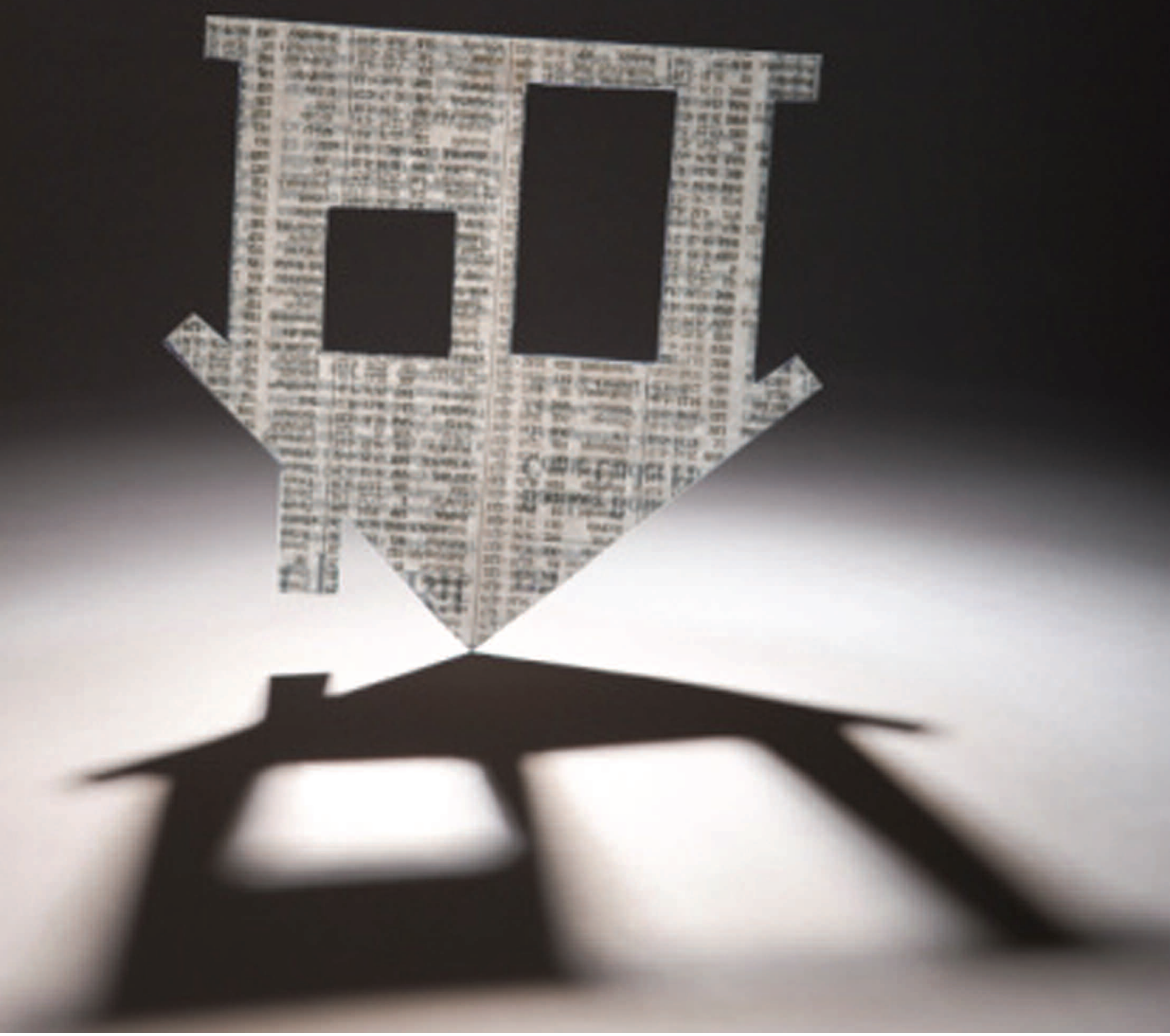
Understanding Mortgage Arrears

Andrew Gall



Building Societies Association

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Executive Summary

1. Over half a million mortgages have gone into arrears since the start of 2007, according to the FSA. This figure is expected to rise further in the next couple of years as unemployment increases, and particularly if interest rates rise, making it more difficult for households to service their debt. Although most borrowers in arrears will not lose their homes, the number of possessions is also expected to rise.

2. The Building Societies Association has commissioned research of borrowers that have been in arrears in the last two years to understand their experiences, and has also surveyed building societies to understand the lenders' perspective.

3. Borrowers that entered arrears in the last two years cannot be easily distinguished by dint of belonging to particular socio-demographic groups.

4. Instead, arrears were typically due to changes in circumstance, which can generally be classified into livelihood events which affect the borrower's income, such as job loss or illness, and financial problems that arise due to volatility in the household's expenditure. The most common factor causing arrears was a loss of job or income, stated by 43% of borrowers as a reason for their arrears.

5. Most borrowers that have been in arrears have stayed in their homes. 33% have repaid their arrears in full and 41% are currently repaying their arrears. Just 3% of respondents had their properties taken into possession by their lender. Borrowers whose arrears were due to shocks to their livelihood tended not to have repaid their arrears compared to borrowers whose arrears were due to financial problems. Repayment was most commonly funded by working more.

6. Borrowers that spoke to their lender prior to getting into financial difficulty tended to have repaid their arrears more than borrowers that waited a number of weeks or months before contacting their lender.

7. Lenders offered borrowers a number of different modifications to their mortgage to try to ease the pressure on the borrower. These included reduced or rescheduled payments, switching to an interest only loan, payment holidays and capitalising the arrears. However, a fifth were offered no changes, possibly because the borrower did not need any assistance, or because any changes would have been insufficient to redeem the situation.

8. Borrowers that sought independent debt or money advice about their situation were more likely to repay their arrears than those that didn't get advice.

9. The majority of borrowers that have been in arrears believe that their lender was generally helpful and treated them fairly. As might be expected, those that had repaid their arrears had higher opinions of their lender than those that had not come to an arrangement with their lender.

10. The Government has introduced a number of schemes to help homeowners in difficulty, although these have been subject to some criticism. One of these schemes, Homeowners Mortgage Support (HMS), has had little direct effect on most building societies' forbearance policies.

11. It is acknowledged that these survey results look at the experience of borrowers in the mortgage market at a time of great change. Looking ahead, greater unemployment is expected and this may further alter the experience of borrowers in arrears.

12. Longer term, the research has highlighted the importance of private safety nets to protect borrowers against fluctuations in income and expenditure. More transparent and widely taken up payment insurance would be beneficial, and greater levels of financial capability could help borrowers to better assess the risks they might face and to plan accordingly, for example by accumulating larger stocks of savings.

13. In addition, mechanisms that ease borrowers' exit from the market, where appropriate, would be useful. These might include a greater use of Mortgage Indemnity Guarantees, or the eventual development of products based on house price derivatives enabling the risks of house price falls to be hedged.

Introduction

The purpose of this research is to try to understand the recent experience of borrowers that have got into difficulties paying their mortgage. This is increasingly relevant in the current economic downturn, with almost 400,000 people in arrears on their mortgage at the end of March 2009 according to the Financial Services Authority (FSA 2009).

This study is based on two surveys that were run in parallel. A consumer survey asked borrowers that are currently in or have recently been in arrears about what they considered to be the causal factors, what happened to them through the arrears process, and how they recovered their situation. Secondly, a survey of building societies asked how arrears cases are managed and how societies work with borrowers that have difficulties repaying their mortgage.

This research shows that the vast majority of borrowers that enter arrears on their mortgage do stay in their homes, and most had either repaid or were currently repaying their arrears.

The research also explores the experiences of different groups of borrowers based on the various causes of their arrears. As might be expected, borrowers whose arrears were due to fluctuations in their overall expenditure tended to have more transitory payment problems than those who suffered shocks to their livelihood.

The actions of borrowers that have repaid their arrears, in terms of how promptly they spoke to their lender about their problems and whether they got independent advice, are investigated.

Borrowers' perceptions of how helpful and fair their lender was through the arrears process are also examined. Building societies consider possession to be a last resort, and will treat each case on an individual basis to try to help the borrower to stay in their home, where possible.

In response to the rise in arrears and possessions, the Government has launched a number of initiatives to soften the impact on affected borrowers. However, the longer term implications of this research are that private safety nets need to be better developed to help borrowers that get into difficulty, as do mechanisms that allow borrowers to more easily leave the housing market, where necessary.

Market overview

Since the start of 2007, over 500,000 mortgages have gone into arrears to the tune of 1.5% or more of the outstanding loan balance, according to data from the FSA. As a result, by the end of the first quarter of 2009 the number of outstanding mortgages that were in arrears was almost 400,000 loans, about a third more than at the end of the first quarter of 2007 (FSA 2009). However, in the first quarter of 2009, the number of new arrears cases was 60,000, a reduction on the 68,000 recorded for the final quarter of 2008.

The number of borrowers in arrears depends on a number of factors. One of the most important is the level of unemployment, which has risen over the last year and is expected to rise further. At the end of June 2009, the official number unemployed in the UK was 2.4 million, or 7.8% of the labour force, and is expected to rise to about 10% in 2010. Typically, the numbers of borrowers in arrears lags changes in unemployment, as savings and redundancy pay are used to cover mortgage payments for some time. A greater degree of slack in the labour market also limits income growth, which may reduce borrowers' ability to meet their mortgage payments or to cover other expenditure.

However, the Monetary Policy Committee has reduced the Official Bank Rate to 0.50%, the lowest level in the Bank of England's 300 year history. This has had a considerable effect on many households' ability to service their mortgage debt. Those that were on variable rate mortgages, or those that have recently come to the end of a fixed rate deal, are likely to have seen their mortgage payments reduce dramatically.

Another important factor which affects a borrower's ability to cover shortfalls in income is the amount of equity they have in their home. However, falling house prices, which have reduced by about 17% from their peak in October 2007 according to Nationwide, will reduce this equity, making it more expensive for borrowers to refinance their mortgage should they need to, as they will be borrowing a greater proportion of the property's value.

Many households may find themselves in negative equity, where the value of the property is less than the outstanding mortgage secured on it. In particular, borrowers that bought near the peak of the market at high loan to value ratios will be at risk. The Bank of England (2009a) considered several estimates of the extent of negative equity in the UK, and concluded that between 700,000 and 1.1 million households were in negative equity at the end of the first quarter of 2009. Households that find themselves in negative equity will not necessarily default on their mortgage. However, if these borrowers do get into difficulty repaying their mortgage, they are likely to have relatively fewer options with regards to refinancing or exiting home ownership.

Furthermore, those in negative equity might be more reluctant to keep up with repayments. That is, their willingness as well as their ability to repay their mortgage might have reduced in the current environment.

With the financial crisis, the availability of credit has reduced considerably, and some borrowers that are struggling may find it difficult to refinance their mortgage.

The above factors are likely to continue to change over coming years, and the overall outlook for arrears and possessions is highly uncertain. However, with greater unemployment expected, arrears are likely to rise in the near term. And if the Bank of England also begins to raise interest rates in the next year or two to counter anticipated inflation, a greater proportion of borrowers that might be coping currently could then find themselves in difficulty. The homelessness charity Shelter has suggested that there could well be a "second wave" of arrears and possessions in the next two years (Shelter 2009).

In its latest Financial Stability Report, the Bank of England suggests that loans which are in arrears of 6 months or more are set to continue to rise, from 1.3% of all loans in Q1 2009 to just under 3% by mid 2011[1]. This compares to a peak in the previous recession of 3.5% in 1992. However, the Bank admits that the range for predicted mortgage arrears is very wide: at the 90% confidence level the proportion of loans in arrears of 6 months could be as low as 2% or as high as 4% in 2011, indicating the huge uncertainties in the outlook for arrears in coming years (Bank of England 2009b).

