications for borrowers who gave voluntary possession and those who sold. Households who sold were more likely to clear their mortgage debt with a little to spare (an outcome related to their equity position) and so had a better chance of paying something towards any outstanding secured loans. A minority of voluntary possession households cleared their mortgage debt and most faced shortfall payments on the first charge as well as their other secured loans. Overall, only one of the 41 borrowers who left (or were about to leave) homeownership had a surplus (and this related to a case without arrears) although a further two thought they would ‘break even’.

6.38 More than half of those giving voluntary possession were either declared bankrupt or were in the process of filing for bankruptcy.

6.39 The largest group of borrowers did not wish to return to homeownership.

# Chapter 7

## Key conclusions and policy implications

7.1 The aim of the research was to provide evidence and understanding of the drivers, experiences and outcomes for borrowers who had voluntarily given back their home to their lender or sold to avoid or recover arrears. Specifically, the research explored:

1. the characteristics of borrowers giving voluntary possession or leaving via a sale
2. the key factors that led to these households falling into arrears and subsequently giving voluntary possession or selling
3. the experience these households went through in the run up to voluntary possession or a sale
4. the outcomes for these households following possession or sale (including the type of housing/tenure, family circumstances, extent of any remaining debt etc)

7.2 Where possible the research considered whether borrowers experiencing voluntary possession differed from those exiting via a sale. It also considered whether these groups differed from mortgagors not experiencing arrears as well as from those experiencing compulsory possession. The research has also considered how the current experience of voluntary possession compares to borrowers' experience in the previous recession.

7.3 The detailed findings have been summarised at the end of each chapter. Here the conclusions are drawn together to present an overall understanding of voluntary possession and sale.

## Key findings

1. The SEH analysis indicated that the number of borrowers leaving via a sale due to financial stress exceeded both voluntary and compulsory possession cases together. The analysis highlighted the fact that while much of the current policy focus is on possession, and its prevention, possessions (and even arrears) do not adequately reflect the extent of unsustainable homeownership. The conclusion drawn by Dodd and Hunter in the early 1990s that possession was only the tip of the iceberg remains the case today.
2. Borrowers giving voluntary possession or selling voluntarily as a result of financial stress were broadly similar in their socio-economic characteristics, their initial loan characteristics, their subsequent borrowing patterns and extent of unpaid debts. They were broadly similar in the reasons for their

arrears. They had similar motivations, and followed similar pathways in trying to resolve their problems. Most preferred, and many had tried, to exit by selling. The key determinant of whether this was possible or not was the level of equity in the property. In turn this related to when the most recent mortgage was taken and those selling were amongst the longest standing mortgagors. There was no evidence that these two groups had different levels of commitment to retaining homeownership, but they did have different capacities to achieve a sale.

3. Borrowers giving voluntary possession or selling had significant financial commitments early in the mortgage. In many cases the level of borrowing at the point of taking the mortgage was high and further borrowing followed quickly so that they were increasingly marginal in terms of their financial position.

4. In most cases, the decision to give voluntary possession emerged slowly and can be described as a creeping decision. Only a small group of borrowers acted decisively and early. This was not the result of a lack of commitment to homeownership but an early and considered appraisal of the longer term outlook and the reality of their circumstances. The majority of households appeared to shy away from this kind of early assessment and some needed an external advisor or lender to prompt them to consider and accept the full picture and significance of their circumstances.

5. Many actions taken by borrowers initially to manage their growing financial stress, and then their arrears, exacerbated their problems. In particular, re-scheduling borrowing to try and reduce costs was often unsustainable, and the use of additional credit sources such as credit cards only provided very short term (illusory) relief. Attempts to sell in a slow and falling market left many with higher levels of arrears and less equity than would have been the case if they had given possession sooner. The prolonged process of managing arrears was stressful and resulted in physical illness as well as often impacting on their mental health. Those who made an early decision to give up homeownership reported lower levels of stress.

6. Those selling and those giving voluntary possession typically had to manage demands from several creditors. The process was dynamic and often un-coordinated and it was possible for one creditor to distort or reject an otherwise potential repayment schedule to several creditors, including blocking sales.

