Customer perspectives on mortgage arrears and advice seeking in Northern Ireland

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This report was prepared by

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Participating organisations

Bank of Ireland, Citizens Advice NI, Council of Mortgage Lenders, Department for Communities, Housing Rights, Limavady Community Development Initiative, Money Advice Service, Northern Ireland Courts and Tribunals Service, Stepchange, Ulster Bank.

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In 2015, the Housing Repossession Taskforce produced a report for the Department for Social Development (now the Department for Communities) investigating the impact of mortgage arrears, repossession and negative equity in Northern Ireland. One of the key recommendations from the Taskforce's Final Report was for mortgagors to focus on seeking free and independent advice to help improve their financial position. This research seeks to understand the perceptions of mortgagors, to explore their experiences of mortgage arrears, to understand their behaviours and attitudes when they are in this position and where they look for advice.

The key research questions for this study were:

- At what points do people realise that their mortgage debt is unsustainable and they can no longer manage?
- What journeys do people take when they realise that their mortgage debt is unsustainable?
- How effective are the advice interventions that people in mortgage arrears receive?

To gain a full understanding of the issues faced by customers with mortgage arrears in Northern Ireland, we employed a mixed-methods approach. First, we conducted a literature review of existing evidence on debt advice alongside quantitative analysis of secondary data sources to provide a contextual background to the research. We then conducted qualitative research, including 30 face-to-face in-depth interviews with mortgagors and semi-structured telephone interviews with stakeholders. This was broadened by formal engagement with stakeholders, including policy makers, debt advice sectors and mortgage lenders in Northern Ireland.

Contextual background

Housing, mortgages and repossessions

The UK's housing market received a major shock as a result of the financial crisis and the recession which followed, and Northern Ireland was hit especially hard by this. This presented major problems to mortgagors in Northern Ireland including high resulting loan-to-value ratios and negative equity. While the worst of this appear to be over, although remaining far higher than the rest of the UK, the knock-on effects of the crisis on labour markets and wages have left a significant minority of mortgaged households in Northern Ireland in or at risk of difficulty meeting their mortgage payments, and, for some, a real risk of losing their homes.

Current understanding on debt advice

There is good provision of free-to-client independent debt advice in Northern Ireland, as elsewhere in the UK. However, there are barriers to accessing debt advice. The capacity of debt advice to resolve debt is also equivocal, although the literature suggests that debt advice alleviates debt and particularly the symptoms of debt, helping debtors cope better with their situations. The key qualities debtors need from debt advice should also extend to their contact with lenders, and these include being knowledgeable and flexible, constructive and outcome-focussed, non-judgemental and empathising, and delivered via the mode of contact most appropriate to their needs.

Findings

From mortgages to mortgage arrears

Our research participants' were at different stages of their mortgage experience (from a few years to over 20) and mortgage arrears experience (from a month or two to a year or two). Not all were in wider financial difficulty, but those who were included those whose situations were temporary and others whose situations were far more ingrained. The key routes into mortgage arrears all related to income, whether from job loss, fluctuating incomes or reduced incomes from a variety of causes, with increases in expenditure important for some.

We found that mortgagors generally only realise fairly late in the day that their mortgage debt is unsustainable and they can no longer manage. People use a range of coping strategies, often without realising it, include drawing on savings, or using consumer credit, and few mortgagors appear to seek support or advice from their lenders before falling into arrears. Consequently, by the time they actually miss a mortgage repayment, their general financial situation has often deteriorated badly, making it harder to sort things out. Earlier realisation of financial difficulty is therefore a key lesson from this study; if lenders are not in a position to offer pre-arrears help themselves (which seems counter-intuitive), they could signpost mortgagors to generic money advice (such as the Money Advice Service) or an independent debt advice service.

Towards resolution: contact and advice

One of the most important themes to have emerged from our interviewees' experiences of debt advice is communication. Timely and appropriate communication by lenders and debtors alike is crucial for the satisfactory resolution of arrears. Contact with a lender once a mortgagor had fallen into arrears was normally instigated by the lender at the point at which the first payment was missed. This was usually by letter and the wording and tone of this could be problematic for some recipients. Lenders need more effective ways to communicate with people in mortgage arrears, bearing in mind that these mortgagors may be fearful and apprehensive. Lenders are likely to be the first port of call for mortgagors in arrears, and so it is vital that the lender strikes an open and conciliatory tone right from the start.

The biggest barrier to mortgage debtors in this study seeking advice from independent, third party sources was a lack of awareness of help for people with mortgage arrears specifically, and then of the particular organisations which might help. Concerns also existed around confidentiality and shame. However, those who did seek advice found it positive and helpful, particularly for alleviating the psychological and emotional symptoms of debt, assessing affordability, negotiating payment agreements with lenders, and – for those unable to secure sustainable solutions – providing a buffer between them and their lender. In addition to emphasising the support they can offer their customers themselves, there are opportunities here for lenders to signpost to advice services earlier and more effectively (even in their initial letters). While the debt advice sector itself noted that previous efforts to promote debt advice services in Northern Ireland have struggled to gain traction, there may still be scope for the free-to-client debt advice sector to advertise its services more widely, being explicit about the help it can provide with mortgage arrears, and building on what was learned from previous experiences

Resolution: pathways and barriers to sustainable mortgage debt resolution

Clearly, the aim for both customers and lenders should be to find a sustainable solution to mortgage arrears, and on the rare occasion when this is not possible, to find a way of enabling the customer to move on to new housing. We find that the journey out of arrears is influenced by the persistence of financial difficulties, the level of engagement a customer has with their lender and the breadth and depth of view taken by the lender.

For some mortgagors in arrears there is a clear route to sustainable debt resolution. This normally arises where households have been affected by only temporary income disruption they can afford to repay their arrears within a short period of time or extend the term of their mortgage.

For a second group of debtors, the route to a sustainable debt resolution is less clear, however may still be possible and this appears to occur in the context of longer-term drops or greater volatility of income; or there may be low levels of communication by the mortgage holder with the lender. It may also reflect that discussions with lenders are at an early stage or that temporary arrangements such as payment holidays, were in place.

For a final group, a sustainable solution looks unlikely and this appears to occur when debtors avoid contact with their lender, lenders refuse a solution which debtors feel would meet their needs, or where an initial solution has been tried and failed with no obvious continuity plan.

Our research highlights some common issues that help explain why mortgage arrears fail to be satisfactorily resolved. Firstly, the evidence from mortgagors with arrears suggests that in some cases lenders focus on short-term ‘fixes’ rather than taking a more holistic approach that acknowledges the underlying causes of arrears. Secondly, our interviews with mortgagors suggest a lack of consistency in their treatment by lenders. Our evidence indicates inconsistent application of forbearance by mortgage lenders. Lenders are necessarily limited in the extent to which they can offer forbearance without jeopardising the service they can offer to other mortgage customers. As a result, there is a responsibility on both lenders and debtors to agree a realistic and sustainable plan which may include the temporary relief of debt combined with, crucially, a longer-term repayment strategy.

Last resorts: when debt resolution is not sustainable

Fear of losing their homes, particularly through possession by the lender, was palpable for many of the mortgagors included in this research. Avoiding possession, as all but a last resort, is a key objective of debt advice agencies and it is normally a key objective of debtors and lenders alike. Escalation of a case through the courts, the legal route to possession by a lender, is normally only triggered by the refusal of the debtor to engage with the lender. However, homeowners in Northern Ireland can have personal and family connections to their homes. Losing the home can mean a permanent change in tenure and negative equity can lead to insolvency; it may take a long time for debtors to accept it as the only solution. Both mortgagors and debt advisors felt that problems finding suitable and affordable alternative housing could also be a barrier to people engaging with the prospect of losing their home.

Barriers to a 'soft landing'

Levels of negative equity have been a far bigger concern in Northern Ireland than the rest of the UK, and it is only in very recent years that house prices have risen again. However, negative equity was an issue in only a small number of the cases in our study, with most people either certain that they had equity in the house, or believing that they were unlikely to still be in negative equity where they had been in the past. For the latter group, this was largely due to the recent increase in house prices. Overall, as the aim for the majority of participants was to remain in their home, the level of equity in their property was a concern only insofar as it could hinder their ability to re-mortgage onto a product with a better interest rate.

Debt advisors however, expressed some concerns that mortgagors in arrears living in homes with negative equity might falsely believe that lenders would not pursue them for the debt, or may be being over optimistic in assessing the value of their house. There was also concern over the effect that rising equity may have on those with second charge mortgages.

In terms of future vulnerabilities, the biggest concerns were further stresses on income in the form of interest rate rises, although this looks unlikely in the current economic climate, current and future welfare reforms, and the recent changes to state support for homeowners who are eligible for help with their mortgage interest payments.

Key recommendations for policy and practice

A key lesson here is the tone in which lenders communicate early messages and warnings about mortgage arrears (whether in writing or verbally). In essence, this involves getting the balance right between conveying the seriousness of the situation while making it clear that there are steps that the mortgagor can take to sort things out, all the while showing an understanding of the fears and anxieties that mortgagors may have.

There were mortgagors in our study who asked lenders for help before they got into arrears, but were told the lender could not help at that stage. The evidence from this study demonstrates how earlier intervention by mortgage lenders could stop a mortgagor's financial situation deteriorating as a result of their efforts to self-manage their arrears.

While many of the mortgagors in our study received helpful and effective support from their lender, there was some indication that lenders were not always abiding by pre-action protocols for dealing with mortgage arrears. A particular issue was the inconsistent application of forbearance by mortgage lenders. The FCA has produced case studies of how forbearance should work, and good practice should be encouraged across the industry.

Concerned about how forbearance is used by lenders, the concept of a 'Breathing Space' is something that lenders in Northern Ireland could implement with regard to those who are struggling to make their mortgagee repayments, to give households a time to readjust their finances, and put in place a longer term plan.

Debt advisors were also frustrated that lenders would not always accept an advisor's recommendation, based on a standard financial statement that provided in detail the client's income and expenditure and the repayments they could afford to make. They wanted to see greater acknowledgement by lenders of the professional work of debt advisors, which in their view would result in better outcomes all round.

Lack of awareness seemed to be the main barrier to people using independent debt advice. Therefore, It is important that signposting to support or advice is consistently given to mortgagors at all steps of the process; while earlier help is preferable, forbearance can be granted right up to the point of actual repossession. This research suggests there are opportunities to encourage people to get independent, professional help, such as offering debt advice in job centres or large firms that plan to make redundancies, or placing webchat link on the relevant websites.

Overall, the messages should be about getting help early on to deal with changes in circumstance (rather than about dealing with debt); the value of getting help sooner rather than later; and things that individuals can do to help themselves such as adjusting spending early on and drawing up a plan of action to pay bills.

1 Background, aims and methodology

1.1 Background

In 2015, the Housing Repossession Taskforce produced a report for the Department for Social Development (now the Department for Communities) to investigate the impact of mortgage arrears, repossession and negative equity in Northern Ireland. While the UK as a whole suffered a drop in house prices following the financial crisis in 2008, with the resulting negative equity and rise in repossession orders, the subsequent recovery that was evident in the rest of the UK did not reach Northern Ireland. The Housing Repossession Taskforce's Initial Evidence paper, presented in 2014, found a far higher number of households in Northern Ireland at risk of repossession than the rest of the UK, and estimated that these numbers would double between 2014 and 2018.[1]

The Taskforce's Final Report produced a set of recommendations designed to 'help and encourage these households to help themselves' (p.1), focusing on proposals that would be taken forward by a range of partners. These included the Department for Communities, government and regulatory partners, mortgage lenders, the advice sector, and mortgagors themselves. The key recommendation for mortgagors focussed on seeking free and independent advice to help improve their financial position.

This research seeks to understand the perceptions of mortgagors, to explore their experiences of mortgage arrears, to understand their behaviours and attitudes when they are in this position and where they look for advice. There is a small but growing body of research suggesting that debt advice can improve the outcomes for over indebted households. However, there is a paucity of research looking at this issue specifically in a Northern Irish context. The findings from this study will help to inform policy and practice decisions regarding the provision of mortgage debt advice across Northern Ireland.

[1] Whittaker in 2014 estimated that the number of households who were 'highly geared' (paying more than a third of income after tax on mortgage repayments) and 'mortgage prisoners' (unable to improve their positions by downsizing or re-mortgaging) would double to 16% of household with mortgages by 2018.

1.2 Aims and methodology

The main research questions for this study were:

- At what points do people realise that their mortgage debt is unsustainable and they can no longer manage?
- What journeys do people take when they realise that their mortgage debt is unsustainable?
- How effective are the advice interventions that people in mortgage arrears receive?

To gain a full understanding of the issues faced by customers with mortgage arrears in Northern Ireland, we took a mixed method approach, with four elements:

1. A literature review of existing evidence on debt advice
2. Quantitative analysis of multiple secondary data sources
3. Stakeholder round tables, which involved policy makers, debt advisors and mortgage lenders in Northern Ireland
4. Qualitative research, including:
    - Face-to-face depth interviews with mortgagors
    - Semi-structured telephone depth interviews with stakeholders.

1.2.1 Literature review

The literature review examined the available evidence on the impact of debt advice, in particular how it affects those with mortgage arrears. The review encompassed the information available that is specific to Northern Ireland, as well as contextual UK evidence and, where relevant, international evidence.

1.2.2 Quantitative analysis

We conducted analysis of relevant data and statistical reports to provide a comprehensive quantitative profile of mortgagors in Northern Ireland. This gives valuable insight into the characteristics and circumstances of the wider Northern Irish population and is a useful backdrop to the qualitative interviews. The data sets we analysed were the Family Resources Survey, Understanding Society, data from the Council of Mortgage Lenders, and client data from StepChange Debt Charity.

1.2.3 Stakeholder round tables

An initial roundtable was held in Belfast with key stakeholders at the start of the study, to gain their perspective on the state of mortgage arrears in Northern Ireland. A second roundtable was convened to discuss the findings from the research, to further situate them within the policy context of Northern Ireland, and to feed into the formulation of evidence-based policy recommendations.

1.2.4 Qualitative research

To fully understand the range and nature of issues and events affecting people's lives, based on their own understanding of them and in their own language, we conducted 30 one-to-one qualitative interviews with mortgagors. This enabled us to explore each individuals' journey, in order to identify key trigger points and life events that are common in the route into mortgage arrears. As one of the aims of the research was to understand the barriers to seeking advice, we recruited three groups of customers in mortgage arrears:

1. Those in arrears who had received formal debt advice from an external or independent agency (nine of the 30 interviews);
2. Those in arrears who had sought help from, or were in contact with their mortgage lender (11 of the 30 interviews); and,
3. Those who were in arrears but had not received help from a debt advice agency or their lender (10 of the 30 interviews).

Recruiting people to these three different groups ensured that we captured a breadth of different experiences. We did not use the groups as a unit of analysis, however, given the difference in circumstances of respondents within each group.

The interviews were conducted in different areas of Northern Ireland, and consisted of people of different ages and family circumstances, although reflecting the general demographic make-up of mortgage holders[2]. The participants were recruited by an independent fieldwork agency based in Northern Ireland.

In addition to the interviews with mortgagors, we also spoke to staff in StepChange Debt Charity, Housing Rights, Advice NI, Citizens Advice Bureau (CAB) and the Northern Ireland Courts and Tribunals Service, to understand how the arrears process works in practice and to gain a clearer understanding of any barriers facing those who are trying to aid borrowers in arrears. All interviews were audio-recorded and transcribed, with the participant's permission, and analysis was conducted using a thematic approach.

[2] For a full breakdown of characteristics of participants, see Appendix.

1.3 Report structure

Part 1 (Chapters 2 and 3) uses existing data to explore the current position of the housing and mortgage market in Northern Ireland and the role of debt advice. In Part 2 (Chapters 4, 5, 6 and 7) we use the qualitative data to explore the experience of how different households fall into mortgage arrears, where they turn to, what resolutions are found, and what happens when a resolution isn't found. Finally Chapter 8 looks at the implications of the findings on policy recommendations.

PART ONE

2 Housing, mortgages and repossessions

This chapter gives an overview of the housing and mortgage markets in Northern Ireland, before focusing on the characteristics of mortgagors in general and those in financial difficulty. We also consider changes in the labour market over time and the changing number of repossessions in Northern Ireland in comparison to England and Wales. We find that house prices in Northern Ireland have now stabilised after a period of unprecedented ‘boom and bust’, that around a sixth of households in Northern Ireland are at high risk of financial difficulty due to low or negative equity, and over a third of mortgagors in Northern Ireland report that they find it a ‘heavy burden or struggle’ to meet their accommodation costs.

2.1 House prices over time

Property prices in Northern Ireland can be said to have now largely normalised following a highly unusual period of ‘boom and bust’. In the early- to mid-2000s, property prices across the UK rose considerably but the increase was especially noticeable in Northern Ireland (as shown in Figure 2.1).Average property prices in Northern Ireland grew from approximately £100,000 to nearly £230,000. This growth, however, was all but eradicated in subsequent years as the average price fell by 54% to approximately £106,000 in 2012.

The average price of a property in Northern Ireland in the third quarter of 2016 now stands at £130,581, which represents a 1.6 per cent increase on the same period a year earlier (Nationwide, 2016).[3]

Previously, Northern Ireland had the lowest average property price of all of the regions of the UK, but it has recently overtaken the North of England to become the second lowest. It is nevertheless still considerably lower than the UK-wide average of £206,346, and is

[3] It should be noted that different sources give varying figures due to different methodologies. NISRA, for example, estimate the average property price to be £123,241 in the second quarter of 2016, while Nationwide estimate it to be £128,562 in the same period.

under a third of the London average of £474,736 (as demonstrated in Figure 2.2).