Although possessions are also set to rise in coming years, it is worth emphasising that most cases of arrears will not lead to properties being taken into possession by lenders. There were about 40,000 possessions in 2008, about 0.3% of all mortgages, according to the Council of

[1] Some of the recent increase in the proportion of borrowers more than six months in arrears is due to the effect of the substantial reduction in interest rates on the calculated arrears rate. This is because low interest rates reduce the current monthly interest payment, so that a given amount of arrears represents a greater number of monthly repayments.

Mortgage Lenders, who predict about 65,000 cases (0.5% of all mortgages) in 2009.

Indeed, as the economic environment has changed, and the political context has also shifted, lenders have altered their forbearance procedures, which should limit the number of arrears cases leading to possession. In addition, there appears to be a growing trend of voluntary possessions. These issues are discussed in more detail later in this report.

Therefore, in coming years, possessions are also likely to rise further, particularly if the business case for lender forbearance alters substantially and political attention moves elsewhere (Ford and Wallace, 2009).

Research outline

This research is based on two surveys that were run in parallel. A consumer survey was conducted on behalf of the BSA by GfK NOP. Respondents were screened so that only those that had missed two or more consecutive mortgage payments in the last two years were able to complete the survey. This research was carried out online between 19 June and 30 June 2009.

This group of borrowers is hard to reach, and the sample amassed over a couple of weeks in early summer 2009 was 451. This is large enough from which to draw a number of conclusions, but when looking at cross sections in the data, care needs to be taken in interpreting the results. The results presented in this report are focussed on those where differences are statistically significant at the 5% confidence level. It is made clear where differences are significant and where they are not.

Simultaneously, building societies were surveyed by the BSA. The amount of data that societies have in aggregate is limited, as much is kept on the individual borrower's file. This reflects the case by case basis on which arrears situations are managed by societies. Of the 53 UK building societies that could have participated, 21 completed the questionnaire on behalf of the society and their lending subsidiaries. Building societies have had approximately 100,000 loans where the borrowers have missed two or more consecutive payments in the last two years, based on responses to the survey of building societies, and grossed up to be representative of the whole sector.

The experience of borrowers in arrears: research results

Characteristics of borrowers in arrears

The survey conducted by GfK NOP for the Building Societies Association asked a number of questions of 451 borrowers that had missed two or more consecutive mortgage payments in the last two years.

Of these borrowers, 54% were female, and 46% were male. The average age of the respondents was 39 years old. Given that first-time buyers are typically in their late twenties or early thirties, it is perhaps not surprising that relatively few in the youngest age group are borrowers that find themselves in arrears.

Of those surveyed, the regions where most respondents lived were the South East, the North West, London and Yorkshire and Humberside. These are probably a result of these regions being more populous than others, so have relatively more arrears cases, but it could also be due to greater numbers experiencing payment difficulties.

Borrowers who completed the survey said that their total household pre-tax income was, on average, about £29,000 a year, although incomes of those in arrears ranged from less than £7,500 to over £100,000. The average pay is close to the mean UK full time pay of just over £31,000. At the time of the survey, 60% of respondents were working full-time, and an additional 17% were working part-time. Just 7% classified themselves as unemployed, broadly in-line with the national unemployment rate at the time of the survey. 5% of borrowers that were in arrears were retired. 10% of respondents to the survey were divorced, separated or widowed.

Overall, these characteristics indicate that the "average" borrower that gets into mortgage arrears is exactly that – average. There do not seem to be any greatly significant demographic features that mark them out. Instead, it is likely to be the circumstances that befall these borrowers that distinguish them from borrowers that don't get into payment difficulties.

Characteristics of borrowers in arrears: Age groups

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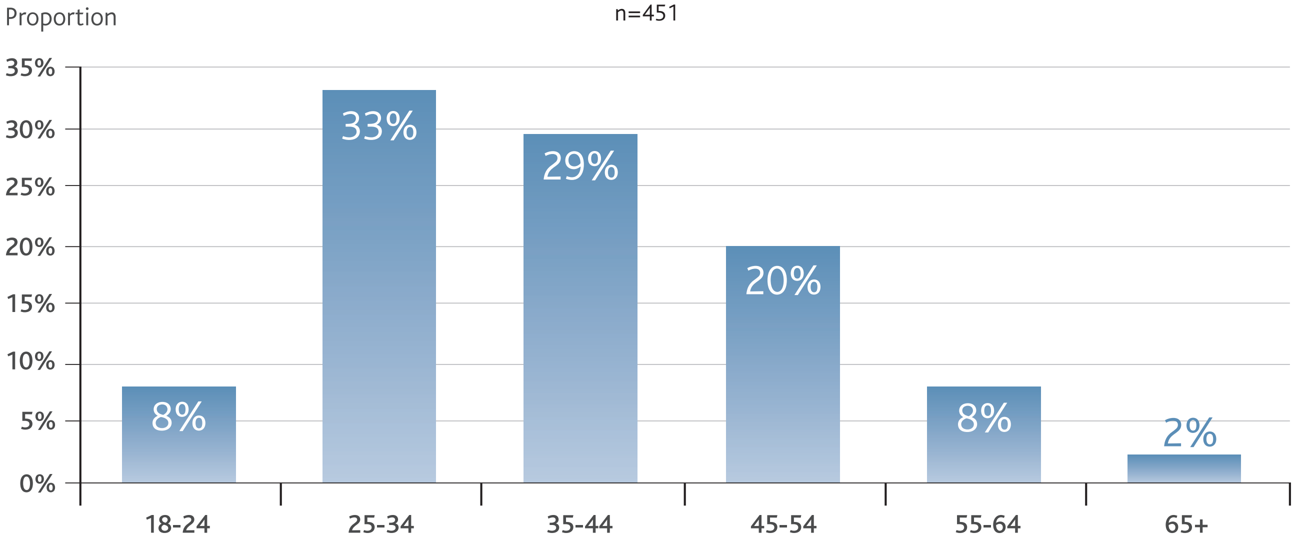

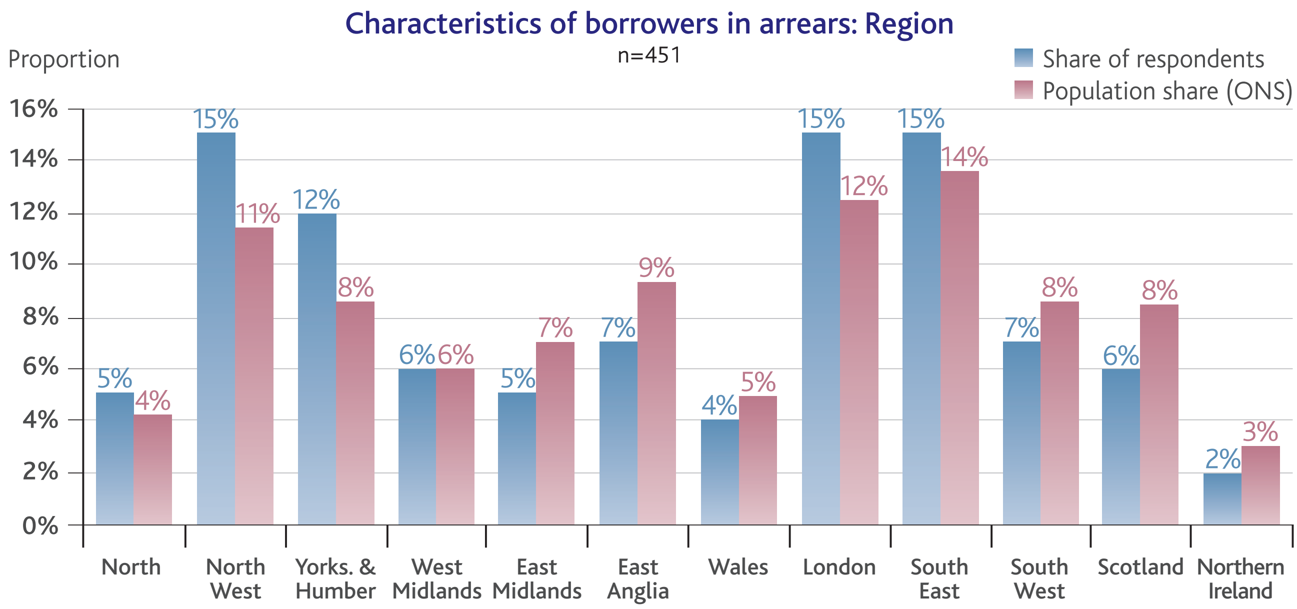
Characteristics of borrowers in arrears: Region
n=451
Proportion
Share of respondents
Population share (ONS)
16%
14%
12%
10%
8%
6%
4%
2%
0%
5% 4%
15% 11%
12% 8%
6% 6%
5% 7%
7% 9%
4% 5%
15% 12%
15% 14%
7% 8%
6% 8%
2% 3%
North
North West
Yorks. & Humber
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Wales
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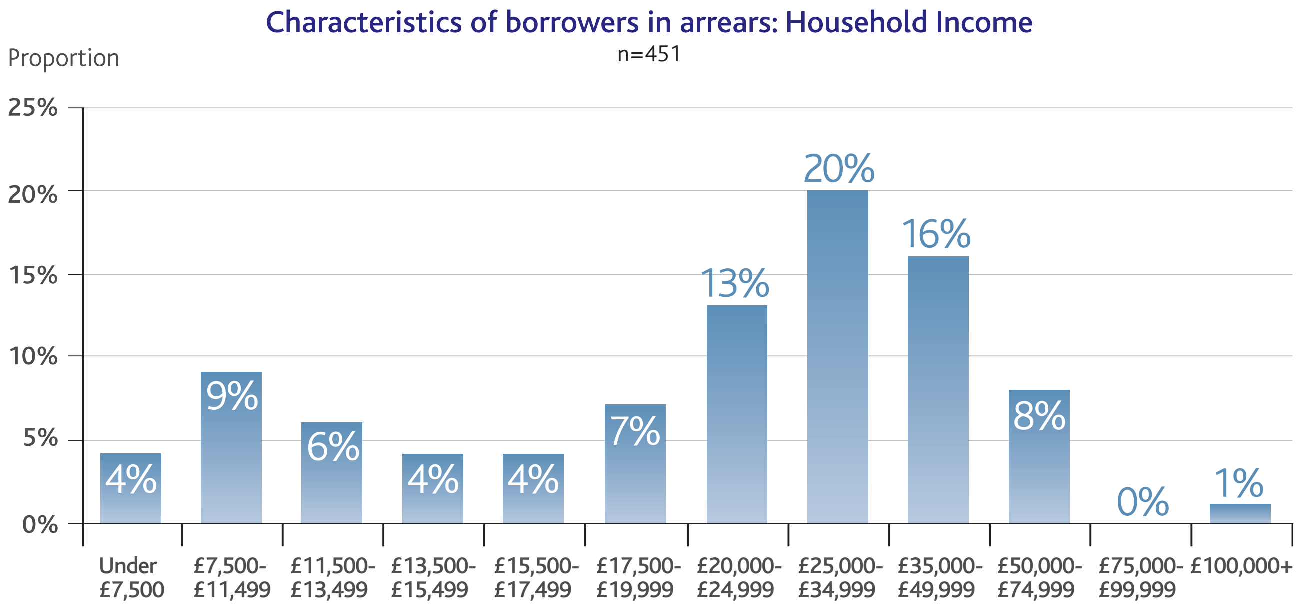
South East
South West
Scotland
Northern Ireland