7. There was a discrepancy in the perception of lenders and respondents about the extent of contact between them and about borrowers' engagement with trying to recover their arrears. A majority of respondents reported contact with their lender, but that where forbearance was offered, typically it was beyond their financial means or too short term or too limited to be a realistic solution to their problems. Lenders often perceived that borrowers were late in making

contact and unpredictable and saw this as a reason why forbearance failed. Both lenders and advisors recognised that some cases were unrecoverable, as did borrowers, and that the proposed sale or possession was inevitable.

8. A majority of respondent households were not eligible for support through the state safety-net (SMI). Only one household had private sector insurance (MPPI). With regard to SMI a small number of households were reliant on self-employment that failed while a significant minority of households who had lost a full-time earner still had some member in employment. As a result they were ineligible for SMI. Others giving voluntary possession or selling did so as a result of relationship breakdown, an eventuality not covered by SMI unless there was also income loss and eligibility for a qualifying benefit. Where SMI was available it had assisted with mortgage payments but respondents still had to address the significant additional borrowing over and above their mortgage.

9. A third of households had been subject to court proceedings. The wish to avoid eviction was one reason why respondents handed back the keys rather than waiting for compulsory possession. Other factors supporting voluntary possession were the insolvency provisions and the availability of alternative housing.

10. There were significant consequences associated with selling or giving voluntary possession. Selling households were more likely to be able to clear their mortgage debt with a little to spare (an outcome related to their equity position) and so had a better chance of paying something towards any outstanding second charge loans. Few voluntary possession households cleared their mortgage debt and most faced shortfall payments on their mortgage as well as on their other secured loans. Only one household had any surplus after losing their home. More than half of those giving voluntary possession were either declared bankrupt or were in the process of filing for bankruptcy. This would then discharge the shortfall.

11. The majority of households initially moved to the private rented sector. About a quarter of households were housed in social housing. Some households were considered unintentionally homeless and secured accommodation by the local authorities under the homelessness legislation. However, other cases who may have been entitled to this help believed that they would not be – because they believed they would be considered to have made themselves intentionally homeless. There was also some uncertainty amongst advisors as to how well local authorities were implementing the new supplementary guidance on intentional homelessness.

12. The majority of respondents did not regret having bought their property but the largest group of borrowers did not wish to return to homeownership again.

13. Compared to the 1990s, many of the reasons for, and experiences of, those giving voluntary possession or selling voluntarily in response to financial difficulties are unchanged. Overwhelmingly, labour market change and relationship breakdown still trigger arrears. Contact with lenders may have increased but the offers of forbearance were reported in very similar terms with many noting that forbearance offers were unsustainable. The two key differences indicated by the current research relate to structural factors. First, the impact of the changed mortgage and wider credit markets is clear: in the way the initial mortgage loan could be 'stretched' through the association with an unsecured loan; by the growth of sub-prime lending facilitating entry to more marginal borrowers; and through the extent of second charge lending and borrowing. Second, the greater use of the insolvency options and processes since the mid 1990s was shown to be one driver of voluntary possession. As far as comparisons can be made the role of bankruptcy is more significant now in explaining voluntary possession than was the case in the 1990s. It clearly interacts with the increased availability of credit.

14. Overall, the research supports the previous anecdotal understanding that many cases of voluntary possession are associated with relationship breakdown. However, the research does not support other popular views, for example, the view that borrowers see voluntary possession as a way of side-stepping their debts or that borrowers can be described as 'having their heads in the sand' thereby increasing the likelihood of possession. Rather, borrowers are aware of their problems and attempt to manage them but do not always do so in ways that prove helpful, and some are late in seeking advice.

## Policy implications

7.4 The research raises a number of policy implications broadly of two kinds. The first are questions about the framework and assumptions that inform current policy priorities and policy development. The second are more specific policy implications that are suggested by the research.