Figure 2.1 Estimated average property prices in Northern Ireland and UK since 1973 (Data Source: PFRC analysis of Nationwide House Price Index, 2016)

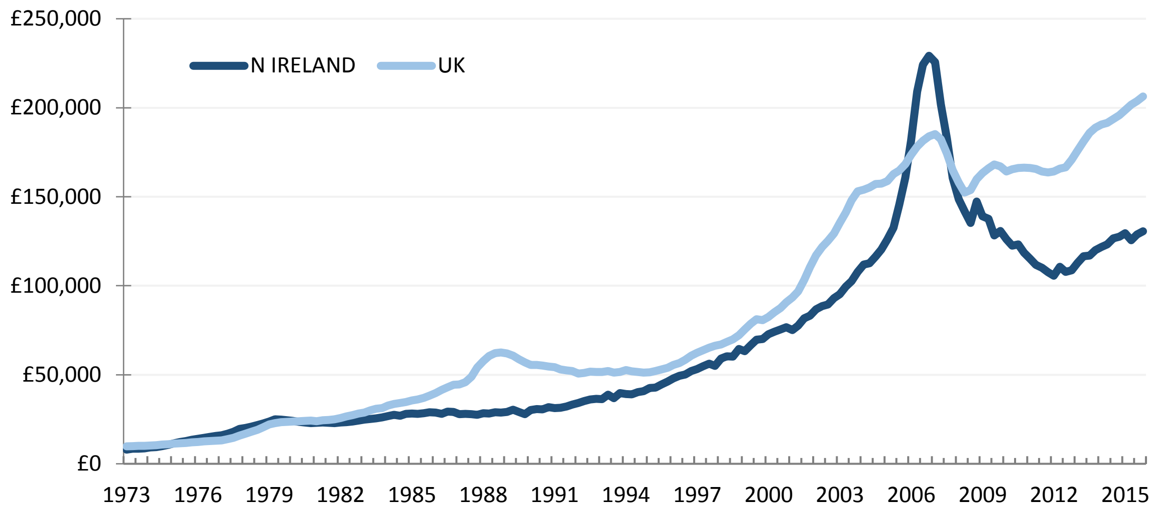
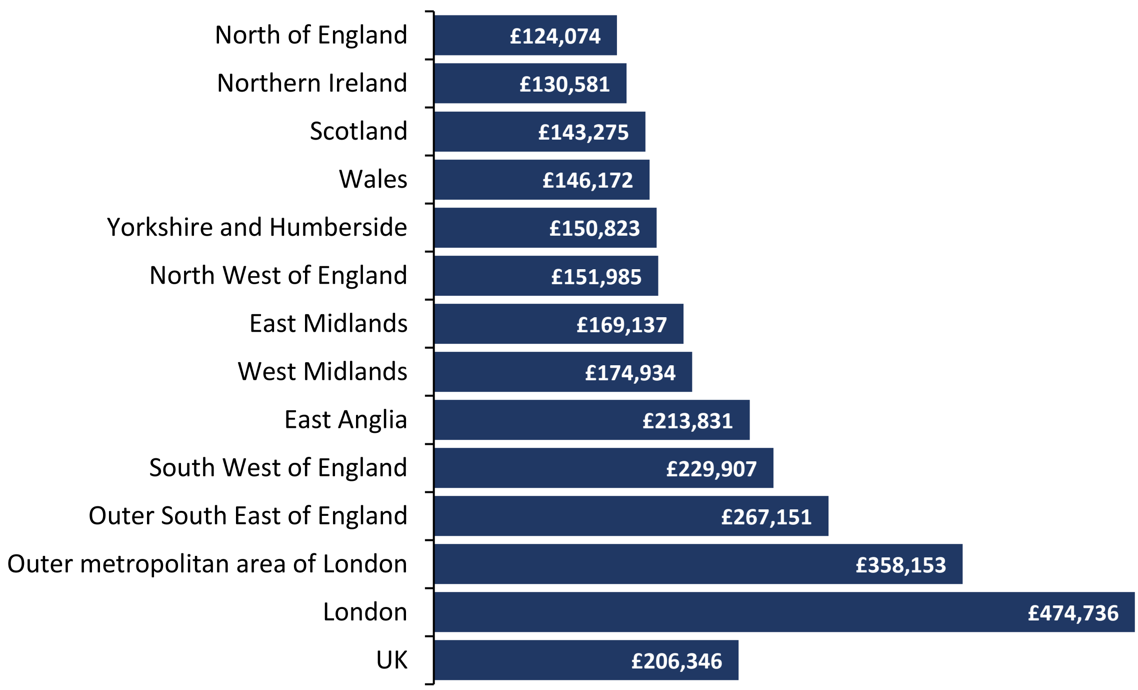


Figure 2.2 Average property price in Q3 2016, by region (Data source: Nationwide House Price Index, 2016)



2.2 Mortgage market overview

Recent household projections by the Northern Ireland Statistics and Research Agency (NISRA) estimate the total number of households in Northern Ireland will reach approximately 726,000 in 2016 (NISRA, 2015). Our analysis of the latest release of the Understanding Society dataset suggests that nearly one-in-three (30 per cent) of these households are currently paying off a mortgage, marginally lower than for the UK as a whole (31 per cent).[4] This equates to approximately 215,000 households across Northern Ireland.[5]

The Council of Mortgage Lenders (CML) regularly publishes data on the size and value of mortgage lending across the various countries and regions of the UK. Their analysis shows that in the second quarter of 2016 the average loan size in Northern Ireland was £91,400 for first-time buyers and £110,000 for home movers (Council of Mortgage Lenders, 2016). In terms of affordability, this equates to 2.9 and 2.5 times the average household income for first-time buyers and home movers respectively.

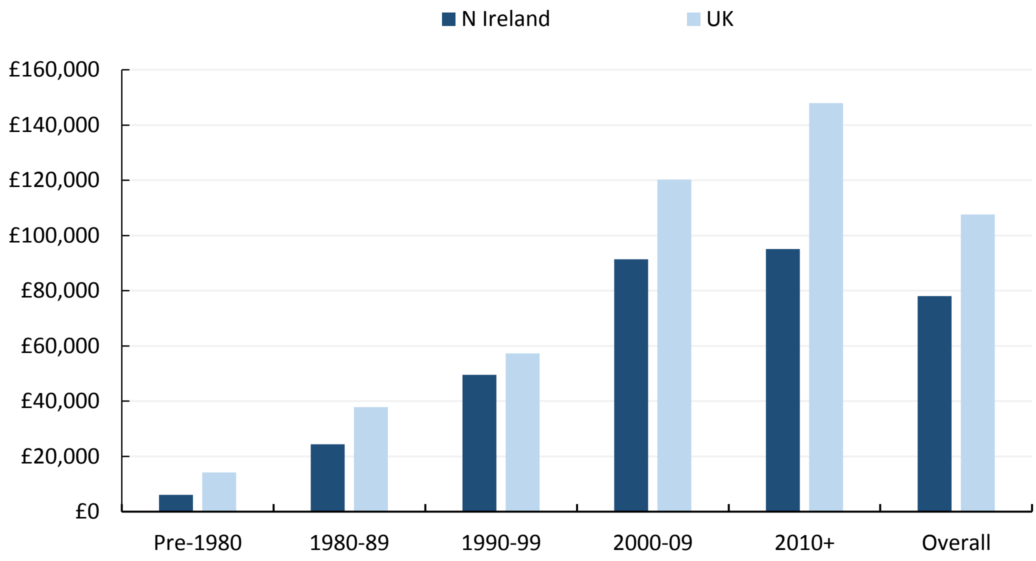
While these figures give an indication as to the size of mortgages advanced in 2016, our analysis of the Family Resources Survey (FRS) shows that the average size of mortgages has increased substantially over time: as shown in Figure 2.3 the average mortgage taken out in the 2010s in Northern Ireland is around 15 times the size of the average mortgage taken out before 1980.[6] While this is lower than the UK, this does represent a far greater increase proportionately.

In keeping with the lower sums originally lent, mortgagors in Northern Ireland also have less outstanding on their mortgages compared with households in other parts of the country. Analysis of the FRS shows that those in Northern Ireland owed an average (mean) of £70,967 in 2013-14, compared to £98,482 across the UK as a whole. While simplistic, this represents 54 per cent of the average house price in Northern Ireland, compared with 48 per cent in the UK

[4] University of Essex. Institute for Social and Economic Research, NatCen Social Research. (2015). Understanding Society: Waves 1-5, 2009-2014. [data collection]. 7th Edition. UK Data Service. SN: 6614, http://dx.doi.org/10.5255/UKDA-SN-6614-7.
[5] Please note that these figures do not include buy-to-let mortgages, due to the way in which mortgage data is collected in Understanding Society.
[6] Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey, 2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753, http://dx.doi.org/10.5255/UKDA-SN-7753-2.

as a whole, highlighting slightly higher typical loan-to-value ratios in Northern Ireland despite the lower average figures there.

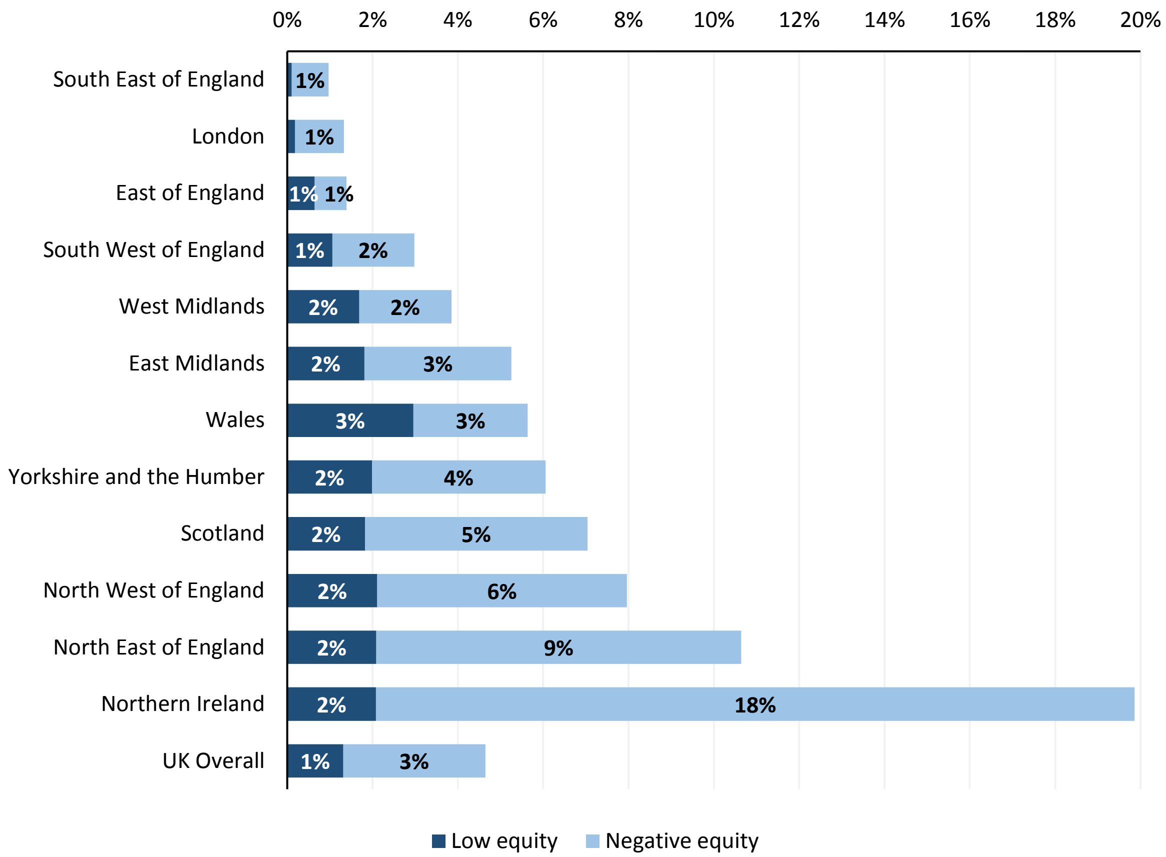
Figure 2.3 Mean amount of original mortgage, by decade in which property was purchased (Data source: Family Resources Survey 2013-14)



Further analysis of the FRS, when combined with regional time-series data from the Nationwide House Price Index, allows us to estimate levels of low or negative equity held by mortgagors in Northern Ireland and across the rest of the UK. Respondents supply information on the value of their property at purchase and the year in which they bought it, which allows us to estimate its current approximate value. This can then be compared with the outstanding amount left on households' mortgages, thus determining loan-to-value ratio and, in particular, levels of low and negative equity.

The results of this analysis show that nearly 20 per cent of mortgaged households in Northern Ireland are in either low or negative equity: two per cent are in positive equity but owe more than 95 per cent of the estimated value of their property, while a further 18 per cent owe more than the value of their property. As shown in Figure 2.4 below, this compares poorly with the rest of the UK. Overall, only four per cent of UK mortgagors are in low or negative equity, and in the South East this figure is barely one per cent. This matches patterns identified in a number of other analyses of similar data, finding considerably higher levels of negative equity in Northern Ireland than elsewhere in the UK (Financial Conduct Authority, 2013; Whittaker, 2014; HML, 2015).

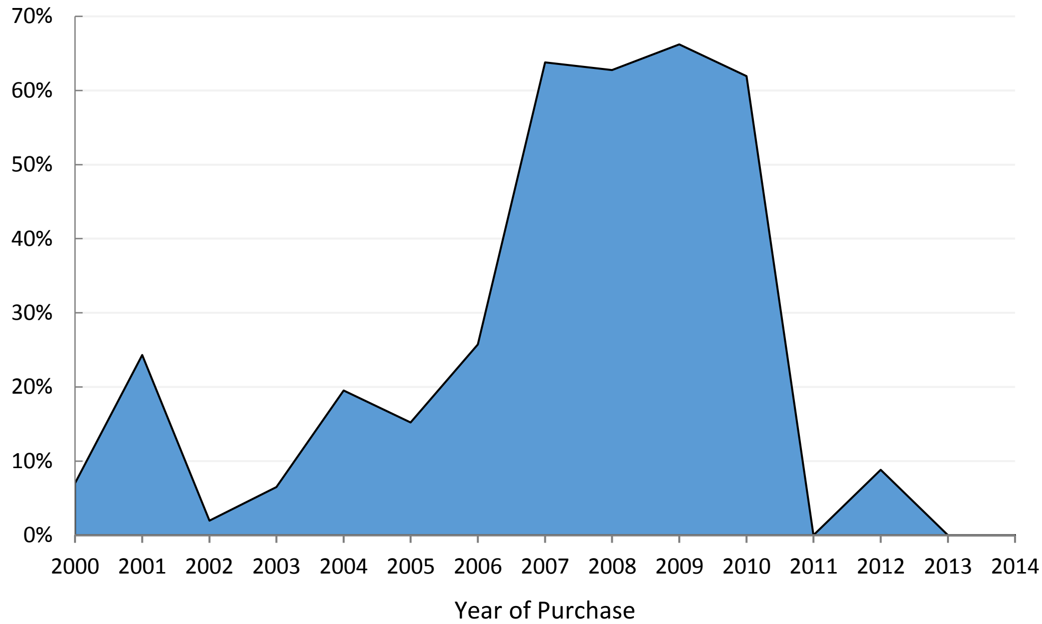
Figure 2.4 Proportion of mortgaged households in low and negative equity in 2014, by region (Data Source: PFRC analysis of Family Resources Survey 2013-14 and Nationwide House Price Index data)



It should, however, be noted that there are important caveats to these estimates. First, this analysis is based on *estimates* of property values, and these assume that all properties within a region have increased or decreased in value at the same rate when, in reality, there is likely to be considerable variation within regions by area and housing type. Second, mortgages may be used by households to improve or extend their property, thereby increasing its value. Indeed, further analysis of the FRS data shows that approximately one in five (22 per cent) of those in low or negative equity in Northern Ireland have re-mortgaged in order to improve their property (compared with 36 per cent of those in low or negative equity in the UK overall). These are important caveats to bear in mind, but the levels of low and negative equity remain high nevertheless.