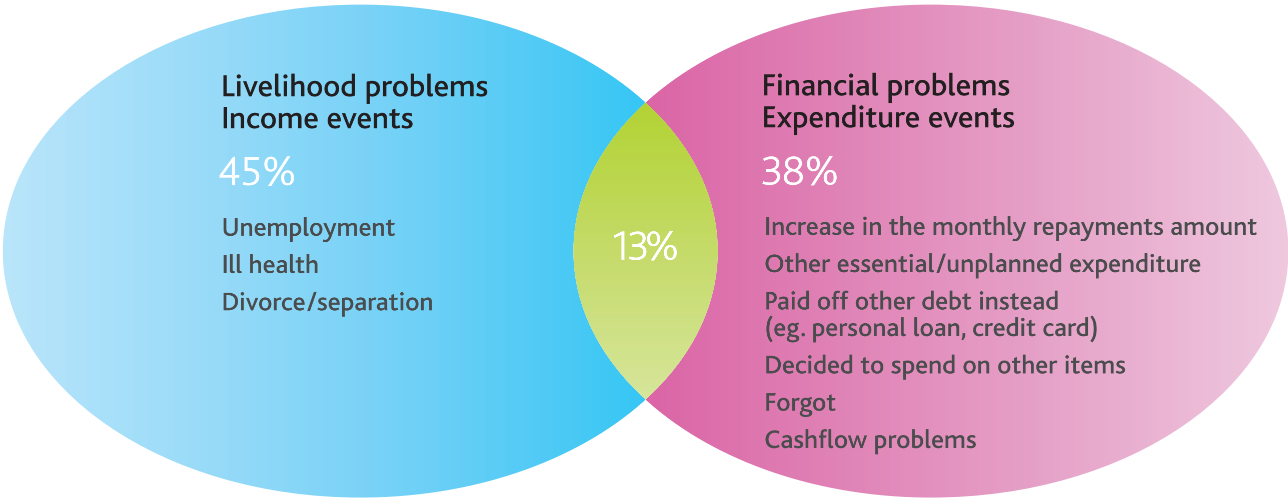

Characteristics of borrowers in arrears: Household Income
n=451
Proportion
25%
20%
15%
10%
5%
0%
4%
9%
6%
4%
4%
7%
13%
20%
16%
8%
0%
1%
Under £7,500
£7,500-£11,499
£11,500-£13,499
£13,500-£15,499
£15,500-£17,499
£17,500-£19,999
£20,000-£24,999
£25,000-£34,999
£35,000-£49,999
£50,000-£74,999
£75,000-£99,999
£100,000+

What caused borrowers to go into arrears?

There are a number of reasons that might cause borrowers to go into arrears, many of which are interlinked. For example, a borrower who becomes severely ill may then struggle if their income reduces as a result.

Some causal factors can be grouped together as "livelihood problems", such as unemployment, illness or divorce and separation. These tend to have a direct impact on the borrower's income. Others might more appropriately be classified as "financial problems", although it should be recognised that these factors are not always within the borrower's control. Rather than affecting the borrower's income, these tend to arise because of changes to expenditure. Examples include being unable to cope with other essential or unplanned expenditure in addition to the mortgage payment, paying off other debt in preference to the mortgage, or even simply forgetting to pay the mortgage. An increase in the monthly repayment amount also comes into this category, as the borrower may have known that their mortgage term is nearing maturity, and might have been able to find out what the new rate would be to help them plan accordingly.

Percentages of borrowers in arrears selecting at least one cause



Based on this split, 59%[2] of respondents said their arrears were caused by one or more of the "livelihood problems", and 51% said their arrears were because of reasons classified as "financial problems". Within these figures, 13% said that a factor from both "livelihood problems" and "financial problems" were responsible for their arrears.

The most common reason to cause borrowers to enter arrears was because of the respondent or their partner losing their job or experiencing a reduction in income. This was chosen by 43% of borrowers that had been in or were in arrears.

Factors causing mortgage arrears

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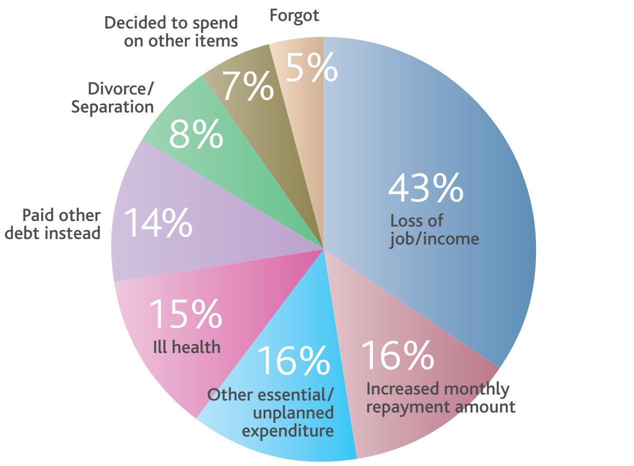

Respondents could choose more than one response, so percentages add to more than 100%

The next most common reasons for arrears were an increase in the monthly repayment amount (16%), because of other essential or unplanned expenditure (16%), or due to ill health (15%) or paying off some other debt instead (14%).

Divorce or separation was stated to be a factor by just 8% of respondents, and 7% said they had decided to spend their money on other items rather than the mortgage repayment. 5% said they had simply forgotten to pay the mortgage.

Respondents could choose more than one option, hence the percentages add to more than 100%. Over a quarter of respondents, 27%, gave more than one reason for their arrears.

Some factors were more frequently selected together than others. Of those that ascribed their arrears to ill health, a quarter (25%) said that the loss of their, or their partner's, job or income was also a contributory factor. More than a quarter (29%) of those that blamed divorce or separation for their arrears also stated that loss of job or income was responsible for their arrears. Compared to these cases, borrowers that were in arrears because they had spent money elsewhere were significantly less likely to say that job or income loss had also contributed to their arrears, with just 6% of these borrowers also citing job or income loss as a factor.

In contrast, borrowers whose arrears were due to an increase in the repayment amount or were because of paying off other debt instead of their mortgage were significantly more likely (15% and 13% respectively) to also say that other essential expenditure caused their arrears than were borrowers that said their arrears were due to unemployment (5%) or divorce or separation (0%).

Building societies reported similar causes of arrears in their borrowers to those recorded above. According to building societies' recent experience of borrowers in arrears, the greatest cause of payment difficulties was the borrower, or the borrower's partner, losing their job or income, with over a third (36%[3]) of cases being due to this, according to societies that responded to the survey. About a fifth of arrears cases (19%) were due to borrowers having to fund other essential expenditure, and a similar proportion (18%) were due to borrowers paying off other debt instead. Other reasons for arrears included divorce or separation (13%), ill health (10%) and an increase in the monthly repayment (3%).

The factors highlighted above are similar to those considered by building societies to be the causes of arrears in the early 1990s recession. For example, the loss of a job or income was attributed to about 30% to 40% of arrears cases in the last recession (Coles 1992). However, some of the other proportions differ markedly. Divorce and separation were considered to be responsible for about 20% to 25% of cases in the early 1990s, more than the 13% stated for the last two years. In contrast, the broad category of financial mis-management was given by building societies as the cause for arrears in about 15% of cases in the early 1990s, whereas various financial problems were thought to be much more common causes of arrears in the current downturn, as detailed above.

2 This total is 59% rather than 58% due to rounding.

3 These percentages are based only on cases where a cause was attributed by a society.

What has happened to borrowers in arrears?

The majority of borrowers that have been in arrears in the last two years had come to some sort of arrangement with their lender, and almost all were still in their homes. In total, 86% had either started to repay their arrears or had taken steps to stop their situation deteriorating.

Breaking this down, 33% have repaid their arrears in full and 41% are currently repaying their arrears. A further 12% are not yet repaying their arrears, but have come to some arrangement with their lender.

Just 13 out of the 451 borrowers (3%) that have been in arrears that were surveyed had had their property taken into possession by their lender. Another 8% were still in arrears but had no arrangements in place with their lender at the time of the survey.

What is the current situation of borrowers that have been in arrears?

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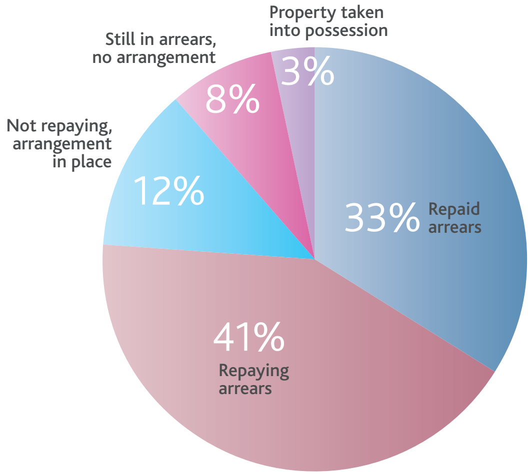

The relationship between the causes of arrears and repayment

We can examine the current situation of borrowers that are in or have been in arrears by the factors that they believe caused them to enter arrears. This shows that, as might be expected, those that had suffered a change in circumstance that caused a significant income shock struggled to repay their arrears more than borrowers who experienced financial problems such as an unexpected increase in expenditure.

Overall, the proportion of borrowers whose arrears were down to "livelihood problems" that had fully repaid their arrears was 27%, significantly less than the 38% of borrowers whose arrears were due to "financial problems", suggesting that this latter group of borrowers had relatively more transitory problems that were easier to recover from.

Repayment by cause of arrears

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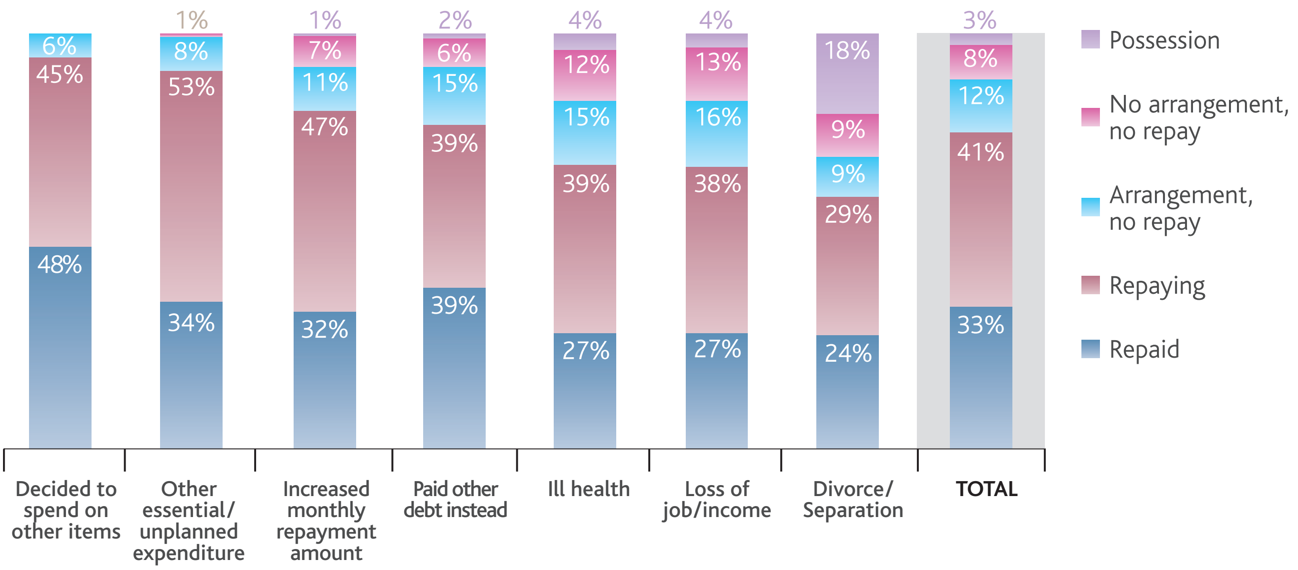


Of those that had decided to spend money on other items rather than their mortgage, 48% had repaid their arrears. This proportion that had repaid was greater than for borrowers that cited all other causes, and this difference was statistically significant compared to borrowers whose arrears were due to "livelihood problems": 27% of borrowers whose arrears were due to the loss of a job or income, 24% of divorced and separated borrowers, and the 27% whose arrears were due to ill health.

