

Lifting the Load

Help for people with mortgage arrears

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This research would not have been possible without the assistance of the interviewees, who were very generous with their time and provided invaluable insights.

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Executive Summary

Introduction

Context

The dramatic housing boom and equally dramatic housing bust that followed have had very significant social and economic consequences. Among these has been a very substantial increase in mortgage arrears and negative equity.

These in turn have led to a marked increase in demand for the services of the Money Advice and Budgeting Service (MABS). Waterford MABS's money advisers recognised that current supports were inadequate and that there were no clearly defined exit paths for mortgage holders whose loans were unlikely to be viable in the longer-term. In the context of this, Waterford MABS, the Citizens' Board and MABS National Development Limited (MABSndI) commissioned this research on mortgage debt and arrears among MABS clients.

Research objectives

The research aims to achieve the following:

1. Document the difficulties that MABS clients are experiencing in relation to mortgage arrears, using a case study approach;
2. Explore the impact of current supports available to people in, or facing, mortgage payment difficulties;
3. Explore the application of options for the resolution of mortgage debt difficulties in order to identify and refine 'best practices' that can be utilised by Money Advisers when working with clients who are in a mortgage arrears situation or who may be at risk of entering into arrears ;
4. Make recommendations based on the findings of this research to inform policy and practice which particularly addresses mortgage arrears and related difficulties;

The research was managed by an Advisory Committee.

Research methods

The research was implemented in four stages:

1. *Literature, policy and practise review*
2. *Profile of Mortgage Lending, Indebtedness and Arrears Patterns*
3. *Survey Design, Sample Selection and Pilot*
4. *Survey Implementation*

49 MABS clients were interviewed, representing 43 households, in nine MABS offices across the country.

Analysis

The analysis of the research evidence draws upon the 'housing pathways' framework proposed by David Clapham, which focuses primarily on individuals' and households' perceptions and attitudes in relation to housing and the meaning housing has for them.

Background

The housing boom

The economic boom of the 1990s led to a trebling of house prices in the decade up to 2006. This resulted in construction accounting for a disproportionate amount of economic activity. At the same time, there was a dramatic growth in mortgage lending, facilitated by a change in the sources of funding for mortgage lending. Increased competition between mortgage lenders drove down interest rates and encouraged the introduction of new mortgage products. The increase in the number of mortgages drawn down in the 2000s was accompanied by an increase in mortgage size.

The housing bust

Irish house prices started to falter in early 2007 and many commentators believe that prices fell by 50% between 2007 and 2010. The consequent decline in construction activity contributed significantly to the economic collapse. Most lenders began to report large operating losses, which led eventually to the government guaranteeing the full value of all deposits in the six Irish-headquartered banks and building societies. There was a dramatic fall in mortgage lending, which further reinforced the downward trend in house prices. At the same time, interest rates began to rise.

Rapidly rising unemployment, together with falling incomes and interest rate increases, led to a marked rise in mortgage arrears. An increasing number of loans have been restructured. However, repossession levels have remained low to date. It is estimated that 30 per cent of mortgage holders were in negative equity by the end of 2010.

Policy responses

The growth in mortgage arrears and negative equity have led to a number of policy responses:

- a moratorium on the repossession of primary residences for 12 months after the arrears initially occur;
- the introduction of a new Mortgage Arrears Resolution Process (MARP)
- a number of recommendations from policy advisory agencies and committees that were operationalised in a revised Code of Conduct on Mortgage Arrears (CCMA), effective from 1st January 2011.

Demand for Mortgage Interest Supplement (MIS) has risen significantly; take up increased by over 250% between 2000 and 2009.

Pathways into arrears

The following findings emerged from interviews with MABS clients:

Features of indebtedness and key drivers of arrears

There was a high level of multiple indebtedness, characterised by unsecured debts which had in many cases been consolidated into debts secured against property. All interviewees who had consolidated debts in this way had done so using a sub-prime loan. Interviewees reported mixed experiences of mortgage brokers.

For the vast majority of interviewees, the key driver of arrears was a reduction in income following loss of employment or failure of self-employment. Other reasons included gambling, sickness, marital breakdown, and high and rising interest rates charged by sub-prime lenders.

A large proportion of interviewees emphasised their personal responsibility for their borrowing decisions and some stressed how much they regretted their decision to purchase, renovate, or extend their home. Some interviewees also said that they hadn't understood the consequences of their borrowing decisions.

Impact on personal and family life

Many interviewees experienced high levels of stress and for a minority, the stress generated by their mortgage arrears led to serious mental health difficulties. The majority of interviewees also reported that their debt problems had a negative impact on their relationships with their spouse or partner and children and undermined the quality of their family life.

All interviewees reported that the combination of the loss of their jobs and/or decline in their incomes, coupled with their efforts to pay off or continue to service their debts, had had a very negative impact on their lifestyle.

Pathways through arrears

Initial responses

Interviewees' initial responses when their mortgage arrears problems first developed fell relatively evenly into three categories. Some interviewees ignored the problem; others struggled to service their debts in full from their diminishing incomes; and others immediately approached their lenders to negotiate a repayment plan.

Interaction with mortgage lenders

The vast majority of interviewees had approached their mortgage lenders regarding their mortgage arrears prior to attending MABS. Interviewees had a variety of positive and negative experiences when dealing with lenders.

The interviews support the view that the quality of service provided by lenders to households in arrears has improved over time, as has lenders' willingness to negotiate forbearance arrangements as an alternative to repossession.

Interaction with other lenders

Interviewees' reports of their experiences of dealing with lenders of unsecured debt, such as credit cards, personal loans and overdrafts, prior to coming to MABS for money advice, were generally more negative than their experiences of interacting with mortgage lenders.

A significant number of interviewees said that they had problems with Mortgage Interest Supplement; including the refusal of applications and being granted small amounts of MIS which were not sufficient to pay the full amount of their mortgage interest. Several interviewees had successfully appealed decisions to refuse MIS.

Interaction with MABS

Most clients decided to make an appointment to see MABS because a lender or utility provider recommended they do so, or because of the recommendation of a relative or friend. Responses were split almost evenly between those who felt there was stigma attached to coming to MABS and those who didn't.

From the interviewees' perspective, the service provided to them by MABS consisted of five elements. MABS advisors:

- Listened to their worries about their debt problems
- Reviewed their income and expenditure
- Helped them maximise their income if possible.
- Devised a budget plan to monitor their outgoings
- Negotiated with lenders and utility companies on clients' behalf.

Interviewees' assessment of the quality and value of the service provided by MABS was overwhelmingly positive.

Pathways out of arrears

Nature of mortgage arrears

The circumstances of people interviewed for this research fell into three broad groups:

- *Those whose difficulties were short-term*

(Approximately 15 per cent of the households examined)

This may have been due to short-term unemployment; temporary difficulties with other debts, or household income dropping temporarily due to illness.

For these people, existing arrangements such as forbearance and Mortgage Interest Supplement were, in most cases, appropriate and adequate responses, which ensured that they were able to remain in their home for the relatively short period that they needed assistance.

- *Those who believed that in the medium-term, they would once again be able to make full repayments on their mortgage*

(Approximately 50 per cent of the households examined)

Examples of households in this group included people who were retraining; whose overall debt levels were not excessive and whose dwelling was appropriate to their needs.

In this instance, interviewees were looking for some form of assistance to prevent them losing their home for the anticipated period of low income, until they were once again able to make full repayments.

- *Those who felt that it was most unlikely that they would ever be able to make full repayments on their mortgage*

(Approximately 35 per cent of the households examined)

Examples of households in this group included people whose employment prospects were very poor or were weakened by their age, who have a long-term illness; and who had multiple indebtedness.

Some interviewees in this situation wanted to stay in their current home; others wanted to leave and make a new start.

Bankruptcy had been considered by a number of interviewees, although the level of knowledge varied.

Interviewees' assessment of current situation

Many felt that their financial circumstances were very precarious and were experiencing significant difficulty in avoiding further indebtedness. Others, particularly those who had at least partially resolved their difficulties, felt that their circumstances had improved significantly, usually following intervention by MABS.

Conclusions and recommendations

Overarching themes

Mortgage difficulties fell into three groups, based on the interviewees' experiences.

- Mortgages categorised as being in **short-term difficulty**. These are defined as mortgages where existing arrangements such as forbearance and Mortgage Interest Supplement are adequate responses.
- Mortgages categorised as **viable in the medium-term**. These are defined as mortgages where there is a reasonable likelihood that within a period of 5-7 years, the borrower will be able to make full repayments. In this case, the most cost-effective and equitable response is a measure of medium-term support.
- Mortgages categorised as **non-viable**. These are defined as mortgages where the borrower is unlikely ever to be able to make full repayments. For these people, continuing support is unlikely to assist, and may have the effect of increasing their indebtedness.

Current interventions are primarily short-term, but it can be seen from the above that there is a clear need for medium-term assistance.

The cost to the State of putting in place appropriate measures to tackle the problem will be less than the cost of not doing so. In other words, doing nothing will be expensive.

Non judicial debt settlement arrangements

Non judicial debt settlement arrangements should be established. These should include the following functions:

- Preparing a standard financial statement that is agreed between the non judicial debt settlement arrangements and as many lenders as possible.
- Determining whether a mortgage is categorised as a short-term difficulty, viable in the medium-term, or non-viable
- Granting Debt Settlement Arrangements and Debt Relief Orders as recommended by the Law Reform Commission.

(Section 6.3.1)

Lenders should make a significant contribution to the costs of the non judicial debt settlement arrangements through a levy based on the number of mortgages provided. (Section 6.3.1)

A cross departmental Mortgage Arrears and Debt Unit should be established by Government to ensure a co-ordinated response to the problems created by mortgage arrears. (Section 6.3.2)

Mortgages viable in the medium-term

Following a maximum two year period of Mortgage Interest Supplement, if the mortgage continues to be viable in the medium-term, the borrower would receive two forms of assistance, each accounting for a proportion of the interest payable, for a maximum of five years.

- Medium-Term Mortgage Interest Supplement (MTMIS), which would be paid on a proportion of the interest payable, for a maximum period of five years.
- A slightly modified version of the Deferred Interest Scheme, which would apply to the remaining proportion of interest payable.

(Section 6.4.1)

The State would recoup some or all of its expenditure on Medium-Term Mortgage Interest Supplement by taking an equity stake in the dwelling or through a reduction in tax credit. (Section 6.4.1)

The proposal in the *Final report* of the Mortgage Arrears and Personal Debt Group (2010a), relating to lenders facilitating trading down by borrowers who are in negative equity, should be implemented as soon as possible. (Section 6.4.3))

Non-viable mortgages

Where a mortgage is assessed as non-viable, and the borrower wishes to stay in the dwelling, and the dwelling is considered to be appropriate for the household, that a mortgage-to-rent scheme should come into play. Key features of this scheme are:

- The lender sells the dwelling at current market value to a housing association, financed by a loan from the Housing Finance Agency or a commercial lender.
- All or a proportion of the residual debt would be written off by the lender.
- The former borrower would become a tenant of the housing association.
- The housing association would receive an availability payment from the DoEHLG under the auspices of the Social Housing Leasing Initiative; the tenant would pay a differential rent to the housing association.
- When the dwelling is sold, any increase in equity would accrue to the State.

(Section 6.5.1)

The Central Bank should develop a code of conduct concerning voluntary surrender.

(Section 6.5.2)

Future lending

The Central Bank's proposed examination of the prescription of lending limits through restrictions on loan-to-value ratios or a maximum multiple of net disposable income is strongly endorsed. (Section 6.6.1)

The Consumer Protection Code should be amended to include specific reference to responsible lending practices. (Section 6.6.2)

In future repossession actions, there should be a ground for appeal that the loan was irresponsible. (Section 6.6.2)

Money management education programmes should be provided in primary and post-primary education. (Section 6.7)

Chapter 1 : Introduction

1.1 Context

Since the mid 1990s, radical changes have taken place in the Irish housing market and in the mortgage lending and public policies which underpin it, which have had very significant broader social and economic impacts.

Unprecedented house price inflation took place between 1996 and 2006, when house prices grew by 292 per cent (Permanent TSB/ ESRI, various years). Although this house price boom was related to population growth and shortage of dwellings, expanding credit availability was also a key driver (Kelly, 2009). Mortgage debt per capita trebled between 2000 and 2006, as both the number and size of mortgages granted increased radically (European Mortgage Federation, various years). The proportion of new mortgages which were very large (€250,000+) and were granted with no deposit, on an interest-only basis, with terms of 30 years and more increased significantly during these years, as did lending to buy-to-let investors (Department of

the Environment Heritage and Local Government, various years; Central Bank, various years b). This development was driven in turn by intense competition in the mortgage market, associated with a marked expansion in the number of lenders and the establishment of a small sub-prime lending industry (Coates, 2008).

Increased house prices and house building also helped support growth in employment, the banking sector, tax revenue, and public spending, so when the housing boom began to falter in late 2006, it had very negative downstream effects. House prices fell by 31.2 per cent between 2006 and 2009 and housing output contracted by 65.2 per cent concurrently (Permanent TSB/ ESRI, various years; Department of the Environment, Heritage and Local Government, various years). These developments had negative impacts on employment, economic growth and the public finances, but also on mortgage holders. Mortgages in arrears of more than 90 days increased from 3.6 per cent of loan accounts in December 2009 to 5.7 per cent in December 2010 (Central Bank, various years a). In addition, due to falling house prices, Duffy (2008) estimates that 30 per cent of mortgaged home owners in Ireland will be in negative equity by the end of 2010.

These dramatic developments in the housing market have inspired a number of policy responses. Most notably, a moratorium on the repossession of primary residences for 12 months after the arrears initially occur was negotiated with the main lenders in 2008 as part of the government's programme of recapitalisation of these institutions. On foot of the recommendation of the *Interim Report* of the Expert Group on Mortgage Arrears and Personal Debt (2010) a New Mortgage Arrears Resolution Process (MARP), as part of the revised *Code of Conduct on Mortgage*

Arrears (Central Bank, 2009), was recently introduced. This requires lenders to provide specific information to customers in mortgage arrears and work with them to ensure they can remain in their home if possible. In addition, a number of other interventions have been recommended to Government by policy advisory agencies and committees. These include: reform of bankruptcy laws, the extension of the repossession moratorium to 24 months, liberalisation of the criteria for access to Mortgage Interest Supplement – which pays the interest of home owners who are unable to meet their mortgage payments – and the possibility of government taking an equity stake in homes at risk of repossession in order to reduce the homeowners' mortgage payments (Joint Committee on Social and Family Affairs, 2010; Law Reform Commission, 2010; Department of Social Protection, 2010).

The housing market bust and mortgage arrears crisis have also led to a marked increase in demand for the services of the Money Advice and Budgeting Service (MABS), a publicly funded agency, which provides free, confidential and independent advice to people with money management and debt problems. The number of new clients seen by MABS increased from 19,041 in 2008 to 25,274 in 2010. Of these, 16,660 required on-going support (rather than once off information) in the former year and 20,625 in the latter. Rising mortgage arrears was a key driver of the increased demand for MABS services – 33.1 per cent of clients requiring on-going support had mortgages in 2008, but this rose to 41.2 per cent by 2010 (Money Advice and Budgeting Service, various years). The number of mortgaged MABS clients who are experiencing repayment problems was approximately 27 per cent in the first quarter of 2009, compared to 18 per cent in Q1 2006 (Money Advice and Budgeting Service, 2009b).

Waterford MABS experienced similar increases in the demand for its services. Moreover, its money advisers recognised that current supports were inadequate to solve mortgage arrears problems in many cases, and also that there were no clearly defined exit paths available to mortgage holders whose financial circumstances were such that their mortgage was unlikely to be viable in the longer-term.

It was in the context of these unprecedented mortgage indebtedness problems and demand for debt advice services from households in mortgage arrears that Waterford MABS, the Citizens' Information Board, and MABSndI commissioned this research on mortgage debt and arrears among MABS clients.

1.2 Research Objectives

The research is intended to achieve the following objectives:

1. Document the difficulties that MABS clients are experiencing in relation to mortgage arrears, using a case study approach;
2. Explore the impact of current supports available to people in, or facing, mortgage payment difficulties;
3. Explore the application of options for the resolution of mortgage debt difficulties in order to identify and refine 'best practices' that can be utilised by Money Advisers when working with clients in a mortgage arrears situation or clients who may be at risk of entering into arrears
4. Make recommendations based on the findings of this research to inform policy and practise, particularly in addressing mortgage arrears and related difficulties;

1.3 Research Advisory Committee

The research was managed by an Advisory Committee made up of the following:

- Michael Doherty, Money Advisor, MABS Waterford and Manager of the research project
- Ann Galvin, Superintendent Community Welfare Officer, Department of Social Protection
- Mary McDonald, Coordinator, MABS Arklow
- Geralyn McGarry, Social Policy and Research Manager, Citizens Information Board
- Sean Misteil, Manager MABS Transition Unit, Citizens' Information Board
- Ann Marie O'Connor, Business Manager, MABSndI
- Jim Power, Economist,
- Anna Walsh, Coordinator, Waterford MABS

1.4 Research Methods

This research project was implemented in four stages, using a variety of research methods, as follows.

Stage 1: Literature, Policy and Practise Review

During this stage, the current and proposed policies and procedures for dealing with home owners in mortgage arrears and whose dwellings have been repossessed, operated by lenders, the courts, Government and MABS, were reviewed and all existing evidence on their effectiveness and implications for the households affected was compiled. In addition, similar policies and programmes in other relevant jurisdictions were examined.

Two research methods were used to operationalise this stage of the research. First a comprehensive desk based review of Irish and international policy and academic literature on these issues was conducted. Secondly, four in-depth face to face interviews and two focus group interviews were held with key informants in Ireland. One focus group interview included three participants, all Community Welfare Officers (CWO) responsible for administering Mortgage Interest Supplement, – the principal state support for households who cannot pay their mortgage. The other focus group included eight money advisors based in eight different MABS offices distributed across all regions of the country. Two of the key informants were interviewed on two occasions.

Stage Two: Profile of Mortgage Lending, Indebtedness and Arrears Patterns

During this stage, the current distribution of mortgage debt and arrears in Ireland between different age cohorts, socio-economic groups, regions and sub regions was examined and changes in this regard since 2000 were identified. The purpose of this exercise was:

- to inform the selection of MABS clients who are in or at risk of mortgage arrears for participation in the survey conducted during Stage four, and
- to contextualise the analysis of these case studies. This is particularly important in view of the fact that the study lacks a 'control group' of mortgage holders in arrears who are not clients of the Money Advice and Budgeting Service.

This profile was derived from the following sources:

- mortgage lending, arrears and repossessions data from the Central Bank
- data on the size and type of loans from the Department of the Environment, Heritage and Local Government Housing Statistics Bulletin
- data on the take-up of Mortgage Interest Supplement from the Department of Social Protection
- the ESRI/Permanent TSB House Price Index.

Stage Three: Survey Design, Sample Selection and Pilot

During this stage, the survey of MABS clients in mortgage arrears was designed and piloted. The survey comprised two elements:

- A questionnaire, consisting mainly of closed questions, designed to elicit factual information on the demography of respondent households, their income, housing and borrowing history etc.
- A semi-structured, in-depth interview designed to examine the reasons why MABS clients got into mortgage arrears, their reasons for taking (or not taking) particular courses of action to deal with these, the outcomes of these courses of action, their interaction with lenders, relevant public services and in particular MABS and their hopes and plans for the future.

The questionnaire and interview schedule are set out in Appendix Two to this report.

The survey was piloted with five clients of the MABS Waterford Office in December 2010 and amended slightly as a result. At the same time, the sample of MABS local Offices and participating clients was selected to reflect the results of the mortgage debt and arrears profiling exercise carried out during Stage Two of the research, the views of the project Advisory Committee and the requirements of the funding agencies set out in the call for tenders. These requirements specify that interviewees will include MABS clients who:

- have experienced a significant fall in income due to wage cuts or unemployment
- have been affected by the recent or pending closures and downsizing of indigenous and multi-national companies, financial institutions, construction companies and small business

- have a mix of income from earnings or social security or are completely reliant on one or other of these sources
- have fixed rate, variable, or sub-prime mortgages
- are in negative equity but are still capable of servicing their mortgage

Stage Four: Survey Implementation

The survey was implemented with 52 MABS clients, representing 46 households.

These interviewees were clients of the following MABS offices.

- Arklow: 10 interviewees (representing seven households),
- Blanchardstown: four interviewees (representing three households).
- Cork city: five interviewees (representing four households)
- Dublin city: seven interviewees (representing seven households)
- Galway city: two interviewees (representing two households)
- Loughrea: two interviewees (representing two households)
- Tipperary town: two interviewees (representing two households)
- Tralee: eight interviewees (representing seven households)
- Waterford: 12 interviewees (representing 12 households)

The survey was conducted via face-to-face interviews carried out by Michelle Norris and Simon Brooke between January and April 2011. All took place in MABS offices and lasted between 40 minutes and 1.5 hours. With the permission of interviewees, 95 per cent of interviewees were audio taped and transcribed *verbatim*; the remainder were recorded with written notes. Also with respondents' permission, this information was supplemented with information from the file on their case held by MABS. Access to survey recordings and other data on participating clients was strictly confined to the research team. Recordings were destroyed after transcription, all interviews were anonymised and due care was taken during analysis and reporting to ensure that interviewees could not be identified.

On completion of the transcription process, the survey data were collated into an archive. The researchers examined them to identify common themes across all interviews and the interview material was coded on this basis. These themes were then cross-checked with the other results of the analysis of the statistical data on mortgage indebtedness and arrears patterns conducted during Stage Two of the research.

1.5 Analysis

The analysis of this research evidence collected for this report draws on the 'housing pathways' framework proposed by David Clapham (2005). This analytical framework focuses primarily on individuals' and households' perceptions and attitudes in relation to housing and the meaning housing has for them, in terms of their identity and lifestyle. The extent to which this subjective experience of housing is constrained by external and structural factors is also considered. One's housing experiences may be influenced by, for instance, familial factors such as marriage, having children or relationship breakdown, economic factors such as the availability of work and mortgage finance, or the lack thereof and public policy factors such as the regulation of mortgage lending and the availability of Government support for home owners in mortgage arrears. Thirdly, the pathways approach emphasises the extent to which housing experiences and the factors which shape them vary over time and between different locations.

This framework was operationalised as follows, in the analysis of this research:

- Subjective housing experiences were probed via the in-depth interviews with MABS clients, particularly by means of questions such as:
 - How did you feel you were treated by your lender and other agencies you dealt with regarding your arrears?
 - Which intervention was most and least helpful?
 - Does your indebtedness influence your economic behaviour? How does it influence your family life and relationships? What are the social and/or health implications of your current situation?

- The structural constraints on these experiences were examined using a combination of the material from the reviews of relevant policies, from secondary statistics and literature conducted during Stages One and Two of the research and from information gathered during the in-depth interviews with key informants and MABS clients. In relation to the MABS client interviews, questions such as ‘Why did you first experience difficulties paying your mortgage?’ ‘Have you reached a forbearance agreement with your lender?’ and ‘Have you received Mortgage Interest Supplement?’ were especially relevant to this part of the analysis.
- Variations in housing experiences relating to time and location were probed using information from the in-depth interviews with MABS clients and from secondary statistics on mortgage lending and arrears in Ireland. However, it is important to acknowledge that this aspect of the pathways analysis is weaker than the subjective and structural analyses in a number of important respects. For instance, changes in housing experiences over time were not assessed using a series of interviews conducted at a number of points in time, as Clapham (2005) recommends. Rather, a single set of interviews was conducted, during which interviewees’ memories of their housing and borrowing decisions in the past were probed. This approach did generate useful information, but recall long after the event may be inaccurate, especially in relation to the precise details of personal finances or borrowing decisions. In addition, geographical differences in mortgage arrears and repossessions in Ireland are difficult to probe in detail, because most of the relevant data cannot be spatially disaggregated.