As house prices fluctuate from year to year, it is expected that levels of low or negative equity will vary depending on which year a property was bought. Figure 2.5 below shows that these levels are considerably higher among those households in Northern Ireland that bought their property from 2007 to 2010. Of those that bought their property in 2007, for example, nearly two-thirds (64 per cent) are estimated to have been in low or negative equity by 2014, due primarily to the significant fall in house prices during the financial crisis and the recessions which followed.[7]

Figure 2.5 Proportion of households in low or negative equity in Northern Ireland in 2014, by year of property purchase (Source: PFRC analysis of Family Resources Survey 2013-14 and Nationwide House Price Index data)



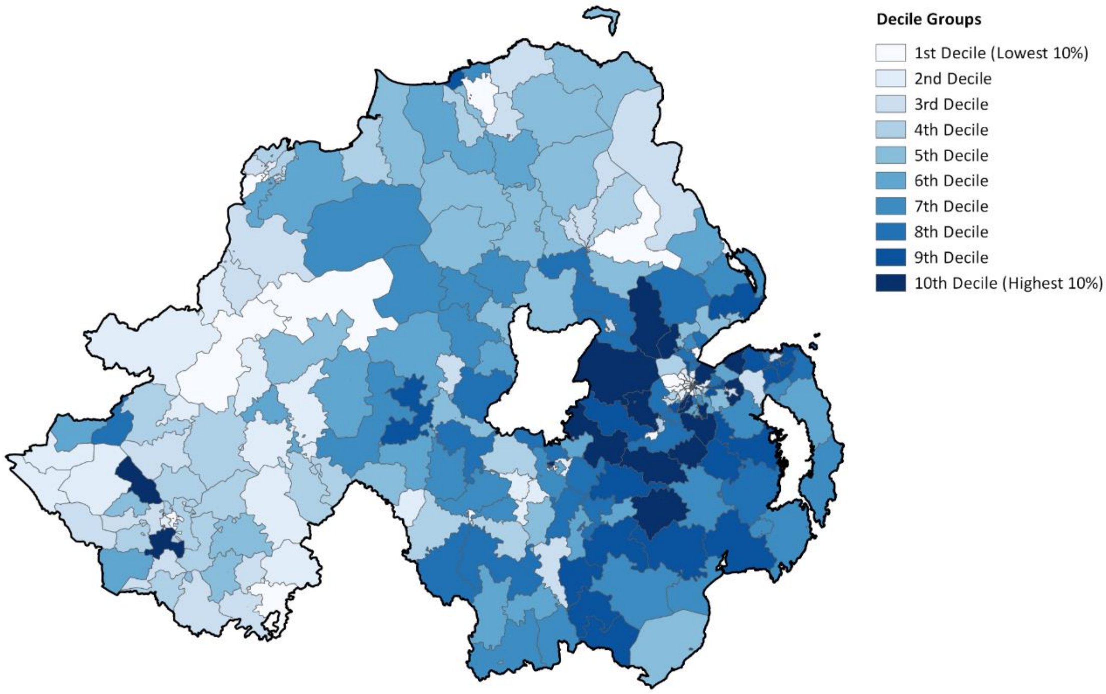
2.3 Geography of mortgage lending

The Council of Mortgage Lenders publishes quarterly data on the total value of outstanding residential mortgages at postcode sector level (e.g. BT20 3). Analysis of this data, when combined with postcode population estimates from the 2011 Census, allows us to map geographical variations in household mortgage lending across Northern Ireland, as shown in Figure 2.6. This shows that the highest average mortgage values per household are generally found around the edges of Belfast, approximately 10-20km from the city centre,

[7] It should be noted that these figures are based on relatively small numbers within the sample.

and in particularly to the south and west of Belfast. There are also pockets of high levels of lending in County Fermanagh, especially in the sectors near to Enniskillen. In contrast, more central areas of Belfast appear to have some of the lowest levels of mortgage lending in Northern Ireland. This does not, however, reflect variations in tenure type across the country; central Belfast, for example, may have higher levels of private rental, therefore giving an overall lower value of lending despite a relatively large population. More nuanced data would therefore be required to fully understand these patterns.

Figure 2.6 Value of outstanding residential mortgages per household in quarter 1 of 2015, by postcode sector (deciles)



2.4 Characteristics of mortgagors in Northern Ireland

In this section we draw upon analysis of the Family Resources Survey (2013-14) and the Understanding Society (2014-15) dataset to produce a socio-demographic profile of mortgagors and mortgaged households in Northern Ireland (for full data tables and explanation of methodology please see Appendix).[8] In doing so, we pay special

[8] All figures are weighted to be nationally representative. Statistical significance testing has not been undertaken.

attention to the key groups listed in Section 75 of the Northern Ireland Act 1998.[9]

At the individual-level, mortgagors – defined as those living in a mortgaged property who are likely to be responsible for paying the accommodation costs – in some aspects have similar characteristics to the general adult population in Northern Ireland:

- **Sex** – just over half of mortgagors are female (52 per cent), in comparison with 53 per cent of the wider population.
- **Ethnic group** – 99 per cent of mortgagors are from a white ethnic background, which is very similar to the figure of 99 per cent among the wider population.
- **Religion** – 46 per cent of mortgagors are Catholic (compared with 42 per cent of the wider population); 49 per cent are Protestant (compared with 54 per cent); and the remaining five per cent are either another religion or no religion (also five per cent of the wider population).
- **Political opinion** – over half of mortgagors are not closer to one particular party (53 per cent), similar to the views of the wider population (52 per cent). Meanwhile, mortgagors are split very evenly in terms of their support of Unionist and Nationalist parties, with 20 per cent supporting each. This differs slightly from the overall population where support runs at 25 per cent for Unionist parties and 16 per cent for Nationalist parties. A further 7 per cent of mortgagors support other parties, matching the views of the wider population (7 per cent).

In other aspects though, mortgagors appear to have quite a different profile when compared with the average adult in Northern Ireland:

- **Age** – the vast majority of mortgagors (86 per cent) are aged between 30 and 59, though this age group represents 56 per cent of the wider adult population.

[9] Section 75 of the Northern Ireland Act 1998 (http://www.nidirect.gov.uk/section-75) states that the following nine key groups must be given consideration before Government departments, agencies and councils make decisions: People with different religious beliefs; People of political opinion; People of different racial groups; People of different ages; People of different marital status; Men and women generally; People with a disability and people without; People with dependents and people without. People of different sexual orientation is also included in Section 75; however, no measure was available for analysis in the data.

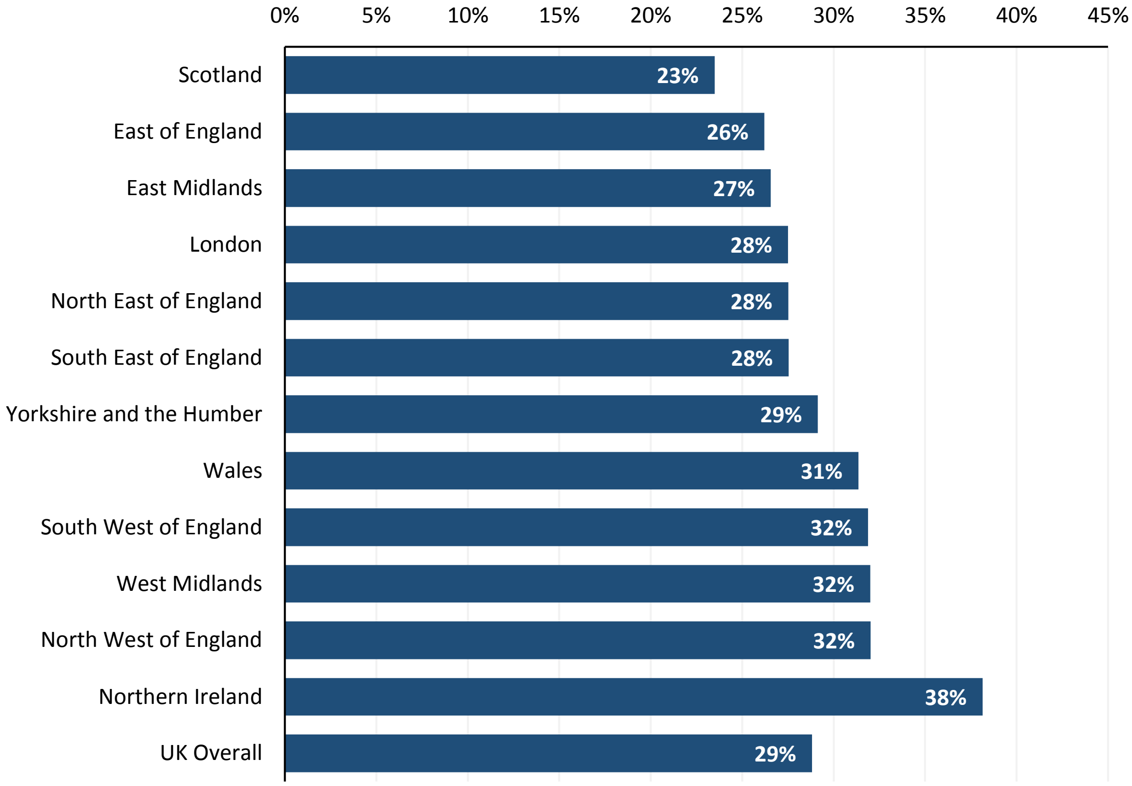
- **Education** – over two-in-five (43 per cent) of mortgagors have a University or other higher degree, compared with just 28 per cent of the wider population.
- **Marital status** – the majority (83 per cent) of mortgagors are married or in a civil partnership, compared with 62 per cent of the wider population.
- **Children** – echoing their marital status, nearly half of mortgaged households are home to at least one child (49 per cent), compared with 27 per cent of households generally.
- **Disability** – mortgagors are less likely than average to have any kind of disability (16 per cent, compared with 31 per cent).
- **Employment status** – reflecting the above age break-down, mortgagors are considerably less likely to be retired than the general adult population in Northern Ireland (2 per cent, compared with 23 per cent).
- **Income** – mortgagors have higher than average incomes; while 58 per cent of mortgagors have a weekly household income (gross) of more than £700 (which equates to £36,400 per annum), just 33 per cent of the wider population do so. Included within these figures are 31 per cent of mortgagors who have a weekly household income of more than £1,000 (equivalent to £52,000 per annum), compared with just 17 per cent of the wider population.

Largely, the above characteristics reflect the natural variations of mortgage holding by socio- demographics and life stage, although the low levels of mortgage holding amongst those with disabilities may suggest some form of disadvantage.

2.5 Mortgagors in financial difficulty

As shown in Figure 2.7, analysis of the Family Resources Survey shows that mortgagors are more likely to find housing costs a struggle in Northern Ireland than in any other region of the UK. Despite the lower values of average mortgages here than elsewhere in the UK, nearly four in ten (38 per cent) mortgagors in Northern Ireland say that their housing costs are 'a heavy burden or struggle', compared to three in ten (29 per cent) mortgagors across the UK.

Figure 2.7 Percentage of mortgagors who find housing costs a burden or struggle, by region (Data source: Family Resources Survey 2013-14)



Moreover, analysis of Understanding Society data shows that mortgagors in Northern Ireland are more likely to have fallen behind with their mortgage payments. While seven per cent of UK mortgagors had fallen behind in the last twelve months, double this (14 per cent) of mortgagors in Northern Ireland had done so. This contrasts starkly with the South West of England, where only three per cent had fallen behind with mortgage payments.

2.6 Profile of those in mortgage arrears

Regression analysis can be used to identify which socio-demographic groups have higher likelihood of falling behind with their mortgage payments. This analysis attempts to identify the specific relationship between two variables, while controlling for all of the other variables included in the analysis. As such, we can identify the effect of individual characteristics of mortgagors, independent of the other characteristics considered. Due to a small sample size for Northern Ireland in the Understanding Society dataset, it was not possible to perform this regression based on mortgagors in Northern Ireland alone.[10] Instead, we have performed the analysis on mortgagors across the whole of the UK. Regression analysis of UK mortgagors therefore shows that the following groups had significantly higher odds of falling behind with their mortgage payments in the last twelve months:

- **Lower-income households** – perhaps unsurprisingly, mortgagors with a net monthly household income of less than £500 have nearly 3 times higher odds of falling behind than those with an income of more than £3,500. Those with a household income of £500 to £1,500 meanwhile had over double the odds of falling behind compared to higher income households, while those earning between £1,500 and £2,500 had 63 per cent higher odds of falling behind.
- **Large households** – the odds of falling behind are significantly higher for households with six or more inhabitants. Their odds are nearly double those of a single-person household.
- **Lone-parent households** – mortgaged households with one or more lone parents living in the household are shown to have 1.6 times higher odds of falling behind than those with no lone parents living in the household.
- **Those not in employment** – the odds of falling behind with their mortgage payments are 27 per cent larger for those not in employment, than for those in employment.
- **Less educated mortgagors** – mortgagors educated to degree level have approximately half the odds of falling behind with mortgage payments in the last twelve months than those with no qualifications.
- **Those from black ethnic backgrounds** – compared with those from white ethnic backgrounds, those from black backgrounds have double the odds of falling behind with their mortgage payments in the last twelve months.

It is important to note, however, that the above socio-demographic variables included in the model account for only a small proportion of the differences between individuals in terms of whether they fall behind with their mortgage payments.[11] This means that the regression model, based on the variables, is not a perfect predictor of

[10] Regression analysis requires a sufficient number of respondents in every 'cell' when the variables in the model are cross-tabulated. This meant that, due to sample size, it was not possible to perform this regression based on mortgagors in Northern Ireland alone. It was therefore necessary to perform the analysis on mortgagors across the whole of the UK.

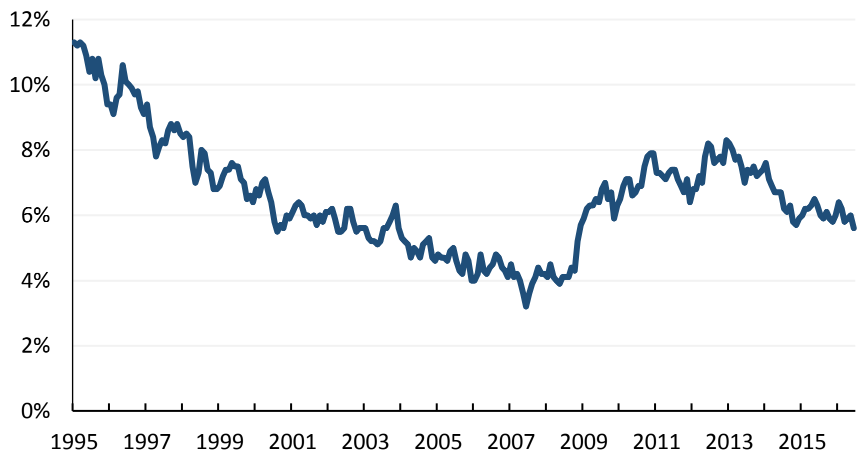
[11] Adjusted R-Squared = .037. This means that the regression model has relatively low explanatory power.

mortgage arrears and that other factors, such as individual financial capability, financial priorities and changes in household expenditure or income (which are not included in the model), may play a more important role. We certainly know that an unexpected and sustained income drop can be a trigger for financial difficulties more generally (Collard et al 2012). This highlights that the mortgagors in Northern Ireland who are likely to be most vulnerable are mostly those with more limited or less stable incomes.

Focus on the labour market

Sudden changes in income, caused by unemployment, appear to be a key driver of mortgage arrears. In the years following the 2008 recession, unemployment in Northern Ireland rose from around four per cent to eight per cent (Figure 2.8). Though this was still relatively low in historical terms, with unemployment over 10 per cent in the 1990s, the increase following the financial crisis was particularly sharp and sudden, which may have pushed a large number of mortgagors into arrears. The unemployment rate appears to have now stabilised at around six per cent, but this is still higher than pre-recession levels.

Figure 2.8 Unemployment rate among adult population in Northern Ireland, monthly since 1995. (Data source: Department for the Economy, 2016 - Labour Force Survey)

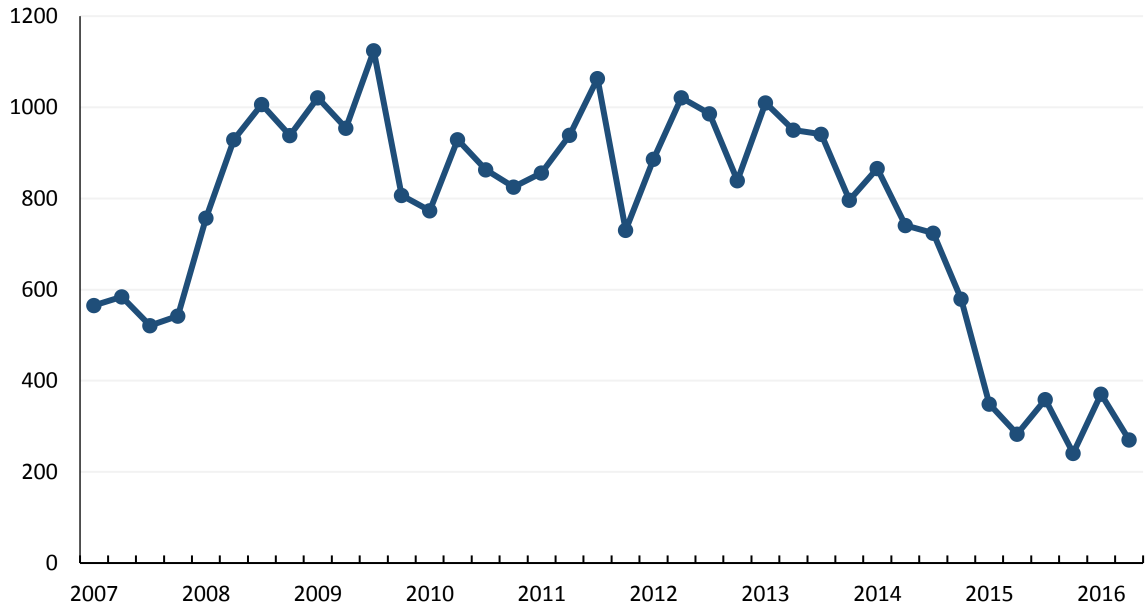


In particular, there has been a long-term decline in the number of manufacturing jobs in Northern Ireland, and this was exacerbated during the financial crisis (Department for the Economy, 2016). Construction jobs meanwhile are at a similar level to twenty years ago, but have seen a major boom and bust prior to the financial crisis, echoing the pattern of the housing market.