In addition, 45% of borrowers who had chosen to spend money elsewhere were repaying their arrears, so in total 94% of these borrowers had repaid or were repaying their arrears.

There was a similar situation with those that were in arrears because they had addressed other essential expenditure ahead of their mortgage payments, with 88% of borrowers in these cases repaying or having repaid their arrears.

In instances where "financial problems" have led to arrears, it may be that the borrowers did not fully appreciate the potential implications of failing to pay their mortgage, or the other essential expenditure was a much more pressing need. However, once the importance of making the mortgage payment had been realised, or once the essential expenditure had been made, it was not as difficult as it may be for borrowers affected by more permanent factors to make good the arrears.

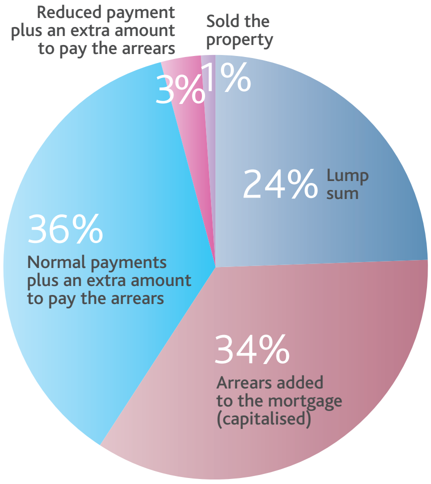
In particular, those that ascribed their arrears to divorce or separation were likely to struggle, with 18% of these respondents saying that their property had been taken into possession by their lender, significantly more than other borrowers. As mentioned above, less than a quarter (24%) of divorced or separated borrowers said they had repaid their arrears, and just 29% were currently repaying.

Just 27% of borrowers whose arrears were because of job or income loss had repaid their arrears in full, and 38% were currently repaying. Similar proportions, 27% and 39%, applied to borrowers suffering ill health. Borrowers in these groups also tended to have no arrangement in place with their lender, applying to 13% of those suffering job or income loss and 12% of those with ill health, significantly more than the 1% of borrowers whose arrears were due to other essential expenditure or who had chosen to spend on other things, none of whom were in this situation with their lender.

How did borrowers repay the arrears?

Borrowers that had repaid their arrears in full, or were currently in the process of repaying their arrears had done so in a variety of ways, often related to the arrangement that they had come to with their lender.

How have borrowers repaid arrears? n=331



Of these borrowers, 36% had arranged to continue to pay their normal mortgage payment plus an additional amount to repay the arrears. A similar proportion, 34%, had arranged with their lender to capitalise the arrears, where the amount of arrears is added to the outstanding mortgage. Almost a quarter, 24%, had paid off their arrears with a lump sum. Few reported having arranged a reduced mortgage repayment with an additional contribution towards the arrears (3%), and just 1% said that they had sold the property to repay the arrears.

Method of repayment by whether repaid arrears

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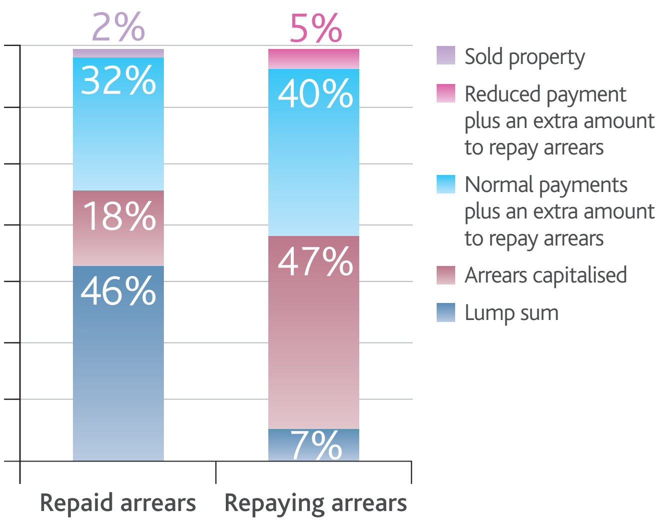

As might be expected, out of those that had fully repaid their arrears, the proportion that had paid a lump sum was significantly greater, at 46%, compared to just 7% of those still repaying their arrears.

Those that were still repaying their arrears were significantly more likely to have taken options that led to the arrears being repaid gradually. Almost half (47%) had capitalised their arrears and added them to their mortgage, compared to 18% of borrowers who had completely repaid their arrears this way, and 5% were paying a reduced mortgage repayment plus a contribution to the arrears, an option that applied to no borrowers that had repaid their arrears in full.

A substantial proportion of borrowers had made normal mortgage payments plus an extra amount towards the arrears, with 32% of those that had repaid in full and 40% of those that were still repaying arrears using this method.

Where did borrowers get the money from?

Those that had repaid their arrears, or were in the process of repaying their arrears, got the money to do so from a diverse range of sources. In many cases borrowers had sourced the money from a number of different places, and as a result the following proportions sum to more than 100%.

For most borrowers, new or additional employment had helped with the repayment of arrears, with 60% of borrowers overall saying some such change had contributed to their repayments. 28% were working additional hours, 21% had got a new job, and another 21% had got an additional job to their current one. In addition, the partners of 8% of borrowers had got a new job, 7% of partners worked additional hours, and 4% of borrowers' partners had got an additional job. Looking to the future, the labour market is expected to weaken further, so fewer borrowers might be able to rely on new or additional employment as a route out of arrears in coming years.

Where did borrowers get the money to repay arrears?

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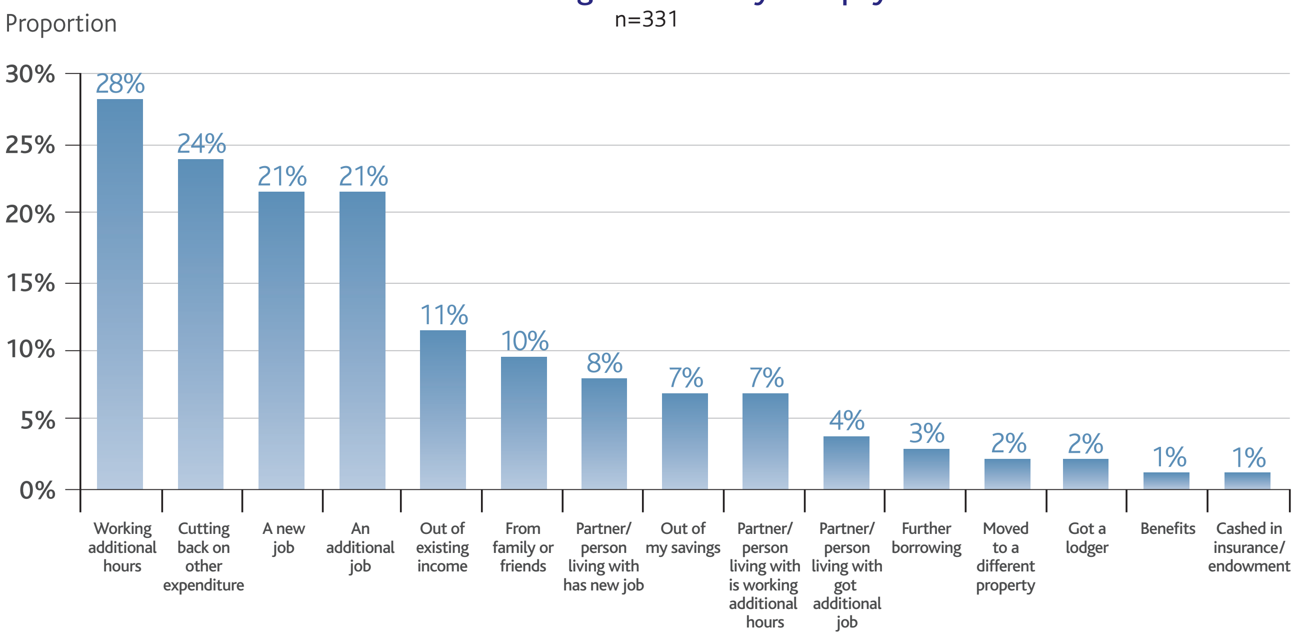


Almost a quarter, 24%, had cut back on other expenditure. A further 11% repaid their arrears out of existing income, and 10% were given the money by family and friends. Just 7% of borrowers repaid their arrears out of their savings. This is possibly fairly low because any savings that borrowers may have had prior to actually getting into arrears may have been run down in previous months to replace lost income or to cover expenditure. Other sources of the money used to repay arrears included further borrowing and getting a lodger.

Borrowers that had substantial changes in income, for example by getting a new job or that had received money from friends or family, often paid off their arrears with a lump sum, whereas those that repaid by cutting back on expenditure or out of existing income tended to have arranged to repay their arrears gradually.

For example, significantly more borrowers who repaid their arrears by getting a new job or an additional job did so by making a lump sum payment (32% and 31% respectively) than did those that repaid their arrears out of existing income (13% paid a lump sum) or cutting back on other expenditure (14%). The 31% of borrowers that made a lump sum payment from money received from family and friends was also significantly greater than those cutting back on other expenditure.

The majority of borrowers that cut back on expenditure to repay arrears (54%) or repaid arrears out of existing income (53%) were paying normal mortgage payments plus an extra amount to repay the arrears, significantly more than those that got a new or additional job (30% and 24% respectively). Those who worked additional hours were also significantly more likely (43%) to be paying an amount on top of their mortgage payment than those that got an additional job.

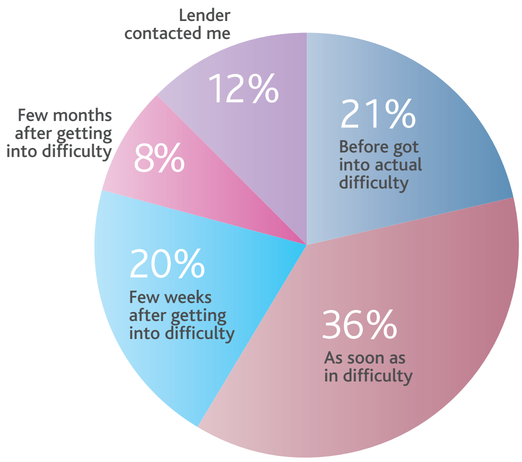
As might be expected, borrowers that entered arrears because of the loss of a job or a reduction in income often got the funds to repay arrears by a getting a new job (38% of such cases). This is a greater proportion than for borrowers that entered arrears for all other reasons, and significantly more than those that were in arrears because of other essential expenditure (11%), ill health (14%), or from repaying other debt rather than the mortgage (17%). Instead, these borrowers were significantly more likely to fund the repayment of their arrears from existing income, or even, in the case of arrears caused by other essential expenditure, cutting back on other existing expenditure.

When did borrowers in arrears first speak to their lender?