**Underlying assumptions and frameworks**

7.5 As a result of the research, three factors that inform or influence current policy might be questioned. They are:

- the assumption that the current categorisations of possessions (and voluntary sale) reflect distinct motivations and behaviours
- the use of the categories as the basis for developing (differential) access to policy initiatives and resources
- a policy focus solely on preventing possessions

## 1. CURRENT CATEGORISATIONS

7.6 Voluntary possession, sales due to financial difficulties and compulsory possession are distinct administrative categories and have separate and distinct administrative processes associated with them. Voluntary and compulsory possession are also distinct legal categories. However, the research indicated that in terms of borrowers' characteristics, reasons for arrears, motivations and behaviour, the boundaries between these categories are blurred and the outcome achieved in any particular case may be arbitrary. This raises a question about the weight that can and should be put on the categories in terms of any assessment of their relative significance and, subsequently, in discussions of any policy responses.

7.7 Two examples illustrate this point. A significant number of borrowers had court action taken against them, including enforcement action and they left their home very close to being evicted. To all intents and purposes these cases are compulsory possessions that are pre-empted at the last moment. In a second example, many respondents had tried to sell their properties in order to manage their arrears. They gave voluntary possession when attempts to sell failed, but up to the day they gave possession, if the sale had succeeded, at the right price, they would have been classified as a voluntarily sale. Thus, the clarity of the categories in terms of their definitions and the criteria associated with them fail to reflect the much messier reality whereby borrowers' arrival at one destination or another may be highly contingent and unpredictable.

## 2. THE USE OF THE CATEGORIES VOLUNTARY AND COMPULSORY POSSESSION AS THE BASIS OF ACCESS TO POLICY INITIATIVES AND RESOURCES

7.8 The discussion in 1 above has a number of implications. Most importantly, it raises the question about whether determining priorities, eligibility, or targets in relation to the categories (as is currently the case) is equitable and/or less than comprehensive in terms of meeting particular needs. For example, borrowers selling or experiencing voluntary as opposed to compulsory possession may differ in terms of future access to credit and in some cases access to social housing. Further, based on this and other research there appears to be some question of whether borrowers giving voluntary possession or selling to remedy arrears were considered for MRS despite the fact that 'being at risk of possession' was one of the key eligibility criteria. Yet, as noted above in terms of need or characteristics or resources those in one category may be indistinguishable from those in another. Thus, the policy consideration must be whether whenever these categories are used to structure provision or eligibility they identify/reflect the focus of the policy objective adequately.

## 3. A POLICY FOCUS SOLELY ON PREVENTING POSSESSIONS

7.9 The research provides evidence that in a number of cases homeownership is not sustainable for the purchaser and has often been the situation from an early stage. This is not a case of a borrower needing a period to recover from, say, unemployment, or requiring less onerous forbearance, but a result of an on-going inadequacy of income. In these cases, a policy emphasis on forbearance and rehabilitation is simply delaying an inevitable outcome and in the process worsening a borrower's financial position. Borrowers (and advisors and some lenders) recognise this position and that drives voluntary possession in some cases.

7.10 The above does not in any way challenge or denigrate the fundamental objective of current policy which is focused on preventing possessions but it does argue for a more nuanced approach that finds it easier to recognise the limits of homeownership where appropriate. Some borrowers only wait for compulsory possession because (sometimes erroneously) they believe that enforced possession gives them a greater chance of being allocated alternative accommodation under the homelessness legislation. Equally, households may lack the financial resources required for a deposit in the PRS, or their commitment to homeownership may be such that despite their inability to sustain it they hang on hopefully. In all these cases exit is inevitable yet it is delayed by having to wait for enforced possession, a wait that increases costs and stress. The policy question therefore is whether it would be appropriate and beneficial (for all parties) if there were a stronger pro-active focus on helping such borrowers to leave homeownership ahead of enforced possession as opposed to the current position that largely leaves the initiative with the borrower. What form any such support might take would need careful discussion but there is evidence from a few lenders that they already do encourage voluntary over enforced possession where appropriate.

7.11 Finally in this section on the larger issues it is important to highlight how, in developing an understanding and explanation of the statistical trends on voluntary and compulsory possession and distressed sales the interplay of the categories needs to be recognised. The rise and fall in voluntary possession over the economic cycle is, in part, a result of fewer households experiencing payment difficulties, but it is also a reflection of house price movements and the volume of sales which if positive allows some of those contemplating voluntary possession to sell and exit as an alternative. The trends may also reflect lenders' and advisors' input to borrowers' decisions. The fact that voluntary possessions reduce (or increase) cannot therefore be assumed to be as a result of the resolution of, or increase in, a problem without placing it in the context of voluntary sales.