2.7 Repossessions in Northern Ireland and England and Wales

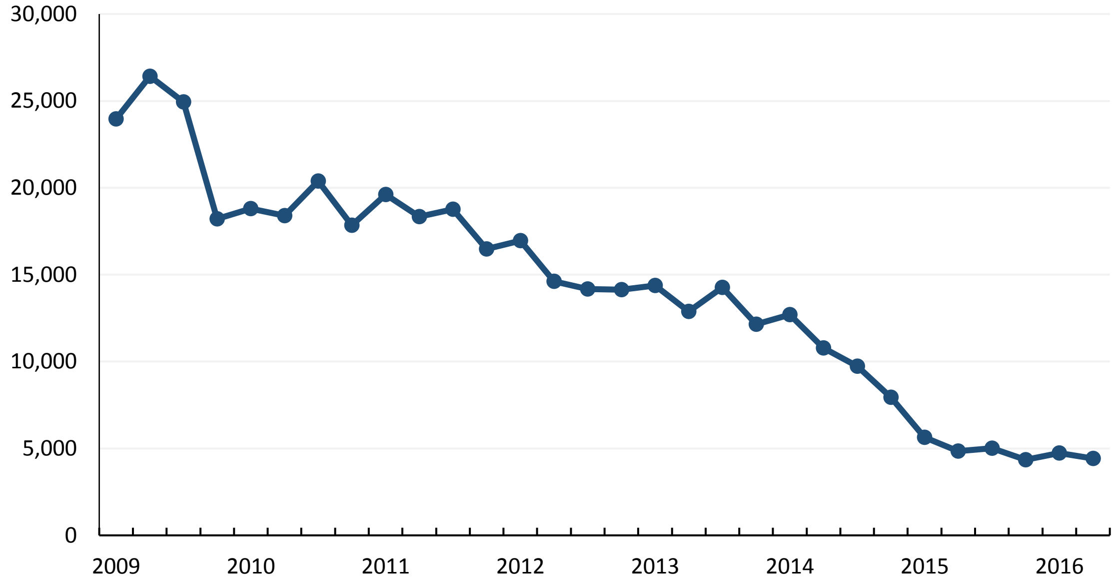
Court case statistics from the Department of Justice provide an insight into the number of repossessions in Northern Ireland over the past decade (Department of Justice, 2016). As shown in Figure 2.9, there was a strong rise in the number of mortgage cases received at the start of the financial crisis in 2008; indeed, between 2007 and 2008 the total number of cases received increased by 64 per cent from 2,212 to 3,630. Numbers then plateaued for several years before decreasing considerably towards the end of 2014 and start of 2015.

Figure 2.9 Number of mortgages cases received to the Northern Irish courts, by quarter from 2007 to 2016 (Data source: Department of Justice, 2016)



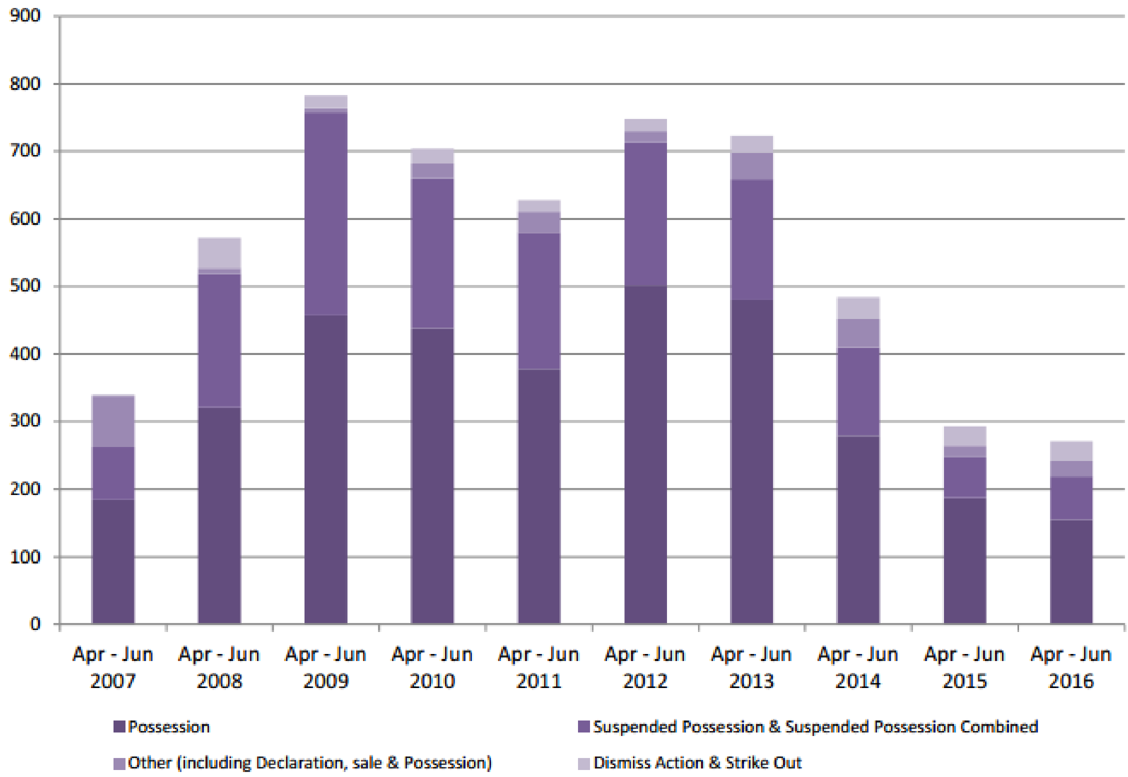
Comparing the overall number of mortgage cases issued in Northern Ireland with equivalent figures for England and Wales (Figure 2.10), shows that there had been a steady decline in England since 2010, whereas it wasn't until 2014 that a similar decline was apparent in Northern Ireland (Ministry of Justice, 2016) However, until October 2016, the Financial Conduct Authority's response to the findings of a court case on mortgage arrears had been pending for a number of years (Housing Rights, 2014). This may have affected the number of applications for posession orders brought about by lenders. The downward trend therefore needs to be interpreted with caution. The FCA, however, have now responded to the case and will run a consultation on new guidance for the treatment of customers with mortgage payment shortfalls (Financial Conduct Authority, 2016). It now seems that this issue is closer to being resolved, however it remains unclear what effect this will have on applications for possession orders in the short term.

Figure 2.10 Number of mortgage cases issued in England and Wales, quarterly since 2009 (Data source: Ministry of Justice, 2016)



Looking solely at the data for Northern Ireland, we can see that while not all cases resulted in a repossession order, this is by far the most common outcome (as shown in Figure 2.11).

Figure 2.11 Final orders made in mortgage cases disposed in Northern Ireland. (Figure source: Ministry of Justice, 2016)



2.8 How lenders are expected to deal with consumers in mortgage arrears

In the UK, the conduct of mortgage lenders is regulated by the Financial Conduct Authority (FCA), according to its Mortgage Conduct of Business (MCOB) rules. Among other things, these rules set out the procedures that lenders must follow in dealing with customers who have payment difficulties (MCOB 13.3.2A), which include making reasonable efforts to reach an agreement with the customer over the method of repaying a shortfall; and liaising with third party advisors. The rules also stipulate the information that a mortgage lender has to provide to customers who are in arrears (equivalent to two or more regular payments), within 15 business days of becoming aware of the arrears (MCOB 13.4.1). In addition to MCOB, the FCA's high-level Principles for Business apply to all regulated firms and include that 'A firm must pay due regard to the interests of its customers and treat them fairly' (FCA, 2014a).

In 2014, the FCA published a Thematic Review[12] of mortgage lenders' arrears management and forbearance (FCA, 2014b). The review found improved arrears management in firms (compared to previous studies in 2008 and 2009) which included firms offering a wider range of forbearance options and a greater emphasis on the need to treat customers in financial difficulty fairly, rather than focusing primarily on their own interests. Nonetheless, the FCA concluded that firms could do more to help mortgage customers in arrears. Some of the areas where it looked to firms for improvement were:

- Firms did not always adopt proactive and forward-looking strategies to identify and effectively engage borrowers in financial difficulty.
- Collections agents often followed overly process-driven 'one size fits all' frameworks which failed to allow for sufficiently flexible, judgement-led solutions that consider borrowers' individual needs and circumstances, including specific customer vulnerabilities.
- Front-line staff sometimes lacked the experience, knowledge and skill to make informed judgements and decisions in customers' best interests, reflecting their individual financial and personal circumstances (FCA, 2014b, p.4).

Following the Thematic Review, the Council of Mortgage Lenders (an industry trade body) produced guidance on 'Delivering good customer outcomes in pre-arrears and arrears' to help its members develop their existing approaches.

[12] The FCA uses thematic reviews in its supervision of regulated firms to assess a current or emerging risk relating to an issue or product across a number of firms within a sector or market (see: https://www.fca.org.uk/about/supervision/thematic-reviews)

3 Current understanding of the role of debt advice

In this chapter we provide an overview of the debt advice landscape in Northern Ireland. We do this through a review of the existing literature relating to debt advice across the UK, as well as through data provided by debt charity StepChange on the profile of debt advice clients that they work with in Northern Ireland. We find that while there is good provision of free-to-client independent debt advice in Northern Ireland, as there is elsewhere in the UK, there remain barriers that prevent people from accessing debt advice including: lack of awareness; lack of understanding of their financial position; and an over-optimistic view of the ability to self-manage debts. Previous literature indicates that debt advice can *alleviate* debt and particularly the symptoms of debt, and can help debtors cope better with their situations, although cannot necessarily *resolve* it.

3.1 The debt advice landscape in the UK and Northern Ireland

Apart from the very smallest providers, there were 1,022 debt advice services operating in the UK in 2012-13 across the free-to-client and fee-charging sectors (MAS, 2013a). The largest share (70 per cent) of the UK debt advice market is made up of just three free-to-client services: Citizens Advice, StepChange Debt Charity and the Money Advice Trust's National Debtline (figures for 2011; London Economics, 2012). There are estimated to be 1.5 million people seeking debt advice in the UK (Atfield et al., 2016). Research for the Money Advice Service estimated that 0.7 million households in 2012/13 who needed and sought debt advice did not ultimately access it(MAS, 2013a). StepChange's latest 'Yearbook Statistics' for the first half of 2016 shows their highest ever demand for debt advice, up 15 per cent compared with 2015, with a quarter of those seeking debt advice (24 per cent) presenting with mortgage arrears (StepChange, 2016).

Debt advice provision in Northern Ireland is heavily dominated by free-to-client services; in 2012/13 only one of 73 providers was commercial (London Economics, 2013). Services include 30 frontline Citizens Advice/National Debtline services with an additional freephone and email helpline (National Debtline, 2016) and services provided by Advice4debtNI, Debt Action and Dealing with Debt

(London Economics, 2012), a small network of AdviceNI debt advice providers and the national freephone and online debt advice services offered by StepChange and National Debtline (based on a web search). Nonetheless, statistics from StepChange suggest that households in Northern Ireland are the least likely of all in the UK to have sought debt advice. Here, there were only 25 clients per 10,000 population in the first half of 2016, compared with 63 per 10,000 in the North East of England (StepChange, 2016).

3.2 Who seeks debt advice in Northern Ireland?

Data provided by StepChange Debt Charity, which offers free-to-client debt advice across the UK, has enabled us to examine the socio-demographic profile of those with mortgage arrears who received debt advice in Northern Ireland in 2015. We can also draw some broad comparisons between the profile of those with mortgage arrears and the general population of mortgagors in Northern Ireland as a whole (as described in section 2.4).

Generally speaking, the data, which comprises clients advised through StepChange's telephone and online debt advice services, shows that people seeking debt advice with mortgage arrears are largely similar in profile to mortgagors overall in Northern Ireland, in relation to their age and whether or not they had children. However, they are slightly more likely to be women, to be non-partnered, to be unemployed and to have lower incomes.

The data shows that among advice clients with mortgage arrears:

- Nearly two-thirds (63 per cent) are aged 40-59, while a further 32 per cent are aged 25-39. This largely matches the profile of mortgages as a whole in Northern Ireland.
- Over half (54 per cent) were women, similar to the 52 per cent of mortgagors in Northern Ireland shown to be women in our analysis of the Family Resources Survey.
- 58 per cent live with a partner. This is substantially lower than the mortgagor profile identified in our analysis of the Family Resources Survey and Understanding Society, where 83 per cent of Northern Ireland mortgagors report being married or in a civil partnership. This could suggest that relationship breakdown acts as a trigger for arrears, or equally that single mortgagors are more likely to struggle to pay their mortgage.

- 58 per cent have children in the household, rather higher than the proportion of mortgage holders overall with children (49 per cent; section 2.4).
- Two thirds (66 per cent) have household incomes of between £10,000 and £30,000 per year, including one third (34 per cent) with incomes of between £10,000 and £20,000.
- Moreover, 25 per cent of people with mortgage arrears were unemployed when they sought advice. This is considerably higher than the three per cent of Northern Ireland mortgagors identified as unemployed in analysis of the Family Resources Survey, suggesting that unemployment acts as a critical trigger for mortgagors to seek debt advice.

Finally, we note that average levels of unsecured debt – such as default on bank loans, credit cards or household bill arrears – is moderately higher among those seeking advice with mortgage arrears than those without mortgage arrears. Some 17 per cent of advice clients with mortgage arrears owed £30,000 or more in unsecured debts (compared with 13 per cent of advice clients without mortgage arrears) and the average sum owed was £19,484 if there were also mortgage arrears compared with £17,614 if they were not. This might highlight the greater access to unsecured borrowing among mortgagors, and underlines the need to consider mortgage arrears in conjunction with other debts a mortgagor may have.

3.3 The benefits of debt advice

A recent review of the most robust evidence of the impacts of debt advice on households, albeit not all of it in relation to mortgage arrears or Northern Ireland specifically, has identified a number of positive financial and non-financial impacts (Davies et al., forthcoming).

Positive financial outcomes evidenced in our review include: repaying debt, especially priority debt; an increased likelihood of maintaining manageable debt; and a better understanding of the debt owed and which debts to prioritise. Entering into a Debt Management Plan (mainly used for unsecured debts) in particular reduced the likelihood of bankruptcy following advice, with some indication that the greater benefit was experienced by those in the worst situations (Davies et al., forthcoming). For example, in one large evaluation across several, mostly face to face, debt advice projects, three quarters (76 per cent) of all advice seekers had cleared or at least reduced some of their debts within three to six months (Optimisa, 2014). Research in the Republic of Ireland has highlighted the particular role of debt advice in helping people avoid immediate crises, including eviction, possession, utility disconnection and, in this particular context, prison (Stamp, 2012). However, client data for outcomes two or three years after first receiving debt advice is virtually non-existent (London Economics, 2012).

Other studies have also highlighted the capacity of debt advice to improve financial capability (e.g. Bracketrz, 2014) and money management approaches, which offer households long term benefits (Stamp, 2012). It also plays an important role in negotiating affordable debt payments and better payment mechanisms with creditors, providing a buffer between client and creditor, or enabling debtors to communicate and negotiate better with their creditors (Stamp, 2012).

Nonetheless, two studies have cautioned that while advice plays a crucial role in alleviating the debt problems people face, it does not necessarily resolve the underlying causes of those debt problems, such as a long-term low income (Atfield, et al, 2016; Stamp, 2012). Debt balances may only reduce gradually and even the alleviation of debt itself (rather than its associated impacts) may only materialise after several months if not years of advice (Davies, et al, forthcoming; Atfield et al., 2016). In particular, these studies highlight the limited role debt advice can play in the context of intractable low incomes and other resources, with households continuing to struggle to make ends meet (Atfield et al., 2016; Stamp, 2012). Among debt advice clients who were followed qualitatively for up to six years, the small group that became ‘debt-free’ was not risk-free in terms of future financial difficulty, raising questions about the long-term sustainability of being debt free (Atfield et al., 2016). There is also evidence that better outcomes can be achieved when debt advice is sought early (e.g. Atfield et al., 2016; Collard et al., 2012, Collard, 2011), especially for forestalling the legal consequences and averting or alleviating immediate crisis (Brackertz, 2014).

The evidence we reviewed identified a range of non-financial benefits of debt advice as well. These can include the ‘felt’ benefits of improved financial capability and money management approaches already mentioned (Davies et al. forthcoming) and extend to improved health and wellbeing in relation to: family relationships (Davies et al, forthcoming; Stamp, 2012); reductions in stress;

reductions in sleeping difficulties (Optimisa, 2014); emotional wellbeing (Brackertz, 2014; Davies et al, forthcoming); and improved mental health more generally (Davies et al, forthcoming; Stamp, 2012). In particular, studies have variously identified the therapeutic benefit for individuals of having someone to talk to, of no longer being pursued by creditors, improving confidence and feeling more in control (Atfield et al., 2016; Davies et al, forthcoming; Optimisa, 2014). In other words, a large part of debt advice is about making the experience of debt more manageable (Atfield et al., 2016).

3.4 Barriers to seeking debt advice

Despite the evident benefits of debt advice to individuals and households, it is estimated that only 17 per cent of the UK's over-indebted population seeks advice for their debt problems (MAS 2013b). Studies have sought to identify why households with debt problems (albeit not necessarily mortgage arrears) do not seek debt advice, or do not seek it earlier.

While a key problem seems to be a lack of awareness of the services available (Collard et al., 2009; Collard 2013; MAS 2013b), others have concluded that this is less important than the failure of consumers to perceive that they need or could benefit from debt advice in the first instance (London Economics, 2012; MAS 2013b). In particular, households tend to underestimate the magnitude of their debt problems (Collard et al., 2012; Finney and Davies, 2011).

Moreover, those who do recognise their difficulties can become resigned to their situation and unable to see an alternative way forward (MAS 2013b) or they may be over-optimistic about their ability to manage by themselves (Collard et al., 2012). As such, households may respond by cutting back on spending, borrowing from other sources to avoid arrears, juggling their finances, paying the most demanding creditors first or paying debts which enable them to retain access to credit (Collard et al., 2012; Collard 2013; Finney and Davies, 2011). In other words, they fail to see or at least act on the warning signs that evidence their difficulties.