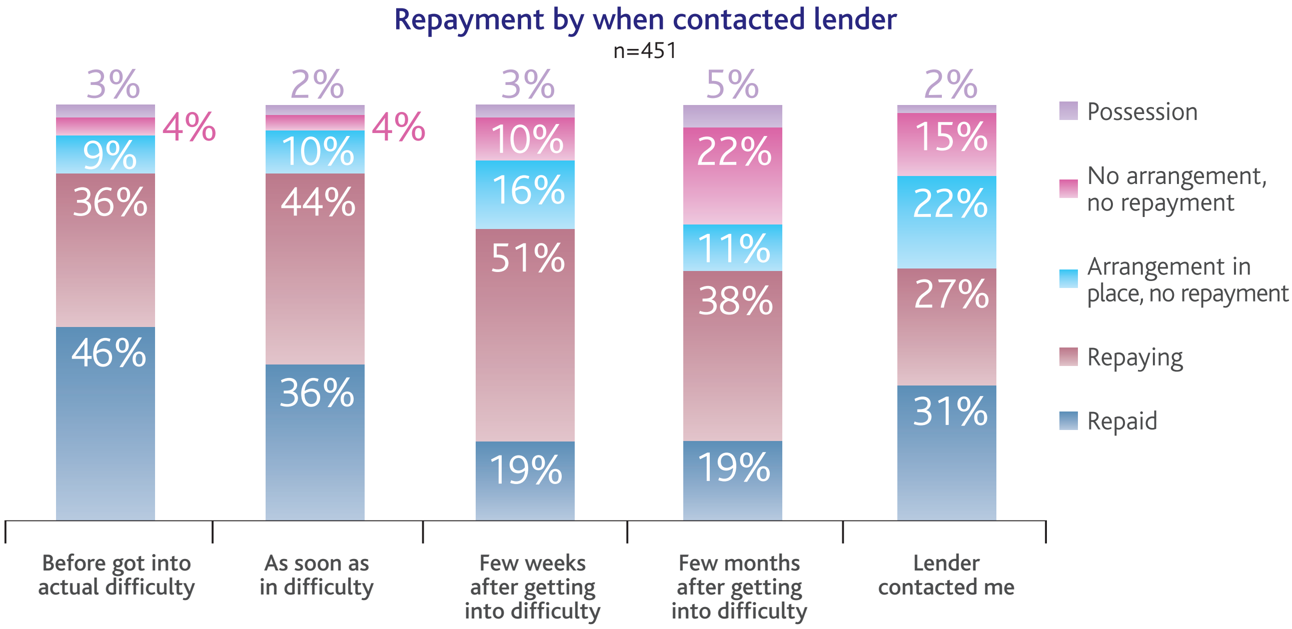
In general, the earlier a borrower approaches their lender once they realise they are facing potential or actual financial difficulties, the more options are available to the lender to help the borrower to modify their repayment arrangements. In a recent report on mortgage arrears, the Financial Services Consumer Panel said "speaking to one's mortgage lender is essential in order to deal with payment difficulties - problems cannot be resolved without consulting and negotiating with one's lender" (FSCP 2009).

The survey shows that borrowers that contact their lender earlier are more likely to have repaid their arrears. However, it is not possible from these results to assign any causation to early contact between borrower and lender and eventual repayment: borrowers that contact their lender promptly might be more likely to repay their arrears regardless of when they first speak to their lender.

When borrowers contacted their lender n=451



About a fifth (21%) of the borrowers in the survey said that they contacted their lender before they had actually got into difficulty repaying their mortgage but had realised that they might get into difficulty in the future. A further 36% said that they contacted their lender as soon as the realised that they actually were in difficulty. Another fifth (20%) said that they contacted their lender within a few weeks of getting into difficulty, and 8% said that they waited a few months until they contacted their lender. Just 12% of borrowers said that their lender contacted them before they had contacted their lender.



How long a borrower takes to contact their lender is closely linked to whether or not they turn out to repay their arrears. Of those that contacted their lender before they actually got into difficulty, almost half (46%) had repaid their arrears. Another 36% were repaying their arrears.

Just over a third (36%) of borrowers that had contacted their lender promptly as soon as they got into financial difficulty had repaid, and a further 44% were currently repaying their arrears.

However, borrowers that waited a greater length of time to contact their lender tended not to have repaid their arrears, with just under a fifth (19%) of those that waited a number of weeks or months before speaking to their lender saying that they had paid back their arrears in full. This is significantly less than borrowers that contacted their lender before getting into actual financial difficulty. Of those that waited a few weeks, 51% were currently repaying their arrears, but just 38% of those that waited a few months were repaying. In this latter group, 22% had no arrangement with their lender to repay their arrears, significantly more than borrowers who had contacted their lender before or as soon as they had got into financial difficulty.

Of the borrowers whose lender had contacted them before they contacted their lender, just less than a third (31%) had repaid their arrears, a greater proportion than in borrowers that had delayed contacting their lender once they were in difficulty. These borrowers may not have fully appreciated either that they were having payment difficulties or the importance of keeping up with mortgage payments, until their lender contacted them. 27% of those first contacted by their lender were repaying their arrears at the time of the survey, and 22% had an arrangement with their lender but were not currently repaying their arrears.

There are few differences in how quickly borrowers contact their lender across the various factors responsible for causing arrears.

However, the above results differ slightly from building societies' experience of how quickly their borrowers notify them of potential payment difficulties. Building societies said that they had to contact the majority of customers in arrears before the borrower had contacted them. Societies estimate that 58% of borrowers only got in touch after being informed that they were in arrears on their mortgage. However, building societies estimated that over a fifth (21%) of borrowers had contacted them before they actually went into arrears. Another 16% were estimated to have contacted their building society within a day or two of missing a mortgage payment. About 5% did not contact their lender within a couple of days, but before the society had got into contact with them.

The apparent differences in opinion between lenders and borrowers may, in part, be due to the question in the borrower survey asking about financial difficulties, rather than missed mortgage payments, the basis on which building societies were responding. For example, a borrower may not consider themselves to be in financial difficulty even if they have missed a mortgage payment.

All lenders are required by the FSA to contact mortgage borrowers within 15 business days of a missed mortgage payment. The building societies surveyed by the BSA all sent letters or telephoned every borrower that missed a mortgage payment, and some did both, by following up a letter with a phone call.

Many societies do not charge borrowers in arrears for contacting them by letter; some do on occasion, and a few do routinely. Societies do not charge for branch interviews, and also generally do not charge for making telephone calls to borrowers in arrears. Charges are more common for home visits, with about half of societies that responded always charging for this service.

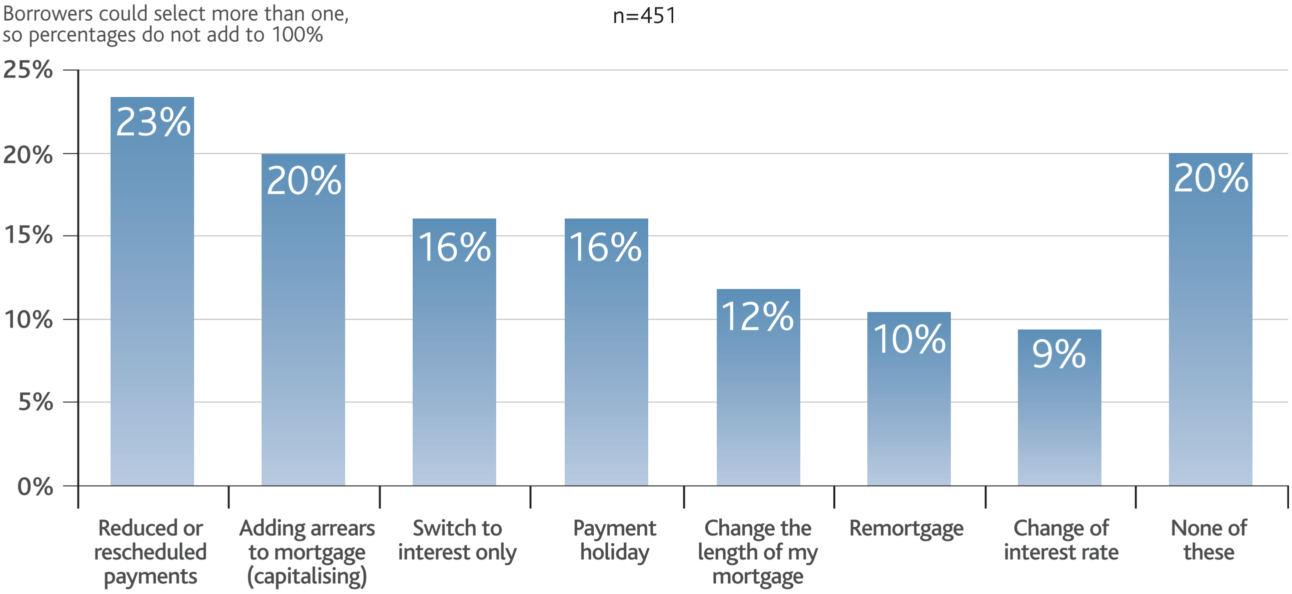
Help offered by lenders

If a borrower faces potential financial difficulties, there are a number of changes to their mortgage that they might be able to arrange with their lender. These aim, where it is feasible, to help borrowers to stay in their home, often by somehow reducing the monthly mortgage payment, whether temporarily or for the remainder of the mortgage.

According to all borrowers that had been or were still in arrears, almost a quarter (23%) were offered reduced or rescheduled mortgage payments by their lender. A fifth (20%) were given the option of capitalising the arrears, where the amount of missed payments is added to the outstanding mortgage amount. 16% were offered to switch to interest only mortgages, although some borrowers may have said that they had been offered reduced mortgage payments, when the reason for this was actually because they had switched to pay the interest only. A further 16% said they were offered a payment holiday where they have a break from paying their mortgage for a set period. Other loan modifications that were offered included changes to the length of the mortgage, remortgaging and a change in the interest rate. However, a fifth (20%) of borrowers surveyed said they were offered none of the above forbearance options.

Responses to the survey of building societies indicate that switching borrowers in arrears to an interest only mortgage was the most common change, with societies that responded saying that this applied to just over half (51%) of loans in arrears. Arrears were capitalised by societies in about a fifth (20%) of cases, while borrowers in 12% of arrears cases were offered reduced payments, in 5% of cases mortgage payments were rescheduled, and 3% were offered a payment holiday. Societies also reported a small number of cases where the term of the mortgage was extended, or where the interest rate was changed. However, there were no incidents reported by building societies where the borrower was allowed to remortgage. This contrasts with the borrowers in the consumer survey, 10% of whom said that they were offered the option of remortgaging.

Loan modifications offered to borrowers in arrears



Box 1: The lender's decision

The lender can make a number of alterations to the mortgage of a borrower facing payment difficulties to try to prevent the borrower from losing their home. These include reduced payments, changes in the rate of interest or the term of the mortgage, or switching the borrower from a repayment mortgage to just paying the interest.

Lenders will typically appraise the situation on an individual case basis, and will offer amendments that are appropriate for the borrower's current and expected future circumstances. A wide variety of case-specific factors will be considered by the lender, including the reason for arrears, the borrower's detailed financial position, the value of the property and the borrower's eligibility for benefits or other state support.