**Specific implications to minimise voluntary possessions and/or support the sale process**

1. Two key drivers of voluntary possession and sale to avoid arrears are failed self-employment and relationship breakdown*.* Neither is addressed by the current public and private safety-nets (although there are cases where following relationship breakdown, should one partner remain in the home with dependent children they may be eligible for SMI)*.* One clear implication is that the development of an effective safety-net that provides support in the event of a loss of self-employed income would reduce the number of voluntary (and compulsory) possessions*.*
2. The research indicated that some borrowers can be slow to seek professional advice and, as a result, be poorly informed about potential options. The research indicated that it was not that (most) borrowers failed to act but they often took the least helpful or wrong actions because they acted in isolation. Publicity and communications initiatives remain important and need to be bolstered.
3. Despite a significant input of resources to the advice sector the research showed that borrowers could face delays in accessing advice*.* Further, and increasingly, lenders look to the advice sector for confirmation of whether, and what, recovery might be achieved. The clear implication is that the role of the advice sector has further potential and that additional resources and training are required*.*
4. Evidence from the study reinforces the need for lenders to consider the widest range and scale of forbearance approaches and to be certain they are offering forbearance that is affordable and based on a robust, holistic, financial assessment*.* The evidence suggests that inappropriate/unaffordable forbearance worsens a difficult situation and so adds to the pressure to give voluntary possession. There are implications for policy makers and the regulator about how to encourage more lenders to offer what are increasingly referred to as ‘loan modifications’ at an earlier stage, rather than after failed early ‘payment plus’ approaches.
5. Mortgage arrears are increasingly one component of a household’s multiple debts, some of which are second charges, and where other lenders can obstruct forbearance or precipitate possession*.* Homeownership no longer operates as a ring fenced set of relationships and processes but is a highly permeable entity*.* The clear housing policy implication is that in order to support owner occupation, wider financial issues have to be addressed. To prevent possessions (voluntary and compulsory) there needs to be an agreed, enforceable, inclusive and holistic approach to routine debt recovery that precedes the legal remedies of IVA or bankruptcy (which essentially signal the failure of recovery).

6. Homeownership has been, and remains, a clear policy objective. The research indicated that voluntary possession and sale to remedy arrears had a marked impact on attitudes to homeownership in a proportion of cases. One implication of failed homeownership is not just additional demand on local authorities under the homelessness provisions but an increase in the demand for renting in the longer term as the preferred tenure.
7. The macro-economic implications of the research are clear. Voluntary possessions were often precipitated by an inability to sell due, in part, to falling house prices and falling sales which together increased the likelihood of a shortfall debt. The need to ensure a stable market is therefore paramount if voluntary possessions are to be limited.

# Appendix 1

## The administrative definitions and framework of voluntary possession and voluntary selling to address financial problems

The statistical data provided by the CML and the FSA collate together as voluntary possessions what lenders distinguish as abandonment and voluntary possession.

Abandonment refers to properties that are discovered to be empty, where no keys have been handed in and where the property looks as though it cannot ‘support life’*.* Potentially abandoned property comes to the lenders’ attention by them visiting properties to follow up non-payment or by neighbours reporting empty properties to them or by the police alerting lenders about break-ins etc*.* Voluntary possession relates to those situations where the ownership of the property is passed to the lender via some form of borrower notification, typically the handing in of the keys to the property*.* Handing in the keys may involve a face-to-face meeting but they may also be posted or left on the front desk of the lenders’ premises*.* For the possession to be voluntary, lenders require the agreement of all mortgagors to the hand back either by them signing over the property at a face-to-face meeting or by returning a letter and pro-forma sent to the last known address*.* Signatures received within a defined period of time (defined differently by different lenders) result in the hand back being classified as voluntary, and the lender will proceed to a sale*.* In the absence of signatures, and provided any other abandonment criteria are met (e.g. at least two missed payments), the property can be classified as abandoned*.* There is usually a case-by-case judgement of whether a court process is advisable in these cases*.* Where a judicial process is thought advisable, cases of abandonment come to be recorded and reported as compulsory possession*.* Similarly, some cases of voluntary possession occur at the very last moment before an otherwise compulsory possession (see Ford 2009 for further details).