Others still may worry about the detrimental consequences of seeking advice, for example on their credit ratings or the risk that it may end up in bankruptcy (Collard et al., 2012). In relation to mortgage arrears specifically, it may relate to very real fears of losing the home (Atfield et al 2016). Additionally, complex factors can contribute to financial stress (Brackertz, 2014) and for some households other problems – such as managing mental health problems or maintaining positive family relationships – may be the greater priority for resolution (Brackertz, 2014; Collard et al., 2012).

Finally, research has identified the risks which poor or inappropriate communication from creditors can present to households in debt in relation to the debt resolution process. Aggressive, unsympathetic, and inflexible responses or approaches by creditors can undermine people's inherent need for personal control and can result in them disengaging from their debts and the process of addressing them. A creditor turning down a consumer's offer for repayment can, for example, leave that consumer feeling powerless and doubting their ability to resolve their issues. Legal threats can also be counter-productive as they have the potential to increase stress anxiety and isolation, particularly where customers have existing mental health concerns (Collard, 2013).

These findings – along with the stigma some households feel in accessing debt advice or a determination to take responsibility for their problems by addressing them themselves (Collard et al., 2009; Collard et al., 2012; IFF Research, 2012) – has led some researchers to conclude a greater role for generic money advice (i.e. help with general non-debt money matters, financial decisions and personal finance issues) either alongside or as a precursor to debt advice (IFF Research, 2012; MAS, 2013b). A reluctance to seek debt advice, for whatever reason, also underlines the importance of referral to debt advice by others, particularly creditors (London Economics, 2012). A more proactive approach by creditors to identify and reach out to people at risk of financial difficulty may also help address the problem of people only seeking help once they have reached a crisis point (Collard, 2011).

3.5 Consumer needs for effective debt advice

Altogether, this evidence provides a useful picture of what debtors need and want from debt advice. These needs have been summarised in relation to dealing with creditors, information and emotional support (Davies et al., forthcoming).

Within this, research has highlighted the potential complexity of over-indebted consumers' needs which can encompass both practical and emotional dimensions (IFF Research, 2012). Practical needs include managing debt and creditors, prevention of further debt and the ability to gain control, acceptance of the situation, and an understanding of the options. Emotional needs might include reassurance, encouragement and confidence building, tackling embarrassment and overcoming fear (IFF Research, 2012). This would again tend to emphasise the role not only of debt advice but more general money advice, depending on someone's different stage of need. Moreover advice is sometimes too simplistic for client's complex situations (Davies et al., forthcoming). To be effective, help and advice (whoever provides it) needs to be confidential and trustworthy, non-judgemental and empathising, responsive and understanding, simple but personalised, accessible, outcome-focussed and professional, knowledgeable and helpful (Collard, 2013; IFF Research, 2012). This is all the more important when the selection of a debt advice service by a consumer may be more or less arbitrary (Collard 2013).

Delivery channel is also important. In extensive client research for the Money Advice Service (London Economics, 2012), face to face debt advice provision was found to afford greater trust (this was also found in research by IFF Research, 2012) and was more suited for complex cases. Telephone advice meanwhile was helpful for those who preferred to maintain their anonymity and preserve embarrassment and online delivery was more suited where there was evidence of more active engagement by the person in debt.

The following chapters turn our focus from the findings of statistical analysis and the previous literature to our new, qualitative research with mortgagors in arrears, lenders and the debt advice sector. The next chapter explores the reasons why mortgagors had fallen into arrears.

PART TWO

4 Journey into arrears

Here, our focus turns to the experiences of people with mortgage arrears in Northern Ireland and a switch from the findings of previous research to the results of the qualitative research undertaken for this study. We start by introducing the characteristics and circumstances of the 30 mortgagors we interviewed for the study and then examine the factors that triggered their journeys into mortgage arrears. From a sample of interviewees in a wide range of circumstances and with a wide range of experiences, we find that the prevailing factors leading to mortgage arrears were income-related (including job loss, fluctuating and reduced incomes and those arising from changes in household circumstances) and unmanageable increases in expenditure.

4.1 Characteristics of the interviewees

By definition, all 30 mortgagors interviewed for the research were in arrears with their mortgage at the time of the interview. Some had received debt advice from an organisation other than their lender (nine), others had sought help or were otherwise in contact with their mortgage lender (11) and some had had no advice or support, either from their lender[13] or a debt advice provider (10).

The majority of interviewees were aged in their 30s to 50s. Most were parents living with their spouse or partner and dependent children, or had adult children who had left home. The sample also included some parents who were divorced or separated, some of whom lived with their children, others who did not. Two interviewees did not have children.

Reflecting the different life stages of interviewees, some (who were older) had been home owners for 20 or more years, whereas others (who were younger) had bought their first home within the last few years. Most interviewees had repayment mortgages on a fixed rate deal, others were on tracker or standard variable mortgage rate. Negative equity was reported as an issue by a few.

[13] All participants had bene in some form of contact with their lender, however, if this was restricted to receiving a letter, or one telephone call, they were regarded as not having received any support

Perhaps unsurprisingly, broader, self-reported financial difficulty was common among the mortgagors we interviewed. However, this was not the case for all interviewees.

Among those who did not report being in financial difficulty at the time of the interview, this represented an improvement in their circumstances since the time they initially fell into mortgage arrears. This was either as a result of finding work and raising their household income, adapting their household spending and budgeting to their situation, or both. Nonetheless, even those not evidently in financial difficulty reported struggling from time to time and having limited disposable income.

Among those interviewees who were evidently struggling financially, arrears on other household bills and consumer credit debts were common. Some anticipated that this was a short term issue and expected their finances to improve when they returned to work (for example, those off sick or on maternity leave), or when debts and arrears on mortgages, credit and other bills had been repaid leaving them with more disposable income. For others an improvement in their circumstances was expected to take longer – 12 months to two years. There were also some interviewees who were struggling financially, but did not foresee their circumstances improving. These included interviewees in lower paid work who were finding it difficult to manage and interviewees who were unable to return to work due to long-term ill-health. Consumer credit was used by some interviewees as a strategy to cope with their situations, but this only added to the amounts they owed in addition to their mortgages and mortgage arrears and compounded their difficulties.

4.1.1 Mortgage arrears

Reflecting the fact that we purposely conducted in-depth interviews with people at different stages of their mortgage arrears history, the interviewees demonstrated a range in terms of the depth and longevity of their arrears: some were only a few months in arrears (between one and four months) and for whom it was the first time they had been in arrears; some were only a month or two in arrears, but for whom this represented a repeat picture over the last few years; and some had accrued much larger arrears of over periods between 12 months up to two and half years of arrears.

The interviews provide a snapshot picture of people's situations. Going forward, it is possible that some of those who were in mortgage arrears for the first time could find that their mortgage arrears continue to accrue, or that they cycle in and out of mortgage arrears in the coming years.

4.2 Initial routes into mortgage arrears

In keeping with the main reasons why households get into problem debt generally, (e.g. Collard et al 2012), the main route into mortgage arrears identified among our interviewees was a drop in household income. Unmanageable expenditure also emerged as a factor for some.

4.2.1 Income drops

There were three main reasons why income drops occurred:

- job loss;
- fluctuating or reduced earnings;
- changes in household circumstances.

4.2.2 Job loss

A common reason why people had lost their job was because of redundancy. For some interviewees redundancy had occurred several years ago following the recession in 2008/09. For others, redundancy had occurred more recently. For those who had been made redundant several years ago a key issue was that although they had since found work (after a period of unemployment or intermittent work) the jobs they were in now were not as well paid as the jobs they had before. For example, one interviewee who had worked as Project Manager for many years was now employed in a lower-paid customer support role. This was a similar journey for an interviewee who had been dismissed from a well-paid job and, after a period out of work, subsequently moved into new employment where they earned a lot less.

Jason's story: The long-term impact of recession in Northern Ireland

Jason was made redundant from the construction sector in 2009. After a few years of temporary employment he found a permanent job in 2013 working with IT in the construction industry, but at a significantly lower salary. For the past two years, he has regularly fallen into arrears as his income does not meet his outgoings and feels that he is unable to reduce his spending any further. He is looking for better paid work, but in the meantime he is concerned that he will continue to struggle.

There were other examples where people had been forced to give up work due to health problems. One interviewee, a lone parent, had claimed Employment Support Allowance (ESA) for several years and was unable to return to work because of a long-term mental health condition. In another case, an interviewee was awaiting the outcome of his wife's claim for ESA following an injury at work that had forced her to give up work . Prior to this, the interviewee had had to reduce his working hours to care for his wife.

4.2.3 Fluctuating and reduced incomes

Fluctuating incomes emerged as a clear trigger for mortgage arrears among self-employed, casual and seasonal workers. While self-employed interviewees were used to having a fluctuating income, problems arose when they found themselves in a period where work had 'dried up' completely. Here the impact of the recession in Northern Ireland on those who worked in the building trade was notable. For another interviewee, their mortgage arrears were caused by late payment of an invoice for services rendered, resulting in them running short of money temporarily. Other examples included interviewees who worked in schools, such as a teaching support worker, who did not get paid over the summer holiday period; and an interviewee whose employment in the horse racing business had seasonal fluctuations. For the former, he went into mortgage arrears each summer, then tried to catch up, during the rest of the year; for the latter it was a combination of events, including a period of illness just after having made a large purchase.

Among employees, the trigger for arrears was characterised by a change or disruption in circumstances which caused their income to drop or reduce temporarily. Examples included people who were off sick from work (some of whom were claiming statutory sick pay) but who were hoping to return to work soon and an interviewee who was on maternity leave and receiving statutory maternity pay. For two interviewees while they were having to adjust to lower incomes, their arrears were actually triggered by their respective employers, who had not paid them in error. Another example was an interviewee who had resigned from a job to move into a better paid position but found themselves with no income for three months while waiting for a security check to be completed by their new employer.

4.2.4 Change in household circumstances

Two key changes in household circumstances emerged from the qualitative interviews as causal or contributory factors in mortgage arrears: relationship breakdown; and loss of child status for social security benefits. This highlights that life, and not just work, events can have an important, material impact on mortgagors' ability to maintain repayments.

For some lone parents a recent separation and the loss of a main or second income triggered their arrears. For several of them, the resulting drop in household income meant that they were struggling to afford the mortgage payments on their own. One interviewee had also been left with considerable other debts to repay following relationship breakdown. Rather than affordability, however, it was the stress and upset associated with the separation which had led one interviewee to miss a mortgage payment. This underlines the importance not only of an awareness of the impact of separation on households' material ability to meet their mortgage commitments, but also of the impact of such events on individuals' mental (psychological and emotional) state when mortgage lenders make contact with them.

There were also parents whose mortgage arrears (and financial difficulties more generally) had arisen when their child reached age 18 or 19, no longer meeting the entitlement criteria for certain social-security benefits. These included child tax credit, working tax credit, child benefit and child maintenance payments. In our study, this particular trigger only affected lone parents, but it may be important in low- or no-earning two-parent households as well.

4.3 Unmanageable expenditure

The other route into arrears was as a result of an unmanageable expenditure. There were a few examples in our sample of where unmanageable expenditure had led directly to arrears and this varied from a one off instance to more sustained problems. For example, in one case the cost of a new kitchen went over budget and the household missed a single mortgage payment. In another case (see Linda's story below) excessive spending on credit cards and loans resulted in unmanageable levels of consumer borrowing, leaving her were unable to pay her mortgage.

Linda's story: The role of unmanageable expenses.

Linda is a lone parent who works in retail and has an adult daughter who no longer lives at home. When her daughter turned 19 a few years ago Linda was no longer entitled to Working Tax Credit or Child Tax Credit which reduced her annual income by £6,500 per year. Linda, who had been managing before this, started using credit cards to make up the shortfall. Initially this was done to pay for dental work that she could not otherwise afford, but was then used to pay for household bills. Eventually Linda could only afford to pay back the interest on the credit card. The tipping point for her mortgage arrears, however, was two years after the drop in income when spending on presents at Christmas left her with no money to pay her mortgage in January.

4.4 The single and cumulative impact of triggers

Generally, and from the examples given above, it was clear that mortgage arrears often occurred in response to only one income or expenditure factor in isolation. This is important because it emphasises how easily a single life or work event can affect household's abilities to meet their ongoing mortgage commitments. Indeed, this underlines the finding from previous research that people often tend to underestimate the magnitude of their debt problems (Collard et al., 2012; Finney and Davies, 2011) and indeed their financial problems more generally.

That said, there were also examples where mortgage arrears resulted from a combination of these factors occurring either simultaneously or in succession. In particular, the loss of eligibility for child-related social-security benefits was often only a contributory factor, occurring in combination with others (see Linda's story above); but it nonetheless played an important role in the context of constrained incomes.

In a previous qualitative study of consumer credit users, where households had been affected by multiple drops in income they were typically stretched financially and it was only by retaining at least one full-time earner in the household that stopped them from becoming over-indebted (Finney and Davies, 2011).[14] Amanda and Mark's story,

[14] Where over-indebted referred to households being persistently unable to meet all of their financial commitments or maintain a basic standard of living (or both).

an example from the current study, illustrates the cumulative effect of multiple income drops on the ability of households to meet their mortgage repayments.

Amanda and Mark's story: The cumulative impact of a series of events

Amanda and Mark have two children. Mark is a self-employed electrician who is used to his income going up and down, but has been struggling to find enough work since around 2009 and at the time of the interview was not working. They were having to cut back on their spending, but were still managing to meet their mortgage payments until six months ago when Amanda had to stop work following a car accident. Working for a small company she did not receive sick pay, which meant that they fell into arrears with their mortgage and other bills. Both were hoping to be back in work soon.

Crucially, however, it was not solely the nature or scale of an income drop (or increase in expenditure) which determined a household's descent into arrears, but how they responded to that event, their broader financial difficulties and the (pending) arrears.

4.5 Customer response to mortgage arrears

As we have seen, among our interviewees mortgage arrears were often triggered by one or more drops in income. However, the response to a deteriorating financial situation and the prospect of mortgage arrears – whether anticipated or experienced – varied considerably among interviewees.

The extent to which a mortgagor saw themselves as potentially facing difficulties paying their mortgage *before* they missed a payment depended on their individual circumstances. Similarly, the length of time between someone's situation changing (or otherwise recognising that they were in financial difficulty) and missing a mortgage payment ranged from less than a month to several months.

During this time mortgagors had often used different strategies to avoid missing a payment before finally doing so. Some had used up savings or redundancy payments to meet bills, and others had borrowed from family, used overdrafts, or used credit cards for day to day spending in order to be able to continue to pay their mortgages. During these periods, it was very rare for the mortgagors to seek support from either their lender or a third party. And overall, it appeared that mortgagors did not seek advice or support until they had exhausted all their other options, however limited or varied they were.

For many people in our study, it was not so much that they didn't realise they were in difficulty, as that they anticipated their financial downturn to be only temporary. As such, they expected their situations to improve, for example when they returned to work or had managed to repay the money owed giving them more disposable income, and therefore tried to manage by themselves until this happened. Indeed, there was evidence from our interviewees that, even after an income drop and in the face of financial difficulty, few had anticipated that they would actually not be able to meet a mortgage repayment and ultimately fall into arrears. When they eventually did fall into arrears, it was often difficult for many to accept, psychologically, and could trigger fear and panic. In the meantime, self-coping strategies gave some mortgagors in difficulty a sense of control and averted the perceived embarrassment, privacy concerns or fear of admitting to their lender that they were in financial difficulty. We discuss this further in the next chapter. In reality, however, many of our respondents were in a much more difficult or vulnerable position financially by the time they went into arrears than when their situation had first changed; in other words, their attempts to manage their way out of their financial difficulties were ultimately not effective. A number of other households had had existing consumer borrowing, manageable prior to their change in situation, but now compounding their difficulty paying their mortgage. The use of consumer credit by some interviewees to cope with a difficult situation and continue to meet mortgage payments was particularly problematic. One woman, for example, had been relying on credit cards to cover a shortfall in income after her husband lost her job.

> "*We have a credit card which we've used and we should have never used it because it's caused more struggle."* (Female, 50s)

The evidence indicates therefore that mortgagors need to better understand when their behaviour is indicative of serious financial difficulty and when to seek help. Warning signs include mortgagors borrowing to pay their mortgage, feeling over-optimistic about their ability to recover from an income shock, or where they incur multiple episodes of difficulty. This is not a new finding but is underlined in relation to mortgage debt where the consequences can quickly escalate.

However, the small number of interviewees in our study who had contacted their lenders in anticipation of falling into mortgage arrears had, for the most part, been advised that there was nothing the lender could do until they fell into arears. A few had, as a result, turned to unsecured borrowing to continue to meet their payments. This highlights a dilemma in terms of advice seeking: as we discuss in the next chapter, lenders can appear unable or unwilling to engage with customers until they are actually behind on their payments, and yet the arrears themselves occur after the point at which mortgagors might have best benefited from advice.

Debt advisors were fully aware of the importance of recognising those in need of help early on, as they knew from experience that these customers would be unlikely to seek third party help until much later in the process.

> *"whenever the client first expresses that concern that they're not able to make their payments, even at that stage if they are in arrears or not, you know, a process should be started at that stage: just [putting] planning in place to even prevent the arrears happening."* (Debt advisor)

Debt advisors, and many of the interviewees we spoke to, also made the point that "*very few people take out a mortgage with the intention of never repaying it*" (Debt advisor). Many of the mortgagors we interviewed had been paying their mortgage according to their mortgage contract for several years before their situation changed. It was often the first time in their lives that they had had a period of financial difficulty, and this increased the likelihood that they would not know where to turn or what to do in the circumstances.

4.6 Early and preventative intervention

In conclusion, it is clear that mortgage arrears occur in response to simple life and work events which impact in material ways on the disposable incomes of households. While many households recognise the difficulties they are in, they tend to over-estimate their capacity to recover their situations financially and avoid falling into mortgage arrears. People use a range of coping strategies, without them realising it. This highlights the role of generic money advice, which could usefully be targeted among people affected by the relevant life and employment events described.