1.6 Presentation of Results

The discussion of the results of the research project presented here is organised into five further chapters. The next chapter is intended to contextualise the analyses of the experiences of MABS' clients who are experiencing mortgage repayment difficulties. It describes the key features of Ireland's housing market boom and its implications for the Irish economy, mortgage lenders and borrowers and outlines the Government and banking sector response to the growth in mortgage arrears. Chapters Three, Four and Five set out the results of the pathways analysis of MABS clients' experiences of mortgage arrears. Chapter Three examines 'Pathways Into Arrears', including interviewees' housing and household histories, borrowing decisions and the work, income and other developments which first propelled them into mortgage arrears. Chapter Four examines interviewees' 'Pathways Through Arrears'. The issues discussed in this Chapter include interviewees' experiences of negotiating with lenders, dealing with MABS and applying for government support and the impact which indebtedness has had on their emotional and physical well being and family life. 'Pathways Out of Arrears' are examined in Chapter Five; these include: the repossession and bankruptcy processes, the effectiveness of forbearance arrangements and social security supports and interviewees' experiences of looking for work, retraining and starting new businesses. Chapter Six sets out the conclusions of the pathways analysis and the recommendations arising.

Chapter 2 : Background

2.1 Introduction

Since the mid 1990s, radical changes have taken place in the Irish housing market and in the mortgage lending and public policies which underpin it. These have had very significant secondary social and economic impacts. An unprecedented boom in house prices took place between 1996 and 2006, when house prices grew by 292 per cent (Permanent TSB/ESRI, various years). This was driven initially by economic and population growth and housing undersupply, but particularly after 2000, expanding mortgage credit availability was a more significant driver (Kelly, 2009). Increased house prices and house building also helped support growth in employment, the banking sector, tax revenue and public spending, so when the housing boom began to falter in late 2006, it had negative downstream effects. House prices fell by 31.2 per cent between 2006 and 2009 and housing output contracted by 65.2 per cent concurrently (Permanent TSB/ESRI, various years; Department of the Environment, Heritage and Local Government, various years). These developments undermined employment, economic growth and the public finances, but also the viability of mortgages. Mortgages in arrears of more than 90 days increased from 3.6 per cent of loan accounts in December 2009 to 5.7 per cent in December 2010 (Central Bank, various years a).

This chapter describes the key features of this housing market boom and its implications for the Irish economy, mortgage lenders and borrowers. This is followed by an examination of the housing bust which followed the boom and its implications for these three sectors, together with an outline of the Government's and the banking sector's response to the growth in mortgage arrears. The purpose of this discussion is to contextualise the analyses of the experiences of MABS clients who are experiencing mortgage repayment difficulties. These are set out in subsequent chapters.

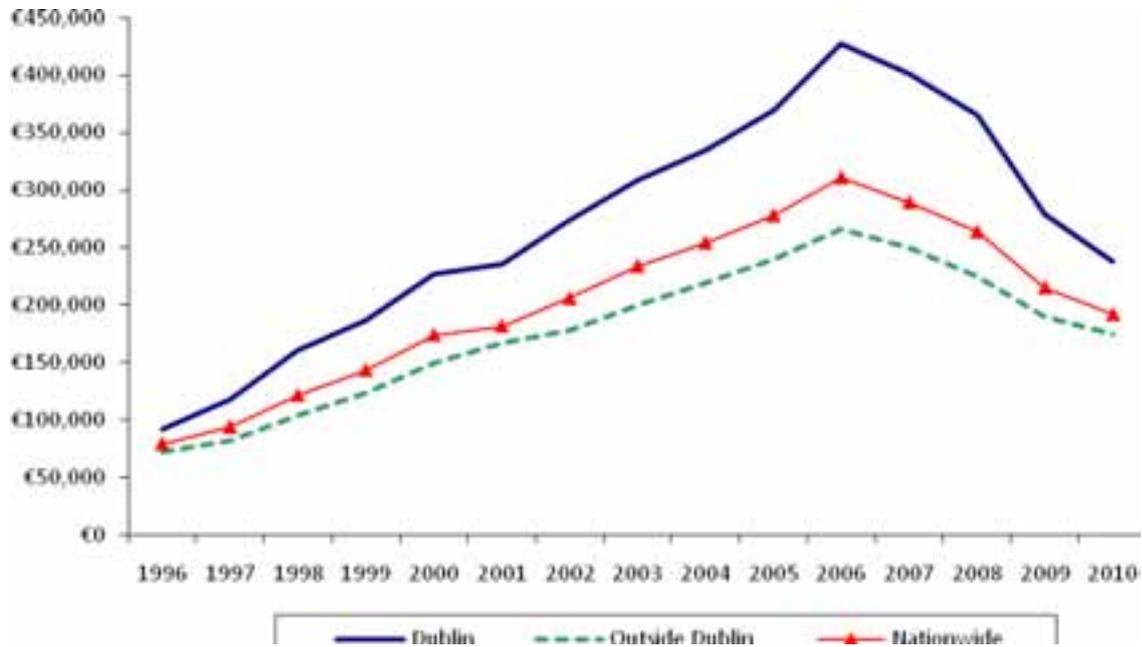
2.2 The Housing Boom

2.2.1 House Prices and the Economy

From the mid 1990s, Ireland's economic fortunes changed radically following the arrival of the 'Celtic tiger' economic boom. GDP per capita increased from 14.8 per cent below the Western European (EU15) average in 1995, to 48 per cent above in 2006. Concurrently the unemployment rate fell from 10 per cent above the EU15 average to 4.5 per cent below (Eurostat, various years). This economic transformation had marked demographic effects. - Between 1996 and 2006, the Irish population rose by 17 per cent and the number of households expanded by 14 per cent (Central Statistics Office, 2007).

The demand created by this economic, employment and income growth began to feed into house prices from the mid-1990s (see Figure 2.1). Nationwide house price inflation was particularly strong between 1996 and 2000, (it averaged 29.4 per cent per annum between these years) and softened somewhat between 2001 and 2006 (to an average 10.6 per cent). House price inflation was significantly greater in Dublin compared to the rest of the country. The difference between average house prices inside and outside the Capital was €19,906 in 1996 but this differential grew to €160,290 by 2006 (Permanent TSB/ESRI, various years).

Figure 2.1: House Prices in Ireland, 1996-2010.



Source: Permanent TSB/ESRI (various years).
 Note: Data refer to Q4 of each year.

So

The supply response to rising demand was initially slow – housing output grew from 33,725 new dwellings in 1996 to 49,812 dwellings in 2000, but from the latter year, output expanded radically to a high of 93,419 dwellings in 2006. To place these output rates in context, in 2006, the UK built just over twice the number of dwellings Ireland did, (209,000 units) for a population 15 times greater than that of Ireland (European Mortgage Federation, various years). In addition to the expansion in mortgage credit, discussed below, the key reason why this level of house building failed to stabilise house prices is because a significant proportion of new dwellings were left vacant and were located outside the population growth centres (Fitzerald, 2005; Norris and Shiels, 2007).

As has been well documented elsewhere, the building boom created a number of serious distortions in the Irish economy (Kelly, 2009). First, construction came to account for an increasingly large proportion of national wealth: 5.5 per cent of GNP in 1996, compared to 10.3 per cent in 2006 (Central Statistics Office, 2008). Second, growing construction activity led to over reliance on construction employment, which accounted for 8.4 per cent of total employment in 1998 and 12.4 per cent in 2006 (DKM Economic Consultants, various years). In contrast, 8 per cent of the EU15 working age population worked in construction in 2006 (Eurostat, various years). Rising labour demand generated by the Irish construction boom and rising housing prices also drove increases in wage rates across the economy and distorted the public finances (Kelly, 2009). Receipts from residential property-market related taxes¹ made up 8.0 per cent of tax revenue in 2002 and 15.1 per cent in 2006 (Addison-Smyth and McQuinn, 2009). This windfall revenue facilitated a marked increase in public spending and cuts in income taxes, which in turn further increased reliance on construction related taxes.

¹ .e.: stamp duties, Value Added Tax, Capital Gains Tax on the profits on house sales and property taxes

2.2.2 Lenders

Between 2000 and 2007, mortgage credit outstanding in Ireland rose by over 300 per cent, from 31.1 to 75.3 per cent of GDP (see Table 2.1). Although mortgage lending and private sector credit broadly increased concurrently across the European Union, this trend was especially pronounced in Ireland (Doyle, 2009). Between 2000 and 2007, outstanding mortgage credit in Ireland expanded by four times the rate of growth in the 27 current EU member states. Consequently, in the latter year, the Irish mortgage debt to GDP ratio was over one third higher than the EU27 average (European Mortgage Federation, various years, see Table 2.1).

Table 2.1 reveals that this dramatic growth in mortgage lending was concentrated in the 2002 to 2005 period and that this development was driven both by a rise in the number of mortgages granted and in the size of loans. The number of mortgages granted per annum rose from 57,300 in 2000 to a peak of 111,300 in 2006. However concurrently, residential mortgage debt per capita rose even faster, from €8,620 to €29,290.

Table 2.1: Trends in Mortgage Lending, 1996-2010

	1996	1998	2000	2002	2004	2006	2008	2010
Mortgage credit outstanding (€m)	Nav	Nav	29,474	43,416	73,120	110,602	114,290	107,572*
Mortgage debt to GDP ratio (%)	Nav	Nav	31.1	36.3	55.2	70.1	80.0	Nav
New mortgages (N)	56,009	61,400	74,300	79,300	98,700	111,300	53,600	Nav
Mortgage debt per capita (€)	3,830	5,650	8,620	12,110	19,120	29,290	33,750	Nav
% of mortgage lenders' funding generated from:								
Private sector deposits	Nav	Nav	50.2	48.8	38.7	32.1	26.0	21.1
Wholesale money markets (inter-bank lending and debt securities)	Nav	Nav	30.2	32.5	46.0	53.5	56.6	65.5
Interest rates on new mortgages	7.10	6.00	6.17	4.69	3.47	4.57	5.33	Nav
Real estate related lending as a % of total	Nav	Nav	37.4	43.3	54.4	72.0	58.0	Nav
% of average income required to service a mortgage on an average priced dwelling **	23	35	36	34	25	31	29	Nav

Note: all monetary data are at current prices. Nav means not available. *data refer to the situation on the 30th of September. **Data refer to two earner, married households, whose income = average industrial wage + average non-industrial wage. Mortgage payments are on a 20 year mortgage for 90 per cent of the average new house price for that year, repaid at average mortgage rates for that year.

Source: Central Bank (various years a), Central Statistics Office (various years); Department of the Environment, Heritage and Local Government (various years)..

Expanding mortgage credit availability was facilitated by a change in the sources of funding of mortgage lending. Traditionally, retail deposits by households and private institutions were the principal funding source for Irish mortgage lenders (see Table 2.1). Although total retail deposits in Irish banks and building societies grew significantly during the housing boom, lending expanded faster, resulting in a funding gap which was filled by borrowing from the wholesale money markets. Reliance on this funding source grew from 30.2 per cent in 2000 to 53.7 per cent in 2006 (see Table 2.1). The growth in use of these sources was greatly facilitated by Ireland's entry into Economic and Monetary Union (EMU) in 1999 and adoption of the Euro as the national currency, which eliminated the exchange rate risk previously associated with sourcing funding on wholesale money markets and therefore the need to cost this into the interest rate charged to borrowers (Conefrey and FitzGerald, 2010).

From the borrower's perspective, declining mortgage interest rates made it possible to take on larger debts, because this reduced average mortgage servicing costs from 36 per cent to 31 per cent of average income between 2000 and 2006, despite the marked concurrent house price growth (see Table 2.1). The impact of this development was further magnified by the fact that interest rates were particularly low compared to inflation and much more stable than had been the norm historically in Ireland (Honohan and Leddin, 2006).

In common with several other Eurozone members, such as Greece, Italy, Spain and Portugal, this decline in interest rates was related to EMU membership and the resultant transfer of interest rate setting powers from the Irish Central Bank to the

European Central Bank (European Central Bank, 2009). However, unusually intense competition in the Irish mortgage market, particularly after 2003, also played a key role in driving down interest rates and in liberalising lending standards which contributed to growth in the number and the size of mortgages (European Central Bank, 2009).

Between 2000 and 2010, the number of major mortgage lenders operating in the Irish market (i.e. registered with the Irish Central Bank) increased from 12 to 17 (Central Bank, various years a). The development was driven by the entry of some Irish banks into the mortgage market for the first time, the establishment of specialist mortgage lending subsidiaries by existing Irish mortgage lenders and the entry of a number of foreign lenders into the Irish market, such as Bank of Scotland and Danske Bank. In 2007, these foreign lenders accounted for approximately 30 per cent of mortgage loans advanced in Ireland (European Central Bank, 2009).

Increased competition drove down interest rates by forcing Irish mortgage lenders to reduce their margins or profits on mortgages significantly (McElligott, 2007). An initial round of cuts in these margins was sparked by the entry of Bank of Scotland, which charged significantly lower margins than Irish lenders at this time. These low margins were copper fastened by the arrival of tracker mortgages, which are generally fixed at a very low margin, above ECB refinancing rates and currently account for approximately 60 per cent of outstanding variable rate mortgages in Ireland (Doyle, 2009).

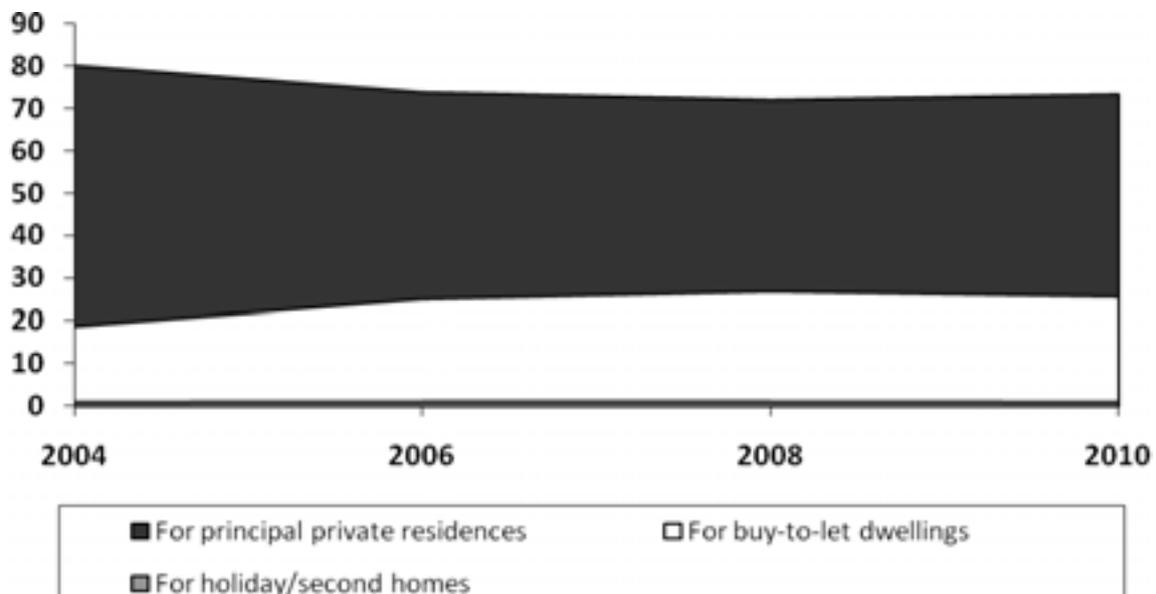
Although mortgage lending had already grown significantly in Ireland prior to this expansion in the number of lenders, the increased competition reinforced this trend, by encouraging the introduction of new mortgage products. For instance, the number of interest-only mortgage products on the market increased radically from 2004. 100 per cent mortgages first became available at this time, as did mortgage equity withdrawal products (Hogan and O'Sullivan, 2007; Doyle, 2009). Thus, unlike in the United States, the Irish housing boom was associated with a decline in lending standards among mainstream lenders, rather than with the growth of a specialist 'sub-prime' sector which lent to households with poor credit ratings. Although four sub-prime lenders entered the Irish market between 2004 and 2007, they accounted for only 0.5 per cent of mortgage lending by value in the latter year (Coates, 2008).

2.2.3 Borrowers

The combination of rising house prices between 1996 and 2006, coupled with falling interest rates for most of the second half of that period had a number of significant implications for households' access to mortgages and borrowing decisions.

Despite the increase in affordability affected by interest rate reductions from 2000, the marked rise in the ratio between house price and average industrial earnings (from 6.0 to 9.9 between 1998 and 2006) led to a decline in lending to home owners (see Figure 2.2). Home owners held 80.0 per cent of outstanding mortgages in 2004 but only 73.3 per cent in 2006. The growth in new mortgages granted during the mid

Figure 2.2: Outstanding Mortgages by Category of Borrower, 2004-2010



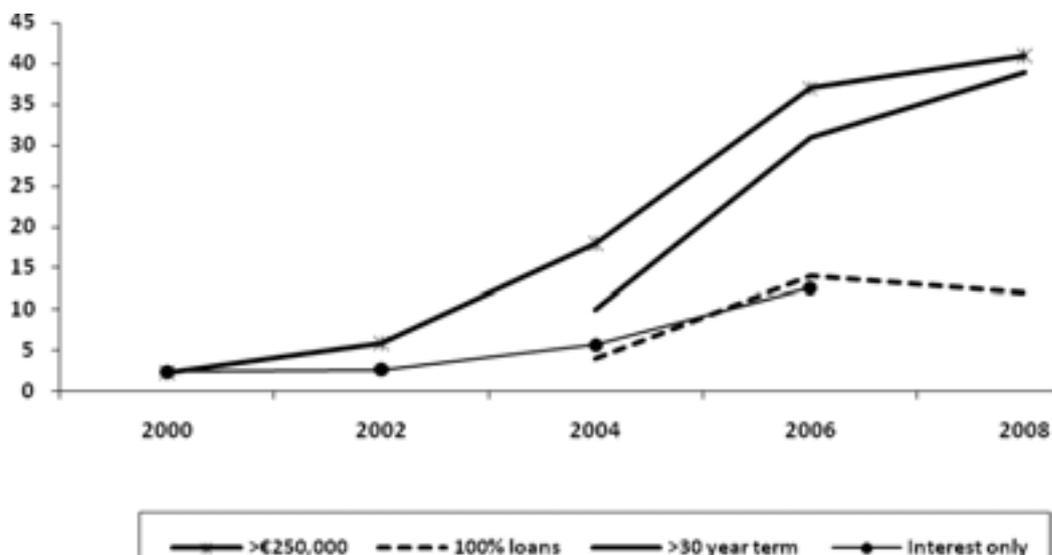
Source: Central Bank (various years a).

Note: 2010 data refer to the situation on the 30st of September.

2000s is the result of a marked rise in lending to buy-to-let landlords. The proportion of outstanding mortgages held by this sector rose by 6.3 per cent between 2004 and 2006.

The data presented in Figure 2.3 below also confirm that the increase in the number of mortgages drawn down post 2000 was accompanied by an increase in their size. Loans of over €250,000 increased from 2.3 per cent of new mortgages in 2000 to 41 per cent in 2006. 100 per cent mortgages first became available around 2004 and between then and 2008, they rose from 4 to 12 per cent of new mortgages granted. Furthermore, mortgages with terms of 30 years plus increased from 10 to 39 per cent of mortgages drawn-down during this period (Department of the Environment, Heritage and Local Government, various years; Doyle 2009). The proportion of

Figure 2.3: Trends in New Mortgages by Type, 2000-2008



Source: Department of the Environment, Heritage and Local Government (various years).

interest only mortgages also increased significantly between 2003 and 2007, and according to Duffy (2009) most of these were taken up by buy-to-let investors.

A more detailed analysis of trends in new mortgages drawn down during the house price boom is presented in Table 2.2. These data indicate that very large mortgages were overwhelmingly concentrated among recent first-time buyer households based in Dublin. In 2006 74 per cent of this group drew down mortgages of over €250,000, compared to 38 per cent of first time buyers in the country as a whole and in the same year 64 per cent of repeat home buyers and property investors in Dublin also borrowed on this scale. Also in 2006, 32 per cent of first time buyers in Dublin took on 100 per cent mortgages, compared to 35 per cent of first time buyers in the

Table 2.2: Trends in Mortgage Lending in Ireland by Region and Previous Tenure, 2004-2008

Category of Borrower		2004 %	2005 %	2006 %	2007 %	2008 %
Whole Country						
First Time Buyers	>€250,000	14	26	38	31	38
	100% loans	6	6	34	26	23
	>30 year term	23	44	60	65	65
Former owner occupiers/ residential investors	>€250,000	19	29	37	41	43
	100% loans	4	5	6	5	7
	>30 year term	6	11	14	20	25
Dublin City and County						
First Time Buyers	>€250,000	37	56	74	72	66
	100% loans	5	13	31	21	18
	>30 year term	29	53	70	75	74
Former owner occupiers/ residential investors	>€250,000	40	52	64	67	68
	100% loans	3	4	5	5	5
	>30 year term	8	14	20	24	32

Source: Department of the Environment, Heritage and Local Government (various years).

Note: data refer to new loans drawn down in the relevant year.

country at large and just 5 per cent of repeat buyers/investors in Dublin. In the same year, 70 per cent of the mortgages drawn down by first time buyers in Dublin had terms of over 30 years, compared to 20 per cent of loans granted to repeat buyers/investors in this city and 61 per cent of those granted to first time buyers in the country as a whole (Department of the Environment, Heritage and Local Government, various years).

2.3 The Housing Bust

2.3.1 House Prices and the Economy

Ireland's house price boom started to falter in early 2007 and the house price data presented in Figure 2.1 indicates that prices fell by 33.7 per cent nationally between 2007 and 2010. However, many commentators agree that these data underestimate the true extent of price decline, which is closer to 50 per cent (see: Duffy, 2009).

The economic collapse slightly lagged the housing market crash. GNP grew by 5.7 per cent in 2007, but it contracted during each of the three subsequent years, by a total of 19.3 per cent (Central Statistics Office, various years). Employment fell by 13.7 per cent between 2007 and 2010 and the balance between Government income and expenditure, which had been positive for most of the 2000s, fell sharply to -8.2% per cent of GNP in 2008 and to -18.8 per cent in 2009 (Central Statistics Office, various years).

The housing market bust made a central contribution to the economic and fiscal bust and of course the latter subsequently helped to reinforce the former (see Norris and Coates, 2010 for a full description). The decline in construction investment accounted for 27.3 per cent of the decline in GNP between 2007 and 2009. Falling construction employment accounted for 65.3 per cent of the decline in employment concurrently. Falling revenue from residential property market related taxes accounted for 35.2 per cent of the contraction in total tax revenue between 2007 and 2008. The radical contraction in construction related employment also made a key contribution to the 26.9 per cent fall in income tax revenue between 2007 and 2009.

2.3.2 Lenders

As the Irish housing market began to decline from 2007, the projected loan losses of Irish banks and building societies also grew and all except one reported large operating losses in 2008/09. Thus, as concerns about their over-exposure to property loans increased, they experienced a flight of customer deposits and following the international credit crunch which emerged in 2008, the Irish banking sector experienced significant difficulty in accessing the wholesale money markets (International Monetary Fund, 2010).

In response, the Irish government introduced a series of radical measures to stabilise the banking sector. These commenced in September 2008, when it guaranteed the full value of all deposits in all six Irish-headquartered banks and building societies and the bulk of their other debt (Department of Finance, 2008). Later the same year, the Government commenced a recapitalisation programme for this sector, the scope of which has increased incrementally since then, with the result that two lenders were fully nationalised and the State took on substantial shareholdings in three others (National Treasury Management Agency, 2009). Also in 2009, the Government established the National Treasury Management Agency (NTMA) which was tasked with acquiring the large property-development related loans (of €5m+) of the five banks and building societies which required recapitalisation (Daly, 2010).