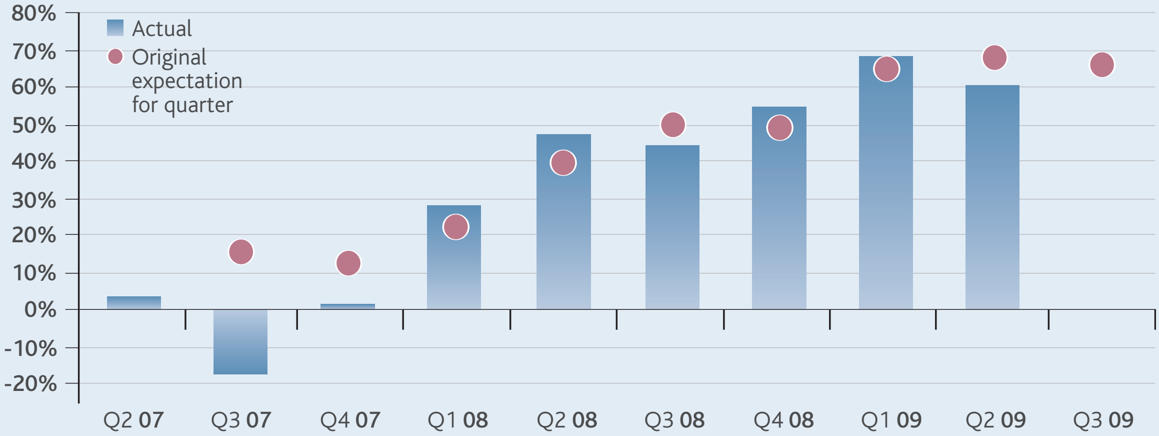
When considering whether to modify the mortgage of a borrower facing potential or actual payment difficulties, the lender must consider not only the direct cost of any change to the mortgage, such as a reduction in the interest rate they charge. They must also analyse the risk that the borrower will default again in the future following this change, as well as the possibility that the borrower does not actually need any assistance, and would recover their situation and repay their arrears without any modification to their mortgage terms (Adelino et al 2009).

The difficulty lies in identifying which borrowers fall into which category. This is one reason why it is imperative that borrowers that are facing potential payment problems should discuss their situation with their lender as soon as possible. If the situation is recoverable, it is in both parties' interests to come to some arrangement to help the borrower to stay in their home.

In some cases, delaying the sale, or even possession of the property on which the mortgage is secured could be detrimental to both the borrower and the lender. In an environment where property prices are falling there is a heightened risk of negative equity, or if the borrower cannot afford to maintain the property,

Default rates on secured lending to households. Bank of England

Net percentage balance - a positive balance indicates an increase in default rates



modifying the mortgage for a borrower who is likely to default again at a later date means that the value that could be obtained for the property has reduced.

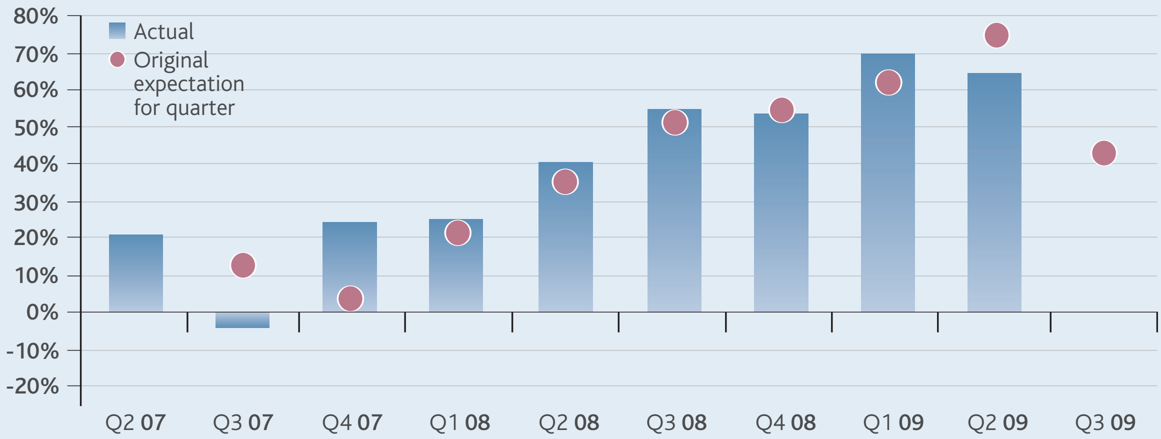
According to a survey of a range of lenders, the business case for modifying loans has changed radically in response to the economic downturn. This has resulted in lenders changing from enforcing a policy of "pay or possess" to a strategy of "managed forbearance", whereby lenders are more open to modifying the loan to try to prevent possession (Ford and Wallace, 2009). As well as the increase in the number of borrowers in arrears, a powerful driving force behind this change has been a greater incidence of negative equity that would result in losses being crystallised if properties were taken into possession by the lender. This is summarised by the charts below, which show the net balance of lenders' perceptions of the number of loans defaulting, and the losses on those loans that do default. Both have risen substantially since the start of 2008 (Bank of England 2009c). However, the rate of deterioration is expected to lessen in the third quarter of 2009.

A growing trend that has been observed is that of voluntary possessions. This includes cases where the borrower comes to an agreement with the lender to sell the property, cases where the borrower simply chooses to hand the keys to the property over to the lender, and cases where the properties are sold after court proceedings while a suspended possession order is in place. Other research conducted by the BSA found that in the second quarter 2009, about 37% of all possessions by building societies in the period were voluntary possessions.

In addition, the Government has introduced a variety of schemes, outlined in a subsequent section, that have led to more attention being paid to the arrears management process, and the Pre-action Protocol that courts apply to possession cases brought before them has also added to the importance of forbearance options being more fully explored.

Loss given default rates on secured lending to households. Bank of England

Net percentage balance - a positive balance indicates an increase in loss given default rates



Relationship between loan modifications and the reason for arrears

Generally, there were not large differences in the help offered to borrowers across the various factors selected as the causes of arrears. Exceptions to this were that 26% of borrowers that had lost their job or suffered a fall in income and 24% that had arrears due to divorce or separation were not offered any of the means of assistance, significantly more than borrowers whose arrears were said to be caused by paying off other debt (7%), or to a lesser extent, spending on other essential expenditure (14%). This may be due to the perceived likelihood of borrowers in different circumstances being able to repay their arrears.

Borrowers that had repaid or were repaying their arrears were not offered any particular modifications to their loans to a significantly greater extent than borrowers that had not repaid any of their arrears, possibly an indication of how arrears are often managed on a case by case basis. However, reduced or rescheduled payments and a switch to interest only loans were significantly more common changes in borrowers who were not yet repaying their arrears but had an arrangement with their lender (38% and 29% respectively), than those who had repaid their arrears in full (21% and 16%). This might be because these modifications are relatively easy for the lender to apply in the short term to prevent the situation from deteriorating, but they do not directly address the repayment of arrears.

More than a fifth (21%) of borrowers that have successfully repaid their arrears said they were not offered any of the loan modifications by their lender, and 15% of those that were currently repaying their arrears and 13% of those that had an arrangement with their lender but weren't yet repaying their arrears were in the same situation. This may have been because these borrowers were considered not to be in need of any such assistance to repay their arrears.

However, five of the 13 cases of possession covered in the survey said that they were not offered any of the loan modifications by their lender, and a third (33%) of those that were still in arrears but had no arrangement had not been offered any of these changes, significantly more than those that were currently repaying arrears or that had an arrangement with their lender. This could be because these borrowers have entered arrears recently, so there had not been time to negotiate any modifications, or it may be that these borrowers were considered unlikely to recover their situation regardless of changes to the loan, and it may have been optimal for all concerned to sell or possess the property rather than delaying foreclosure. This fits with the previous finding from this survey that those that suffered less transient "livelihood problems" were less likely to have repaid their arrears.

The proportions in the youngest age groups that were not offered any changes to their mortgage (11% for those under 35) were significantly lower than the proportion in older age groups that were not offered any changes (26% for those 35 and above). This may be because some options for loan modification, such as extending the mortgage term, are not always as feasible for older borrowers as they might be for younger borrowers.

Loan modifications by repayment

Respondents could choose more than one response, so percentages add to more than 100%

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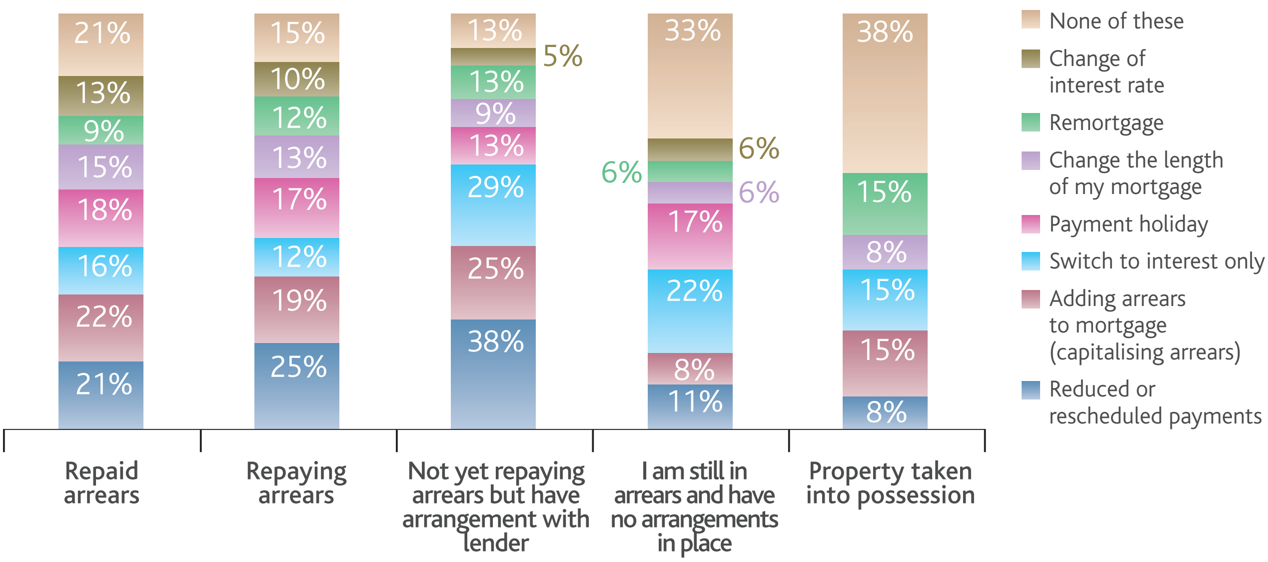

Independent advice

Borrowers facing financial difficulties are often encouraged to seek independent debt or money advice to help them to understand the options available to them to remedy their situation.

Less than half (46%) of borrowers surveyed had sought independent advice regarding their situation. Those that had repaid their arrears, or were repaying their arrears were significantly more likely to have received independent debt or money advice than those that were still in arrears but had no arrangement with their lender. 43% of those that had repaid their arrears, and 54% of those repaying arrears had sought advice compared to 36% of those not repaying their arrears but with an arrangement with their lender, and just 22% of those that are still in arrears but have no arrangement. Nine of the 13 respondents that had their properties taken into possession did seek independent advice.

Borrowers that fell into arrears because of spending on other essential expenditure were significantly less likely to get independent advice (32%) than borrowers that had spent their money elsewhere out of choice (81%), or those that paid off other debt (60%), those that had divorced or separated (59%) or those that had seen their repayment amount increase (51%).

While 27% of borrowers that got independent advice spoke to their lender before they actually got into payment difficulties, a significantly smaller proportion of borrowers that didn't get advice contacted their lender pre-emptively, with just 16% doing so. In addition, borrowers that had got advice were significantly less likely to wait until their lender contacted them (7%), than those that had not sought advice (16%).

A significantly larger proportion of men got debt advice, with 51% seeking advice, compared to 41% of women. The young are also significantly more likely to seek advice, with 66% of those in the 18-24 year age group receiving advice, and 56% of 25-34 year olds doing likewise. This compares to 37% of older age groups, on average.