In turn, few mortgagors appear to seek support or advice from their lenders before falling into arrears. Even if they do, they are unlikely to be helped by their lender at this pre-arrears stage. There are existing models for early intervention in the form of pre-arrears support within the financial services sector (see for example, Collard, 2011), which could be rolled out more widely. There is also a clear role for lender signposting, not only to debt advice services but also money advice services when lenders are unable to support pre-arrears customers themselves.

Moreover, preventative advice could be targeted for example on particular industries (such as the manufacturing and construction industries); on industries that employ large numbers of casual, flexible and self-employed staff; and at times of significant redundancies and contraction in employment markets. Citizens Advice Northern Ireland have added a webchat link to the Relate NI website, as relationship breakdown can also pre-empt financial difficulties. Not just being educational and awareness raising, this advice would provide general money advice and could help to instil a culture of early advice-seeking, as well as de-stigmatising 'debt'. The debt advice sector could take the opportunity to proactively approach local employers in the event of large scale redundancies, or work with Job Centres.

5 Contact with lenders and debt advice

In this chapter, we draw on the qualitative research with mortgagors and debt advisors in Northern Ireland to understand the role of lender contact and debt advice in relation to the experiences of mortgagors in difficulty and their pathways to resolution. The chapter begins by considering lenders' first contact with mortgagors in (pending) arrears and the real and perceived barriers customers face in seeking help from their lender. Then it considers when and why mortgage debt customers turn to debt advice and the barriers to doing so.

We find that lender contact by letter alone can serve to deter customers in difficulty from approaching their lender, but that the reality of making contact is often in sharp contrast to their fears and apprehensions. Those who received independent debt advice found it alleviated the symptoms of debt. However, the biggest barrier to seeking advice was a lack of awareness that specific organisations can help. Poor relationships with lenders or debt advisors inhibited the potential for satisfactory solutions. The chapter concludes by considering the different pathways to resolution for mortgagors in difficulty, which takes into account the customers' perceptions of their options and the responses of lender and other debt advisors.

5.1 Contact with lenders

All of the participants in the research were contacted by their lender within two months of falling into arrears.[15] Some had approached their lender prior to getting into arrears only to be told that the lender was unable to help them at this stage. Delaying help until the customer was in arrears was a source of frustration among debt advisors as well; among other things, it meant that the customer's situation could well have deteriorated further by the time the lender was willing to help.

[15] The FCA's Mortgage Conduct of Business Rules state that a firm must provide specified information to a customer in arrears (equivalent to two or more regular payments) as soon as possible and in any event within 15 business days of becoming aware of the arrears (MCOB 13.4.1).

"We find ourselves when we try to pre-empt a problem that the banks will say, listen go away and when they're in arrears up to 3 months then we'll talk to you." (Debt advisor)

Once in arrears, most interviewees recalled their first lender contact in the form of a letter, with a few being contacted by phone, mostly as well as receiving a letter. For many, this was the first contact with any organisation that might offer them support or advice.

While many of the mortgagors we interviewed had been a customer of their lender for a long time, few felt that they had a relationship with them. Those that had a current account with the same bank and used a branch were, unsurprisingly, more likely to feel that they did have a relationship. However, feeling that they had a relationship with their bank did not appear to influence whether or not they responded to the lenders' initial contact. Equally, most of the interviewees felt that they received a positive response, regardless of any previous relationship.

5.1.1 Experiences of contact with lenders

Several interviewees who had sought help from their lender mentioned the relief they felt at disclosing their difficulties.

"I felt that made such a difference because they were easy to talk to, to just go in and say I'm having problems, I haven't had these problems before, I'm not sure what to do about it, this is new for me and they were calm and they were reassuring and we're not going to take your house off you." (Female, 30s)

However, some of those who did feel supported by their lender may, on closer examination, not have been offered the options most suitable for them in the long run. There were examples of customers taking on more debt, or agreeing to payment breaks without understanding the consequences. Lender staff that are not based in Northern Ireland may also not fully appreciate the different costs that mortgagors can face, resulting in issues when it comes to completing an income and expenditure statement.

"For example, I think sometimes too the cost of living differences between Northern Ireland and England and Wales aren't reflected, the majority of Northern Ireland households is oil central heating … and a couple of years ago oil was extremely expensive, a couple of litres of oil was nearly £100.00, and so this old, this elderly lady was in the house and she was in receipt

of DLA and she had £30 a week down for oil, which wasn't too bad at that time, he says oh no, no, no our guidelines state you can only have £60 a month for your heating and he cut her oil back to £60 a month." (Debt advisor)

It was also clear from our interviews with mortgagors in arrears that they generally wanted lenders to acknowledge a good track record of mortgage repayment when dealing with people in arrears. Some interviewees had expected, or hoped, that their previous good repayment history would act in their favour, even if this proved not to be the case.

"I had the mind-set that I had paid religiously for 4.5 years, it would be alright." (Male, 30s)

The interviewees who were least satisfied with the response from their lender were those who had been unable to reach a mutually acceptable way to deal with their mortgage arrears. In these instances it was felt that lender staff had not made enough effort to resolve the situation or were not even-handed in the help they offered.

"I'm not asking for special treatment, I'm not asking for them to take money off the principle I'm just asking them, if you're giving him that, why aren't you giving it to me." (Male, 30s)

5.1.2 Barriers to contacting lenders

While a few of the people we interviewed chose to respond to the lender promptly after the initial letter, others waited for a second letter, or for the bank to ring them, and others chose not to respond at all. Those who had attempted to speak to their lender before they had fallen into arrears were particularly reluctant to make contact again once they were actually in arrears. And those who waited for a second, or later contact, were often those who believed their situation to be very temporary, and hoped that they would be able to resolve the situation themselves before they missed any more payments. When this didn't occur, they then chose to get in touch with their lender to explain

Regardless of lender, most of the interviewees felt that the wording and tone of the initial letter that mortgagors received was problematic. The letter was broadly seen by interviewees as 'neutral' in tone and wording. However, it was not felt to be reassuring and it did not encourage engagement with the process. Some of the mortgagors we interviewed delayed or avoided responding due to privacy concerns, embarrassment, or because they were just not used to asking for help.

However, the main barrier to responding to lenders among the mortgagors we interviewed was fear, and the initial letter did not always allay those fears. A few commented on how the letter, by including a statement that failure to pay may put their home at risk, immediately raised the idea of repossession.

> *"It's not a threat but it's black and white, just pay or else we'll throw you out."* (Male, 50s)

In particular, some feared that revealing their financial difficulties might precipitate or realise the possibility of having their home repossessed.

> *"I think it puts people off because then they have that information about you and until you go to them they don't have that information…if they have the information that you're struggling, so then they could cut your line off and say oh well we need to be paid by this date or it's going to foreclose or whatever."* (Female, 50s)

In contrast, interviewees who had been telephoned by their lender (either initially or subsequent to receiving a letter) were more likely to engage in a dialogue with their lender. For the most part, interviewees felt that contact by telephone was a better way for lenders to approach customers than by letter. Others favoured face to face contact to discuss their mortgage arrears.

Similarly, once mortgagors had made verbal contact with their lender, many felt they received a sympathetic response, much more so than they were expecting. Therefore, there appeared to be a large gap between the perception they had developed having read the initial letters and the reality of approaching their lender.

While legislation permits all stages of the process to be conducted by letter, there was a further reaching consequence of communication via post. For some mortgagors, this may be the only form of contact they have with their lender. If they do not open the letters from their lender (which is a well-reported behaviour among people in debt) then a repossession order can be granted without the mortgagor being aware that the case has gone to court. If this is a common experience for lenders and advisors, it indicates that other approaches to contacting mortgagors should be attempted. Often this is because the customer does not engage; it is not uncommon for people in financial difficulty to ignore all letters, particularly if they have multiple creditors chasing them. It does mean, however, that they are unlikely to seek or receive the advice they need.

> *"In my experience… you go to open the front door and almost all of the houses you're met with a multitude of post behind the door, and typically this will be letters from the courts, but because of the position that the people are in there will also be letters about bills and various other bits and pieces and it gets to the stage that many borrowers will simply just not open their post."* (Debt advisor)

One Northern Ireland-based lender has trialled the use of field agents to visit the homes of mortgagors that are considered at risk of financial difficulty, with generally positive results. While this is clearly a costly process, the costs of achieving a positive outcome can be weighed against the cost of the court process. A similar approach was trialled by one debt advice agency that was given the contact details of customers by a lender. The lender had identified the borrowers as being in financial difficulty. Debt advisors visited the at-risk borrowers to go through the income and expenditure process and offer advice, but found little had happened subsequent to the visit.

5.2 Use of third party debt advice

Backed by evidence from debt advisors that we interviewed, it appears as though customers tend to seek third party help only when they have more general financial difficulties, rather than just mortgage arrears and it can be hard to disentangle cause and effect here. As mentioned in Chapter 4, for some of the people we interviewed, their mortgage arrears were only one part of a fundamentally unsustainable financial situation that involved multiple forms of debt. For others, their unsecured debt was a result of trying to manage a temporary loss or drop in income.

Broadly speaking, the participants we interviewed who had sought advice from third parties were those who had greater overall financial difficulties, or whose situations were more complex, for example where their financial situation was linked to relationship breakdown. Three mentioned that they were advised to seek independent advice from their lender, although it is possible that others were. In the stakeholder interviews, we heard how some lenders operating in Northern Ireland have developed good working relationships with the debt advice sector, and use “hot key” referrals to allow their customers to fast track the appointment system to speak with a debt advisor immediately. While some of our interviewees had sought advice after their lender had suggested it, usually in a letter, none had actually benefited from the “hot key” facility, although for these customers, getting an appointment did not seem to have been an issue.

5.2.1 Experiences of debt advice

The mortgagors we interviewed who did receive independent advice generally found it a positive and helpful experience. As highlighted in Chapter 3, one of the documented benefits of debt advice is the relief of talking to someone, and the participants in this study were no different. However, as we saw above in relation to lenders, this benefit was not limited to users of independent debt advice.

Respondents mentioned two further benefits they got from advice. The first was completing an income and expenditure statement (either with a debt advisor or their lender), which helped them regain control over their finances and put in place the foundation for reaching a sustainable repayment arrangement. From previous research we know that some people misunderstand the seriousness of their financial situation. The process of completing a detailed income and expenditure statement helped people get a better picture of their financial position, and based on this to start working towards a realistic resolution.

> *“[the advisor] says “you’ve more going out than what comes in…you're not alone, a lot of people are like this”, they live on the day-to-day, which is what we do…then they realised how much we could spare, we arranged, we said well we can afford this. They arranged it, and that's that.”* (Male 50s)

Secondly, respondents who had received independent debt advice from a third party very much valued having a professional advisor to negotiate with their mortgage lender, and other creditors, on their behalf, particularly in cases where they had been unable to reach a satisfactory agreement with their lender themselves.

"the bank seemed to believe StepChange…they didn't seem to believe me, what I was saying to them." (Female, 40s)

Both our interviewees and the debt advisors we spoke to believed that the relationships of trust evident between the debt advice sector and mortgage lenders strongly increased the likelihood of achieving a sustainable outcome for the customer. Nonetheless, the outcomes sought and achieved by those who had received third party advice also highlighted the fact that the solutions offered by the lender were sometimes not in the interests of the customers, as we saw above.

Debt advisors expressed some frustration that mortgage lenders did not always accept the course of action that they recommended for a client, based on the income and expenditure statement they had completed. Rather, lenders sometimes seemed to feel that the advisor's recommendation was a way of 'letting off' customers from paying what they owed. Debt advisors considered that lenders should recognise and accept the recommendations of professional advisors, regulated by the FCA, based on open and transparent processes.

5.2.2 Barriers to seeking third party advice

Among the interviewees we spoke to, the biggest barrier to seeking independent advice to help sort out their mortgage arrears was lack of awareness. Respondents either did not know about the organisations that might be able to help them or, if they did, they did not realise that these organisations offered help with mortgage arrears. Few of the people we interviewed had heard of StepChange Debt Charity, or were aware of independent advice agencies that are members of Advice NI. More people were aware of CAB, but did not appear to associate it with providing help on mortgage arrears. More saw CAB as offering generalist help. This was positive for those whose circumstances had recently changed, for example because of job loss or separation, as they were able to access advice on a range of issues, such as housing, employment, etc. A few had been put off the CAB because of prior experiences where they had sought specialist help but not been able to access it. One participant had previously been disappointed because he felt the CAB was unable to help him with an employment law issue that required specialist knowledge. As a result, he was reluctant to approach them again. A few who had no prior experience of CAB were put off by their perceptions of the service they thought it offered.

> *"I haven't got great faith in Citizens Advice because I think when I go and speak to Citizens Advice they just look it up on the computer, you can sit at home and do that yourself."* (Female, 50s)

In addition, our interviewees generally didn't know that if their case went to court Housing Rights could provide legal help free-of-charge. One had considered going to see a solicitor, although the cost was prevented him. A few people had considered but rejected fee-charging services because they were costly and didn't offer the type of help people wanted. One had approached a company claiming to help homeowners in negative equity, but realised that not only were they not interested in helping her keep her house, but that they would charge £4,000 to negotiate with her lender.

Concerns about privacy and confidentiality, combined with the stigma of mortgage arrears, were another barrier to seeking advice for some respondents. They worried that they might know someone who worked at the advice agency, or even if someone saw them going in to the office, they would assume that they were having difficulties. For one respondent, this fear extended to avoiding seeking help from his lender.

> *I very rarely go into the bank myself, when you go someone could be… it's embarrassing as well… everything is through them so they know what's going in and what's going out."* (Male 30s)

The shame that many respondents felt at being behind with their mortgage payments, and generally struggling financially, was palpable, regardless of whether they were considering seeking advice or not. Many did not want even their close family to know about the situation, which could hamper their efforts to sort things out. One woman, for example, felt unable to increase her hours at work because she provided free childcare for her grandchild. Even though her situation was getting worse, she did not want to tell her daughter that she couldn't do this any longer, or ask her for financial help. Another woman couldn't bring herself to tell her partner about her temporary mortgage arrears, even though she was in a position to manage the situation herself.

This sense of stigma and embarrassment should not be underestimated by mortgage lenders. When someone does raise the courage to approach their lender about mortgage arrears or other difficulties, any rebuff could result in that person not seeking further help until it is too late.

> *"the barriers are acceptance, a lot of people don't, won't accept that they're in debt, people, especially when they have good jobs and are well educated they can't understand why they're in the situation that they're in. People just don't want to admit to anybody that they're not coping outside their own little cocoon."* (Debt advisor)

5.3 Pathways to resolution

While some mortgagors in arrears are undoubtedly informed, if not proactive, many are less clear about what they should do or where they can turn to and may even be frightened or stigmatised into inaction. The initial responses of lenders and perception of debt advice provision are also important. Taking into account the findings discussed in this and the previous chapter, Figure 5.1 below illustrates the different support routes that customers take when they begin to get into financial difficulty, where they may subsequently turn, and where advice or intervention may be most effective. As such, intervention needs to recognise the different pathways their customers may take.

Figure 5.1

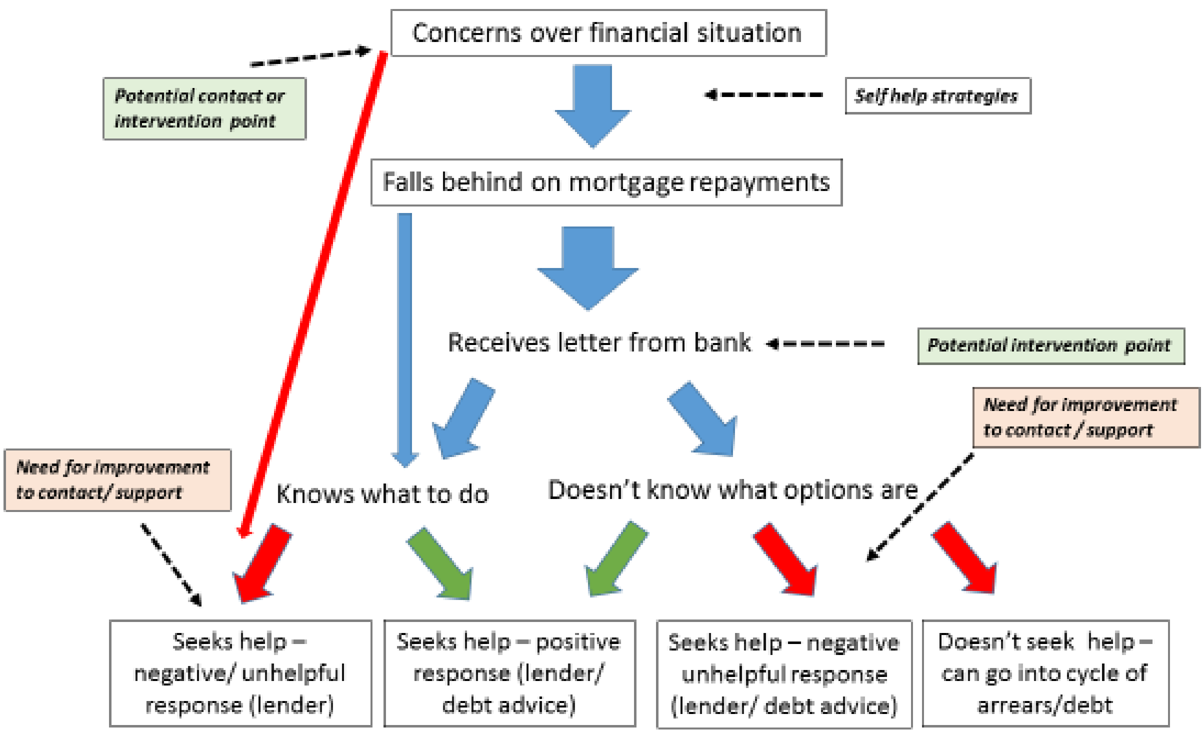


Figure 5.1 indicates where there is potential for contact, a greater level of intervention than is currently found or an improvement in the contact or support offered. The potential contact or intervention points indicate where support could be offered, but may not be currently. Ideally, mortgagors would seek help when they first have concerns over their financial situation, but it appears that this rarely happens in reality, and indeed some do not recognise they are in financial difficulty. Similarly, while a letter from the lender is often the first contact, it may be a point where a more direct intervention could be helpful. In some instances, the contact from the lender or the subsequent course of action they pursue is not effective, whether this is prior to falling into arrears, once someone has fallen into arrears or when it becomes clear that the mortgagor has intractable financial difficulties.