The banking crisis also contributed to a dramatic fall in mortgage lending which further reinforced deflationary trends in the housing market. Table 2.1 demonstrates

that the number of new mortgages granted fell from 111,300 in 2006 to 53,600 in 2008 and real-estate related lending fell concurrently from 72.0 to 58.0 per cent of total lending. This development was driven by the withdrawal of one of the nationalised mortgage lenders (Anglo Irish Bank) and a number of foreign headquartered lenders from the Irish mortgage market.

In addition, the number of mortgage products offered by the remaining mortgage lenders declined significantly. Doyle (2009: 81, 88) reports:

By April 2009, the tracker mortgage had effectively disappeared for new borrowers... In addition, banks have introduced more fixed rate products and reduced the number of variable rate products.... LTV ratios have been reduced, while interest-only... mortgage products have effectively been withdrawn.

Notably, in a reversal of trends during the first half of the decade, since 2007 Irish mortgage lenders have begun to increase the interest rates charged on existing and new variable rate mortgages in an effort to improve their margins and rebuild their balance sheets. It is this development, rather than an increase in the European Central Bank base rate, which drove the increase in average interest rates on new mortgages between 2006 and 2008 (see Table 2.1).

2.3.3 Borrowers

Rapidly rising unemployment, coupled with falling incomes among those in work due to tax increases and in many cases cuts in pay and/or working hours, as well as interest rate increases, has effected a marked rise in mortgage arrears among home owners and arrears on other loans and utility bills more generally (Russell *et al*, 2011).

Comprehensive mortgage arrears data are only available from the third quarter of 2009. These are set out in Table 2.3 below. This Table reveals that 3.3 per cent of

Table 2.3: Residential Mortgage Arrears and Repossessions in Ireland, September 2009-December 2010.

		Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Total residential mortgage loan accounts		794,609	792,885	791,047	789,814	788,745	786,164
Of which are:	91 to 180 days in arrears	8,504	9,418	10,504	11,641	12,423	13,170
	> 180 days in arrears	17,767	19,185	21,817	24,797	28,049	31,338
Legal proceedings issued for enforcement of the debt during quarter		481	233	161	170	210	297
Residences repossessed on foot of a court order during quarter		31	27	26	20	22	34
Residences voluntarily surrendered/abandoned by owners during quarter		79	74	64	66	59	72
Residences disposed of by lenders during quarter		22	35	32	45	54	42

Source: Central Bank (various years b).

mortgages were in arrears of over 90 days in Q3 2009. This increased to 4.1 per cent in Q1 2010 and to 5.7 per cent in Q4 2010. Additional data on restructured mortgages are also available for Q4 2010. These indicate that an additional 35,205 mortgage loans (accounting for 4.5 per cent of all mortgages) had been restructured by the end of this quarter, but were not categorised as being in arrears (Central

Bank, various years b). In 38.3 per cent of cases, they had been restructured to enable borrowers to pay interest only on the loan. The other most common restructuring arrangements include: reduced payment (greater than interest only) (15.0 per cent), reduced payment (less than interest only) (13.4 per cent), extension of the term of the loan (12.2 per cent) and capitalisation of arrears (11.9 per cent) (Central Bank, various years b).

These data only include lenders regulated by the Central Bank. The principal sector excluded is local authorities, which provided only 0.1 per cent of loans by value between 2000 and 2006 (Department of the Environment, Heritage and Local Government, various years). The available evidence indicates that arrears in this sector are high and growing. Local authorities collected 88 per cent of the mortgage payments owed to them in 2006 and the equivalent figures for 2007, 2008 and 2009 are 87.9, 86.9 and 83.48 per cent respectively (Local Government Management Services Board, 2009).

In view of the very high proportion of mortgages in arrears or subject to restructuring, levels of repossessions have remained surprisingly low to date. Table 2.3 reveals that 110 residences were repossessed on foot of a court order or voluntarily surrendered/abandoned in Q4 2009 and the equivalent figure for Q4 2010 is 106. The rate of repossessions in the UK during 2010 was seven times higher (Mortgage Arrears and Personal Debt Expert Group, 2010a). The modest repossession rates in Ireland are due primarily to the Government interventions described later in this chapter. In the absence of these, Goldman Sachs Global Economics (2010: 5) estimate that Irish repossession rates would be four times higher.

Falling house prices have also had a very severe impact on household wealth – the vast majority of which is made up of housing equity. Using the house price data set out in Table 2.1, Duffy (2009) estimates that 9 per cent of mortgage holders were in negative equity by the end of 2008. This rose to 18 per cent by the end of 2009 and 30 per cent by the end of 2010. This analysis indicates that levels of negative equity in Ireland are similar to those in the US (where 10 per cent of mortgages in single family dwellings were in negative equity in 2008) and the UK (7 to 11 per cent of owner occupier mortgages were in negative equity in the same year) (Hellebrandt *et al*, 2009; Ellis, 2008). However, Duffy's (2009) estimates do not include mortgage top ups or interest only mortgages and they are based on conservative estimates of scale of house price decline, which indicates that negative equity is more widespread than he suggests .

2.4 Policy Response

The growth in mortgage arrears and negative equity which has followed the housing market and economic bust has inspired a number of policy responses. The most significant of these involve forbearance on mortgages for principal primary residences which are in arrears and limits on the penalties which can be applied to these accounts. These arrangements originated in a voluntary code of practice which was adopted by all mortgage lenders operating in the Irish market in 2008 and was placed on a statutory footing in the *Code of Conduct on Mortgage Arrears* (CCMA) introduced in February 2009 (Central Bank, 2009). The CCMA introduced a moratorium on the initiation of court proceedings for the repossession of primary residences for six months after mortgage arrears first arise. The duration of this moratorium on repossessions was subsequently extended to 12 months in a review of the CCMA published in February, 2010 (Central Bank, 2010b).

In the same month, the Minister for Finance established a Mortgage Arrears and Personal Debt Expert Group (2010b: 3) tasked with ‘...Making recommendations on...options for improving the current situation of families with mortgage arrears on their principal private residence and with personal debt’. In its *Interim Report*, this Group recommended that the duration of the moratorium on repossessions should not be extended, but that its scope should be widened to include credit unions and local authorities and the CCMA should be amended to make provision for a

Table 2.4: Key Features of the Mortgage Arrears Resolution Process

- All lenders must develop a MARP to provide a framework for handling arrears and pre-arrears cases. They should publish the MARP procedures.
- All lenders must publish the types of forbearance that are available under MARP and the guidelines they are employing for decision making on which approach is appropriate for typical sets of financial circumstances.
- Under the MARP, lenders must agree appropriate forbearance with each borrower, following an assessment of the full circumstances and characteristics of each borrower. However, where it is concluded that the mortgage is unsustainable, forbearance is unlikely to be appropriate and voluntary surrender may then be necessary.
- The CCMA 12 month protection from legal action should not apply to borrowers who refuse to co-operate with the MARP.
- A Standard Financial Statement should be developed for use by all lenders and MABS. This should be used to assess a borrower's financial position and to identify the best course of action.
- Borrowers, lenders and State bodies should take the necessary steps to ensure that all appropriate documentation to corroborate the SFS is made available.
- The MARP agreements and the SFS information must be subject to periodic review by the lender and the borrower.
- All lenders must establish a centralised and dedicated Arrears Support Unit (ASU) to manage pre-arrears and arrears cases under the MARP.
- ASUs must maintain appropriate contacts with MABS and the Departments of Social Protection and Environment, Heritage and Local Government to ensure effective communication on arrears and pre-arrears cases.
- Lenders must provide training and issue regular internal communication to front line staff on how to deal with borrowers in financial difficulty.
- Lenders must proactively carry out regular assessments of existing customers to identify those experiencing or likely to be at risk of financial distress in order to target communication efforts to offer assistance and encourage participation in the MARP.
- Lenders must put in place management information on case handling under the MARP and report to the Financial Regulator on a quarterly basis.
- The complaints handling procedures of the Consumer Protection Code should apply to the CCMA, including the decisions of the ASU relating to the application of the lender's MARP. Thus, borrowers unsatisfied with the implementation of the MARP by their lenders can appeal to the Financial Services Ombudsman.

Source: Mortgage Arrears and Personal Debt Expert Group (2010b)

Mortgage Arrears Resolution Process (MARP), which is intended to provide a framework for the management of mortgage arrears and potential arrears cases by lenders (see Table 2.4 above). In addition, the Group recommended that lenders should not impose arrears charges or penalty interest on customers who are participating in the MARP, should not require borrowers in arrears to move to less advantageous mortgage products (such as from a tracker to a variable rate mortgage) and should not engage in excessive or intimidating communication with borrowers (Mortgage Arrears and Personal Debt Expert Group, 2010b).

The *Final Report* of the Mortgage Arrears and Personal Debt Expert Group (2010a), which was published in November 2010, focused on other solutions to the mortgage arrears crisis such as: advanced forbearance, the provision of alternative accommodation and personal insolvency arrangements. In relation to the first of these issues, this report recommended that a formal debt forgiveness scheme should not be established. Rather, a Deferred Interest Scheme (DIS) should be put in place for householders who are in arrears but have 'sustainable mortgages' i.e. they can afford to pay at least 66 per cent of the interest on the mortgage for their primary residence (Mortgage Arrears and Personal Debt Expert Group, 2010a: 23). Under this arrangement, qualifying households would pay as much interest as they could afford and the remainder would be deferred (i.e. accumulate in a non interest bearing deferral account). This arrangement would last for a period of five years, or until the equivalent 18 months' interest accumulated in the deferral account. The Expert Group report envisages that affordability assessments would be carried out by lenders and their participation in the DIS would be voluntary. For households with

unsustainable mortgages, the Expert Group suggested that the social rented sector would be an appropriate source of alternative accommodation. It recommended that the relevant legislation should be amended to allow households in this category to apply for mainstream social housing prior to the repossession of their dwelling. It also suggested that the potential for leasing of repossessed dwellings by social housing providers and of a 'mortgage to rent' scheme be examined in more depth (Mortgage Arrears and Personal Debt Expert Group, 2010a). In addition, the Expert Group recommended that the Government should consider establishing a non-judicial debt settlement and enforcement system, which would provide an alternative to bankruptcy for individuals with unaffordable unsecured loans. It suggested reforming the personal bankruptcy legislation to reduce the costs of this option and to reduce the minimum period to discharge a bankruptcy from 12 to 6 years. These recommendations mirror the proposals contained in the Law Reform Commission's (2010) report on *Personal Debt Management and Debt Enforcement*, which was published in late 2010.

Most of the aforementioned recommendations of the interim Expert Group report were operationalised in a revised Central Bank (2010b) *Code of Conduct on Mortgage Arrears*, which was effective from the 1st of January, 2011. A notable exception is that the code was not applied to credit unions. The majority of Irish headquartered mortgage lenders have also voluntarily adopted the Deferred Interest Scheme as recommended in the Expert Group's *Final Report* and the Department of the Environment, Heritage and Local Government have recently made arrangements to enable households in mortgage to apply for social housing prior to the

Table 2.5: Mortgage Interest Supplement Take Up and Expenditure, 2000-2009.

Year	Mortgage Interest Supplement		Local Authority Mortgage Interest Supplement		Total		
	Claimants N	Expenditure €	Claimants N	Expenditure €	Claimants N	Expenditure €	Expenditure per claimant €
2000	2,726	4,250,000	1507	1,628,000	4,233	5,878,000	1388.61
2001	2,860	4,945,000	1204	1,398,000	4,064	6,343,000	1560.78
2002	3,296	6,426,000	1063	1,232,000	4,359	7,658,000	1756.82
2003	3,161	6,725,000	772	938,000	3,933	7,663,000	1948.39
2004	2,763	5,705,000	555	628,000	3,318	6,333,000	1908.68
2005	2,741	5,834,000	479	505,000	3,220	6,339,000	1968.63
2006	3,023	7,377,000	401	496,000	3,424	7,873,000	2299.36
2007	3,712	11,624,000	399	574,000	4,111	12,198,000	2967.16
2008	7,647	26,866,000	444	809,000	8,091	27,675,000	3420.47
2009	14,716	60,041,000	385	844,000	15,101	60,885,000	4031.85

Source: Department of Social Protection (various years)

repossession of their dwelling. However, to date, its recommendations in relation to reform of personal insolvency arrangements have not yet been actioned by Government.

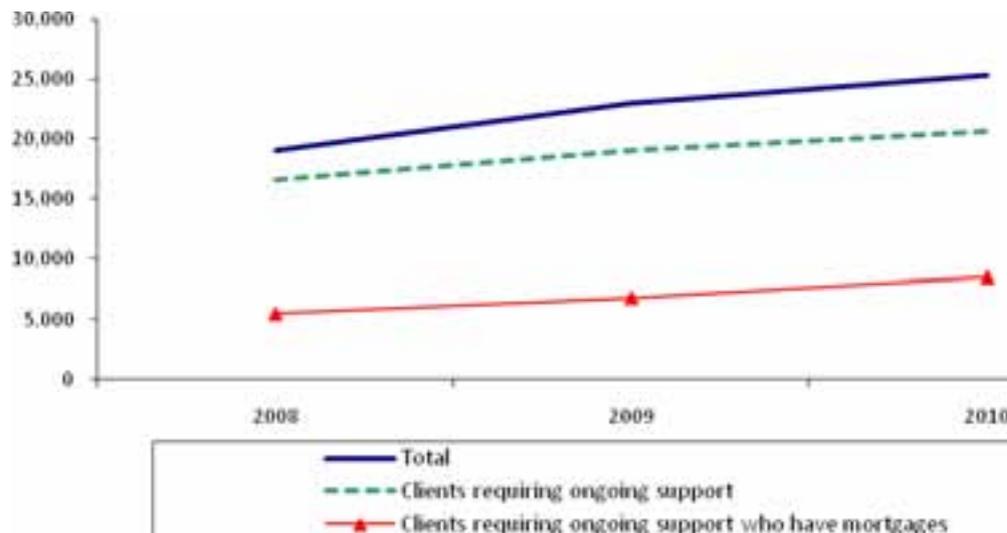
Rising mortgage arrears have also increased demand for Mortgage Interest Supplement, the principal government subsidy for households in arrears, which pays the interest proportion of their mortgages. Table 2.5 below reveals that take up of this benefit increased by 256 per cent between 2000 and 2009, but most of this growth took place post 2007. Notably, this growth was driven by an increase in claimants with mortgages from private sector lenders. The number of claimants with local authority mortgages (who receive Local Authority Mortgage Interest Supplement) fell by 74.9 per cent between 2000 and 2009. Total expenditure per MIS claimant expanded even faster than claimant numbers: from €1388.61 in 2000 to €4031.85 in 2009.

In July 2010, the Minister for Social Protection announced that a number of reforms would be made to MIS on foot of the recommendations made in the Expert Group's *Interim Report* and in a *Review of the Mortgage Interest Supplement Scheme* conducted by his Department (Department of Social Protection, 2010b). Some of these reforms are intended to liberalise access to the benefit, for instance: the rule preventing payment of MIS to couples where one partner works for over 30 hours a week and for properties which are for sale are to be removed. However, the Minister also announced that in future, MIS would only be payable for a maximum of two years. This was 'to ensure that [it]...does not impact on behaviour in terms of seeking or retaining work and it remains as a short-term scheme' and that the existing requirement that the Scheme would not pay above market rates of interest would be retained (Department of Social Protection, 2010a). At the time of writing, plans for the implementation of these reforms were still in preparation and have not yet been operationalised in practice.

The rise in mortgage arrears has also had significant implications for demand for the services of the Money Advice and Budgeting Service (MABS), which provides free, confidential and independent advice to people with money management and debt problems. Figure 2.4 below reveals that the number of new clients seen by MABS increased from 19,041 in 2008 to 25,274 in 2010 and of these, 16,660 required on-going support in the former year and 20,625 in the latter. Rising mortgage arrears was a key driver of the increased demand for MABS services, 33.1 per cent of clients requiring on-going support had mortgages in 2008, but this rose to 41.2 per cent by 2010 (Money Advice and Budgeting Service, various years). The number of

mortgaged MABS clients who are experiencing repayment problems was approximately 27 per cent in Q1 2009, compared to 22 per cent in Q1 2008 and 18 per cent in Q1 2006 (Money Advice and Budgeting Service, 2009b). In 2009, MABS

Figure 2.4: Money Advice and Budgeting Service (MABS) New Clients, 2008-2010



Source: Money Advice and Budgeting Service (various years).

also devised a joint protocol with the Irish Banking Federation (IBF), which represents most banks operating in the Irish market, regarding the management of personal debt. This protocol is intended to enable lenders and MABS staff to 'work together' effectively to help personal customers/clients to address debt problems and, whenever possible, to formulate a mutually-acceptable, affordable and sustainable repayment plan (Money Advice and Budgeting Service, 2009 a: 2).

MABS has made a number of contributions to the policy debate, locally and nationally. Waterford MABS ran a seminar on indebtedness in January 2003 to mark its 10th anniversary, at which a paper on the medical aspects of debt (Rowe, 2003) was presented.

MABS has made a number of contributions to the policy debate in pre-budget submissions. In its 2010 submission, (MABSndI 2010), MABS pointed to the need for medium term support for some people in difficulties with their mortgage and referred to restrictive eligibility criteria for mortgage interest supplement. It also suggested that it may be necessary to put in place a mortgage rescue/resolution scheme to avoid repossessions.

In response to an increase in the number of clients with mortgage difficulties from mid 2007, MABS has devoted resources to staff training.

In its 2011 submission (MABSndI, 2011), MABS called for lenders to be innovative and flexible and made a number of specific recommendations, which included:

- facilitating borrowers to move from a fixed rate to a variable rate mortgage;
- reducing interest rates for sub-prime borrowers in difficulty;
- allowing borrowers to dispose of their property themselves as an alternative to voluntary repossession
- making irresponsible lending a defence to borrowers

Most recently, the *Programme for Government* of the Fine Gael/Labour Party coalition government, which took office in March 2011, commits the government to examining a number of actions relevant to mortgage debt (Government of Ireland, 2011). These are detailed in Table 2.6.

Table 2.6: Mortgage Debt Provisions of the Fine Gael/ Labour Party Programme for Government, 2011

- Increasing mortgage interest relief to 30% for First Time Buyers in 2004-08 (from the current sliding scale of 20%-25% depending on the year the mortgage was taken out), financed in part by bringing forward the abolition of relief for new buyers from June 2011
- Directing any mortgage provider in receipt of State support to present Government with a plan of how it intends to cut its costs, over and above existing plans, in a fair manner, by a sufficient amount to forego a 25 basis point increase on their variable rate mortgage.
- Introducing a two year moratorium on repossessions of modest family homes where a family makes an honest effort to pay their mortgage.
- Fast-tracking personal bankruptcy reform needed to bring Ireland into line with best international standards, such as introducing a flexible discharge period for “honest bankrupts”, defined as persons who have materially complied with the Tax, NAMA and Companies Acts among others.
- Converting the Money Advice and Budgeting Service into a strengthened Personal Debt Management Agency with strong legal powers. The agency will support families who make an honest effort to deal with their debts, including non-mortgage debt, providing protection from their creditors where appropriate, so that they have time to sort out their affairs. In order to do so, the Personal Debt Management Agency will have quasi-judicial status.
- Making greater use of Mortgage Interest Supplement to support families who cannot meet their mortgage payments, which is a better and cheaper option than paying rent supplement after a family loses their home.

Source: Government of Ireland (2011).

Chapter 3 : Pathways Into Arrears

3.1 Introduction

This chapter examines the pathways into mortgage arrears followed by MABS clients, drawing principally on material from the in-depth interviews with members of these households. It opens with a discussion of interviewees' household characteristics and housing histories. This is followed by an outline of their borrowing decisions intended to sketch their 'Pathways into Debt' and an examination of their 'Pathways into Arrears', which examines the work situation, income and other developments which first propelled them into mortgage arrears. The final section of the chapter examines the impact that mortgage arrears have had on their lifestyle and personal and familial well being.

3.2 Housing and Households

The household characteristics and housing histories of the MABS clients interviewed for this project are summarised in Table 3.1 below. Interviewees were selected to reflect the characteristics of mortgaged households and households in mortgage arrears in the Irish population at large. Consequently, the interviewees include a variety of household types, including households with and without children, single people and couples and first time and repeat home buyers.

3.3 Pathways into Debt

3.3.1 Scale of Mortgage Debt

As would be expected in view of the variety of households included in this research, the scale of mortgage debt compared to income at the time the mortgage was drawn down varied significantly among interviewees.

The majority of interviewees who borrowed from mainstream lenders and paid standard or prime interest rates on their mortgage felt that their borrowing decisions were reasonable and their mortgage payments sustainable at the time when the mortgage

Table 3.1: Characteristics of MABS Clients Interviewed

MABS Office		Arklow	Blanchards Town	Cork City	Dublin City	Loughrea	Galway and Town	Tipperary	Tralee	Waterford
Households examined (N)		7	3	4	7	4	2	7	12	
Characteristics of households (N)										
Household type	One person	1	0	1	3	1	0	1	2	
	Couple no children	0	0	0	1	0	0	0	1	
	Couple with children	6	3	3	3	2	0	3	9	
	Lone parent with children	0	0	0	0	1	1	3	0	
Borrowing History	First time buyer	2	3	2	4	3	1	6	6	
	Previously owned a dwelling	5	0	2	3	1	1	1	6	
Equity in dwelling?	In negative equity	3	1	3	3	2	2	3	4	
	Value exceeds outstanding mortgage	4	0	1	3	0	0	0	6	
	Unsure/ not stated	0	1	0	1	2	0	2	2	
Type of mortgage on principal residence	Fixed rate	1	0	0	0	0	0	0	0	
	Variable rate	6	1	2	5	3	2	7	10	
	Sub-prime	2	3	2	3	1	1	4	6	
	Prime	5	0	2	5	3	1	3	6	
	Top-up mortgage/ debt consolidation	2	1	1	2	1	0	1	3	
	100% mortgage/ deposit borrowed	1	0	0	1	0	0	0	0	
Mortgage arrears	Mortgage currently in arrears	6	2	1	6	4	2	4	8	
	Mortgage at risk of arrears	0	1	2	0	0	0	0	3	
	Mortgage restructured with the agreement of the lender	5	2	1	6	3	1	3	8	
	Dwelling is in the process of being repossessed	2	0	0	0	0	1	0	1	
	Dwelling has been repossessed	0	0	0	0	0	0	0	1	
Main reason for arrears	Family breakdown	0	0	0	0	0	1	0	1	
	Unemployment	6	1	4	4	3	1	7	8	
	Other reduction in income	1	2	0	3	1	0	0	2	
	Ill-health	0	0	1	0	0	0	0	2	
Additional debts	Buy-to-let/second home mortgage(s)	0	0	0	0	0	1	0	2	
	Other unsecured debt	6	2	4	5	3	2	6	12	
Social security support	In receipt of Mortgage Interest Supplement	3	1	1	1	1	0	2	3	
Current income	All earned	2	1	2	4	2	0	1	7	
	Mix of earned and social welfare	2	1	0	1	0	2	2	0	
	Social welfare only	3	1	2	2	1	0	4	5	

was taken out. In this vein, a Waterford interviewee stated:

We bought the house four or five years ago with a mortgage of €130,000. When we got the mortgage, I was working in construction, earning approximately €900 per week and my wife was working part time earning approximately €250 per week. We never lived beyond our means.

Meanwhile an interviewee from Arklow explained:

I had a good job, a good salary... there was no difficulty in getting finance to build the house. But I was probably naive enough to think that I would always have the job that I had and that I would continue working for them until I was 65. Unfortunately, that didn't turn out to be the case.