Voluntary sale to address financial problems is where a borrower sells the property in the normal manner and provided there is equity in the property the lender may have no knowledge of the sale until after it has happened*.* However, in the current climate where lenders may suggest a sale or agree to give time for a sale they may also provide other support such as with legal fees or the cost of the Home Information Pack (see Ford and Wallace (2010[11]).

---

[11] Home Information Packs ceased to be a requirement in May 2010.

# Appendix 2

## Support for Mortgage Interest

Customers who are owner-occupiers and who are entitled to:

- income support or
- income-based jobseeker's allowance or
- income-related employment and support allowance, or
- pension credit

may receive help towards certain housing costs, such as interest on mortgages. This is called **Support for Mortgage Interest** (SMI). It is a component of these benefits, not a separate benefit in itself. Customers have to satisfy the qualifying conditions for one of the benefits above to receive SMI. These benefits are means tested and customers are excluded, for example, on grounds of excess capital, or, where the claimant works 16 hours or more a week, or the partner works more than 24 hours a week.

From 5 January 2009, a package of temporary measures was introduced to help mitigate the risk of large scale repossessions of homes during the recession. For **new working age claims**:

- the waiting period before help could be provided was reduced from 8/26 or 39 weeks to 13 weeks
- the capital limit up to which help could be provided was doubled from £100,000 to £200,000 and
- there is a two-year time limit for claimants in receipt of income-based Jobseeker's Allowance

These changes are temporary and will be reviewed once the housing market recovers.

For **Pension Credit** customers, the capital limit up to which help can be provided is £100,000, but these customers do not serve a waiting period before receiving eligible assistance, and there is no two year time limit on payment of SMI.

From 5 January 2009, those customers in receipt of the reformed SMI prior to pension age who transfer to Pension Credit will continue to receive assistance up to the higher capital limit of £200,000 for as long as they remain entitled to Pension Credit.

The amount of Support for Mortgage Interest payable is calculated by applying a Standard Interest Rate (SIR) to the capital outstanding on the mortgage. The calculation is normally based on the Bank of England base rate plus an additional 1.58 per cent.

However, the rate which was frozen at 6.08 per cent in November 2008 for all existing and new SMI customers, including those claiming Pension Credit has now been reduced to the Bank of England average (currently 3.67 per cent) from the first of October 2010.

# Appendix 3

## Bankruptcy and Individual Voluntary Agreements

**Bankruptcy**

The Insolvency Act 1986 sets out when and how bankruptcy can be sought by a creditor or a debtor in England or Wales. In 2009 there were 74,670 bankruptcy orders made in England and Wales, about 85 per cent of them initiated by debtors. Bankruptcy is a procedure for dealing with unsecured debts where individuals have very little or no money and owe at least £750 to one or more creditors. Unable to repay the debts from income, any assets the potential bankrupt has (car, savings, equity in a property) can be accessed in order to pay creditors. The bankrupt can retain goods and income that constitute a reasonable amount to live on. Where the bankrupt's partner is jointly liable for the debts, they will assume full liability for the whole debt including any shortfall debt in full. If both partners to a debt are bankrupt any shortfall debt is a part of the bankruptcy settlement, including mortgage debt. If the court agrees to the bankruptcy, the Official Receiver or Trustee in Bankruptcy identifies and releases the assets and distributes them, satisfying first charge creditors before others. Some debts and responsibilities are excluded from bankruptcy proceedings the main ones being student loans and Child Support arrears. Bankruptcy may limit access to certain jobs and may close a business. Access to credit is severely limited.

**Individual Voluntary Agreements (IVA)**

IVAs are an alternative to bankruptcy for debtors in England and Wales who can make a reasonable debt repayment offer to their creditors. An insolvency practitioner oversees the process. Typically debts are over £15,000. Following the proposal, which will typically be to repay a percentage of the debts over a number of years, creditors vote on whether to accept the proposal. If the proposal is accepted by creditors who are owed at least 75 per cent of the total debt, it becomes legally binding on all creditors.