Looking at borrowers that did not seek advice, research by the Financial Services Consumer Panel found that this was often because these borrowers perceived that advice was either unnecessary or inappropriate for them, rather than because of a lack of awareness of the available services or difficulties in accessing them (FSCP 2009). Advice might be perceived to be unnecessary because people did not consider their mortgage payment problems to be serious, and it might be seen as inappropriate because advice was often considered the preserve of those on low incomes or that are socially excluded. However, the FSCP research contends that more wealthy borrowers might turn to an Independent Financial Adviser rather than using free debt or money advice services if they got into payment difficulties.

Proportion getting independent debt advice by cause of arrears

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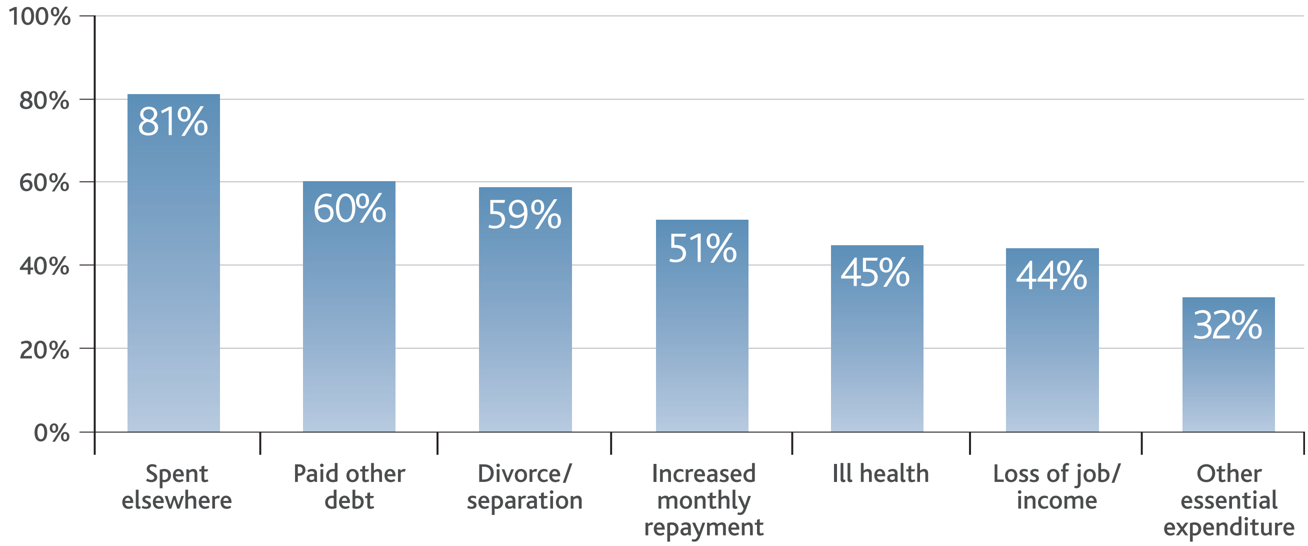

Lenders' treatment of borrowers in arrears

Overall, borrowers that were still in arrears or that had been in arrears in the last two years were of the opinion that their lenders were generally helpful and treated them fairly through the arrears process.

Helpfulness

Just under a quarter (23%) thought that their lender had been very helpful in finding a solution to their mortgage arrears problem, and over a third (35%) said that their lender was quite helpful. Just 9% found their lender very unhelpful and another 9% found their lender quite unhelpful.

As might be expected, those that had not come to an arrangement in relation to their arrears with their lender considered their lender to be less helpful relative to other borrowers. Indeed, 31% of those that had repaid their arrears in full said their lender was very helpful, significantly more than the 14% of borrowers that had no arrangement. Of the 13 borrowers whose properties were repossessed by their lender, four said their lender was very unhelpful, and 5 said their lender was quite unhelpful, although these numbers are too small to be significant statistically.

Fair treatment

Similar proportions thought that they had been treated fairly by their lender, with 24% agreeing strongly that they had been treated fairly, and 36% agreeing slightly. 8% disagreed strongly, and 8% slightly.

Again, those that had arrangements with their lender tended to consider to a greater extent that they had been treated fairly than did those that had no arrangement. For example, 34% of those that had repaid their arrears agreed strongly that they had been treated fairly, as did 21% of those that were currently repaying their arrears. However, a significantly smaller proportion, just 6%, of those that were still in arrears and had no arrangement in place with their lender strongly agreed that they had been treated fairly. The number of borrowers whose property had been taken into possession was too small to yield statistically significant results, but of the 13, five disagreed strongly that they had been treated fairly, and three disagreed slightly.

Helpfulness of lenders

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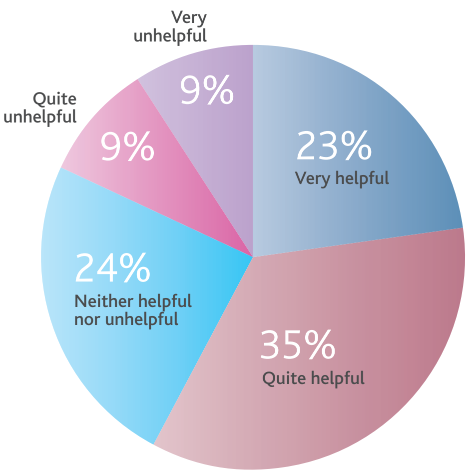

Borrowers agreeing that their lender treated them fairly

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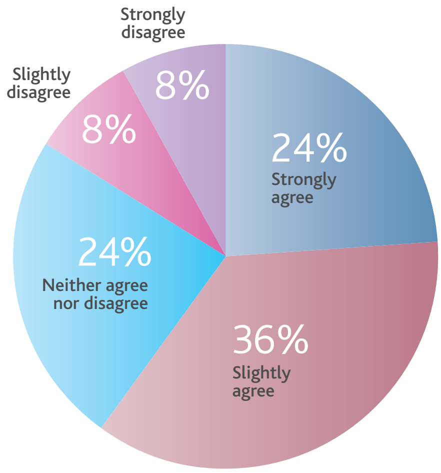


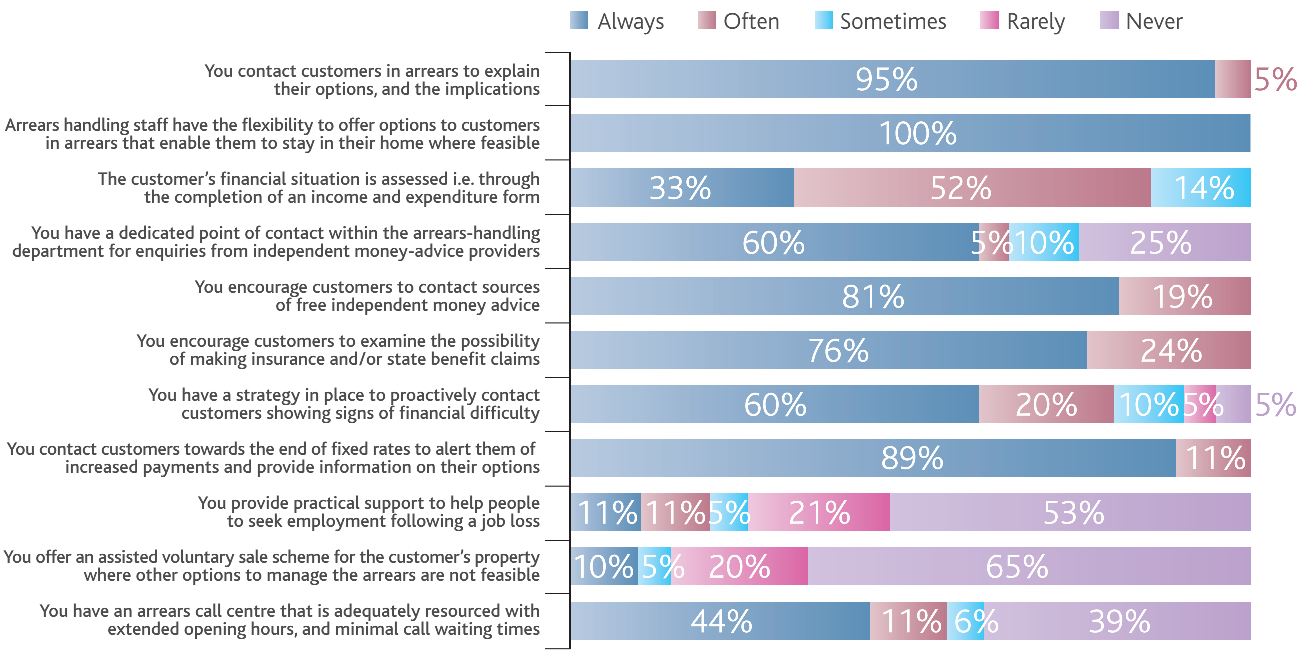
Treating customers in arrears fairly

The FSA suggests a number of measures that it expects lenders to put in place regarding borrowers in arrears as part of its Treating Customers Fairly (TCF) initiative. For example, arrears handling staff are expected to have the flexibility to offer options to customers in arrears that enable them to stay in their home, where feasible. All building societies that responded to the survey said that this applies in all cases. Similarly, these societies almost always contact customers in arrears to explain their options, and the implications.

However, a quarter of societies admit that they do not have a dedicated point of contact within the arrears-handling department for enquiries from independent money-advice providers. However, this often stems from treating each case on an individual basis, and in these instances societies would expect the relevant collector at the society to speak to the advice providers about the borrower in question.

Almost two thirds of societies (65%) do not offer an assisted voluntary sale scheme, in cases where other arrears management options are not feasible. Assisted voluntary sales are where the lender helps the borrower to sell the house. The borrower remains in the property during the process, potentially leading to a higher selling price. Also, few building societies offer practical support to help those that have lost their job to find work. These results are probably because societies do not have expertise in these areas, and possibly because measures such as helping borrowers to find new work are stretching the limit of the responsibility of the lender.

Building societies and the FSA's measures for treating customers in arrears fairly

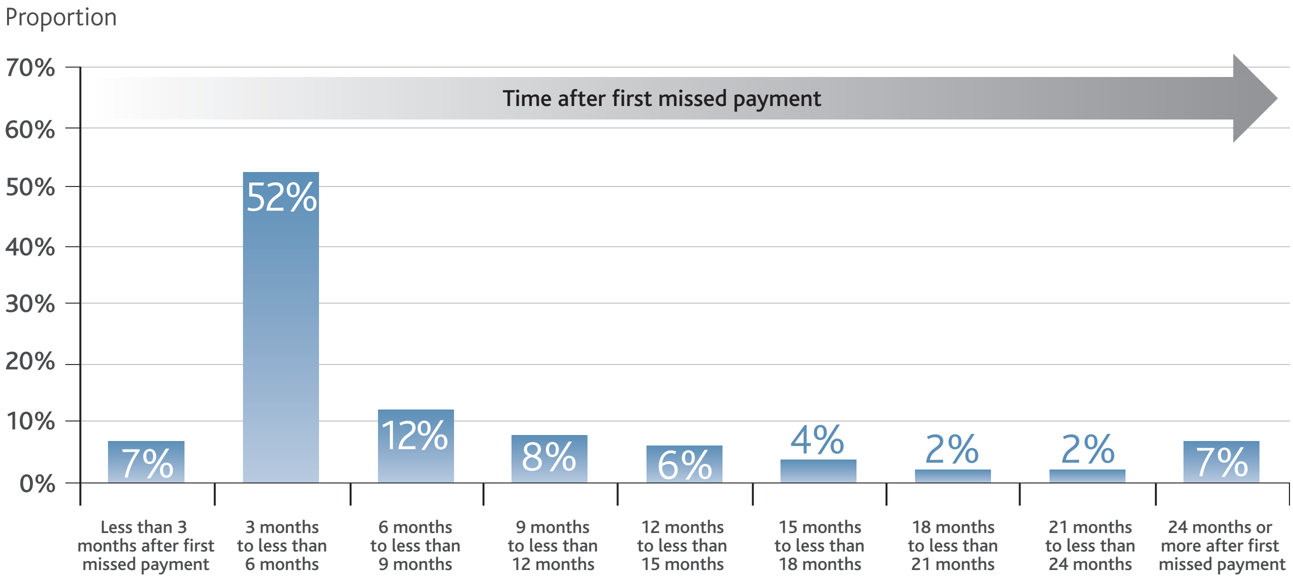


Possession proceedings

Of the borrowers that have been in arrears and whose properties have been taken into possession by building societies in the last two years, possession proceedings were started by building societies three to six months after the first payment was missed in more than half of possessions (52%). It can take a number of months once possession proceedings start until the lender actually takes possession of the property.