A minority of interviewees admitted that in retrospect, their mortgage or unsecured borrowings were never sustainable. For instance, one young single male admitted he was panicked into buying his home:

In 2006, there was so much pressure to buy, the prices were going through the roof. In one month, the price of a two bedroom became the price of a one bedroom. In summer 2006, I stupidly bought in a place called Athboy which is about 30 miles from Dublin.

A married couple admitted to never having made a monthly payment on their mortgage:

Really and truly, we didn't know what it was like to pay a mortgage because [soon after the mortgage was drawn down]. We got this lump sum [redundancy payment] and we put it into the mortgage and that would pay it off every month....It was at the back of our mind; then we never had to worry about it because we knew there was money there to pay the mortgage. That went on for around a year and a half, two years.

3.3.2 Sub Prime Lenders

The majority (but by no means all) of the interviewees who admitted to having mortgages which were never affordable had borrowed from sub-prime lenders. The sample of households under examination here contains a large proportion of borrowers from these agencies. As mentioned in Chapter Two, sub-prime lenders account for only 0.5 per cent of outstanding mortgages by value in Ireland currently, but 22 of the 46 households interviewed for this study borrowed from agencies of this type. This reflects the very significant increase in sub-prime borrowers among MABS clients in recent years. Between 2008 and 2009, the amount of mortgage and other debt owed by MABS clients to sub prime lenders increased by 82.5 per cent (Oireachtas Library and Research Services, 2010).

Some of the sub-prime borrowers interviewed were first time buyers who had been refused credit from mainstream 'prime' lenders for various reasons. For instance, an interviewee from Waterford stated: '...we went to Start Mortgages at the time because - we went to our own bank and I actually had arrears on my rent, which went against me'. Meanwhile, another interviewee, who was a client of the Blanchardstown office of MABS, reported:

In 2007 I tried for a house in many places. I couldn't get a loan. I talked to an accountant who said he would look after everything. He would introduce me to a broker who would arrange the mortgage. He took me to the [sub-prime lender]. At that time, my wife didn't have full residency. [Sub-prime lender] said a normal bank won't give you a loan because your wife doesn't have residency and because your income is not high enough.

Other interviewees had originally borrowed from mainstream lenders but remortgaged with sub-prime lenders. As is illustrated in the following quotations from interviews with MABS clients, this course of action was selected for one of three reasons: because interviewees were in arrears on their mainstream mortgages, to generate revenue to subsidise a business in difficulties or to consolidate unsecured debts.

We missed a few payments with [prime lender], which wouldn't have been the end of the world. We come from a generation that is terrified of banks. We should have gone to [prime lender] but we kept on getting these letters on remortgaging: are you in difficulty, are you in arrears, we'll wipe it all clean, don't worry about it. We should have stayed with [prime lender]. They never came near us. We should have sat down with them.

... It originally started off as quite a small mortgage [from a prime lender].... [but we had] other debts as they call them. There was [credit company], [bank loan], [credit company] and there were a couple of others, I haven't a clue, a couple of smaller ones and they were all paid off with the mortgage from [sub-prime lender] in 2005.

We still didn't have enough money and the [prime lender] wouldn't give us any more and we still hadn't finished it [completed their house]. A friend who was a mortgage broker said 'I don't recommend it really, but it'll be a quick way of getting money for a short time', and that's what it was always going to be, just for a few months, maybe 12 months. So we went with this crowd [sub-prime lender] and got €300,000 which paid off all the other loans.

3.3.3 Multiple Indebtedness and Debt

Consolidation

A notable feature of the households examined in this research is the extent of multiple indebtedness, as interviewees generally had unsecured debt in addition to mortgage debt. They also had to deal with the pervasiveness of consolidation of unsecured debts into mortgages and of remortgaging which generally involved an increase in amount owed.

Table 3.1 demonstrates that the majority of interviewees had multiple, unsecured debts in addition to their mortgage – only six of the 46 households examined were not in this category. Among households with multiple debts, credit unions were the most common source of credit, closely followed by personal loans (generally for the purchase of cars) and credit cards. This reflects the growth in unsecured borrowings in Ireland in recent years (see Table 3.2) and trends in this type of borrowing among the population at large. Data from the Irish Financial Capability Study indicates that 14 per cent of households had credit union loans in 2007/2008, while 8 per cent had personal loans and 3 per cent owed money to mail order catalogues (O'Donnell and Keeney, 2009). The focus group interview with MABS money advisors also indicates that multiple indebtedness is the norm amongst clients. For instance, one of the money advisors interviewed reported: 'I would find the same; we would have a lot of multiple debt', while according to another:

What you do find is that people who have difficulty with their mortgage, tend to have experience of borrowing in all areas. You know they would borrow for a car, borrow for a holiday, have a credit card balance and be paying a minimum amount. So their practices would be to have access to credit at all times’.

Table 3.1 Non Mortgage Personal Debt Owed by Irish Residents, 2000-2010

Category	2000 €M	2002 €M	2004 €M	2006 €M	2008 €M	2010 €M	% Change 2000-2010
Instalment credit/hire-purchase/leases	3,337	4,720	3,595	3,659	3,651	2,461	-26%
Loans up to and including one year	23,651	21,933	19,834	32,381	58,679	55,789	136%
Other	3,901	3,027	3,723	3,861	10,440	40,748	945%
Outstanding debt on credit cards	1,079	1,461	1,898	2,407	2,820	3,034	181%
Overdrafts	7,798	7,632	6,966	7,389	8,104	8,770	12%
Repurchase agreements	172	752	921	457	1,615	763	344%
Term/revolving loans	38,009	60,440	67,510	95,382	137,345	130,434	243%

Source: Central Bank (various years).

Eleven of the MABS clients interviewed had re-mortgaged to release equity from their dwelling and/or roll up debts into the mortgage. The Irish Financial Capability Study indicates that 13 per cent of households had remortgaged their current properties in 2007/2008 (O'Donnell and Keeney, 2009). Among the MABS clients under examination here, consolidation of debts was most common among households trading up to a second or subsequent home, although as the following quotation from an interview with a first time buyer from Tralee indicates, this was not always the case:

[Sub prime lender] were advertising on TV about putting all your bills into one loan, sorting all your debts out and having a cash sum for yourself at the end of it. I suppose I was very naïve thinking that would be the answer. So I applied and I was shocked when they said I could have a mortgage.

The vast majority of the interviewees who consolidated unsecured debt into a mortgage had done so using a sub-prime loan.

Among interviewees, remortgaging to release equity was commonly used to improve or complete their dwelling and in two cases to buy a former partner or spouse's share of the equity following relationship breakdown. A number of interviewees also remortgaged to expand their businesses or to subsidise failing businesses, some with mainstream lenders, others with sub-prime lenders. In many cases, interviewees in this category had relatively modest borrowing prior to remortgaging.

For instance, an interviewee from a farming background explained:

I'd fallen back with the AIB on payments I had on farm equipment. And I owed them €70,000, so I decided to remortgage the house. I thought it would be the easy option for getting out of the hole. Plus the fact that I was I had a pretty reasonable, good income.... I remortgaged the house, which was valued at €360,000, for €165,000 and paid the AIB €70,000 out of that, that I owed them. And my wages from the [off farm] job went straight into that [paying the mortgage], while I was still developing the farm, still working my butt off. And my plan was to get up to 50 dairy cows. I had all the donkey work done. I had all the facilities in place at this stage paid for. I was going grand.

A married couple from Cork reported:

We cleared the mortgage on our house before 1999. It wasn't big, it was only €40,000. So in 1999, we had no mortgage on the house. An opportunity came up to open a business, so obviously we had to borrow money, so that started it; we borrowed money against the house. Over subsequent years, as the business was doing well we borrowed and added on, so we ended up with quite a large house.

3.3.4 Mortgage Brokers

Not all of the interviewees clarified whether they had used the services of a mortgage broker, but a substantial minority mentioned that they had. This reflects the increasing use of mortgage brokers in Ireland in recent years; the Irish Financial Capability Study indicates that 40 per cent of mortgage holders had negotiated their loans via professional advisors such as brokers in 2007/2008). It also reflects the large number of sub-prime borrowers among MABS clients (sub prime lenders generally have no branch network and rely entirely on brokers to sell their products) (O'Donnell and Keeney, 2009; Central Bank, undated).

Several interviewees reported very positive experiences of using mortgage brokers' services. For instance, a broker negotiated with a mortgage lender on behalf of one interviewee who had accumulated substantial mortgage arrears. She claimed 'I believe only for him [broker] fighting our side, I believe that the house would have been taken'.

However, others complained of poor advice from mortgage brokers and three interviewees made serious allegations of malpractice against them. One interviewee, whose dwelling was in the process of repossession by a sub-prime lender, alleged that the broker who negotiated the loan had done so using inaccurate documentation regarding the profitability of the family business:

The accountant said they [prime lender] weren't such a great crowd to get involved with. . So then he advised us... to go to a different mortgage company. So in the meantime [we] wanted to expand the business a bit more and that was 2007 ok? [we] expanded a bit of course and there was other things – [debt from commercial finance company, unsecured personal loans] machines, vehicles - there was a whole load of things [rolled into the new mortgage]. The lady in [mortgage brokers] she secured that and I really have no idea how she did it because the figures could have been pulled out of a fiction novel like, I don't know how it was done.

An interviewee from Dublin made similar allegations:

The next thing was I didn't have any proper accounts because I didn't have an accountant... Conversations probably took place between the bank and mortgage broker... that I wasn't even aware of. They didn't need an accountant, they didn't need accounts; they just needed a letter saying that things were looking good. And that's what I got, I got a letter from an accountant who hadn't done my accounts, who just said Mr [X]'s business looks very good, and that was it. And then I got the mortgage approved.

As did an interviewee from Waterford.

We went to [a mortgage broker] for a top up [of prime mortgage]. She said 'no, your credit rating is gone' [impaired] and she hadn't checked at the time and she put us to a sub lender [organised a remortgage with a sub-prime lender]. She took us from a bank to a sub lender and told us that within six months she'd get us back to a bank [refinance again with a prime lender]. So we said fine.... And when we went six months later to go back to the banks, no bank would touch us.... We're stuck with 'em [sub-prime lender] with something like 10 or 12 or 13 per cent [interest on the mortgage].... We later found out then through MABS that our credit rating was fine; we didn't have to go near them [sub prime lender] at all. If we'd knew [prime lender] would have topped us up that time, we wouldn't have went anywhere else or done anything else.

The money advisors interviewed were unanimous in the view that mortgage brokers played a role in poor lending practices and over borrowing. This view is illustrated by the following quotations from interviews with money advisors based in two different urban centres in Munster:

Certainly in [name deleted] we would have had quite a number of sub-prime brokers, who were brokers involved in introducing people into the sub-prime market. These people were supposedly solving all their problems. We've had a lot of people coming into us asking 'could I put all my debts into one'. A lot of people have done that and the family home has been involved as well. Most of them would be in arrears within 3 or 4 months and would never, never remotely have a chance of paying those mortgages. That's our experience. They [brokers] promised that after 12 months they could get a normal mortgage, but give them [borrowers] one month and they're in trouble straight away. Your credit rating is affected and you're stuck on a sub-prime mortgage indefinitely'.

I have many examples of brokers who were encouraging people to borrow. Their job as they saw it was to get the absolute maximum, not to get what you needed at all for the house but to get more and more and more, then, whatever you needed for the house [the broker would say] 'are you sure you don't want more money than that' and that's what's happened. Then really, they organised loans way beyond what the person actually needed and way beyond what they could afford to pay back'.

The money advisors also raised concerns that, following the collapse of mortgage lending, some former mortgage brokers had established debt advice and negotiation businesses. They argued that regulation of private debt negotiators is urgently needed.

3.4 Pathways into Arrears

3.4.1 Unemployment

As Table 3.2 demonstrates, for the vast majority of interviewees, the key driver of the arrears was the loss of employment, or the failure of self employment. This reflects the research evidence from other European countries, which indicates that mortgage arrears is the result of loss of employment income in the vast majority of cases (eg. Kempson *et al*, 2004).

In a number of cases, such as the following interviewees from Dublin and Waterford, both adults in the household were in employment but both were made redundant:

We were paying the mortgage perfectly for two years. Then for the last eighteen months I've been unemployed. My husband lost his job a year before me. I started to go into arrears 18 months ago.

We were both working when we got the mortgage; then I was let go in 2006, then after a year [my husband] was let go too. With the two of us on social welfare, we just couldn't keep up. In 2007, we were getting bad into arrears and I remember my mother and father actually paying €5,000 off our arrears that time. I remember thinking 'we just can't keep going like this'; we knew we weren't going to be able to pay it.

In other cases such as the following quotes from interviews with a lone parent and a married father of three, the sole earner in the household became unemployed:

I worked in a photographer's, six days a week, getting €650 per week clear. It was good money, so you wouldn't miss €150 for the mortgage. Then it went to three days a week, then I lost the job. I've now been unemployed for two years. I started getting into arrears with the mortgage about three years ago. I was about a year in the house when my job started to go down and then I was getting into arrears. I was only paying what I could ... then when I lost my job completely I went months without paying my mortgage at all because I couldn't afford to pay it

My position was made redundant in April 2007. I was given a small redundancy package. I looked for other work but couldn't find anything. I've worked in newspapers since I was 16 as a printer and came up through the ranks. The down turn had started so lots of newspapers were down-sizing and the chance of getting job on another newspaper was very small.

3.4.2 Failure of Self Employment

A significant number of interviewees fell into mortgage arrears because of the failure of self employment resulting in the closure of their business. Unsurprisingly, in view of the radical decline in construction activity and employment, outlined in Chapter Two, many formerly self-employed interviewees had worked in this industry.

Failure of self employment had a particularly acute impact on mortgage arrears for a number of reasons. Firstly, as the following interview quotations illustrate, many of the formerly self employed people who participated in the research found themselves ineligible for benefits when their businesses closed.

Then my husband hurt his back and had to have an operation and has been sick really ever since. And because he was self employed, we weren't entitled to Disability Benefit or Disability Allowance or Family Income Supplement.

Unfortunately, when you are self employed in this country, you are on your own out there, you've no help, if things go belly up, forget about it. In addition, many others had remortgaged their homes or taken on unsecured debt to keep the business afloat or to cover household bills when the income from their business was insufficient to do so. An interviewee from Arklow was in this situation:

The likes of credit card bills and things like that, you know. People would look that the balances on those and think I lived a mad extravagant lifestyle, but we haven't left this country since 2006, that was when we had any sort of a family holiday or things like that. Purely and simply, a lot of the debt I got into was through the business I was in, between car repairs and weeks where the wages just wasn't coming in, you might have to use a credit card to feed the family.

3.4.3 Income Reduction

A smaller number of interviewees were in arrears because of a sharp reduction in income. A minority of these were employees, such as a public servant who fell into arrears when ‘... we started getting the pension deduction levy and income levy all out of my salary’. However, this problem was more common among self employed interviewees. For instance, a farmer from the west of Ireland reported:

Down through them years, when I was depending on the farm, I could fall two or three months in arrears, but I was always able to get it back. I was struggling away like that, and the next disaster was BSE first, then foot and mouth. And the farm income dropped.

While the wife of a self employed plumber told us:

Probably the worst thing we ever did was [husband] going self employed, because he used to spend two days a week asking people for money and we had bills to pay and we were constantly arguing because we just never knew where we stood with money and how much would be coming in every week and that is kinda how we got in trouble, we were living ahead of ourselves all the time. So if [husband] took in €1,000 on the 1st of May and then didn't take in another €1000 until the end of May, we were always thinking ‘will we pay that, will be pay this’ and it [debt] just started to build up and build up...

3.4.4 High interest Payments

Three interviewees fell into arrears, or were at risk of arrears, due mainly to the very high interest rates charged on their loans. Two households in this category had loans from a sub-prime lender, the third had a long-term fixed rate mortgage from a prime lender. As the following quotation from an interview with one of these householders indicates, in each of these cases, mortgage payments would have been affordable if a standard market interest rate had been levied:

They offered me an interest rate of 6.8 per cent... That was at the end of 2007. So I got a loan from them. Then I saw my interest rate start to go up. It became 6.8 per cent, 7 per cent, 7.2 per cent and it was just going mad....Then I saw the recession coming. All interest rates from [mainstream] banks were dropping 3 per cent - 2.5 per cent and mine was increasing.

3.4.5 Personal and Family Problems

For a minority of the householders interviewed, factors unrelated to the collapse of the Irish economy triggered their mortgage arrears. For two interviewees, their gambling addiction was the trigger. One of these explained:

My financial problems started in '02, when I was gambling. I wasn't in arrears on the first mortgage - I wouldn't have got a remortgage if I'd been in arrears. It was a remortgage with mortgage broker... You ring them up and say you're looking to remortgage and they basically do the deed for you. So I switched lender from [a prime] to [a sub-prime lender]. I didn't get any cash – the new loan cleared all the loans I had. The loans were probably around 20 grand at that stage so they were cleared. It's a 20 year loan because I wanted to pay it off as quickly as I could. Then in March '05, I increased the term of the loan to 24 years because I was gambling and wanted to reduce the payments.

One interviewee fell into arrears while off work due to a depressive illness and another interviewee attributed her arrears to bullying at work, which led to her going on sick leave and taking legal action against her employer, thereby reducing her income and generating significant legal costs. For two female interviewees in employment, marital breakdown was the sole trigger of the arrears. Following the breakdown of their relationships, their former husbands refused to contribute towards the cost of the mortgage.

3.5 Interviewees' Reflections on these Pathways

When asked to reflect on their pathways into debt and into mortgage arrears, their regrets and the lessons learned, interviewees had a variety of responses. Some emphasised their own role in their debt problems, others emphasised the responsibility of the lenders and professionals involved in lending decisions.

As the following quotations from interviews with clients of MABS offices in Tralee and Arklow demonstrate, a large proportion of interviewees emphasised their personal responsibility for their borrowing decisions:

The bottom line is we borrowed the money and we're responsible for it. We didn't have to take the money; we didn't have to buy a house. We decided to get on the mortgage ladder. So we have to look at ways in which we can get out of it.

No-one forced me to get a mortgage; I'm the first to admit that. But the flipside to that is that I was working and I was able to pay it.

It was €250,000 of a mortgage and my salary at the time would have been between €50,000 and €60,000.... It was the way things were going at the time [large borrowings] and I bought into it as much as anyone else did and I take responsibility for that too.

Other interviewees emphasised how much they regretted their decision to purchase, renovate or extend their home:

I first applied for a mortgage in 2006. I was a council tenant for over 20 years with the council. I thought by getting on the property ladder I would improve our lifestyle but it's done the exact opposite.

Looking back now, I wouldn't have got the extension. I wouldn't have touched it. I would have left it.

I would never have moved. I loved where I was. I'm not someone who has to have what the next door neighbours have, I'm not like that.

I regret buying it. I would have been better off if I'd got a council house. What do they pay, €20/€30 a week? I'd have been better off.

I wish I'd never got a mortgage. The house is only worth €130,000 now. It went up to €240,000. All your money, you could have been renting the place, what difference would it have made? You could walk away from it, y'know. You think you're doing right at the time.

Some interviewees also explained that they didn't understand the consequences of their borrowing decisions. In this vein, for instance, an interviewee from Waterford said:

This is where our problem is, neither of us understood what we were getting ourselves into. If one of us had had a bit of a clearer head we might be better off, but we have to go with it now

A significant minority of interviewees proffered an alternative analysis. They emphasised the lenders' culpability in poor lending decisions and highlighted the imbalance of knowledge between borrowers and lenders and the uneven distribution of the consequences of poor lending decisions. The following quotations from two interviewees from Dublin and an interviewee from the border countries address the latter argument:

I have a legal and moral responsibility to pay this [debt] back. I accept that. But I also think the banks have a moral and legal responsibility for getting us into the position we're in. But they seem to be walking away scot free. I can't. They can. That to me is completely immoral. But in a court of law it's not measured that way. And I will lose every time, because in a court of law you can't take account of my emotional, my personal, feelings.

I think that's a question that the banks have to ask themselves ... especially since this economic downturn ... is largely the responsibility of getting us to where we are now ... but they seem to want to walk away from it. And the small people like myself who are caught in a negative equity trap and unemployed ... we're hounded by people coming to take our houses ... and to take their identity and take their lives ... and some people see no way out ... [apart from]... jumping off a bridge or whatever

We're told we have to tighten our belt. We hear about the banks still getting their bonuses. They still get bailed out. It isn't bloody fair, so it isn't

In relation to lenders' culpability in poor lending decisions, the point that 'money was too easy to get' was also commonly raised by interviewees, while some interviewees complained that lenders, the government and other relevant professionals such as mortgage brokers had failed in their duty of care by not explaining the consequences of their borrowing decisions:

I wasn't educated about buying property and I think that was the biggest thing. But they don't want to educate people on buying property because they were getting too much money and the government and they got very greedy.

Nobody explained to me sub-prime mortgage. I signed the contract but I'm not Irish or English and nobody told me what I was signing.... I asked them did they follow the European Bank [ie. did their interest rates track the ECB base rate] and they said 'yes', and it was wrong. At that time all the [mainstream] banks were giving 4 per cent or 5 per cent around this, so I said okay if I take 6.8 per cent [from the sub prime lender] I will pay 1½ per cent more than the normal bank and this gap would always be with me. But I didn't know that the bank [prime interest rate] might reduce to 2 per cent in the recession but [sub-prime lender rate would] increase to 8 per cent and the gap will be 6 per cent. I didn't know this; nobody explained.

They [creditors] were too good to me. You could ring the Credit Union and say I need so much money and they would just hand it over. They were too easy when it comes down to it now.

In the group interview conducted with MABS money advisors, they also emphasised the failure of many of the professionals involved with their clients to adequately protect clients' interests. They complained in particular about the lack of business advice provided to self employed people. In this vein, one money advisor made the following point:

I think the advice out there has been nonexistent, I mean Paul Joyce from FLAC has said we're [MABS] the only show in town like. Very often self employed people come into us ... their business should have stopped long ago. Accountants never wanted to give them advice, their own accountant, who they were paying a fortune, would never advise them, their solicitors would never advise them.... Their business should have closed years ago. Now they're closed they've run up massive debts, trying to keep something going [their business] that should never have been kept going [was not viable].

3.6 Personal and Familial Impact of Arrears

The vast majority of interviewees reported that their mortgage arrears and other debt problems had very negative impacts on their lifestyle and their personal and familial well being. This confirms the findings of other research, including other research on MABS clients which links debt problems with marital, familial and health problems (Edwards, 2003; Women's Health Council, 2007). A minority of the MABS clients interviewed for this study had a more philosophical attitude to their situation and felt that it had taught them to keep their difficulties in perspective, or that they had faced greater problems in life.

3.6.1 Personal Well Being

In terms of personal well being, as the following interview quotations demonstrate, the predominant impact reported was stress, resulting in mental health difficulties:

When you're under savage stress and strain, you don't see the wood for the trees. It's a real problem doing the basic arithmetic when you're under so much stress.

I've got these big massive bills that are going to take a long, long time to get rid of, which is a really big weight on the shoulders when I think about it, I there thinking to myself 'how am I going to do it?'

It didn't affect my health in a physical way, more a mental and emotional way. Because I remember thinking that I can't believe that I'm getting so stressed. Not being able to sleep, being cranky with my husband and son, not having a very good appetite.

I don't sleep. I haven't slept for 18 months. It's a huge worry, there's no doubt about it. You wouldn't worry about anything else, but the roof over your head is the one thing that everyone does worry about.

I come across as angry and embittered about it ... but I think I have a right to be.