One of the most important themes to have emerged from our interviewees' experiences of debt advice, therefore, is communication. Timely and appropriate communication by lenders and debtors alike is crucial for the satisfactory resolution of arrears. Lenders need to find more effective ways to communicate with people in mortgage arrears, bearing in mind that these mortgagors may be fearful and apprehensive. Lenders are likely to be the first port of call for mortgagors in arrears, and so it is vital that the lender strikes an open and conciliatory tone right from the start.

The current reliance on an initial, standard letter when mortgagors first miss a payment (which emphasises above all else to customers that their homes may be at risk of repossession if they fail to keep up with mortgage payments) is counter-intuitive. A more tailored first communication – ideally by telephone or in person – which takes into account someone's existing relationship with their mortgage lender is likely to be a more effective (albeit resource-heavy) way for lenders to communicate and engage with mortgagors. It is also clear that there is not one approach to suit all; for different reasons different people will prefer telephone to face to face to advice online.

Our interviewees' lack of awareness of specialist debt advice in Northern Ireland and how these services can help people with mortgage arrears is clearly an issue. In addition to emphasising the support they can offer their customers themselves, there are opportunities here for lenders to signpost to advice services earlier and more effectively (even in their initial letters). While the debt advice sector itself noted that previous efforts to promote debt advice services in Northern Ireland seem to have struggled to gain traction, there may still be scope for the free-to-client debt advice sector to advertise its services more widely, being explicit about the help it can provide with mortgage arrears, and building on what was learned from previous experiences.

6 Journey out of arrears

Clearly, the aim for both customers and lenders should be to find a sustainable solution to mortgage arrears, and on the rare occasion when this is not possible, to find a way of enabling the customer to move on to new housing. In particular, in its 2014 Thematic Review of mortgage lenders' arrears management and forbearance, the FCA noted that "mortgage lenders and administrators need to place greater emphasis on delivering consistently fair outcomes for customers based on their individual circumstances." (page 3).

In this chapter we again turn to the findings from our interviews with mortgagors in arrears to identify the progress they had made towards agreeing a sustainable solution and understand why (from the mortgagor's perspective) this was more or less difficult (and in some cases not possible at all). We find that the journey out of arrears is influenced by the persistence of financial difficulties, the level of engagement a customer has with their lender and the breadth and depth of view taken by the lender.

6.1 Sustainable solution

At the time of the interviews, around half of the mortgagors we spoke to had already found a fairly straightforward solution to dealing with the mortgage arrears they accrued and meeting their contractual mortgage repayments going forward. In these instances, often the mortgage arrears had arisen from a temporary drop in income, for example, an invoice remaining unpaid for longer than expected, or a mix up with salary payment. This financial hiccup had generally occurred in the context of an otherwise healthy financial position; the household income was high enough to cover the outgoings, and there was little evidence of any other unmanageable debts. All of this group had a predominantly steady income.

This group were happy that they would be able to repay their mortgage arrears. For some this would be over a relatively short period of time, reflecting that their arrears had often built up over a similar time frame, and also that they had room for manoeuvre in their budget. Others resolved the arrears by extending the term of their mortgage. In terms of levels of contact or advice seeking, there was a mixture of people who had little contact with their mortgage lender, and others who had received a lot of support from them.

Interestingly, none of this group reported getting help from an independent advice service.

6.2 Interim solution pending sustainable resolution

For some interviewees, an interim solution had been negotiated with their mortgage lender to manage the arrears, but the process of agreeing or entering a sustainable resolution was ongoing and not yet fully resolved. In part, this reflected the timing of the research in relation to the interviewee's arrears history. To address a drop in household income for example (due to job loss or a slowdown in self-employment) lenders had put in place temporary arrangements. These included payment holidays and reducing repayment amounts for a set period of time. All of these interviewees hoped that their financial circumstances would improve, but did not yet know what the longer-term arrangements would be for paying back their arrears and meeting future mortgage payment amounts.

Nonetheless, temporary arrangements had not always addressed the problem and negotiations with lenders could be protracted. One mortgagor, for example, who had fallen into arrears after ill health, had been given a payment holiday for a few months. However, when the payment holiday ended, she found she could not afford the increased repayments that had been agreed by the lender with the help of a debt adviser. At the time of the interview, a way forward had not been found. In another case, an interviewee's negotiations with their lender had been ongoing for over two years, without satisfactory resolution (see Patrick's story, below). It appeared that the lender was showing a high degree of forbearance in a difficult situation, but this did not fully meet the needs of the mortgagor.

Patrick's story: interim resolution and forbearance

Patrick left work due to health problems four years ago. He does not expect to return to work. His financial difficulties and arrears started when he stopped working. At the time, his lender moved him from a tracker mortgage on to a more expensive standard variable rate. He has been regularly speaking to his mortgage lender over the past two years about his situation. Patrick is now managing to pay his contractual monthly payments, with the help of Support for Mortgage Interest payments (although this was latterly cut), but has not been able to pay back the arrears (£10,000). He does not have sufficient equity to sell his house to pay off the arrears and cannot qualify for another mortgage. His lender has asked him to consolidate his arrears

(£10,000) into his mortgage. He would like to do this but he cannot afford the extra £100 per month that this would cost, so he is currently working with an advice agency to draw up a financial statement.

To Patrick's mind, however, the solution is easy: that his lender moves him to a better mortgage deal to make his repayments more affordable and possibly allow him to consolidate the arrears: "in effect being put on the higher rate is like being further penalised when you're already in a difficult situation."

Depending on the effectiveness of the interim or temporary solutions put in place and how realistic an improvement in financial circumstances was for these households, some of these interviewees may in time fully resolve their arrears. Or, like others, they may risk spiralling further into arrears without being able to agree a sustainable solution for the long term.

6.3 No sustainable solution

The rest of the interviewees seemed to be in a less clear position. They were without a sustainable resolution and seemingly without a short-term solution. Some had contacted their lenders, but others had not. Only one of them had sought help from an independent advice service.

Those interviewees who had been in contact with their lender felt the lender had not been helpful. They included interviewees who had been offered a possible solution by their lender, albeit one which they did not feel was appropriate or sustainable. Examples included interviewees being offered payment holidays instead of a lower interest rate deal (refused due to negative equity) or, in another case, re-mortgaging to pay off arrears and other problem debts. Where interviewees had been offered but refused a payment holiday, they generally reasoned that this 'breathing space' did not get to the bottom of their financial difficulties and so was not, in their view, a viable option.

In contrast, another interviewee had asked her lender for a payment holiday before she got into arrears. The lender refused and (according to the interviewee) had instead encouraged her to borrow on her overdraft. When she subsequently got into mortgage arrears after accruing a £50,000 overdraft, her mortgage lender offered her a plan to repay her arrears which was simply unaffordable. Another interviewee had negotiated arrears repayment plans with his lender when he faced repossession on two prior occasions. Now that his seasonal work had dried up again, he felt that his lender was not interested in helping him find a sustainable solution.

Typically for these mortgagors, their arrears were ongoing and were not the result of a recent event. They had been cycling in and out of arrears over several years following a sustained drop in income and most had also accrued other problem debts (see Bill's story, below). Some did expect their financial circumstances to improve in the future, but others did not. Only one had sought independent advice in relation to their current circumstances, but this had not resulted in any alternative options. And, as Bill's story illustrates, for at least one interviewee, refusal by the lender resulted in loss of faith by the customer to re-contact them.

Bill's story: difficulties negotiating a sustainable solution with creditors

Bill had been managing on lower earnings for several years until his savings ran out. He regularly falls into arrears and then finds money to pay some of the arrears back; he also has other loans that he is struggling to repay. He contacted his mortgage lender to ask if he could re-mortgage and use the extra money from the mortgage to pay off his arrears and other debts. The lender refused. Bill feels that a six month payment holiday would give him the breathing space he needs to get on top of his finances. Since being refused the re-mortgage, however, he has not wanted to contact his lender to ask about it. He had not sought any third party advice and was apprehensive about talking to anyone.

There were a number of cases where the mortgagors we interviewed had purposefully not contacted their lender at all. In many respects, these cases appear to be the most intransigent and therefore risk being the least likely to resolve their arrears, sustainably or otherwise. The reasons for this varied, but were seemingly underpinned by a belief that they would be able to get back on track by themselves in the short or medium term.

Even though they were very worried about their situation and the risk of losing their home, there were instances of mortgagors who had not spoken to their lender because they doubted that the lender would be understanding or helpful. For one person, for example, this lack of trust was based on previous negative experiences of dealing with their mortgage lender; in particular, they were worried that the lender would move them from their tracker mortgage to a more expensive fixed rate deal. For another interviewee, it was just the general perception that the lender would not be understanding that put them off getting in touch. Both these interviewees anticipated their financial situations improving in the near future through a return to work in one case or increased earnings from work in the other. On the face of it, the solutions they wanted seemed reasonable: for one a payment holiday; for the other being able to pay back their arrears over two years. Thus the resolution to their situations did not appear to be complicated, but a lack of trust prevented them from broaching these ideas with their lender:

> *"I know that they're going to offer me what's best for them, not what's best for me." (Male, 40s)*

In other instances, interviewees psychologically minimised or circumvented their situations, as a way of trying to manage them. For example, one person ignored all letters from her lender and instead self-managed her arrears only at her local branch; another forwarded letters from the lender onto her estranged husband (on the advice of a debt advice agency) in lieu of reaching a divorce settlement.

6.4 Increasing opportunities for sustainable resolution

In conclusion, our research highlights some common issues that help explain why mortgage arrears fail to be satisfactorily resolved. Firstly, the evidence from mortgagors with arrears suggests that in some cases lenders focus on short-term 'fixes' rather than taking a more holistic approach that acknowledges the underlying causes of arrears. The lack of a 'Plan B' when temporary arrangements came to end without a sustainable solution having been reached was also an issue. In particular, where the reasons for mortgage arrears were more complex, involving for example negative equity, a permanent drop in income or other non-mortgage debts, the findings suggest that lenders did not always work effectively with customers to find long-term solutions. Furthermore, the charges levied by lenders for arrears and cases where lenders moved people onto higher rate mortgages served to compound their financial difficulties.

Secondly, our interviews with mortgagors suggest a lack of consistency in their treatment by lenders. In its 2014 Thematic Review (FCA, 2014b), the FCA noted that "*front-line staff sometimes lacked the experience, knowledge and skill to make informed judgements and decisions in customers' best interests, reflecting their* *individual financial and personal circumstances*" (p.4). The *Pre-action Protocol for Possession proceedings based on Mortgage Arrears in Respect of Residential Property* additionally lists all the options that lenders should have considered before moving to a possession order.[16] However, there was very little awareness of these options amongst the mortgagors we interviewed (although not all were at imminent risk of receiving a possession order). And some of our interviewees had been unable to secure resolutions listed in the Protocol, although not all would necessarily have been suitable.

The sustainable resolution of debt which allows homeowners to stay in their homes is predicated on lenders' forbearance. This point emerged clearly from our interviews with representatives from the debt advice sector. However, our evidence indicates inconsistent application of forbearance by mortgage lenders. Lenders are necessarily limited in the extent to which they can offer forbearance without jeopardising the service they can offer to other mortgage customers. As a result, there is a responsibility on both lenders and debtors to agree a realistic and sustainable plan which may include the temporary relief of debt combined with, crucially, a longer-term repayment strategy. Debt advice services already provide a robust means to negotiate longer-term repayment plans, based on a comprehensive assessment of the mortgagor's income and expenditure. Some lenders use a similar approach to calculate repayment plans, however the introduction of a standard financial statement, and its adoption and robust application across the mortgage industry would undoubtedly bring benefits.

No one, it seems, buys a home on a mortgage expecting to get into difficulty or lose their homes. The evidence from our interviews indicate that there needs to be a range of options for people facing mortgage arrears available from all lenders, such as payment holidays. Perhaps more importantly, lenders need to show some sympathy and understanding to people who find themselves in this difficult situation, otherwise efforts to make contact are likely to be wasted. In terms of 'upstream' ways that could help people avoid getting into arrears, prospective mortgage borrowers could be

[16] These are: extending the term of the mortgage; changing the type of a mortgage; deferring payment of interest due under the mortgage; capitalising the arrears; payment holiday; reducing the interest rate; and alternative affordable mortgage products.

encouraged to seek generic money advice (for example, from the Money Advice Service website).

7 The last resort: losing the home

The data in Chapter 2 show that repossession is an increasingly uncommon outcome of mortgage arrears. While none of our interviewees had personal experience of repossession, they were still fearful of losing their home as a result of their mortgage arrears - a prospect that was spelled out in black and white in the letters they received from their lenders, as we saw in Chapter 5. Only one of the people we interviewed wanted to sell his home, and negative equity prevented him from doing so.

The debt advisors that we interviewed for this study offered greater experience of the cases that result in repossession. By and large, all parties work hard to try and prevent mortgagors losing their house, and in particular by means of repossession. In cases where the mortgagor is simply not in a financial position to keep their home, debt advisors prefer to negotiate a ‘soft landing’, generally a voluntary assisted sale, which allows the mortgagor to sell their home rather than have it repossessed. While lenders were also keen to achieve a ‘soft landing’ where possible, in cases where they initiated court proceedings it was often because the customer had not engaged with them in any other way.

Mortgage arrears are not like other forms of debt, as often the family home is at risk, and there is an emotional attachment to the home that goes beyond rational decision making. Advice sector staff observed that it can be a long process getting to the point where mortgagors accept that losing their home is the only realistic option for them. This point often only comes after the advisor has worked through all the options with them, and built a rapport, before they can make the decision. This is understandable: in the words of an advisor, “*They need to see it in black and white”.*

However, from the perspective of the courts, the biggest problem for those who were facing repossession was the frequency with which the mortgagee lacked engagement with any part of the system, including their lender, any debt advice provision, free legal support or the courts themselves. The focus, therefore, needed to be on finding ways to engage the customer as early on as possible, rather than on changes to the process once the person has reached court proceedings

"It needs to be dealt with upriver not downstream" (NI Courts)

However, even late in the day, it was clear that support could still be given that would allow the household to leave their home with dignity, and therefore it is important that signposting to assistance, from both lenders and the courts system, happens right up until the very end.

The advice sector also highlighted an issue perhaps more prevalent in Northern Ireland than the rest of the UK: in some of the more rural areas of Northern Ireland, there is a high number of self-build properties, often built on family land. This can place the homeowner in an even more difficult position. Even if they accept that their financial situation is unsustainable, they feel an obligation to keep hold of the house at all cost.

"Whenever they build their self-builds on family ground, its slam bang in the middle of family land, there's a lot of added pressure to maintain those payments and to retain the house at all costs. If it's severe negative equity and the best option for them would be to hand the keys back and maybe even go bankrupt for the shortfall, then they're very reluctant to even consider that option and we would find the reason for that would be, "oh I couldn't do that because, you know, we built on this ground and our neighbours are all family and we couldn't do this, we have to keep this house at all costs". *They're a very unique thing that we would see very much in rural Mid-Ulster anyway".* (Debt advisor)

Both mortgagors and debt advisors felt that problems finding suitable and affordable alternative housing could also be a barrier to people engaging with the prospect of losing their home.

7.1 Barriers to a 'soft landing'

In the event that it is not realistic for a homeowner to keep their property, both lenders and debt advisor were clear that an assisted voluntary sale[17] is a far better outcome for the mortgagor and their

[17] A number of lenders have begun to offer support to homeowners with mortgage arrears, to allow them to sell their home and avoid repossession, including: allowing time to sell; reduced mortgage payments while sale is going through; reimbursing solicitor costs; and/or providing a deposit and rent in advance.

household than a repossession order. Below we discuss a number of issues that can stand in the way of a voluntary assisted sale.

7.2 Negative equity

Levels of negative equity have been a far bigger concern in Northern Ireland than the rest of the UK, and it is only in very recent years that house prices have risen again. Negative equity has implications for mortgagors in arrears who face losing their home. Until recently, the issue of mortgage arrears leading to repossession, and the problem that negative equity caused to this resolution were closely linked. Where a home is repossessed but there is not enough housing equity to repay what is owed (i.e. the homeowner is in negative equity), the mortgagor remains liable for the shortfall. If there is no realistic chance that they can repay the shortfall, they may have to consider personal insolvency.

Negative equity was an issue in only a small number of the cases in our study, with most people either certain that they had equity in the house, or believing that they were unlikely to still be in negative equity where they had been in the past. For the latter group, this was largely due to the recent increase in house prices. Overall, for the mortgagors we interviewed the level of equity in their house did not appear to be a particular factor in any decision about their long term plans. A few were aware that, if they did need to sell their house, they may have little or no deposit for a future purchase. Only one participant, who bought his home at the peak of house prices in 2007, and had been paying an interest only mortgage since, would have liked to sell his house. He was prevented from doing this, however, as his parents were guarantors for the mortgage, which means that, if he sells, they will be liable for any mortgage shortfall that comes about as a result of the negative equity.