In just 7% of cases were possession proceedings started less than three months after the first missed payment. This may have been because the borrower's situation had deteriorated fundamentally, or the borrower had decided to proceed. However, in over a fifth of cases (21%), possession proceedings were not instigated by building societies until after a year, and after two years in 7% of cases. In these cases it may be that the society and the borrower have attempted to come to some arrangement over the period, but with time it has become apparent that the situation cannot be rectified.

When do building societies start possession proceedings?



Recent Government policy responses

In response to the rise in the number of mortgage borrowers facing payment difficulties, the Government has launched a number of new schemes aimed at helping homeowners to stay in their homes, and expanded other existing schemes. These are summarised in Box 2.

The temporary changes announced in January to the Support for Mortgage Interest (SMI) are helpful, but ultimately more comprehensive reform is likely to be required to make this support more effective (Williams and Wilcox 2009).

The new schemes, Mortgage Rescue (MRS) and Homeowners Mortgage Support (HMS) have been slow to get started, with just six households being assisted directly by the MRS in its first five months of operation. The official figures for HMS are yet to be published. However, the publicity that the HMS scheme has attracted has had a significant effect, with a great many borrowers seeking advice or speaking to their lender earlier as a result (Treasury Select Committee, 2009).

The HMS scheme has been criticised for being overly complex for both borrowers and lenders. Most building societies have decided not to formally offer HMS and all instead support the BSA's Customer Commitment for borrowers in arrears

(BSA 2009). This enables building societies to continue to offer tailored solutions to customers, which in many cases results in borrowers receiving a comparable, if not greater, level of forbearance than would have been provided by the scheme.

When surveyed, 70% of building societies said that the introduction of the Mortgage Rescue Scheme and the Homeowners Mortgage Support had no impact on their arrears management policies. These lenders said that these schemes did not add anything extra to their existing forbearance options, which focus on the individual circumstances of borrowers who experience difficulty. 30% of societies said that the new Government schemes did affect their arrears management policies. For some this involved increasing certain forbearance measures, such as making it possible for borrowers to switch to an interest only mortgage, while others assessed borrowers in arrears against the schemes' criteria to indicate if any of the society's borrowers in difficulty qualified for the schemes. Overall, these represent relatively small, incremental changes to societies' arrears management policies.

Box 2: Government policy to support homeowners

Pre-action Protocol

This sets guidance on the steps lenders are expected to take before going to court. As well as setting out guidelines for the provision of information, it aims to encourage the lender and borrower to explore options for repayment and to ensure that any reasonable requests from the borrower are considered before legal action is taken so that possession is a last resort. It was introduced in November 2008.

Mortgage Rescue Scheme (MRS)

There are two forms of this scheme. Under "Mortgage to Rent", local authorities can arrange for a property to be bought outright by a registered social landlord, then rent it back to the former owner. With the "Shared Equity" form, the registered social landlord provides an equity loan to allow the homeowner to repay a proportion of the mortgage. The scheme is open to borrowers who have priority needs for accommodation and have not been able to reach an agreement with their lender. The scheme has been extended to include second charge loans and borrowers in negative equity. The Government anticipate that the scheme will avoid 6,000 repossession over two years after the scheme launched in January 2009.

Homeowners Mortgage Support (HMS)

This scheme aims to support borrowers who are unable to make full mortgage payments due to a temporary loss of income, and who have tried all appropriate forbearance methods with their lender. The scheme requires the lender to defer up to 70% of the monthly interest payment, with the borrower paying the remaining 30%. In return the Government will provide the lender with a guarantee covering 80% of the interest deferred, which will be paid if the borrower defaults and the lender suffers a loss on repossession.

A borrower may remain in the scheme for up to 2 years. The guarantee will last for 4 years from the date the borrower exits the scheme. Having launched in April 2009, the Government's central estimate is for the scheme to eventually help 42,000 households over the following two years.

Support for Mortgage Interest (SMI)

SMI is a state benefit paid to homeowners who are in receipt of Income Support or income based Jobseekers Allowance. Payments are made towards the mortgage interest payment, direct to the lender, at a standard rate of interest. In January 2009, the Government announced a series of changes to help homeowners in the current downturn. These included cutting the waiting time to access SMI to 13 weeks and increasing the capital limit covered up to £200,000.

Implications

The results presented in this survey show that arrears are caused by volatility in incomes and by fluctuations in expenditure. In addition, the volatility of house prices affects the business case for lenders to offer forbearance options. Therefore, insurance that protects borrowers against the effects of these fluctuations will ultimately be more effective than altering the payment terms once a borrower is in financial difficulty. Such risks are closely tied to the economic cycle, and borrowers need to take a long term outlook to appreciate the risks to which they could be exposed over the duration of their loan.

The most basic private safety net is likely to be household saving. However, many households have no or very low levels of savings that they could draw upon quickly. In any case, savings are likely to be one of the first assets to be run down when household finances become tight, so these may be depleted by the time a borrower misses their first mortgage payment.

The results in this report suggest that those that suffer an adverse shock to their income, whether this is due to unemployment, illness or relationship breakdown, appear to find it more difficult to repay their arrears and recover their situation than do borrowers whose arrears are due to fluctuations in expenditure.

For these borrowers, insurance against causes of income shocks such as unemployment or illness is available, primarily mortgage payment protection insurance (MPPI), but also critical illness and permanent health insurance, as well as unemployment cover. However, at the end of June 2008, just 17% of outstanding mortgages had a mortgage payment protection insurance policy, and these did not always cover both unemployment and ill health (ABI/CML 2009). In addition, other potential causes of arrears, such as divorce or separation, are not easy to insure against.

Other research has found that the main reasons why borrowers did not take available insurance were either that they could not afford it or thought that it was poor value for money, or they believed that they were not at risk (Ford et al, 2004). Also, payment protection insurance across all types of credit has faced very public criticism in recent years from the Office of Fair Trading and the Competition Commission, which may have deterred take up of MPPI.

As a result, take up of private insurance to cover mortgage payment difficulties has remained relatively low, as negative attitudes to insurance have been found to be one of the main explanations for the low penetration of insurance products (Ford et al, 2004).

For those without private insurance, SMI can provide an effective safety net, particularly now the waiting period has been reduced temporarily to 13 weeks rather than 39. SMI should be reviewed to determine if these changes should be made permanent, or the support amended in other respects. Reform of SMI should also try to prevent the benefit reducing the incentive for borrowers to take out private insurance.

Long term, more effective private insurance is needed, that both borrower and lender can rely on to pay out when required. In addition, increased take up of such insurance should be encouraged. This may mean more simple, transparent products are required, though these may be more expensive. However, effective insurance that is widely taken up should reduce the risk, and therefore the cost, of lending to fund property purchase.

One suggestion that has been made by the Joseph Rowntree Foundation is for compulsory mortgage payment insurance for all borrowers that would be jointly funded by borrowers, lenders and the Government under a system called the Sustainable Home-Ownership Partnership (Stephens, Dailly and Wilcox, 2008). However, this would mean less risky borrowers subsidise insurance for more risky borrowers. It could also lead to issues of moral hazard, where incentives are distorted such that the insurance leads to more risky lending taking place. Any changes to the insurance market need to be considered carefully so that they do not have unintended consequences.

More than half of borrowers that go into arrears do so, at least in part, because of difficulties arising from financial problems due to fluctuations in expenditure, rather than income. In some instances, these changes in expenditure might be foreseeable. For example, a borrower approaching the end of their fixed rate mortgage term might be able to estimate the increase in their monthly mortgage repayments.

The most fundamental and effective way to reduce borrowers getting into arrears from financial problems is likely to be increasing financial capability. This would help to reduce the impact of foreseeable changes in income or expenditure on mortgage payments, by encouraging borrowers to be more forward looking and to better understand the risks they face. Greater financial capability should also lead to households increasing their stock of savings on which they can draw to smooth out unexpected fluctuations in expenditure or income.

For some borrowers that get into arrears, their change in circumstances means that they can no longer afford to be a homeowner over the long term, and a managed exit from the housing market might be the optimal solution for both them and their lender. In times when house prices have been rising for an extended period of time, this is relatively straightforward. However, when prices are falling, some borrowers will find themselves in negative equity.

In such situations, Mortgage Indemnity Guarantees Insurance (MIG) that pays out to the lender when the value of a property that is taken into possession lies below the value of the mortgage can help release borrowers that might otherwise be "locked in". In addition, negative equity loans could allow borrowers in negative equity to trade down. A recent example is a loan of up to 125% LTV offered by Nationwide for existing borrowers in negative equity. Longer term, there might be a greater role for hedging house price movements, for example by using house price derivatives along similar lines to those suggested by Robert Shiller (2008). The development of retail products based on these derivatives might make it easier for borrowers to stay in their homes, or to more easily exit the property market if this is the most appropriate course of action for them to take.

Continuing shortfalls in the supply of housing, exacerbated by the downturn in the construction sector in recent years, should also be addressed to reduce the volatility of prices in the future.

Conclusions

This research shows that the majority of borrowers that go into arrears on their mortgage do stay in their home and have either repaid or are repaying their arrears. While some borrowers do find the process difficult, the other results from this survey suggest that early contact between the lender and borrower, as well as getting independent advice, can help borrowers to recover their situation. In addition, the majority of borrowers that get into arrears find their lender to be relatively helpful and fair.

This research shows that shocks to livelihood or expenditure can cause people to go into arrears on their mortgage. As might be expected, those that experience events such as job loss or ill health generally find it more difficult to repay their arrears than do borrowers whose arrears are due to fluctuations in expenditure, and are more likely to require some substantial increase in their income to redeem their situation, rather than just cutting back on existing spending.

In response to the current market conditions the Government has introduced a number of schemes to try to help homeowners in difficulty. This is entirely understandable, because the costs to the individuals involved, and to society more widely, of people losing their home are considerable.

However, the longer term implications of these results are that private safety nets need to be better developed in the future. For example, more transparent payment protection insurance that is widely taken up and that can be relied on to pay out as expected is required. Better financial capability will help this, as well as encouraging households to better understand the risks they are exposed to and to build up their safety net of private savings. In addition, in cases where it is most appropriate for the borrower to leave their home, there need to be mechanisms that allow this to happen without imposing great hardship on the individuals involved.

Overall in the current environment, taking properties into possession is in nobody's interest if it can at all be avoided, and for building societies it really is a last resort. All borrowers that think they might face financial difficulties should speak to their lender or get independent advice as soon as they can. Lenders understand that events can conspire to cause any borrower to get into arrears, and where practicable, will try to help borrowers to stay in their home. In the vast majority of cases, the borrower and lender are successful in working together to achieve this.

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