A significant minority of interviewees reported that the stress generated by their indebtedness problems had negative implications for their physical health. For instance, an interviewee from Tralee explained: 'My health was definitely affected by all this. And do you know why? Risk factors are: heredity; diet; sedate life style; stress. Stress is an absolute killer'. An interviewee from Cork stated: 'It put me under pressure definitely ... I have a hernia that needs to be operated on now, and bowel disease ... which is stress related, no doubt about it'.

For a minority of interviewees, the stress generated by their mortgage arrears led to serious mental health difficulties. For instance, several interviewees told us that they had been prescribed medication for depression. In this vein, an interviewee from Tralee mentioned:

I've started to get depressed ... my doctor has me on anti-depressants ... Prozac. He says half the world is on them. They help you not to over worry. If I need sleeping tablets I ask for them.

An interviewee from Waterford told us: 'My wife's depression has definitely been made worse by our financial problems', while a lone parent from Tralee admitted:

I'm on anti depressants, I'm on sleeping tablets. Anxiety, panic attacks, I'm not sleeping. That's going on now for about a year and a half. I don't go out any more. I sit at home. I'm in my pyjamas by 5 o'clock in the evening.

One interviewee had to be treated as an in-patient in a psychiatric hospital, due to depression related to the impending repossession of her home, while another explained how his debt problems were one of the factors which had had led to a suicide attempt:

The Christmas of that year – 2007 – came and the pressure of that ... just barely able to get stuff together for the kids ... and fighting with the wife ... pressure got greater and greater.... And on the [date deleted] I tried to commit suicide. Everything seemed to cave in around me. I woke up the next morning in...hospital. I spent six months in the psychiatric unit as an outpatient, trying to get my head back together again.

3.6.2 Impact on Family and Relationships

The majority of interviewees also reported that their debt problems had negative impact on their relationships with their spouse or partner and children and undermined the quality of their family life.

In this vein, the mother of a young family graphically described the familial impact of her debt problems, as follows:

I was very conscious how it affected my 10 year old, very conscious because some days we'd [interviewee and husband] go into a different room to argue and I'd break down crying and he'd run and go 'stop arguing, please stop arguing'. And all of a sudden I'd think 'what effect is this going to have on him when he's older?' You know I keep on thinking of the repercussions of it. But I have to say since we sorted everything out [debt problems] we don't argue, like we used to. We used to kill each other; that's the truth. I used to say...'I hate [husband] so much; it is never going to work between us now, it's got so bad'.

A client of the MABS Blanchardstown office told us he worried about the impact of his mortgage arrears on his children because:

They [the children] are afraid, because they see the news. Our own nine year old son, he came and asked us last September, 'are we going to lose our house?' Kids shouldn't be thinking stuff like that.

Interviewees from Cork and Arklow admitted: 'It puts a fair strain on a relationship as well. So we've been working hard on holding our marriage together for ourselves.'

And:

I worked at it [self employed] for 100 hours a week some weeks and what I was bringing home wasn't worth talking about and it was soul destroying. I was majorly depressed all the time. It was starting to have an effect on all of us, even as a family...the kids weren't seeing me and everything else.... the stress and the pressure was just enormous, you know.

3.6.3 Lifestyle

All interviewees reported that the combination of the loss of their jobs and/or decline in their incomes, coupled with their efforts to pay off or continue to service their debts had a very negative impact on their lifestyle. As the following quotes from interviews with clients of the MABS Cork and Waterford offices illustrates, most interviewees lived in very strained financial circumstances:

We now have no arrears with the mortgage - we're bang up to date. We've nothing to live on, no social life, we buy the cheapest and most basic of food. We're lucky in that I have an old banger of a car.

We don't go out at all. Never go out. My eldest daughter was only saying it there last week, 'when was the last time you were out mammy?' And I said 'it was in 2008'.... Two or three pints is a loaf and a carton of milk and that's the way we look at it; you can't do it.

And we're not home drinkers. So we have no social life. You would miss it, oh God yeah, you get bored out of your tree. When you're thinking, 'Oh great X Factor on a Saturday night', how pathetic are we, when that's all we have to look forward to at the end of the week!

3.6.4 Positive Impacts

As mentioned above, a minority of interviewees had a more philosophical attitude to their experience of debt problems and mortgage arrears, as they felt that this was not the worst issue they had faced in life. Some even felt that their arrears problems had some positive consequences. For instance, two clients of the MABS Dublin office told us:

I have a different outlook now. I don't worry so much since I got sick. I realised that my health was the most important thing. The loan's only money.

When something hits you like that, it makes you look at things realistically. Alright, we won't be doing that. We'll cut this out, we'll cut that out. And that's what we did; we sat down and sorted it out.

Chapter 4 : Pathways Through Arrears

4.1 Introduction

This chapter employs material from the in-depth interviews with members of MABS client households, to examine their 'pathways through' mortgage arrears. It opens with a discussion of interviewees' initial response to their arrears problems. This is followed by an examination of their interactions with their mortgage provider, with other creditors and with the Department of Social Protection officials and the Community Welfare Officers responsible for adjudicating on their benefit applications. The second half of the chapter examines interviewees' interactions with the Money Advice and Budgeting Service and considers issues such as: how they heard about MABS, the service MABS provided for them and their assessment of this service.

4.2 Initial Responses

Interviewees' initial responses, when their mortgage arrears problems first developed or they realised they could no longer afford to fully service their mortgage, fell relatively evenly into three categories. Some interviewees ignored the problem for an extended period, others struggled to continue to service their debts in full from their diminishing incomes and others immediately approached their lenders in order to negotiate a repayment plan which reflected their changed circumstances.

Many interviewees in the first of these categories linked their reluctance to face up to their arrears problems to their hope that their financial situation would improve. In this vein, an interviewee from Dublin told us:

Most men think they're able to control things, but they got out of hand. I had a bank loan and I was more or less paying the bank loan instead of the mortgage. I had to face facts then. I did need help like, y'know. Took nearly a year before I came here [to MABS], I kept thinking, I'll get a job, I'll get a job. But I couldn't.

Several other interviewees described how they had tried to sell their homes, sometimes for a lengthy period, in order to pay off all or a proportion of the mortgage, but had failed to do so.

However, interviewees who ignored their mounting arrears problem for an extended period generally made their situation significantly worse. Thus, the two interviewees from Dublin explained:

All the time I was looking for another job, the redundancy package was haemorrhaging to pay off the bills so the money to pay the mortgage was running out. We got further and further into debt with it.

By the time I came to MABS I was in €9,000 arrears. Paying little bits, going in and paying over the counter, y'know. I was pig headed, I wouldn't come here [MABS] for ages, y'know.

Among the households examined for this research, a married couple, who were parents of young children, experienced the most serious problems due to their failure to address their mounting arrears. As the wife explains, in this case the courts granted an order for the repossession of her home without her knowledge, after her husband had concealed the arrears on their mortgage problems from her:

I asked [husband] to go and see whether we could get help at the time off social welfare and he'd keep on saying 'I went down, I went down, I went down,' but he never went down... So I went down to the social [community] welfare officer and I went in and I said to him, I'm here to find out what's keeping [delaying] help, we need help with the mortgage... and he said 'I thought you were here to get housing [rent] allowance, your house is bring reposessed on Tuesday'. That was the first I knew about but [husband] had known a good year before. And I started shaking and I said 'I have to leave, I have to leave, I'm sorry I have to leave'... I [wanted] to vomit and I had to leave. So I left and I rang [husband] and he came round and he broke down in front of me. And he told me that he knew it was going to happen and that he got the letters and he ignored them. And that he couldn't admit to it, at the time, he was depressed.

Interviewees who continued to service their debts in full from declining incomes described their determination to keep up payments at all costs. For instance, a client of the MABS Dublin office told us:

I wasn't going to let the house go. I kept up with the mortgage. I begged, borrowed, I got loans off my brother-in-law. I didn't want them to take the house off me. I'd nowhere to go. I was after working so hard for it, and I wasn't going to let it go that easy.

However, as the following quotation from an interview with another client of this office demonstrates, most interviewees were unable to sustain their full repayments in the medium-term, despite a radical reduction in their standard of living:

I contacted [the mortgage lender] when my husband lost his job. They said 'keep on trying to pay your mortgage'. It was a difficult year with only one income and trying to pay mortgage of €2,200 per month. For about four months before I lost my job we started to have problems with the mortgage.

4.3 Interaction with Mortgage Lenders

The vast majority of interviewees had approached their mortgage lenders regarding their mortgage arrears prior to attending the Money Advice and Budgeting Service for help. Interviewees had a variety of experiences when dealing with lenders, some positive, others negative. Although it is not possible to draw definite conclusions on this issue from interviews with a small sample of households in mortgage arrears, there was a clear trend in interviewees' interactions with lenders: those who first got into arrears a number of years ago had more negative experiences than those whose problems emerged more recently.

For instance, an interviewee who fell into arrears on her sub-prime mortgage in 2009 described how she was initially forced to negotiate with them via their call centre in India: 'That is another problem too with [sub-prime lender]; we got a lot of foreign nationals dealing with us and...you can't understand them. [Husband] couldn't understand what they were saying to him'. Several interviewees reported receiving such large volumes of letters and telephone calls from their lender, they felt it constituted harassment. For instance, an interviewee from Tralee reported 'I was getting calls every day from [sub-prime lender]' in 2009, while an interviewee from Waterford said that in 2007 her sub-prime lender was '... literally on the phone three or four times a day, every few hours. The stress was getting unreal at that stage'. A female interviewee who fell into arrears with a mortgage from a prime lender in 2007 described her experience as follows:

...as soon as I ran into difficulties, I contacted the [prime-lender]. I remember contacting them early on.... in 2007...advising them that I was running into difficulty... and asking for any advice that they could

give or any assistance that they could give... But I didn't hear back from them at all. I got no communication from them, I think until September of that year when I contact them again because of course the situation was just deteriorating. I was emailing somebody backwards and forwards and I was writing to them again. I was trying to interact with them. They weren't coming back to me to try and see even could I go in and talk to them and do anything to try and see what might be done in the situation. So then at a certain point... in late 2007 or early 2008, they decided to take proceedings against me.

In contrast, most interviewees whose arrears problems emerged more recently had more positive experiences interaction with their mortgage lenders. For instance, interviewees from Tralee and Dublin and Cork told us:

We started to fall behind with the mortgage, but [prime lender] have been very good, we'd heard some horror stories from other people on the telly but we can't complain. We've kept them in the loop, asked for holiday periods and stuff like that. We've told them what we can afford, with the help of MABS. Touch wood, up until now they've been really kind.

I was in contact with [prime lender] before I finished work. I met with them and they went through all my figures and they're like 'here's how you're going to save money; this is what you need to do'. At that point, I was thinking, they're just being really anal now, telling me how to spend my money. But then what happened was I got what they were talking about.

Significantly, a number of interviewees, who had been in mortgage arrears for a lengthy period, mentioned that their relationship with their lender has improved in recent months. This is evident from the following quotations from interviewees with clients of the MABS Tralee and Waterford Offices:

Now I'm dealing with a lovely girl [at the sub-prime mortgage provider], she just rings me up and I make a payment and everything is fine. Before that, they were always onto me, it was awful. I remember missing weeks because my child was sick or something and they would say, 'it's not our concern; we want our money'. It was unbelievable. Thank God it's past that.

They [prime mortgage lender] started getting horrible at one stage, you know the girls they have that ring you? But once we got past them, we

were with credit control – I have to say, he wasn't too bad to us. I explained our case – this was before I came to MABS – I told him the truth

The interviews with MABS money advisors conducted for this research support the view that the quality of service provided by lenders to households in arrears has improved over time, as has lenders' willingness to negotiate forbearance arrangements as an alternative to repossession. For instance, an experienced female money advisor told us:

Initially sub-prime were terrible they were, they wouldn't negotiate at all. Now there's no difference between sub-prime and ordinary [prime lenders] they're all glad to get anything. They'll certainly still say we'll pursue it or whatever but the attitude has totally changed from 'we can't take that and we're going to court or we're whatever' whereas now it's like if you put forward a financial statement which you can back up with their income... and realistic households expenditure on it they'll accept it.... Now certainly the protocols have made a big difference. The MABS protocol with the IBF has made acceptance of financial statements a lot easier.

MABS staff attributed this development to two factors. Firstly, to the implementation of the requirement that lenders adhere to a Mortgage Arrears Resolution Process in early 2011 (see Chapter Two). Money Advisors felt the MARP requirement that the lenders appoint dedicated staff to deal with customers in arrears was particularly important in this regard, as these staff can build personal relationships with customers in arrears and accumulate expertise in assessing distressed borrowers' financial situations. Secondly, Money Advisors suggested that as the Irish economic and housing market decline has persisted, lenders have come to realise that keeping borrowers in their homes paying reduced mortgage payments may be financially more attractive than the repossession and sale of their dwelling. This factor was particularly relevant to sub-prime lenders, which are not obliged to adhere to MARP arrangements.

4.4 Interaction with Other Lenders

Interviewees' reports of their experiences of dealing with lenders of unsecured debt, such as credit cards, personal loans and overdrafts, prior to coming to MABS for money advice, were generally more negative than their experience of interacting with mortgage lenders.

For instance, several interviewees described excessive levels of contact from this type of creditor. A middle aged female interviewee told us:

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

Interviewees also claimed that providers of unsecured credit were less willing to negotiate regarding repayments than mortgage lenders, and were quicker to take legal action, presumably because they lacked security which could be sold in the event that the loan was not repaid, or in some cases had sold the loan on to a debt collection agency. In this vein, a married father of teenage children told us:

We approached the credit union... out of all the creditors, they are the worst to deal with in terms of communication and they were the first out of all the creditors to try and seek a judgement against the house as well, for the loan we had with them... They were the first to issue solicitors' letters.

A female lone parent stated:

The credit union has taken me to court and put a judgement on my house by clerical error. My mum was a guarantor for the credit union loan, which was partly a deposit on the house, and a couple of years ago I had been taken to court and it was agreed by MABS that I pay... €80 a month, this is what the court accepted as a payment to the credit union. All of a sudden, a letter came in with a judgement order on the house copied to my mother. I think there was a judgement against her house too.

A number of interviewees were also in arrears on utility bills, to the extent that services had been disconnected in some cases. But no interviewee in this category mentioned any problems in relation to their dealings with utility providers.

4.5 Interaction with Social Security

Benefit Administrators

As detailed in the preceding chapter, all of the people interviewed for this study had been in employment when they took out their mortgages and in the vast majority of cases had fallen into mortgage arrears due to the loss of employment. Therefore, most interviewees had applied to the Department of Social Protection for income support benefits and had also applied for Mortgage Interest Supplement, which is administered by Community Welfare Officers (CWOs), who were employed by the Health Services Executive, at the time when the research was conducted.

Many of the people interviewed for this study have experienced their first ever period of unemployment in recent years and therefore, their first experience of benefit dependency. Several interviewees mentioned that they found 'signing on' for benefits emotionally traumatic as a result. Only a handful of the MABS clients interviewed raised complaints about their treatment by individual Department of Social Protection officials and CWOs responsible for administering their benefit claims. Several interviewees praised the kindness and efficiency of these officials. However a large number of interviewees raised concerns about the rules regarding access to benefits and delays in processing their benefits.

In relation to the latter issue, an interviewee from Tralee related the following experience:

It took five months to claim for one parent family allowance. I lost my job in July and claimed one parent family the next day but didn't get money until 19th December. They kept on saying 'it's pending'. Then it

was about a week before Christmas and I went down to them and I said 'I've no money' and I was crying and within two hours it was in my bank. A click of a button. They could have done it any time. I said 'I've nothing for my son, no Christmas, no Santy' and I was very upset and the girl down there said 'look we'll get that sorted, sit down there for a minute'. Then she came back and said 'that's sorted, it'll be in your account in a couple of hours.

The fact that self employed people are not eligible for social insurance benefits (Jobseekers Benefit) caused significant hardship and therefore anger for some interviewees, because they were forced to wait until their savings were depleted in order to qualify for the means tested equivalent: Jobseekers Allowance. An interviewee from Arklow, who experienced this problem following the closure of his business, offered the following reflections on this situation:

...people that are self employed. They are not entitled to anything. As I said to you, I have worked since 1983. I have been a PAYE worker, I have ten years self employed. You're looking at eighteen years when I was a PAYE worker with only three months out of work. But you're entitled to nothing, nothing. So not only do I feel so bad about a failed business, they have killed my self esteem as well. A lesser man than me, God forbid, would probably be hanging out of a tree or something.

As detailed in Chapter Three, 12 of the 46 households interviewed for this study were in receipt of Mortgage Interest Supplement. However, a significant number of interviewees mentioned that they had problems in accessing this benefit. For instance, several interviewees, such as the following MABS clients from Waterford and Cork, had their application for MIS refused:

We were refused Mortgage Interest Supplement – we applied in January '09 - they said [husband] wasn't earning enough money for a €200k mortgage. But I do get a supplementary supplement, whatever that is, which is €102 per week and we got that last November, twelve months. He [Community Welfare Officer] said it'll be finished in April and don't even come back asking for it again.

... they turned me down [application for Mortgage Interest Supplement] because €980 a month interest was way too high, so they wouldn't cover me on that. But then it was actually [the MABS advisor] said to me – keep appealing it. So I kept appealing it. So I am on the second appeal now... So I still haven't heard word about that now and this is going on for three to four months. So I am just sitting waiting.

The admittedly small number of MIS recipients examined for this study revealed no consistent patterns in decisions for refusing applications for these benefits. Some sub-prime borrowers were not granted Mortgage Interest Supplement because they had borrowed excessive amounts, for instance, or they were paying excessive interest. Other interviewees with (as far as the researchers could ascertain) similar borrowings experienced no difficulties in accessing this benefit.

Other interviewees were granted small amounts of MIS which were not sufficient to pay the full amount of their mortgage interest. In some cases, interviewees in this category paid the remainder of their mortgage interest from their social security benefits, which caused significant hardship. An interviewee in this category described how she managed to pay her mortgage interest:

Our children's allowance is €487 a month, our dole was €425 a week and our Mortgage Interest Supplement was €349.50, so what had happened was, with all them coming in we'd have to put €275 out of one week's dole into our mortgage account. We took it as gospel that the children's allowance and the mortgage supplement went in [to pay the mortgage], but from January [following reductions in benefit levels] we had to put €375 from our dole into the mortgage. So we are really only living off three weeks' dole for household bills and living.

A male interviewee who had also been granted MIS, but at a level insufficient to pay his mortgage interest, suggested that the access rules equivalent benefit for private renting households (rent supplement) were less stringent:

But what I can't understand is that they will gladly give you the rent allowance but they won't give you the mortgage supplement. It's mental, isn't it? I know mine [mortgage] is a little bit high. But I can't understand that like. They are giving me €200 a week (on Job Seekers' Allowance) ... and yet they'll give you €170 a week for the rent supplement too.

Several interviewees had successfully appealed decisions to refuse them MIS. For instance, an interviewee from Cork stated: 'We get MIS of €140 per week now.

Initially it was refused - before we'd even supplied all the paperwork. We appealed, and won'. A client of the MABS Dublin Office recounted her experience of the MIS appeals process in more detail:

We went for help with the mortgage [MIS] as soon as I came out of work. They said that we paid too much for the house and we were €5,000 in arrears and they weren't going to help us. So it took from June to December of last year to right that. I had to go to this stupid hearing and I had two people saying why I shouldn't get it, and a mediator in the middle and me... The head of the HSE from [name deleted]... looked at the mediator and said, 'she should have done this or that.' I think if I'd killed somebody I'd have been treated better. At that point I could feel myself becoming quite weak...so I could feel tears starting to come so... I told the guy from the HSE that I had a name and that in the future he should refer to me by name, and the mediator asked me if I had anything else to add and I basically told him where to shove it and I walked out. That was my only way of kind of...because they'd broken me down to the point like I was this kind of member of society that didn't really have a right to be there, and I was really, really shocked. So then what happened was, I got a letter a couple of weeks later, and they said that they'd help me but they'd help me for no longer than a year and they were backdating it for six months. I've never been in such a situation in my life before; it was like being hung, drawn and quartered.

A group interview with three Community Welfare Officers from the south east, a group interview with eight money advisors based in MABS offices in different part of the country and analysis of the operational guidelines on the administration of Mortgage Interest Supplement shed light on the reasons for the difficulties MABS clients experienced in assessing this benefit (Department of Social Protection, 2010c). The CWOs explained that MIS only subsidises the interest on a mortgage taken out to purchase and/or renovate a principal residence. Therefore, borrowers who have rolled up other debts into their mortgage or remortgaged to fund the purchase of a car or conservatory, for instance, will only receive sufficient MIS to cover a portion of their mortgage interest. The CWOs acknowledged that due to the increasing complexity of mortgage debt, this stipulation can result in hardship for

claimants, but pointed out that if this stipulation was not in place, the MIS would subsidise 'lifestyle' debt rather than accommodation costs, which is neither an affordable nor an acceptable use of public funds. They also mentioned the guidelines on the operation of MIS afford Community Welfare Officers some discretion in decisions regarding its administration. For instance, these guidelines state:

In exceptional circumstances, the Health Service Executive may award a supplement where the amount of mortgage interest payable by a person exceeds such amount as [is] reasonable to meet his or her residential and other needs (Department of Social Protection, 2010c: 2).

However, the MABS money advisors interviewed proffered a different analysis however. They claimed that in their experience, decisions regarding access to MIS vary significantly between individual CWOs and between different regions of the country. In their view, these variations were difficult to explain with reference to the terms of the scheme, rather they suggested they were the result of the following issues:

- CWOs were not provided with regular training to update them on developments in the benefits they administer
- The service was understaffed and CWOs were too busy to assess clients effectively
- Some CWOs seem to refuse the vast majority of MIS applications, in the expectation that the applicants will appeal the decision.

The money advisers also welcomed the reforms to the MIS scheme proposed in the Department of Social Protection's (2010b) recent *Review of the Mortgage Interest Supplement Scheme* (see Chapter Two) and raised concerns that these reforms had not been implemented in practice at the time when the interview was conducted.

4.6 Interaction with the Money Advice and Budgeting Service

4.6.1 Initial Contact with MABS

Each of the MABS clients interviewed for this research was asked how they first heard about MABS. The interviews suggest that most clients decided to make an appointment to see MABS because a lender or utility provider recommended they do so, or because of the recommendation of a relative or friend. For instance, an interviewee from Cork stated: 'I was in difficulty with the Credit Union one time and it was them who suggested I went and had a chat with MABS'. While interviewees from Dublin and Tralee said, 'My wife knew about MABS; she heard about them through the community' and 'I first came to MABS about 1½ years ago. My father knew about them and recommended me to go'. A smaller number of interviewees mentioned that they had first heard about MABS through newspaper and radio coverage or features by journalists.

Interviewees were also asked whether there was a stigma associated with MABS and their responses were split almost evenly between those who did feel stigmatised and those who didn't. The following interviewees from Dublin and Loughrea did feel that there was a stigma associated with the service:

My sister, she got a bit upset, she said what's going on telling your business to everyone there [MABS] and I said I thought it was the best thing to do because they are people who specialise in that area, so I

felt it was the best thing to do because I didn't feel I was getting any help from the banks or anything, to me they didn't give a damn.

I do think there is stigma attached to coming to MABS. I'll tell you what happened to me one time. I'd finished with [money advisor] and I was coming out of the room and I saw a couple that I knew. Now I didn't know them well, I'd only met them a few times ... and they were in the waiting room waiting going in to see [money advisor]. And I remember feeling so embarrassed and I still said hello, how are you, how are you doing. And they were embarrassed and uncomfortable as well, and I thought I just wished I hadn't seen them. Because immediately people think, if they're going to MABS they must be in trouble.

Conversely, an interviewee from Tralee argued 'I don't think there's any stigma attached to MABS. There's not many people that actually care'.