IVAs are less expensive to establish than bankruptcy and have the advantage that the debtor may be able to exercise more control over which of their assets are protected (including the house). However, if the debtor defaults on payments on an IVA, the insolvency practitioner can make them bankrupt.

Further details of both bankruptcy and IVA are available on the Insolvency Service website (www.insolvency.gov.uk).

# Appendix 4

## Selected case studies of borrowers giving voluntary possessions or exiting voluntarily

A small number of cases studies are presented below to provide a more complete account of the causes and experience of voluntary possession and exiting voluntarily than is available through the short extracts that are used in the chapters.

**Case 1**

This is an illustration principally of two of the processes that many households described; managing routine expenditure via credit cards because of inadequate income and consolidating debts via further borrowing. Both actions ultimately increase the amount of debt and the relative costs of servicing the debt and limit the opportunities for recovery. The consolidation process can result in an increase in the number of creditors who make demands and who, potentially, can seek possession.

A couple who were both in employment bought as shared owners in the late 1980s taking a mortgage of £18,000 for a 40 per cent share of the property. Payment of the mortgage was not a problem but 12 years later they had significant credit card commitments as well as a personal loan. There were no arrears but they sought a cheaper way to borrow than their existing loans and cards and took a £18,000 secured loan with a high street bank. Total monthly repayments on the secured loan and mortgage were £251 per month and their net income (out of which they had to meet 60 per cent rental payments and all other costs of living) was about £1000.

In the early 2000s the wife left work following the birth of their first child and although they received Child Benefit this did not fully compensate for the loss of her earnings. Money was tight and they began to have to live by using credit cards for food, clothing and to run their car. The limits on their credit cards were raised but they could not always pay the monthly repayments in full. They took a decision to look once again for cheaper borrowing. The first company they approached would not help them as they had insufficient equity in the property but eventually a company did agree to secure a loan of £40,000. The couple had commitments of £18,000 on the mortgage, an £18,000 secured loan and a further secured loan for £40,000 and total monthly repayments of around £700. Income was below £1000 per month.

All repayments were managed for a year but only by using money that had been given to the children, working overtime and via informal borrowing from family and friends. These sources became exhausted and they began to miss payments again on the secured loans. The second of the secured lenders then started court proceedings. At this point they requested a reduction in their equity share from their housing association. This could not be agreed because there was inadequate equity in the property in relation to the outstanding debt. The couple decided to hand in the keys and did so to their mortgage lender. The terms of their tenancy required them to give the RSL a period of notice which they had overlooked and as a result they began to incur rent arrears. They are living separately while they access alternative housing.

**Case 2**

The following case study is an example of a 100 per cent mortgage plus a further unsecured loan taken out by a first time buyer followed by the rapid development of arrears and subsequent voluntary possession.

A couple bought a property in early 2008. The property value was £98,000 and they 'topped it up' to £117,000 to enable them to purchase the necessary household goods as it was their very first property. Some of this money also went towards paying off unsecured debts they both had. The monthly mortgage together with the 'top up' amounted to less than they were paying in rent each month so, at the time, it seemed a sensible option. In June of the same year one partner lost their job and could not find similar employment due to the economic downturn. They made an agreement with the lender to halve the monthly payment but this was only a temporary measure and they had to return to the usual payments after a few months. Then in January 2009 the couple separated and were told by the lender that the only option was to give voluntary possession. However, despite the last payment being in January 2009, the lender did not finalise the process until January 2010. This resulted in an ever increasing amount of arrears. When interviewed they owed the lender £25,000 in arrears from the mortgage and top up loan and a potential further £25,000 if the property sells at the current asking price – £25,000 less than they initially paid. Thus, a possible £50,000 of debt is outstanding. They believe that first time buyers should be offered more information at the time of obtaining a mortgage and during any period of arrears. They would not return to homeownership again.