Significantly, a large number of interviewees mentioned that they had looked at the MABS website or rang the MABS helpline several times before making an appointment, in some cases, hanging up the phone because they could not muster the courage to talk about their debt problems. For instance, male and female interviewees from Arklow mentioned:

When I started to experience difficulty, I looked up the MABS website and I did speak to someone on the helpline, and I remember on the day I was in an awful state because I knew I was in serious trouble and I remember ringing the helpline and they talked me through a few bits and pieces that I could do, so I took all of the advice on board.

Even going back to when we got in trouble [arrears] with the [utility company] used to ring MABS twice a week and then hang up. I was mortified and when I was coming in here, I would be looking around to make sure no one would see me walking down to the MABS office. Now I come in here with my head held high because I have nothing to be ashamed of.

Due to the strong demand for its services, the vast majority of interviewees were forced to wait for an appointment with MABS. Although interviewees in particularly difficult circumstances were given priority, as the following quote from an interviewee whose lender had commenced proceedings to repossess her home demonstrates:

At the time when I rang MABS I was told 'sorry we can't see you till the following February' and I said ' I have to get a meeting with you because our house is bring repossessed and our mortgage lender said that we have to have a meeting with you straight away in order to sort this out'. So they gave me an appointment for later that week.

4.6.2 Service Provided by MABS

From interviewees' perspective, the service provided to them by MABS consisted of five elements:

- MABS advisers listened to their worries about their debt problems
- they reviewed their income and expenditure
- helped them maximise their income if possible
- devised a budget plan to monitor their outgoings, sometimes including setting up of a credit union account for paying bills and
- and they negotiated with lenders and utility companies on clients' behalf.

Notably, the first and last elements of MABS' service were mentioned most commonly in interviews, which indicate that these are the aspects of the service they value most.

Thus, a large number of interviewees mentioned how useful it was to discuss their financial problems with an impartial but sympathetic person outside of their family or friends. The value of this aspect of MABS' service was emphasised by the following interviewees, from Waterford, Tralee and Dublin:

It was very stressful like until I found out about MABS when I was on my own, Jesus I had no one. It is great to have someone to listen to you... they should have some counsellors there for that.... just to talk it out with you. Because it is very stressful.

It was the luckiest day I came in and met [money advisor]. I think I just cried for maybe the first two or three meetings. I don't know how I gave her the proper information, I was in such a state. [Money advisor] would ring me and say 'now we've got to this stage', and I would be so happy when she'd ring and tell me these things, I was so delighted that she was helping me out.

It's the emotional support you get from MABS more than anything, then them just taking the paper [bills]... saying we have this now we'll deal with it, that's massive, it's really great.

One of the reasons why this aspect of the MABS service was so valued by clients was that the money adviser was one of the few people in whom many interviewees had confided details of their financial difficulties. For instance, a retired person whose lender had commenced repossession proceedings told us:

No, I don't really share it with my family. I have one sister that I would talk to quite a bit but I would never go into details about how much like. I would just say, I am going on interest only or whatever, but I wouldn't deal with the specifics of it and in fact I wouldn't have dealt with that with anybody except MABS there isn't anyone else with whom I would have discussed the details of my situation. Now I am probably one of those people, I keep a lot to myself, I am quite self contained I feel I most of the time take care of myself, my own issues, that is just how I operate, that is how I am, I would find it difficult to go to a family member and start pouring out my heart on any issue. So I think...it was probably a great help to me from a mental health point of view coming to MABS.

Interviewees found that having their MABS money advisor negotiate with their creditors was useful for a number of reasons. Firstly, they stated that they found dealing with creditors very stressful and handing this task over to their money advisor greatly reduced their stress. In this vein, a client of MABS Blanchardstown stated: 'The best thing MABS does is to take the stress off dealing with those creditors', and a client of MABS' Cork office told us: 'MABS are very good, totally non-intrusive. They do what they can, liaise with creditors. A lot of the creditors, they're animals to deal with.... So they [MABS] take that stress off [partner] and me'.

Secondly, as mentioned in Chapter Three, many interviewees had received numerous calls and letters from lenders, and consequently, they greatly appreciated the fact that this direct contact with lenders ceased when MABS became involved. For instance, two clients of the MABS Arklow office claimed that this was the most useful aspect of the MABS service:

[MABS] stopped people phoning us. Tormenting us. [MABS money advisor] reviewed everything. Incomings, outgoings, the lot. She did up a financial statement and she sent them off to everybody [creditors]... They kinda back off then. Completely back off.

I had at least six bricks on my shoulder when I came to see [MABS money advisor] and she took at least four of them off my shoulders.... I was getting phone calls from the credit union, I was getting phone calls from the [utility provider]; I was getting phone calls from everyone I owed money to. I would not answer my mobile phone because I knew it was someone looking for money and all of a sudden them phone calls stopped and they stopped because of MABS, because now, they were looking after these problems. They were writing to all my creditors...when they had a problem, they would get back to [money advisor] and then [money advisor] would get back to me. And I can tell you [money advisor] is a hell of a lot nicer to deal with than some of those creditors.

Third, interviewees praised the fact that their money advisor prioritised meeting their living costs when assessing their debt servicing capacity. This point was raised by a client from Loughrea who recounted:

[Money advisor] said, 'you're not managing your budget.' And I said but I am paying the mortgage and I am paying the credit card'. And she said, 'Your problem is that you're paying all those bills but you're not giving yourself enough to live. Which is why you're overdrawn at the bank.' I felt a bit of a fool to be honest because she was telling me things I thought I should have realised. I was under the impression that I've got to pay the mortgage, I've got to pay the credit card, I've got to pay the car loan, I've got to pay the personal loan, and then the food and ESB bills were coming out of the overdraft. And then she said to me afterwards 'It's the other way round. Your living is what do you do first, and those creditors come last'. And I thought, 'I should have realised that, I'm intelligent enough to know.' But I was in the middle of it [arrears problems].

In a similar vein, an interviewee from Dublin told us:

I came to MABS just before Christmas 2009.... Best place I've been to. They sat me down and took your earnings, your whole earnings and took into account that you have to live; you have to do some shopping. So we put €100 a week for shopping, then once you're able to live then they sorted out your bills. You know, so they actually did say 'you have to live first, then you pay your bills'. So they went off and argued the point with the banks and the mortgage [local authority mortgage].

Finally, a particularly large number of interviewees emphasised the value of having a professionally trained negotiator, who was committed to protecting their interests, deal with creditors on their behalf. This viewpoint is illustrated by the following quotations from interviews with clients of the MABS Loughrea, Dublin and Arklow offices:

So I felt I was being given a lifeline. It was somebody who was saying, 'We're in this for you, we're on your side, and we will deal with your creditors'. And because MABS is a recognised body, the creditors respond to letters from MABS.

So as soon as I was unemployed, I asked [prime mortgage lender] to come into my house and have a meeting with myself and my husband....I don't have any problems with them coming in. They're very, very nice to deal with if you can hold your own. At one time I think they were trying to frighten us, that the house could be taken away. And I said 'lukkit lads, you were the ones who gave us a 100 per cent mortgage; we went for it and I do take some blame for going into it, but we were very uneducated. So they came down sometimes and tried to come in with all guns blazing. They've started to send two people down to me now because I'm well able for them, it used to be one. At the last meeting I told them if they didn't change their manner with me we'd have to meet in MABS and then they were very nice. But it's kind of like if people aren't as strong or as resilient as we are, I don't know how they'd be dealing with it.

I have to say [MABS money advisor] has been fantastic. She took away 90 per cent of my stress. Because I just felt...she had an outsider's view on it and she would talk to these people without breaking down crying, without getting all stressed, without getting off the phone and going home and fighting with her husband. I was doing all of those things, you know.

As mentioned above, not all interviewees' money advisors help in relation to reviewing income and outgoings, budgeting and setting up a budget account. However, a minority mentioned that they did find these services useful. For instance, two interviewees from Arklow reported:

They [MABS] gave us budget books and we worked out what we had outgoings...I wrote down everything I'd spend and I did that for two months... and found myself when I'd go into Tesco I'd throw in a pack of socks for the kids or I'd buy a pair of tights for myself and I'd look at the price and I'd put everything back and now I am so aware of the

price of everything.... before you'd just get it and think of the consequences later.

What they did is that they obviously looked at whatever incomings were coming in to the house and the outgoings and produced a financial statement on that basis. When we seen the figures, I suppose we were in a situation of robbing Peter to pay Paul for a long time and I was writing cheques on a Tuesday to pay for bills and things like that and hoping that I'd earn the money to put it into the bank for the cheque. They did a financial statement and they looked at what we could afford every month or every week and they dealt with every creditor which was fantastic....

While two clients of the MABS Tipperary town office told us:

I heard about MABS on the local radio. And I popped in. At that stage I was in dire straits but she basically told me it could be sorted out. Now at that stage I didn't have lone parents' [Lone Parents' Allowance] or anything. She sorted out all for me. When you're separated, you don't think you're entitled to anything and most people don't want to listen. But then they told me here that you're entitled to lone parents and you're entitled to, you know fuel allowance and you know small little things like that all they all help.

I often ring them [MABS] up of a Monday morning and say 'Have I got a lot of money in my budget account?' And they'd tell me how much I have and they say 'Why?' and I'd say I have such a thing coming up at the weekend. Like I have a holy communion coming up in May and... I pay out so much every week, let's say, and I have €20 or €30 left over in my account and they save that for me. So when it comes to [daughters'] holy communion, I am going to have a little bit of money, like a lump sum that will help me pay for it....I wouldn't be able to do that on my own because if I get money into my account it's gone...At least you know that they're looking after your bills for you. And you can switch off from that kind of stuff.

4.6.3 Clients' Assessment of MABS' Service

Interviewees' assessment of the quality and value of the service provided by MABS was overwhelmingly positive. This is illustrated by the following quotes from interviewees with a client of the MABS Loughrea office, a number of interviewees commented on the professionalism of the service:

I was a bit concerned because [MABS money advisor] lives near me. I didn't realise that she worked in MABS. But you can imagine being in rural Irish community, everyone knows everyone. [Money advisor] said, 'I can arrange for you to go to another MABS or you can see my colleague.' But I was happy because...[money advisor] put me at my ease by assuring me that it is a professional confidential service and nothing will be said outside the office.

Meanwhile, in common with several others interviewees, a client of the MABS Arklow office praised the holistic nature of its service:

My experience with MABS from then on was excellent; they were like a lifeline to me and they have been so helpful. They really understood where I was coming from and they were able to take certain action like writing to people. Writing to the [prime mortgage lender] which was a great help when the [prime mortgage lender] was not really wanting to engage with me to have an outside body like MABS writing to them was very positive for me. And then of course they wrote to the other creditors as well, so that took a great lot of worry off me from the point of view of trying to deal with the whole thing myself. And I have to say that for the first time I felt, well, there is somebody here who actually knows the whole situation and is prepared to write to those people and say, look, this is the situation.

As the following quotations from interviews with clients of MABS Dublin, Tipperary town and Cork offices demonstrate, interviewees often commented that, in the absence of the support provided by MABS, their financial and emotional health would be far worse.

Only for them, [MABS] Jaysus, I don't know where I'd have been, y'know? They've bent over backwards. Put it this way, this time last year I was on fifteen tablets a day. Today I'm on five. I'm much better now. I'm a different person. I've changed my whole lifestyle. Everything, in the last year or so. I've gone back to the basics.

It was either here [MABS] or the mental home, being honest with you. It was one or the other.

I'm in better health today than I was this time last year, when there was panic stations everywhere. Through the help of MABS, I've got a gas meter in and the ESB meter in, and direct debits on the mortgage and the insurance.

4.6.4 MABS' Money Advisors Views

As mentioned in Chapter One, the views of MABS money advisors were also garnered as part of this research, by means of a focus group interview with eight advisors and a one to one interview with another advisor. During these interviews, advisors' opinions on the quality of the MABS service and constraints on good practice were examined.

Money advisors did raise concerns about the strains generated by the marked increase in the number of clients availing of their service in recent years. However, they also explained that demands on staff were increasing, not only as a result of increasing numbers of clients, but also due to the changing nature of their client profile. MABS was originally established to help combat the use of illegal money lenders by low income households and for many years, the vast majority of its clients were social welfare recipients facing problems like rent and utility bill arrears. Since 2008, this has changed and now most clients are people who have had high incomes in the past and have large and complex debt. One money advisor summarised the challenges associated with these 'new' clients compared to MABS' traditional clients as follows:

You give me someone on social welfare, who lives on €196 all their lives and things have gone a bit tight. You can do a budget with them in two meetings. Two meetings and you've them set up. You know exactly how much they have to pay their creditors, you only have to write the letters and make the offer. But the new client coming in, number one, they're in such shock the first day they come in to be even coming to our service it's like... somebody takes their dignity away, I mean 'imagine I have reached this stage'....you know, that they need to talk to somebody medically, they're in such distress. So you get that side of it to look at first... and then you start into the budget. But I mean, they're so used to living off credit cards, they're so used to

borrowing that it takes anything up to six visits to just get to 'this is your income – this is what you have to live on'. If you've had a very good income, you've gone in and you've done your shopping, you didn't have to think about what you put in your trolley, you didn't have to do a menu, you didn't have to do any of the things that people on social welfare had to do for the last ten years. They haven't a clue, don't know the first thing about budgeting.

Money advisors also referred to the lack of options available to borrowers in difficulty, particularly those who had little prospect of being able to make full repayments on their loan in the future.

Chapter 5 : Pathways Out of Arrears

5.1 Introduction

This chapter looks at pathways out of mortgage arrears using data from interviews with MABS clients and some other sources. In one sense, this discussion is of necessity incomplete, because the great majority of interviewees had not completely resolved their mortgage difficulties at the time of interview. However, despite this, some interviewees were able to identify solutions to their problems and suggest forms of assistance that would help them. Information on their current and likely future circumstances and their aspirations was very helpful in formulating recommendations.

Interviewees' circumstances fell into three broad groups:

- Those whose difficulties were short-term. For these people, existing arrangements such as forbearance and Mortgage Interest Supplement were in most cases appropriate and adequate responses, which ensured that they were able to remain in their home for the relatively short period that they needed assistance.

- Those who believed that in the medium-term, they would be able once again to make full repayments on their mortgage. In this instance, interviewees were looking for some form of assistance to prevent them losing their home for the anticipated period of low income, until they were able once again to make full repayments.
- Those who felt that it was most unlikely that they would ever be able to make full repayments on their mortgage. Some interviewees in this situation wanted very much to continue to stay in their current home; others felt equally strongly that they wanted to leave and make a new start.

This chapter first examines the three groups identified above, and then moves on to look at interviewees' assessments of their current situation.

5.2 Short-term difficulty

This group represented a small percentage of the interviewees, but probably represented a much higher percentage of all the people experiencing mortgage difficulties. Because the interviewees were drawn from MABS clients, and they were mostly established MABS clients, they were less likely to have problems which were easily resolvable. Furthermore of course, many people, for whom forbearance is the solution to their difficulties would not need the advice of a MABS money advisor, (although they may have sought information from the MABS website) and so would not be within the sample frame used for this research.

Nevertheless, a number of interviewees in this situation were interviewed. One, from Dublin, who remained in employment throughout his difficulties, described his situation.

I ran into a few problems with gambling and ran into debt which spiralled out of control and I had to get back to a level playing pitch as they say.

MABS negotiated with his lender and other creditors and agreements were reached that included reduced mortgage repayments for a period.

So I wasn't paying the full amount, but I think I'll be back on the level soon. There's light at the end of the tunnel...I'm not in dire straits as they say...I should have the (other) loans paid off in the next year and a half, two years. It may take a bit longer but not too much.

An interviewee from County Galway explained that the household income had dropped significantly because she was working part-time rather than full-time, and

because her husband had injured his knee and wasn't able to work. MABS helped her to achieve viable repayments with creditors.

At the moment, my outgoings are much more manageable. I now have a disposable income, so I'm delighted. I think maybe I could have done it on my own but it would have taken me longer and I think when these people get a letter from MABS, they have to engage with them, and they consider MABS to be a professional agency so I think it did me a favour.

For the future, I'm going to keep trying to go full time. My husband has to have an operation on his knee, but there is light at the end of the tunnel because he's young and otherwise fit and healthy, so he will be able to work again.

An interviewee from Dublin, who had recently lost his job but expected to find more work in the near future, described his circumstances.

...looking back on it now, I think I panicked. I was looking too far down the road. I thought they were going to take my house. But then when I look at the house, the house is worth about €370,000. I owe about 120 grand. I wasn't thinking this way. So I'm in a good position, you know what I mean. I'm not in negative equity. I can get out of this situation.

If things happened to go wrong again, I'd say 'I'm going to have a go at paying the full mortgage', but if I couldn't, I'd have no problem going back to them [lender]. I'd go back to them tomorrow. I'd say, 'This is not working', and they can't throw me out. It's not like two years ago when they'd say they didn't want to know you. They have to listen to me; that's the law.

A couple from Cork, one of whom was a recipient of Disability Allowance, and one of whom had started work, following the closure of a previously successful business, described their dealings with their lender.

Wife: We took a holiday from the full mortgage, but the holiday's over. We took a six month holiday paying interest only.

Husband: It wasn't much of a holiday; we didn't even leave the country!

Wife: [Lender] has been quite helpful. [Name] is very understanding; he seems to be well-tuned into what's going on. He suggested that I ring him a month before the holiday was over so I rang him there, and said 'It's still absolutely tight but we've talked about it and we've decided that we'll try it, we'll try to go back on the mortgage'. He said

fair enough. I said, 'Have we an option if it doesn't work out?' He says, 'Come back if it's not working out and we'll talk about it.' So it's going to kick in again this month.

Husband: I was probably rather more keen than [wife] to go back on it [full mortgage]. I suppose I felt that I was putting the inevitable away all the time, I was saying, it's going to mount up. If we go back on it in a year's time, it's going to be colossal, that's the way I feel, so I said look, let's give it a try.

5.3 Full repayments likely in medium term

One group of interviewees, representing approximately half of the 46 examined, believed that their mortgage difficulties were likely to be medium-term and that within a few years they would be able to once again make full repayments on their mortgage. Their main concern was to get through the next few years without losing their home.

In a number of instances, they believed their difficulties to be medium-term, because they were retraining in an area where employment prospects would be improved. Examples included an unemployed bricklayer from Dublin who was planning to get a third level qualification that would help him get a job in youth work.

I'm doing FETAC level 5 now. I hope next year to get into one of the colleges to get a degree. Then I hope to get a job in youth work. As long as we can carry on paying interest only, we'll survive.

An interviewee from Cork had also been in the construction business, as a self-employed block layer, but his business had folded:

I switched from construction into fitness which I had previous qualifications in, so I went back to the college and done a bit of studying and I'm working part-time in a fitness studio.

Meanwhile, an interviewee from Waterford spoke about how her husband, whose building business had failed 'has gone back to school. He'll finish in May, then he's applied to do a degree in engineering'. An interviewee from Blanchardstown stated:

I'm starting a new business, I've been researching it for a year but it's only kicked into action this year. I'm doing wedding photography and I've got four bookings already in the first month.

A farmer from County Galway had been hit hard by BSE and foot and mouth, but was working hard to rebuild his herd.

But when I say I'm struggling, I'm not a hopeless case. I can work my way out of this. We're looking forward to milk at 32/33 cent a litre which is good. I hope to be able to deal with my arrears in the next two to three years, but I won't be able to deal with them immediately. And I hope to start paying both my mortgages from the end of May and I'm confident that I can keep my agreement with them to do that...I will work. And I want to pay my way. No-one knows better than me about paying for my mortgage. But I just can't do it as it is at the moment.

For all these interviewees, their major concern was how they would manage to avoid losing their home during the period when they expected to have difficulties making full repayments on the mortgage.

Of course the fact of someone engaging in retraining does not guarantee them a job when they qualify, nor does it guarantee an income that will be adequate to make full repayments on their mortgage. Nevertheless, it was striking that a significant proportion of interviewees had responded to their financial difficulties by making major decisions that would lead them on a completely new work path. In each case, they expected the household income to remain low whilst the retraining took place and anticipated that it would rise again when they got work in their new field. 'We say we're like the government; we have a four year plan!' said one interviewee, whose husband was planning a new career in engineering. These interviewees were clear that what they needed was short-to medium-term assistance to help them get through a period of low income. In some instances, for example where one partner had a job, all they needed was flexibility from the lender; in other cases, they were dependent on a combination of Mortgage Interest Supplement and interest-only mortgages to see them through. The uncertainty of Mortgage Interest Supplement

was a cause of concern to some. For instance, one interviewee from Tralee, who was retraining to work in the leisure industry, explained:

If the Mortgage Interest Supplement drops off, we'll have to go back to the mortgage company. At least we'll have had a year under our belt of paying interest only, so we might be seen in a better light then. But then again, things could change.

5.4 Full repayments unlikely ever

The third group involved people who did not realistically expect ever to be able to make full repayments on their mortgage. An interviewee from Dublin, whose business had failed, expressed it as follows:

To be honest, I don't see that ever happening (paying off the mortgage). I think there has to be some other solution. I think they (lender) think that too. They should be honest enough to say, 'what we're doing is kicking this into touch for 12 months, and in 12 months' time maybe kick it for another 12 months and we don't know what's going to happen then'.

In some cases, it was questionable whether people should have been given a loan in the first case. One interviewee was a car valet who purchased an apartment under the affordable housing scheme, and then remortgaged a year later with a subprime lender. He was dubious about owner occupation from the outset: 'I didn't particularly want to buy...thought it might be a nice pension pot at the end of the day.'

In other cases, people were very pessimistic about work prospects. 'I'd say it'll be 10 to 15 years before it gets back to normal' said an Arklow client. Another, from Cork, said, 'My husband's 55. I don't expect him to work again.'

Some of these households were just about able to make ends meet, but were worried about Mortgage Interest Supplement coming to an end and/or interest rates increasing.

An interviewee from Cork, whose husband was an unemployed former construction employee, with little prospect of working again due to his age, felt that with Mortgage

Interest Supplement, their situation was barely sustainable: 'With my husband out of work, we can afford to pay interest only – just about'. Another interviewee from Cork was being asked to pay nearly €50 a week from his social welfare payment towards his mortgage.

I get €78 per week Mortgage Interest Supplement and you're supposed to put I think €24 per week from dole money with that in the bank, so that would bring up to just over €100. But they want €125, so I said 'I don't mind doing that and I'll try from the start of next month', but if it's going to be going up again next year or this year they might as well just take the house off me completely because I've gas bills and electric bills and TV licence.

A client from Tralee was worried about what would happen if Mortgage Interest Supplement came to an end.

What I'm worried about down the road is what are they (lender) are going to do. If I can keep paying €300 a week, - I don't know how much longer I can keep paying it – if they drop the Mortgage Interest Supplement, all I'll be able to come up with is €75 a week, which is virtually nothing, but what are they going to do, that's my worry.

One interviewee, from Cork, explained that because he couldn't afford to pay all the interest on his loan, his debt was increasing all the time.

If I don't get a job for 12 months, my payments will be €3,000 a month rather than €2,000 now, because I'll owe more. So every month I'm out of work I need a better job.

Some interviewees felt that repossession was inevitable, such as this interviewee, from Tralee.

I think that my house is going to be repossessed and I'm going to lose everything. Because they're putting up the mortgage every bloody month like, and people can't afford to pay it, it's absolutely ridiculous. They're taking money off you left right and centre, they're after putting up the gas and electricity. I have gas heating but I can sit here and tell you that I have no heating in my house today...I wouldn't like to see my home being repossessed. I wouldn't like that. That's the last thing I would like to see happen. But I fear it will like. I'm waiting for the day when they come up and ask for the keys to be honest. Every time I see someone in a suit getting out of a car, I'm hiding.

Another interviewee, whose retail business had failed, was anticipating repossession and had stopped making payments, but he thought that the lender would probably wait until the housing market had recovered somewhat. He explained it like this:

I want to work, but at the moment, because this bill is getting bigger, there's no point in me finding work until they throw us out of the house. I can't sell my house – even if I wasn't in negative equity I couldn't sell my house – because I would have made myself homeless, so the State would not give me a house. So I have to wait until they start proceedings to throw us out. But I don't think they'll do that for quite a long time because...there's about €100,000 of negative equity. Which means they'd be pursuing me for that €100,000. (But) I'd have no house, no job, no nothing. So they've no hope of getting it. Their only chance is to hang in there until the market improves.

Most of these interviewees were unable to see a way out of their current predicament and felt themselves to be powerless and at the mercy of the lender and the State. They were dependent on financial support such as Mortgage Interest Supplement, which they did not expect to last forever.

However, one interviewee from Waterford, who had bought his house under the tenant purchase scheme for local authority tenants, suggested a solution: 'If I could, I'd give back the house to the Council and rent it.' Another interviewee told us she had tried to negotiate a similar arrangement with her former Council landlord:

The Council said there was no funds to buy the house back. ... I would go down there crying and crying with them, pleading with them, can you help me please, there must be some way. And they were so nice to me but they said there was nothing they could do and I would just have to put up with the situation. That would be a way out [the council buying the house back]. I would be so delighted. It probably wouldn't make much difference financially. But now I have the worry of the debt every day that I can't get out of. I worry about it all the time.

5.4.1 Wanting to leave

A number of interviewees who felt they had no prospect of making full repayments again just wanted to leave their current home and make a fresh start elsewhere. In many instances, they didn't know how to achieve this.

In some cases people want to leave their home because living there is a constant reminder of their financial situation, as expressed by this interviewee from Dublin.

She and her husband had both lost their jobs:

For the last two years, I've hated walking through the door because it's not home anymore, it's property that getting ready to be taken from me. At this stage, we need a fresh start; we don't want to live there. It's never going to be home now, never will be.

A lone parent from Tralee expressed similar sentiments.

The frame of mind I'm in, I just want to end it all [the mortgage] at the moment. I just can't take any more. I just want to move out and let them have it - just take it. I don't know where I'd go.

Similarly, an interviewee from Dublin whose business had closed said,

I'd sell tomorrow if I could get €325,000. I'd be a bit more content, I wouldn't have the worry on me. I'd probably go and rent. I wouldn't buy again, I'd never buy again.

Another Dublin interviewee, who had lived in the same house for 20 years, explained that his attitude to his home had changed.

I used to feel a tie to the house. Wild horses wouldn't have pulled me out of the door. And I always used to say, 'I'll never sell, I'll never sell'. Today I wouldn't care less [If had to move].

A middle aged woman from Arklow said:

If the bank came tomorrow and said 'We're taking the house', I would say. 'Take it, go on, because it's one more debt gone off my head'. I would rather have the debt gone... They can only give you Mortgage Interest Supplement for a certain length; they're not going to give it to you for the rest of your life.

In some cases, they wanted to leave because they didn't see any realistic prospect of even paying the interest on their loan, so that the longer they stayed the bigger the debt would become.

5.4.2 Voluntary surrender

A number of interviewees were considering voluntary surrender, but were unsure about how it would work. Some of the interviewees in this category told us:

When I was unemployed and couldn't pay the mortgage, I said to [money advisor], 'Just let them take the house. It doesn't mean anything to me'. Every time I walk in the door I think, I'm in such a state over this house. And I thought about handing it back, but by the time I'd been taken to court, I'd still be left with a big debt.

We'll decide in 2011 whether to walk away and not come back. We owe the bank about €435,000, and houses in our road are selling for about €180,000. I'm not going to have a debt of say €250,000. I'd walk away from that in the morning.

I'd think of moving to Australia. New life, new job, new country.

I was asking [money advisor] about voluntary surrender because it's like a stone around my neck but they [lender] don't seem to be interested in that at all. Surrender is what I want. I don't really know what the shape of the deal would be... If the well is dry, the well is dry...

In one instance, an interviewee from Waterford reported that voluntary surrender had already happened.

So between discussions with the solicitor, we decided that our best route was to hand back the house, because we were never going to get out of the situation; we'd never get back to paying €1,000 per month. The solicitor was trying to see would they take the house back as full and final settlement, but they wouldn't accept that. And on our solicitor's advice, he still thought that was the best route to go because the money could have gone a lot higher if we were evicted. We were blessed to get a council house, thank God. We were very lucky; they rehoused us, which was fantastic and took a lot of pressure off. With every year the house isn't sold, the debt gets worse. And the house is deteriorating. We live very close to the house and it breaks my heart to pass it. I loved that house. You always love your home; you know that kind of a way?

5.4.3 Bankruptcy

Bankruptcy had been considered by a number of interviewees, although the knowledge regarding the practicalities of this option was variable.

An interviewee from Waterford, who had already handed her house back to the lender, was unsure about the consequences of bankruptcy:

I think our solicitor said that bankruptcy wasn't an option for us. But I don't know really. [Husband] saw something on the telly and said 'we must ask about that'. But I don't really know now, I don't understand enough about it to be honest now.

A man from Tralee who was hoping to voluntarily surrender his home had thought about bankruptcy: 'I considered bankruptcy but it might last for 12 years, which is too long. I might consider it again...I'll have to see'. A Dublin interviewee with very substantial debts arising from the property market downturn and a failed business had been advised not to apply for bankruptcy at present.

My accountant says I should consider bankruptcy or tourism bankruptcy. But I haven't really looked into it. I'm told that the legislation will change in Ireland and so at the least I'll wait until then.

A man from Cork, who did not consider that there was any possibility of him making full repayments on his mortgage, due primarily to his retail business having failed, had also looked into bankruptcy: 'I considered bankruptcy but the Irish law is wrong. It just takes too long. If you have the money to do it, you can go bankrupt. It's a typical Irish thing'. An interviewee from Dublin, who had lost her job, as had her partner, highlighted the psychological and practical difficulties.

We considered bankruptcy – we looked into it and there were massive implications. Bankruptcy in a way is like admitting failure. [But] walking away from a house doesn't mean failure, it just means they're a pack of arseholes who charged us too much money and I'll walk away from it.

One interviewee was originally from Northern Ireland, so declaring bankruptcy in the UK was an option for him:

'If I was to live to 200, would I pay it back, that's the thing. So the weight of that is still on my shoulders.... I was advised to look at a thing called tourist bankruptcy, which means that I apply for bankruptcy in the UK and under European law that carries throughout Europe. So I'm looking at that as a way out. I think bankruptcy is the only path I have right now, if there was some other way out, I'd take it. I don't want to walk away from the debt I have and go bankrupt. But it's the banks who are wanting this money, and I can't pay it.

5.5 Assessment of current situation

Interviewees' assessments of their current situations varied enormously, reflecting a range of outcomes and the fact that for many interviewees, their difficulties had been only partially resolved.

Many felt that their financial circumstances were very precarious and were experiencing significant difficulty in avoiding further indebtedness.

A couple from Tralee, who were faced with a number of debts, following the closure of a previously successful business, give precedence to the mortgage: 'It's tight, very, very tight. I'm still servicing other loans, but the mortgage is first priority; you have to keep a roof over your head'. Another interviewee from Tralee, whose business had also failed, expressed similar sentiments: 'I'm barely keeping my head above water. We've cut back everything to keep a roof over our heads'. An interviewee from Blanchardstown had multiple debts and was particularly worried about high interest rates and increasing indebtedness: 'They're killing me, those debts, and the interest is 8 per cent per year...which is €1,500 per year. If I don't make any payments on those, in 10 years they'll be doubled'.

The same interviewee described the difficulties of trying to pay the full mortgage:

We're crippled paying more than half our income on the mortgage. We went interest only for 3 years. They say they won't do it for more than 3 years, but you know, if things got desperate, we'd have to go back to them. Since the recapitalisation, we've made every payment even though it's killing us.

Other interviewees, particularly those who had at least partially resolved their difficulties, felt that their circumstances had improved significantly, usually following intervention by MABS. For instance, a Dublin man who remortgaged his house seven years ago to set up a business, which subsequently closed, explained that he had changed his attitude: 'I have a different outlook now. I don't worry so much since I got sick. I realised that my health was the most important thing. The loan's only money'. A couple from Blanchardstown, who had remortgaged with a subprime lender, described their situation; like the previous interviewee, they emphasised the importance of health in comparison with debt.

We've a disposable income at the end of the month of about €32. We don't have a social life. It doesn't exist. My sister's wedding was six months ago; that was the last time we were out. It doesn't bother us. So long as we have the house and the kids are healthy.

Another interviewee explained how she coped with Christmas, typically the most difficult time of year for people on low incomes:

Last year twelve months ago was my worst Christmas, absolutely my worst Christmas of all. I couldn't get my son anything he wanted, and this year I swore that I would never put him through it again. So from January last year to December I put €5 every week away. Because he wanted an XBox and he's been asking for it for 2 years and I couldn't afford it.

Chapter 6 : Conclusions and Recommendations

The interviews with MABS clients and others illustrate vividly that the pathways in, through, and out of mortgage arrears are varied and involve a complex interplay of factors. This is consistent with the pathways approach, (Clapham, 2005) which focuses on people's subjective experience of housing through their perceptions and attitudes, the meaning housing has to them; and the extent to which their experience is influenced by external and structural factors. However, although the interviewees' stories were very varied, a number of important themes emerged.

The conclusions and recommendations in this chapter aim to address some of the issues identified in interviews with MABS clients and elsewhere, and to improve the overall service to people in mortgage arrears, in order to assist them to achieve the most appropriate outcome for their circumstances. A number of specific initiatives are recommended, which together will extend the options available to money advisors and so improve best practice in this area. Bearing in mind the current economic climate, recommendations aim to be cost-neutral at worst and at best to result in cost savings.

This chapter first summarises the findings from the interviews; then identifies a number of overarching themes. Following this, it moves on to discuss broad responses to mortgage arrears and the management of the process. Next, it identifies a number of specific pathways out of mortgage arrears and considers the most appropriate interventions that will aim to assist the client achieve a sustainable solution to their housing problems. Finally, a number of issues that relate to future lending are considered.

6.1 Summary of findings from interviews

This section first summarises findings relating to pathways in, then deals with pathways through, and finally covers pathways out of mortgage difficulties.

6.1.1 Pathways in

Features of indebtedness and key drivers of arrears

A notable feature of the households interviewed for this research was the extent of their multiple indebtedness. Interviewees generally had unsecured debt in addition to mortgage debt and in many instances, these unsecured debts were consolidated into debts secured against property, which often involved an increase in the amount owed. Nearly all the interviewees who consolidated unsecured debt into a mortgage had done so using a sub-prime loan.

Overall, 48 per cent of the households examined had borrowed from a subprime lender, reflecting the very significant increase in sub-prime borrowers among MABS clients in recent years.

Experiences of using mortgage brokers were varied. Several interviewees reported very positive experiences. However, others complained of poor advice from mortgage brokers and three interviewees made serious allegations of malpractice against them. MABS money advisors interviewed also linked the use of brokers with unsustainable borrowing.

For the vast majority of interviewees, the key driver of arrears was a reduction in income following loss of employment or failure of self-employment. In other instances, households experienced a drop in income for other reasons, including gambling, sickness, and marital breakdown. Another driver was high and rising interest rates charged by subprime lenders.

A large proportion of interviewees emphasised their personal responsibility for their borrowing decisions and some stressed how much they regretted their decision to purchase, renovate, or extend their home. Some interviewees also said that they hadn't understood the consequences of their borrowing decisions.

Impact on personal and family life

The vast majority of interviewees reported that their mortgage arrears and other debt problems had very negative impacts on their lifestyle and their personal and familial well being. In relation to personal well being, the predominant impact reported was stress.

For a minority of interviewees, the stress generated by their mortgage arrears led to serious mental health difficulties and a number of interviewees said that they had been prescribed medication for depression. One interviewee had to be treated as an in-patient in a psychiatric hospital due to depression related to the impending repossession of her home. Another described how his debt problems were one of the factors which had led to a suicide attempt. A significant minority of interviewees reported that the stress generated by their indebtedness problems had negative implications for their physical health.

The majority of interviewees also reported that their debt problems had negative impact on their relationships with their spouse or partner and children and undermined the quality of their family life.

All interviewees reported that the combination of the loss of their jobs and/or decline in their incomes, coupled with their efforts to pay off, or continue to service their debts, had a very negative impact on their lifestyle.

6.1.2 Pathways through

Initial responses

Interviewees' initial responses when their mortgage arrears problems first developed, or realised they could no longer afford to fully service their mortgage, fell relatively evenly into three categories. Some interviewees ignored the problem for an extended period, others struggled to continue to service their debts in full from their diminishing incomes and others immediately approached their lenders in order to negotiate a repayment plan which reflected their changed circumstances.

Many interviewees in the first of these categories linked their reluctance to face up to their arrears problems to a hope that their financial situation would improve. However, interviewees who ignored their mounting arrears problem for an extended period generally made their situation significantly worse.

Interaction with mortgage lenders

The vast majority of interviewees had approached their mortgage lenders regarding their mortgage arrears prior to attending MABS. Interviewees had a variety of positive and negative experiences when dealing with lenders.

There was a clear trend in interviewees' interactions with lenders; those who first got into arrears a number of years ago had more negative experiences than those whose problems emerged more recently. Significantly, a number of interviewees

who had been in mortgage arrears for a lengthy period, said that their relationship with their lenders had improved in recent months.

The interviews support the view that the quality of service provided by lenders to households in arrears has improved over time, as has lenders' willingness to negotiate forbearance arrangements as an alternative to repossession.

Interaction with other lenders

Interviewees' reports of their experiences of dealing with lenders of unsecured debt, such as credit cards, personal loans and overdrafts, prior to coming to MABS for money advice, were generally more negative than their experience of interacting with mortgage lenders.

Many of the people interviewed for this study had experienced their first ever period of unemployment in recent years and therefore, their first experience of benefit dependency. Several interviewees mentioned that they found 'signing on' for benefits emotionally traumatic as a result. Only a handful of the MABS clients interviewed raised complaints about their treatment by individual community welfare officers responsible for administering their benefit claims and several interviewees praised the kindness and efficiency of these officials. However, a large number of interviewees raised concerns about the rules regarding access to benefits and delays in processing their benefits.

In relation to access to social security benefits, the fact that self employed people are not eligible for social insurance benefits (e.g. Jobseekers Benefit) caused significant

hardship and anger for some interviewees, because they were forced to wait until their savings were depleted in order to qualify for the means tested equivalent - Jobseekers Allowance.

A significant number of interviewees mentioned that they had problems with Mortgage Interest Supplement including: applications refused, being granted small amounts of MIS which were not sufficient to pay the full amount of their mortgage interest. Several interviewees had successfully appealed decisions to refuse MIS.

Interaction with MABS

Most clients decided to make an appointment to see MABS because a lender or utility provider recommended they do so, or because of the recommendation of a relative or friend. Responses were split almost evenly between those who felt that there was stigma attached to coming to MABS and those who didn't.

From the interviewees' perspective, the service provided to them by MABS consisted of five elements. MABS advisors:

- **Listened to their worries about their debt problems.** A large number of interviewees mentioned how useful it was to discuss their financial problems with an impartial but sympathetic person outside of their family or friends.
- **Reviewed their income and expenditure**
- **Helped them maximise their income if possible.** Interviewees praised the fact that their money advisor prioritised meeting their living costs when assessing their debt servicing capacity.

- **Devised a budget plan to monitor their outgoings.** This sometimes included setting up a credit union account for paying bills.
- **Negotiated with lenders and utility companies on clients' behalf.** Interviewees stated that that they found dealing with creditors very stressful and handing this task over to their money advisor greatly reduced their stress. In addition, many interviewees had received numerous calls and letters from lenders and consequently, they greatly appreciated the fact that this direct contact with lenders ceased when MABS became involved. A large number of interviewees emphasised the value of having a professionally trained negotiator, who was committed to protecting their interests, deal with creditors on their behalf.

Interviewees' assessment of the quality and value of the service provided by MABS was overwhelmingly positive.

6.1.3 Pathways out

Nature of mortgage arrears

The circumstances of people interviewed for this research fell into three broad groups:

- **Those whose difficulties were short-term**

(Approximately 15 per cent of the households examined)

This may have been due to short-term unemployment; temporary difficulties with other debts; or household income dropping temporarily due to illness.

For these people, existing arrangements such as forbearance and Mortgage Interest Supplement were in most cases appropriate and adequate responses, which ensured that they were able to remain in their home for the relatively short period that they needed assistance.

- **Those who believed that in the medium-term they would be able once again to make full repayments on their mortgage**

(Approximately 50 per cent of the households examined)

Examples of households in this group included people who were retraining and would be likely to have a realistic loan-to-income ratio when the retraining was completed; whose total arrears, including non-mortgage loans were not excessive; and whose dwelling was appropriate to their needs.

In this instance, interviewees were looking for some form of assistance to prevent them losing their home for the anticipated period of low income, until they were able once again to make full repayments.

- **Those who felt that it was most unlikely that they would ever be able to make full repayments on their mortgage**

(Approximately 35 per cent of the households examined)

Examples of households in this group included people whose employment prospects were very poor because of the area of work they were in (not surprisingly construction was common); whose employment prospects were weakened further by their age; who may have a long-term illness; and may have significant other debts, in addition to their mortgage.

Some interviewees in this situation wanted very much to continue to stay in their current home; others felt equally strongly that they wanted to leave and make a new start. In many instances, those who wanted to leave didn't know how to achieve this. Some were considering voluntary surrender, but didn't know how it would work.

Bankruptcy had been considered by a number of interviewees, although the level of knowledge was variable.

Interviewees' assessment of current situation

Interviewees' assessments of their current situations varied enormously, reflecting a range of outcomes and the fact that for many interviewees, their difficulties had been only partially resolved.

Many felt that their financial circumstances were very precarious and were experiencing significant difficulty in avoiding further indebtedness. Others, particularly those who had at least partially resolved their difficulties, felt that their circumstances had improved significantly, usually following intervention by MABS

6.2 Overarching themes

6.2.1 Short-term difficulties, medium-term problems, and non-viable mortgages

As stated above, in Section 6.1.3, interviewees' circumstances fell broadly into three groups, which are categorised as follows:

- Mortgages categorised as being in **short-term difficulty**. These are defined as mortgages where existing arrangements such as forbearance and Mortgage Interest Supplement are adequate responses.
- Mortgages categorised as **viable in the medium-term**. These are defined as mortgages where there is a reasonable likelihood that within a period of 5-7 years, the borrower will be able to make full repayments.
- Mortgages categorised as **non-viable**. These are defined as mortgages where the borrower is unlikely ever to be able to make full repayments.

Thus, for the purpose of assessing the most appropriate form of assistance for people with mortgage difficulties, it is proposed that the mortgages of borrowers in difficulty should be comprehensively assessed to determine which of the three categories set out above applies.

The reason for distinguishing between mortgages in this way is that where a mortgage holder is assessed to have a short-term repayment difficulty, existing arrangements will be adequate and appropriate. Where a mortgage is assessed as viable in the medium-term, the most cost-effective and equitable response is likely to involve a measure of medium-term support, whereas if a mortgage is assessed to be non-viable, then the provision of medium-term support is unlikely to be a cost-effective or equitable response and may indeed have the effect of increasing the borrower's indebtedness, so other solutions will be appropriate.

Thus, the determination of which category the mortgage falls into will be crucial in assessing the appropriate response.

It is proposed that the determination of which category the mortgage falls into should be carried out by the Personal Debt Management Agency (see recommendation in Section 6.3.1 below) in consultation with the borrower and the lender. This should be done as soon as possible after a problem is identified, since the most appropriate response will depend on the outcome of this assessment.

The determination will involve assessing a mortgage against the following criteria:

- The borrower's current and future skill set, taking account of retraining plans, including an estimate of likely income when retraining is completed.
- The size of the loan, taking account of the loan to likely income ratio.
- The total arrears on the loan.
- Arrears and repayment plans in respect of other loans.
- The borrower's age, health and family circumstances.

- Current and future housing requirements over the next 5-7 years.
- The size of the dwelling compared with the household size.
- The borrower's assessment of the likelihood of being able to make full repayments within a 5-7 year period.
- The lender's assessment of the borrower's ability to make full repayments within a 5-7 year period.

A significant feature of this process is that whilst the views of the borrower (and lender) are an integral part, the assessment of the appropriate category will be determined by the Personal Debt Management Agency. This is important, because recommendations below incorporate the possibility of debt settlement for a proportion of borrowers with non-viable mortgages and it is proposed that in general, only those borrowers with non-viable mortgages will be considered for any form of debt settlement. The wide ranging debate that has taken place around debt settlement has included concerns raised about the problem of moral hazard. This issue is addressed here by ensuring that the borrower alone cannot determine that her/his mortgage is non-viable, which, as stated, is a proposed pre-condition for the consideration of debt settlement. This means that it will not be possible for people to opt for an arrangement that may include debt settlement simply because they wish to be rid of a debt.

6.2.2 The need for medium-term interventions

Interventions to assist people who are experiencing difficulties with mortgage repayments have to date been primarily short-term. Examples of this include the moratorium on repossession of dwellings, which was originally 6 months but was extended to 12 months in 2010 and mortgage interest supplement (MIS). MIS is explicitly designed to be a short-term financial support and a recent review of the scheme (Department of Social Protection, 2010b: 9) underscored this by recommending:

An overall time limited period in the region of 2 years should be introduced to ensure that MIS does not impact on behaviour in terms of seeking or retaining work and that it remains as a short-term scheme

The review repeated this by stating unambiguously: 'MIS support should not become a medium or long-term housing solution' (idem).

However, it follows from the interviews and the categorisation above that was derived from these that where a borrower's mortgage is assessed as viable in the medium-term, there is a clear and identified need for medium-term support, for a period of up to 5-7 years, until full repayments can be made again. In these circumstances, it is in the interest of the lender, the borrower, and the State that the borrower is facilitated to remain in occupation of the dwelling, so that in time, the loan will be repaid.

The recommendation in Section Recommendations in 6.4.1 below addresses this issue.

6.2.3 Doing nothing will be expensive

The final overarching theme that emerges from this research is that the costs to the State of putting in place appropriate measures to tackle the issue of mortgage arrears will be less than the costs of not doing so. This is principally because an inevitable consequence of inaction will be an increase in the number of repossessions, which will have follow-on consequences:

- Following repossession, most households will move into private rented accommodation. Many will claim rent supplement and so will have a substantial proportion of their housing costs met by the State. Some households will subsequently move into social housing, where they will continue to be in receipt of a long-term subsidy from the State, since differential rents are significantly lower than market rents.
- These households may well be discouraged from entering the labour market following repossession, as the lender can apply to the district court for an instalment order (which to date have been rarely used) to cover any residual debt which remains following the sale of the property. In view of the scale of negative equity and the fact that mortgages on repossessed dwellings are generally in significant arrears, the vast majority of owners of repossessed dwellings could face this problem.
- The social, health and emotional costs of mortgage arrears and other debts are significant. The summary of interview findings in Section 6.1.1 and Section 3.6 above discuss these in some detail. Overall, the vast majority of interviewees reported that their mortgage arrears and other debt problems had very negative

impacts on their lifestyle and their personal and familial well being. Symptoms of stress were most commonly referred to, ranging from difficulty sleeping, to medical prescriptions, to serious mental health problems. These costs have been largely ignored in the wider debate about mortgage arrears, and it is important to emphasise that these problems make it extremely difficult for people to engage economically and socially in society.