> *"Being a first time buyer and it being my first mortgage…I would never advise anyone to go down that route…I would never say the best thing to do is to get a mortgage….I would never ever do it again."*

**Case 3**

This third case is that of a sole mortgagor who took a 100 per cent loan for a property valued at £120,000. At the time he was employed in a relatively well paid job and consequently mortgage payments were not a problem. However within two years he lost his job and could not find alternative employment. He could not afford to remain in the property and moved in with his partner. He said he had always been adverse to debt:

> *"I've never had any debt, I wouldn't take any credit cards or anything like that, I just wouldn't do it."*

He wanted to rent out his property but the lender refused to allow this on the grounds that the rent would not achieve the full mortgage payment. He is still unemployed and now owes £5000 in arrears and the property has recently been valued at £105,000. Thus there is a potential £20,000 debt outstanding. He stated that the lender's unhelpful approach and inflexibility was an obstacle to him being able to keep hold of the property.

> *"The only time they've contacted me is to tell me that they're charging me for payment arrangements or charging me for sending someone out to see what my finances are. The only contact I've had is to tell me I owe them more money basically. They've not tried to help me at all."*

He referred to his colleague who had a very similar labour market experience but had received assistance from his lender and remained in his property. The respondent would return to homeownership again but only with a joint mortgage as he feels it was factors outside of his control that created the need for voluntary possession.

> *"I got hit with* [the] *credit crunch, the houses went down and then I got laid off!"*

# References

Advice UK, CAB and Shelter (2009) *Turning the Tide*, London: Advice UK, CAB and Shelter.

Coles, A. (1992) 'The characteristics of arrears and possession cases', *Housing Finance*, February, London: Council of Mortgage Lenders.

Council of Mortgage Lenders (2009) Press Release on arrears and possessions, November.

Council of Mortgage Lenders (2010) Press Release on arrears and possessions, May.

Dodd, T. and Hunter, P. (1990) *Trading Down and Moves out of Owner Occupation*, London: HMSO.

Dwelly, T. (1992) 'Who's in charge?', *Roof,* October.

Ford, J. and Wilcox, S. (1992) *Reducing Mortgage Arrears and Possessions: an evaluation of the initiatives,* York: Joseph Rowntree Foundation.

Ford, J. (1993) 'Mortgage possessions', *Housing Studies*, vol. 8, issue 4, pp227-240.

Ford, J., Kempson, E. and Wilson, M. (1995) *Mortgage Arrears and Possessions; Perspectives from Borrowers, Lenders and the Courts*, London: HMSO.

Ford, J. (2009) *Mortgage Arrears and Possessions: methodological scoping report*, CLG Housing Analysis and Surveys Expert Panel Report.

Ford, J. and Wallace, A. (2009) *Uncharted Territory? Managing mortgage arrears and possessions*, London: Shelter.

Ford, J. and Wallace, A. (2010) 'Limiting Possessions: managing arrears in a new era'*, International Journal of Housing Policy,* vol. 10, issue 2, pp133-154.

Kinson, S. and Robertson, S. (1992) *Avoiding Possessions: arrears management in practice*, London: Council of Mortgage Lenders.

Munro, M., Leishman, C., Kofi Karley, N. and Ford, J. (2005) *Lending to Higher Risk Borrowers: Sub-Prime Credit and Sustainable Homeownership*, York: Joseph Rowntree Foundation.

Orton, M. (2009) *The Long-Term Impact of Debt Advice on Low Income Households*. Project Working Paper 3, Warwick: Institute for Employment Research, University of Warwick.

Stephens, M. (2007) ‘Mortgage market deregulation and its consequences’, *Housing Studies,* vol. 22, issue 2, pp201-220.

*Survey of English Housing*, 1994-2007.

Tatch, J. (2009) ‘Homeowner housing equity through the downturn’, CML *Housing Finance Paper* Issue 01.

Wilcox, S., Wallace, A., Bramley, G., Morgan, J., Sosenko, F. and Ford, J. (2010) *An Evaluation of the Mortgage Rescue Scheme and Homeowners Mortgage Support*, London: Communities and Local Government.

Williams, P. and Wilcox, S. (2009) *Minimizing Repossessions*, York/London: Centre for Housing Policy/Communities and Local Government.

Department for Communities and Local Government


**ISBN: 978 1 4098 2516 6**