Many interviewees emphasised the beneficial effects of their interaction with MABS, highlighting the value of discussing their financial problems with an impartial but sympathetic person outside their family, (for a number of interviewees, the MABS money advisor was the only person, or one of very few people, in whom they had confided). They also referred to the reduction in personal stress occasioned when a money advisor negotiated with creditors on their behalf. Thus, the role of MABS in assisting to ameliorate interviewees' stress is evident, and the holistic nature of MABS's intervention is one that is strongly supported.

6.3 Broad-based responses and management of the process

6.3.1 Non Judicial Debt Settlement

The need to establish non court based arrangements for dealing with unsecured (ie. non mortgage), personal indebtedness was recently highlighted in the Law Reform Commission's (2010) report on *Personal Debt Management and Debt Enforcement*. This report suggested that this non judicial debt settlement arrangement would be managed by a Debt Enforcement Office and implemented by a panel of licensed Personal Insolvency Trustees, appointed after a public tendering procedure and subject to statutory standards. The Programme for Government of the Fine Gael/Labour coalition government states that the government will examine proposals for establishing a Personal Debt Management Agency with a similar remit and quasi-judicial status (PDMA) (Government of Ireland, 2011: 44).

This need for non judicial debt settlement arrangements is endorsed here and **it is recommended** that these arrangements should include the following functions:

- **Preparing a standard financial statement**

The *Mortgage Arrears and Personal Debt Group* (2006) recommended that a standard financial statement should be developed for use by all lenders and

MABS. A Standard Financial Statement for MARP purposes has been introduced by the Central Bank. However, further work is required to develop an appropriate industry-wide standard financial statement.

The principle of a standard financial statement is strongly endorsed here, as is the non judicial debt settlement arrangements. As many lenders as possible should use a common format for this statement, which should be compatible with the requirements of MARP and Mortgage Interest Supplement, in order to reduce duplication of effort.

Thus, when a standard financial statement has been prepared as part of non judicial debt settlement arrangements, it would normally be accepted by the lender without further investigation.

- **Determining whether a mortgage is categorised as short-term difficulty; viable in the medium-term; or non-viable**

The section above categorises mortgages as being in short-term difficulty, viable in the medium-term and non-viable and sets out a process for determining this. **It is recommended** that the first step in a non judicial debt settlement arrangement should determine which category a mortgage falls into, using detailed criteria developed from the list set out above, in consultation with lenders.

- **Debt Settlement Arrangements and Debt Relief Orders**

Non judicial debt settlement arrangements would centre on the granting of Debt Settlement Arrangements and Debt Relief Orders, as recommended by the Law Reform Commission (2010) report on *Personal Debt Management and Debt Enforcement*. The Law Reform Commission envisaged Debt Settlement Arrangements as legally binding agreements between creditors, under the terms of which debtors agree to repay a proportion of their debts over a period of up to five years. After this, their remaining debts are written off without any damage to their personal credit rating. Debt Relief Orders would be made in cases where debtors have no prospect of repaying any of their debts. The effect of such an order would be to effectively write off the debt, but would undermine borrowers' credit ratings.

It is recommended that Debt Settlement Arrangements and Debt Relief Orders could be granted in the case of unsecured, personal debt, including residual debt left owing after the repossession of a principal residence.

For some households in mortgage arrears, the writing off of unsecured debts in this way might enable them to recommence servicing their mortgage in full. In the case of repossessed or voluntarily surrendered dwellings, any residual debts outstanding could be dealt with by Debt Settlement Agreements or Debt Relief Orders.

The legislation underpinning the non judicial debt settlement should prohibit the repossession of dwellings unless the home owner decided they do not wish to avail of these arrangements.

It is recommended that lenders should make a significant contribution to the costs of the non judicial debt settlement arrangements through a levy based on the number of mortgages provided. The costs of this levy would be completely or partially off-set by a reduction in lenders' costs associated with making and monitoring forbearance agreements and fewer repossessions. This contribution would be paid directly to government in order to ensure that the independence of the non judicial debt settlement system is not compromised.

6.3.2 Mortgage Arrears and Debt Unit

It was clear from the interviews with MABS clients that a comprehensive response to tackling mortgage arrears was required, and that this would involve a number of different government departments. **It is therefore recommended** that a cross departmental Mortgage Arrears and Debt Unit should be established by Government to ensure a co-ordinated response to the problems created by mortgage arrears. This would involve the active participation of a number of government departments, including the Department of the Environment, Heritage and Local Government; the Department of Justice and Law Reform; and the Department of Social Protection. It is considered that the best way of ensuring an effective cross-departmental response is to establish a unit outside of these departments, with specific responsibility for ensuring effective co-ordination and the development of an effective response.

6.3.3 Reform of bankruptcy legislation

A number of interviewees commented that the current rules in relation to bankruptcy meant that it was not a viable option for them, or indeed for any individual. Thus, the reform of bankruptcy legislation, in particular the Bankruptcy Act 1988, as proposed by the Law Reform Commission (2010) is strongly endorsed and should be prioritised.

Bankruptcy is likely to be the optimum course of action for a very small number of people in mortgage arrears, especially if other recommendations in this report are accepted. However, for this small group, the option of bankruptcy will allow for a genuinely fresh start to be made.

6.4 Mortgages viable in the medium-term

As stated above, a mortgage that is viable in the medium-term is one where there is a reasonable likelihood that within a period of 5-7 years, the borrower will be able to make full repayments on the mortgage. In these circumstances, the most effective response is to assist the borrower to continue to make some payments to the lender until such time as the borrower's financial circumstances have improved to the extent that full repayments can be recommenced.

A critical issue that must be addressed is that there is widespread agreement that MIS should be a short-term scheme. The *Review of the Mortgage Interest Supplement Scheme* (Department of Social Protection, 2010), the *Interim Report of the Mortgage Arrears and Personal Debt Expert Group: interim report* (2010b) and the *Final Report of the Mortgage Arrears and Personal Debt Expert Group: (2010a)* have all recommended that MIS should be time-limited to approximately two years.

However, for borrowers whose mortgages will be viable in the medium-term, further measures need to be put in place to enable the borrower to retain occupancy of their dwelling until their income increases enough to enable them to recommence full repayments.

6.4.1 Medium-term support

The following proposal aims to provide a mechanism that will enable people to remain in occupation of their dwelling during the period when they are unable to make full repayments on their mortgage.

In brief, **it is recommended** that, following a maximum two year period of Mortgage Interest Supplement, if the mortgage continues to be viable in the medium-term, the borrower would receive two forms of assistance, each accounting for a proportion of the interest payable:

- Medium-Term Mortgage Interest Supplement (MTMIS), which would be paid on a proportion of the interest payable, for a maximum period of five years. Some or all of the expenditure on MTMIS would be recouped.
- A slightly modified version of the Deferred Interest Scheme would apply to the remaining proportion of interest payable.

This proposed arrangement aims to ensure that the burden of deferred payments is shared between the lender and the State.

The two forms of assistance are dealt with in turn below.

6.4.1.1 Medium-Term Mortgage Interest Supplement (MTMIS)

Toward the end of the two year period during which MIS is paid, the borrower's circumstances should be reviewed and if the mortgage is still assessed as viable in the medium-term, Medium-Term Mortgage Interest Supplement (MTMIS) would be paid for a maximum period of a further five years. During this period, MTMIS would normally be capped at a proportion of the level of rent supplement the borrower would receive if the household moved into private rented accommodation in the same area. Thus, State expenditure would be less than would be the case if the dwelling was repossessed and the household moved into private rented accommodation (assuming of course that the household was eligible for rent supplement).

In addition, **it is recommended** that the State would recoup some or all of this expenditure. There are two ways in which this could be done; the State could take an equity stake in the dwelling that was equivalent to all or a proportion of the expenditure on MTMIS, or this expenditure could be recouped through a negative tax credit in subsequent years. Both schemes have advantages and disadvantages and these are discussed below. Both schemes share one significant feature; the lender is not required to write down the mortgage.

Equity stake

This would involve the State taking an equity stake in the dwelling that would be equivalent to all or a proportion of the expenditure on MTMIS during the relevant period. The aim would be to realise this equity when the dwelling was subsequently sold, so the State would recoup this expenditure. The advantage of this proposal is that it would not impact on the current expenditure of the borrower and would only affect the borrower when the property was sold. However, a significant disadvantage is that the lender would continue to have first charge on the dwelling. This means that for the State to get any recoupment, the market value of the property when it was sold would have to be greater than the total owed to the lender. Since many dwellings where there are mortgage arrears are in significant negative equity, it may be some considerable time before a sale would result in the State recouping any of its equity stake. Furthermore, it is possible that other creditors will also have a charge on the dwelling, which would further reduce the State's recoupment.

Recoupment through reduction in tax credit

In this arrangement, the accrued MTMIS payments made in the relevant period would be recouped by a reduction in tax credits when the household is back in employment and able to make the repayments. The advantage of this scheme is that the recoupment is not dependent on the operation of the housing market. However, a disadvantage is that it would be most important to ensure that the borrower's repayments on the mortgage, combined with a reduction in tax credits would be affordable, which may mean delaying the recoupment for a period after the

borrower is back in employment. This could be achieved through giving the non-judicial debt settlement arrangements the job of determining at what point in time the borrower would be able to afford both mortgage repayments and a reduction in tax credits.

6.4.1.2 Deferred Interest Scheme

The proportion of the interest payment that is not covered by MTMIS would be subject to a slightly amended version of the Deferred Interest Scheme that was recommended in the *Final Report* of the Mortgage Arrears and Personal Debt Group (2010). In this scheme, borrowers who can pay at least 66% (but less than 100%) of their mortgage interest can defer payment of the balance for up to five years. The amendment required is that a new eligibility criterion will be needed: payment of MTMIS has been agreed for a proportion of the interest payments on the loan. This would act as a trigger for putting into effect Deferred Interest Scheme for the remainder of the interest payable.

The allocation of the interest payment between the two schemes could be done on an equal split, so that each contributes to 50% of interest payments. Alternatively, since a number of lenders have already agreed to the principle of deferred interest for one third of interest payments, the medium-term support scheme could comprise 66% MTMIS and 33% Deferred Interest Scheme.

6.4.2 Avoiding poverty traps

A feature of MIS and a potential feature of MTMIS is that when they come to an end, the recipient may experience a sudden drop in income which could impact on their ability to make full repayments. This may particularly be the case where employment is recommenced following retraining. In these circumstances, an amended standard financial statement should be prepared that would indicate the impact of MIS or MTMIS coming to an end, and would support proposals for continuing forbearance, taking account of the changed circumstances.

6.4.3 Assistance to trade down whilst in negative equity

It is recommended that the proposal in the *Final Report* of the Mortgage Arrears and Personal Debt Group (2010), relating to lenders facilitating trading down by borrowers who are in negative equity, should be implemented as soon as possible. It is acknowledged that a relatively small number of borrowers would benefit from this proposal. However, it has substantial benefits for both borrower and lender at no cost to the state. The affordability to the borrower would be significantly improved; and the lender would not have to write down the mortgage and would gain from the lower likelihood of the borrower getting into difficulty with the mortgage.

6.5 Non-viable mortgages

As stated above, a non-viable mortgage is one where the borrower is unlikely ever to be able to make full repayments on the mortgage.

A striking finding from the interviews was that whilst some people were determined to stay in their existing dwelling and prepared to make very considerable sacrifices to do so, others wanted to leave and make a fresh start elsewhere, usually because they saw their debt increasing and could see no way out.

Accordingly, there are two proposals here: one relating to those with non-viable mortgages who wish to remain in their current dwelling and one relating to those who wish to move.

6.5.1 Mortgage-to-rent

It is recommended that where a mortgage is assessed as non-viable, the borrower wishes to stay in the dwelling and the dwelling is considered to be appropriate for the household, a mortgage-to-rent scheme should come into play.

Key features of this scheme are as follows:

- The lender would sell the dwelling at current market value to a housing association (also called an Approved Housing Body)
- The housing association would finance the purchase with a loan from the Housing Finance Agency, or a commercial lender – possibly the original lender.
- All, or a proportion, of the residual debt would be written off by the lender.
- The former borrower would remain in occupation of the dwelling as a tenant of the housing association.
- The housing association would receive an availability payment from the Department of the Environment, Heritage and Local Government under the auspices of the Social Housing Leasing Initiative, and the tenant would pay an income related rent to the housing association. This is an established arrangement under the Social Housing Leasing Initiative.
- When at some time in the future the dwelling is sold, any increase in equity would accrue to the State. Clearly, the longer the time period before the dwelling is sold, the greater the likelihood of the State realising a significant proportion of the equity.

It is worth noting that a number of interviewees had attempted, of their own volition (and without success), to persuade their local authority to purchase their home and rent it back to them. So this concept was already in the mind of some interviewees.

The mortgage to rent scheme has a number of significant benefits for all stakeholders:

- Repossession is prevented and the costs – financial and health – associated with this are saved, although there will of course be some transaction costs associated with the sale of the dwelling to the housing association.
- The borrower is able to remain in occupation of the dwelling.
- The lender receives the current market value of the dwelling.
- Given the current stagnant state of the housing market, a property that is sold on the open market may remain empty for some time before it is sold and the current market value of an empty property is likely to reduce quickly and significantly as the property deteriorates. Thus, an agreed sale to a housing association at current market value is likely to raise more funds than placing the property on the open market.

As far as is known, there are no comparable schemes in operation in other jurisdictions. A 'mortgage rescue' scheme operates in Scotland, Wales and England. However, there are significant differences between this and the mortgage-to-rent scheme proposed here.

Some references have been made to the low take up of these 'mortgage rescue' schemes, so it is worth explaining that they are primarily schemes of 'last resort,'

with eligibility criteria that match this. For example, before an application can be considered, legal action must be underway which threatens the household with homelessness and the property concerned must have a value that is below average. An evaluation of the mortgage rescue scheme in Scotland (Bramley *et al*, 2008) indicated a relatively low uptake; this is partly explained by the 'last resort' nature of the scheme and by the fact that it has not been promoted as well as it might have been.

6.5.2 Managed voluntary surrender

In circumstances where a mortgage is assessed as non-viable and the borrower wishes to move, the appropriate response will in most instances be voluntary surrender that takes place in a planned and managed fashion. A number of interviewees had considered voluntary surrender but were either unsure about how it would work, or had met with opposition from the lender.

It is recommended that the Central Bank develop a code of conduct concerning voluntary surrender that would set out:

- The steps to be taken by both lender and borrower
- The information that each must provide to the other
- Clear and unambiguous provisions concerning the costs associated with voluntary surrender, which of the specified costs will be incurred by the lender and by the borrower, together with time frames
- Consideration of an agreement between the lender and borrower that the borrower would continue to occupy the dwelling as a tenant of the lender until the dwelling is sold. This would ensure that the dwelling would not deteriorate as a result of lying empty, with a consequent negative impact on its value. In these circumstances, it may be appropriate for a housing association to manage the dwelling on behalf of the lender.
- Consideration by the lender of a degree of debt settlement, through which some or all of the outstanding debt would be written off.

6.6 Future lending

The recommendations above set out ways in which borrowers who are currently experiencing difficulties with their mortgages may be assisted. However, it is important that in addition to responding to the current situation, measures are put in place that will aim to reduce the extent of mortgage arrears in the future.

6.6.1 Lending limits

A recent report from the Central Bank (2010a: 63) notes, 'there is no direct regulation of credit limits, for example through restrictions on Loan-to-Value (LTV) ratios or the imposition of a maximum multiple of net disposable income.' The report goes on to say:

We anticipate that, as part of a series of legislative amendments following the restructuring of the Central Bank, we will be given broader regulatory powers, which would include the ability to prescribe lending limits. We believe there is a case for further examination of whether liberalised consumer credit markets can work against financial stability across the economic cycle. Clearly, the impact on consumers and the wider economy will also need to be factored in. This is a complex issue. We therefore propose only to bring forward recommendations following a process of research and consultation (Central Bank, 2010a: 64).

In a number of other countries, regulation of lending includes maximum loan-to-value ratios and/or debt-to-income ratios. In the event of the house price to earnings ratio

increasing significantly again at some time in the future, setting maxima for one or both of these ratios could play a major part in preventing another house price bubble.

The approach proposed in the Central Bank's report is strongly endorsed, with the proviso that there may be a case for setting maxima in relation to these ratios in any event, for the purpose of preventing irresponsible lending (see Section 6.4.2. below).

6.6.2 Responsible lending

Interviews carried out for this research suggested significant levels of irresponsible lending, particularly by subprime lenders. Responsible lending includes:

- Ensuring that the borrower will be able to afford repayments by not lending above a fixed debt to income ratio.
- Ensuring that the borrower will be able to afford repayments by carrying out a thorough affordability assessment, including verification of applicants' incomes.
- Providing a comparison of relevant terms and conditions with a range of similar products so that the borrower is assisted to make a decision in light of information about other options.
- Ensuring that the borrower understands fully the risks involved in taking out a loan. This would apply particularly to a loan which would be secured against a property, whether it is a loan to purchase that property, or a loan that consolidates other non-house purchase loans.

It is recommended that the Consumer Protection Code should be amended to include specific reference to responsible lending practices, including but not limited to those set out above. In addition, **it is recommended** that following this, in repossession actions, there should be a ground for appeal that the granting of the loan was irresponsible. If this is upheld by the court, the loan would be determined to be a non-recourse loan, so that the lender would only be able to recoup the current market value of the property against which the loan is secured.

This aims to ensure that in the future, lenders should grant loans responsibly, and if they do not, there will be consequences for them.

6.6.3 Regulation or independent mortgage and debt advisors

This report has raised concerns about the effectiveness of current arrangements for the regulation of independent mortgage brokers and about the lack of regulation of independent, for profit debt advisors. **It is recommended** that regulation of both these services be examined by the Financial Regulator as a matter of urgency.

6.7 Education

There is a lack of consistent financial education in schools on the financial complexities that today's young people will face as they grow up. Children and young people encounter money earlier and earlier, from spending and saving their pocket money to funding third level education on leaving school. Student loans; becoming a wage earner; and setting up home alone are just some of the issues they face.

To make sense of the options open to them in adult life and become responsible consumers, children and young people need to learn to manage money now.

It is recommended that money management education programmes should be provided in primary and post-primary education, to ensure that all young people leaving school have the confidence, skills and knowledge in financial matters to participate fully in society. An appropriate post-primary education programme would comprise a money management module that would be included in the curriculum of the junior cycle Civic, Social and Political Education (CSPE).

Appendix 1: Summary of Recommendations

Non judicial debt settlement arrangements

1. Non judicial debt settlement arrangements should be established which include the following functions:
 - a. Preparing a standard financial statement that is agreed between the non judicial debt settlement arrangements and as many lenders as possible.
 - b. Determining whether a mortgage is categorised as short-term difficulty; viable in the medium-term; or non-viable
 - c. Granting Debt Settlement Arrangements and Debt Relief Orders as recommended by the Law Reform Commission
(Section 6.3.1)
2. Lenders should make a significant contribution to the costs of the non judicial debt settlement arrangements through a levy based on the number of mortgages provided. This contribution would be paid directly to government in order to ensure that the independence of the new agency is not compromised. (Section 6.3.1)
3. A cross departmental Mortgage Arrears and Debt Unit should be established by government to ensure a co-ordinated response to the problems created by mortgage arrears. (Section 6.3.2)

Mortgages viable in the medium-term

4. Following a maximum two year period of Mortgage Interest Supplement, if the mortgage continues to be viable in the medium-term, the borrower would receive two forms of assistance, each accounting for a proportion of the interest payable, for a maximum of five years.
 - Medium-Term Mortgage Interest Supplement (MTMIS), which would be paid on a proportion of the interest payable, for a maximum period of five years. Some or all of the expenditure on MTMIS would be recouped.
 - A slightly modified version of the Deferred Interest Scheme would apply to the remaining proportion of interest payable. (Section 6.4.1)
5. The State would recoup some or all of its expenditure on Medium-Term Mortgage Interest Supplement by taking an equity stake in the dwelling or through a reduction in tax credit. (Section 6.4.1.1)
6. The proposal in the *Final report* of the Mortgage Arrears and Personal Debt Group (2010a), relating to lenders facilitating trading down by borrowers who are in negative equity, should be implemented as soon as possible. (Section 6.4.3)

Non-viable mortgages

7. Where a mortgage is assessed as non-viable, the borrower wishes to stay in the dwelling and the dwelling is considered to be appropriate for the household, a mortgage-to-rent scheme should come into play. (Section 6.5.1)
8. The Central Bank should develop a code of conduct concerning voluntary surrender. (Section 6.5.2)

Future lending

9. The Consumer Protection Code should be amended to include specific reference to responsible lending practices. (Section 6.6.2)
10. In future repossession actions, there should be a ground for appeal that the granting of the loan was irresponsible. (Section 6.6.2)
11. Regulation of both independent mortgage brokers and independent for profit debt advisors should be examined by the Financial Regulator as a matter of urgency. (Section 6.6.3)
12. Money management education programmes should be provided in primary and post-primary education. (Section 6.7)

Appendix 2: Questionnaire

Interviews with MABS clients were semi-structured and aimed to obtain baseline data as well as exploring qualitative themes. As the interviews progressed, it became clear that a significant number of interviewees were unable to provide comprehensive baseline data either because they didn't know, couldn't remember or didn't have relevant documentation. The following is a list of questions asked and themes explored.

Part 1: Baseline data

1. At time of purchase:

- a. Demographic profile of interviewee and his/her household
- b. Very brief housing history
 - i. First time buyer?
- c. Date of first mortgage payment
- d. Income level and source
- e. Size/type/location/standard/suitability of dwelling
- f. Estimated market value of dwelling
- g. Type of mortgage and type of lender
 - i. What was the interaction with the lender at the time of the loan application?
 - ii. If the application was through a broker, how was the contact initiated?
- h. Size of mortgage and mortgage payments
- i. Size and source of the deposit

2. At present:

- a. Current arrears
- b. Do you have a top up mortgage, second mortgage or any other secured debt?
 - i. If so, for what purpose?
 - ii. What is the size of these loans?
 - iii. Did you use the loan for the purpose you applied for?
 - iv. What was the value of the dwelling when you applied for top up/second mortgage?
- c. Are you keeping up with other payments? E.g. pension, repayments on car loan etc.

Part 2: Qualitative

1. When did you first experience difficulty paying the mortgage?

- a. Why was this?
 - i. Loss of job?
 - ii. Family breakdown?
 - iii. Ill health
- b. Has anything happened since then that has affected your ability to repay the loan?

2. What action did you take and what happened?

- a. Which agency/agencies did you contact?
 - i. The lender
 - ii. MABS
 - iii. CIC
 - iv. Solicitor
 - v. Community welfare officer
- b. Which agency did you contact first? Why?
- c. Why did you contact other agency/agencies?
- d. What was their response?
 - i. If you have forbearance arrangements with your lender, what are these?
- e. How did you feel you were treated by them? Which aspects of your interaction was least and most helpful?
- f. Did you follow their advice?

- i. If not, why not?
- g. Do you think there's any stigma attached to seeking help from MABS?
- h. Did you apply for Mortgage Interest Supplement? If so, what happened?
- i. Did you ever consider bankruptcy? If not, why not?

3. At present:

- a. What is your current level of arrears?
- b. How do you prioritise between mortgage repayments and other borrowings?
- c. How does your current predicament influence your economic behaviour?
- d. Are there social and/or health implications of your current situation?
- e. If you are unemployed, what do you think are your employment prospects?
- f. Can you see a solution to your current predicament?
- g. If you had a choice, would you prefer to stay where you are or move to a different dwelling? Why?
- h. Would you consider:
 - i. Reducing your equity stake in your current home?
 - ii. Remaining there as a tenant rather than an owner?
- i. Knowing what you now know, is there anything you or another agency could have done that might have either prevented or ameliorated your current situation? Can you think of any other type of assistance that would have helped you but was not available?

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