Debt advisors expressed some concerns that mortgagors in arrears living in homes with negative equity might falsely believe that lenders would not pursue them for the debt – compounded by the fact that lenders may indeed not have taken any action in relation to the arrears for several years.

> "*…there are still cases out there where actually the problems have arisen 5, 6, 7 years ago but the lenders haven't taken action because it wasn't worth their while because of negative equity, or because of the poor housing market. So those cases are still coming through now and again because now with the*

> *housing market having picked up a little, equity may be improved a bit, then those could, the last payment may have been 4 or 5 years ago but the lender may only be lodging the application for repossession now."* (Debt advisor)

Mortgagors who were perhaps over-optimistic about the value of their home were another concern for advisers – for example because they may have unrealistic expectations about using their housing equity as a financial safety-net.

Overall, as the aim for the majority of participants was to remain in their home, the level of equity in their property was a concern only in as far as it could hinder their ability to re-mortgage onto a product with a better interest rate. Previous research (Ratcliffe 2010) found that house prices could act as a barometer of confidence in the economy, and generally the people we spoke to appeared to believe that once their income concerns had been resolved, then their financial situation was relatively positive, and home ownership was generally tied up in this.

7.3 Second charge mortgages

One potential downside to rising housing prices relates to second charge mortgages[18] – an issue raised by lenders and advisors that we interviewed for this study. Once there is equity in a property, there is reason for a second charge mortgage lender to try for repossession. With house prices in Northern Ireland rising, there were worries that repossessions from second charge mortgages would increase as well.

We were unable to recruit anyone with a second charge mortgage to participate in the research. For borrowers with second charge mortgages or secured loans, who experience an unexpected income drop, the consequences could potentially be very serious. Interest rates on these products are usually high, as are fees and charges, and therefore even a small period of default could be difficult to recover from. With a few exceptions, the debt advice sector representatives we interviewed generally found these companies far less

[18] According to the Money Advice Service: "A second charge mortgage allows you to use any equity you have in your home as security against another loan. It means you will essentially have two mortgages on your home." https://www.moneyadviceservice.org.uk/en/articles/second-charge-or-second-mortgages

accommodating than mainstream lenders when it came to dealing with mortgagors in financial difficulty.

> *"There's a lack of understanding there perhaps as well that they think that if they pay off their mortgage that there may not be an issue with the secured loan and, you know, failure to pay the secured loan… at the end of the day they can go down the repossession route also."* (Debt advisor)

The advice sector also highlighted a recent legal judgement (Housing Rights, 2016) now allowing second charge lenders to pursue a possession order even if there didn't appear to be any equity in the property. They, expressed concern about how this may affect the prospect of those who were struggling to repay their secured loan.

7.4 Future vulnerability

The quantitative data described in Chapter 2 suggests that the position of mortgagors in Northern Ireland is relatively positive, insofar as the effects of the 2008 Global Financial Crisis have levelled off: numbers of court orders have dropped, house prices are rising, and levels of unemployment have at least stabilised. Lending practises and criteria have tightened, which should help prevent mortgagors getting into the financial difficulties faced by our interviewees. Nonetheless, the evidence highlights a number of factors worth considering in terms of our interviewees' future vulnerability.

First, many of the interviewees we spoke to were only just managing to pay their mortgage at their current mortgage interest rates (although these may have been higher than average for some). Their household's income simply did not have any slack in it. Any increase in interest rates, therefore, may be the final straw for households such as these, and tip others from a position of managing financially to really struggling. However, the mortgage and debt advice sector representatives that we interviewed felt that an interest rate rise in the near future looked unlikely, certainly less so than in 2015 when the initial evidence paper (Repossessions Taskforce, 2014) for the Housing repossessions taskforce was produced. A key indicator of interest rates is the Bank of England bank Rate. The Office of Budget Responsibility, in its November 2017 Economic and Fiscal Outlook, incorporates markets expectations that the Bank Rate will remain very low over the next five years, reaching just 0.9 per cent by the end of Office of Budget Responsibility forecast period (2022).

Second, a number of our interviewees had originally taken out a mortgage on the basis of incomes that had since fallen, either as a result of overly optimistic assessments of self-employed wages in a particularly lucrative period, or through redundancy and subsequent failure to find a job paying the same wage. Some of our interviewees in this position were relying on an anticipated (but by no means guaranteed) increase in income to sort out their mortgage arrears. If things don't work out as they hope, they may have to re-consider their options.

Thirdly, the government's welfare reform programme was also highlighted as a potential vulnerability for mortgagors who lost their jobs, or who currently are reliant on tax credits.

Finally, lenders and debt advisors were very concerned about recent changes in state support for homeowners who are eligible for help with their mortgage interest payments (because they receive certain income-related benefits). In particular, they were worried about the increase in the waiting period for Support for Mortgage Interest (SMI) (from 16 weeks to 39 weeks, having been reduced to 16 weeks in response to the Global Financial Crisis). They felt that this was premature in the current economic climate, particularly in the case of Northern Ireland where recovery lags behind the rest of the UK. For lenders, it could affect their decision-making around forbearance.

Overall, there seems to be a mixed outlook in the coming few years for mortgagors who may be struggling financially. Added to this is the uncertainty created by Brexit; the debt advice sector expressed concern that this uncertainly could slow down the recovery in Northern Ireland's housing market.

Some of the most vulnerable homeowners appear to be older mortgagors and those working in the less buoyant employment markets, for whom drops in income are likely to be more persistent. The lack of an attractive option other than remaining in the home was a major barrier for customers to engage with the reality of their situation. Phased support to move out of the homeowner market, such as assisted voluntary sale, may be especially important for these customers, noting that leaving the housing market can be something that takes a long time for customers to come to terms with.

Finally, for those with intractable arrears, schemes which enable homeowners to continue to live in their homes after sale or repossession appear especially important for rural communities in particular in Northern Ireland, where personal and family ties to property can be strong and where alternative suitable housing may be sparse. Though now defunct, the Department for Communities and Local Government's Mortgage Rescue Scheme aimed to do just that, and there may be lessons that can be learned from the scheme and applied to Northern Ireland. Shared ownership is another option to consider.

8 Summary and conclusions

This research offers new insight into the views and experiences of mortgagors in Northern Ireland who have mortgage arrears, and the actions they take to sort out their arrears, including their interactions with lenders and use of independent advice services. This final chapter summarises the main findings in relation to the study's three research questions:

- At what points do people realise that their mortgage debt is unsustainable and they can no longer manage?
- What journeys do people take when they realise that their mortgage debt is unsustainable?
- How effective are the advice interventions that people in mortgage arrears receive?

8.1 Realisation

In resonance with previous research, this study clearly shows that mortgagors generally only realise fairly late in the day that their mortgage debt is unsustainable and they can no longer manage. While each case is different, there are some common reasons why this happens. First and foremost, mortgagors are deeply concerned about paying their mortgage and keeping their home. To this end, when they experience a drop in income (which was the underlying cause of mortgage arrears for most of the people we interviewed) they prioritise their available resources to keep making their mortgage payments. This can include drawing on savings, or using consumer credit to bridge the gap between their reduced income and their outgoings.

It appears that people anticipate that their financial troubles are temporary and will soon improve. In reality, these efforts to self-manage their situation can go on for some time – in some cases a few years – until all of their options are spent. In the meantime, without any increase in income or significant cuts in expenditure, other bills go unpaid and consumer credit debts increase. Consequently, by the time they actually miss a mortgage repayment, their general financial situation has often badly deteriorated, making it harder to sort things out.

Earlier realisation of financial difficulty is therefore a key lesson from this study. However, this depends on help being available. There were some mortgagors in our study who contacted their lender in anticipation of problems paying their mortgage, only to be told that the lender could not help them because they were not in arrears. This response sometimes deterred mortgagors seeking help from their lender later on. At the very least, even if lenders are not in a position to offer pre-arrears help themselves (which seems counter-intuitive), they could signpost mortgagors to generic money advice (such as the Money Advice Service) or an independent debt advice service.

8.2 Journeys

For most of the mortgagors we interviewed, having mortgage arrears was a new and unfamiliar experience. They had little idea about what to expect or what help was available to them. Their journeys were mainly determined by the breadth and depth of their financial problems; and their wants and expectations regarding their mortgage arrears.

For around half of the people we interviewed, their mortgage arrears were essentially a financial 'hiccup' caused by a temporary drop in income; otherwise, their financial situation was stable. For these respondents, the journey out of arrears was straightforward. Some had resolved things largely on their own, others had done so with support from their lender.

At the time we interviewed them, a second group of mortgagors had an interim solution in place to manage their arrears that had been negotiated with their lender, such as a payment holiday or reduced mortgage repayments for a certain period of time. Interviewees in this situation were largely optimistic that their circumstances would improve, and they would be able to reach a sustainable position in the longer term. There were a few examples, however, where interim solutions had come to an end without the mortgage arrears being sorted out, and no agreement between lenders and mortgagors about a 'Plan B'. Part of the issue here seemed to be that lenders only dealt with the debt they were concerned about (the mortgage arrears), when the mortgagor had other debts or financial issues that impacted on their ability to repay their mortgage arrears and/or make their contractual mortgage payments. In these situations, a holistic approach to the mortgagor's situation, of the type offered by independent advice services, may well have helped.

In the case of the remaining interviewees, any prospect of sorting out their mortgage arrears seemed to have stalled. These mortgagors generally had been in and out of mortgage arrears over a fairly long period of time, since a previous drop in income. They tended to have other debts as well. The lack of resolution when it came to their mortgage arrears could be traced back to a number of reasons: not being able to reach a satisfactory arrangement with their mortgage lender (which seemed to lead to an impasse); a feeling that lenders were not willing to help; and a reluctance to contact lenders either because they felt they could continue to manage the situation themselves or because they doubted that lenders would be understanding or helpful. Only one respondent said they had sought advice from an independent advice agency, which did not appear to have helped.

None of the mortgagors we interviewed had personal experience of repossession. The view of the debt advisors and lenders that we interviewed was that a voluntary assisted sale of the home was preferable to repossession. However, getting mortgagors to a point where they would even consider losing their home was often a long process, even where all other options had been exhausted. People's emotional attachment to their home was sometimes amplified by the fact that they lived in a self-build house constructed on land owned by their family.

8.3 Effectiveness of advice interventions

We looked at two potential sources of help and advice in this study: lenders (who generally only assist with the debts owed to them) and independent debt advice services (who tend to deal with all the debts that an individual discloses).

8.3.1 Lenders

The first contact that mortgagors often had from their lender about their mortgage arrears was a letter. In the experience of the people we interviewed, this letter often served to raise their fears about losing their home as a result of their mortgage arrears. As a result, rather than encouraging them to engage with their lender to try and sort things out, it could put them off contacting the lender, which meant further delays in which time their situation could deteriorate. When mortgagors did contact their lender, the positive response they received often surpassed any expectations they had. A key lesson here is the *tone* in which lenders communicate early messages and warnings about mortgage arrears (whether in writing or verbally) – In essence, this involves getting the balance right between conveying the seriousness of the situation while making it clear that there are steps that the mortgagor can take to sort things out, all the while showing an understanding of the fears and anxieties that mortgagors may have. There are also things that lenders based in the rest of the UK should take into account when dealing with mortgagors in Northern Ireland, such as the costs of heating oil for households not connected to mains gas.

There were mortgagors in our study who asked lenders for help before they got into arrears – but were told the lender could not help because they were not in arrears. In its 2014 Thematic review, the FCA makes clear its expectations that financial institutions need to "*better support and empower front-line staff to make appropriate decisions at all stages of the arrears cycle*" (p.4), and praised those firms who were developing pre-arrears strategies. Other research (Collard 2011) also highlights the positive impacts of early intervention. The evidence from this study demonstrates how earlier intervention by mortgage lenders could stop a mortgagor's financial situation deteriorating as a result of their efforts to self-manage their arrears (for example, by using unsecured credit to manage income shortfalls or pay bills).

While many of the mortgagors in our study received helpful and effective support from their lender, there was some indication from the interviews with debt advisors (and a lesser extent with mortgagors) that lenders were not always abiding by pre-action protocols for dealing with mortgage arrears. A particular issue was the inconsistent application of forbearance by mortgage lenders. The FCA has produced case studies of how forbearance should work[19], and good practice should be encouraged across the industry.

Concerned about how forbearance is used by lenders, The Children's Society and others have called on Government to create a 'Breathing Space' policy to give people time to repay their debts, and a Private Members' Bill to this effect was launched by Kelly Tolhurst MP in November 2016. This concept of 'Breathing Space' is something that lenders in Northern Ireland could implement with regard to those who are struggling to make their mortgagee repayments, to give

[19] https://www.fca.org.uk/publication/documents/gc16-06-johns-story.pdf

households a time to readjust their finances, and put in place a longer term plan.

Debt advisors were also frustrated that lenders would not always accept an advisor's recommendation, based on a standard financial statement that provided in detail the client's income and expenditure and the repayments they could afford to make. They wanted to see greater acknowledgement by lenders of the professional work of debt advisors, which in their view would result in better outcomes all round.

8.3.2 Independent debt advice

It was relatively uncommon for the mortgagors we interviewed to have used independent debt advice to help them sort out their mortgage arrears. This was perhaps understandable where mortgage arrears were their only problem debt, but it was also the case for interviewees who had multiple debts that they had been trying to manage for some time.

Above all else, lack of awareness seemed to be the main barrier to people using independent debt advice. There was generally low awareness of the organisations that specialise in giving debt advice; and while people were often familiar with the CAB, they did not necessarily know that the CAB could help in situations of mortgage arrears. Where people had sought advice, it was typically when their financial problems were already quite serious. They generally reported positive experiences and beneficial outcomes, including getting their finances under control and getting help to negotiate with their creditors (when in some cases they had tried and failed to get a satisfactory agreement). It is also important that signposting to support or advice is consistently given to mortgagors at all steps of the process, as forbearance can be granted right up to the point of actual repossession. While earlier help is preferable, support or advice can be beneficial to the mortgagor at any point.

Accepting that some people in debt prefer to self-manage and may be reluctant to take-up advice, nonetheless this research suggests there are opportunities to encourage people to get independent, professional help. Taking debt advice (and also generic money advice) to people who may need it is one way to do this, such as:

- Offering debt advice in job centres or large firms that plan to make redundancies. In the past, independent debt advisors provided advice to workers employed by JTI Gallaher in Ballymena who faced redundancy, to help them plan financially for the loss of income.

- Citizens Advice NI have a webchat link on the Relate NI website, to help people who are dealing with a relationship breakdown, which so often has serious financial implications for one or both partners.

Given the stigma that still exists around problem debt, the messages should be about getting help early on to deal with changes in circumstance (rather than about dealing with debt); the value of getting help sooner rather than later; and things that individuals can do to help themselves such as adjusting spending early on and drawing up a plan of action to pay bills. Lenders clearly also have an important role to play in promoting these messages, and signposting people to independent debt advice services where appropriate (ideally using the 'hot key' systems that are already used by some lenders).

Finally, previous research commissioned by The Department of Communities explored how best to deal with mortgage arrears though a behavioural insights perspective (Behavioural Insights Team, 2015), and many of the findings from the report are echoed in our own study, in particular the *manner* in which mortgagors are most receptive to advice. Therefore, any overarching policy direction or recommendations to the finance or debt advice sector could be implemented through the EAST framework: Make it Easy; make it Attractive; make it Social; and make it Timely.

Appendix 1 – Quantitative methodology

The quantitative analysis in this report draws upon several data sources to produce a quantitative profile of the housing market, mortgage sector and mortgagors in Northern Ireland. The following data sources are used:

- The Family Resources Survey 2013-14 - the FRS is a continuous cross-sectional survey that collects information on the incomes and circumstances of private households in the United Kingdom.
- Understanding Society 2014-15 – the UK Household Longitudinal Study (UKHLS), commonly known as Understanding Society is a longitudinal survey of the members of approximately 40,000 households in the United Kingdom. It provides data on a range of subjects including health, work, education, income, family and social life. In our analysis we use Wave Five of the survey (the most recent wave available at the time of the analysis).
- The Nationwide House Price Index - Nationwide, the UK's largest building society, has been monitoring house prices since 1952 and produce monthly and quarterly house prices indices which show how house prices vary across different regions of the UK. We use these indices to estimate average house prices for Northern Ireland and the UK, and to determine the current value of FRS respondents' properties to determine levels of low and negative equity.
- The Council of Mortgage Lenders (CML) postcode lending data – since 2013 the CML have been publishing figures showing the total value of outstanding residential mortgages for each postcode sector in Great Britain. In 2014 this data reporting exercise was extended to include Northern Ireland. The following mortgage providers publish mortgage data in Northern Ireland: Barclays, Lloyds Banking Group, HSBC, RBS, Santander UK, Nationwide Building Society, Allied Irish Bank, Bank of Ireland, Danske Bank, and Ulster Bank. We use this data to visually display geographical variations in mortgage lending across Northern Ireland for the first quarter of 2015 (the most recent quarter of data available at time of analysis).
- Stepchange Debt Advice client data - StepChange Debt Charity kindly provided us with socio-demographic data on clients in Northern Ireland that they advise with mortgage and non-mortgage arrears.

We use this data to demonstrate which groups are most likely to seek advice.

Bivariate Analysis

We use bivariate analysis of the Family Resources Survey and Understanding Society datasets to produce a quantitative profile of mortgaged households and individual mortgagors in Northern Ireland, in comparison to the wider population of Northern Ireland.

We define mortgaged households as those households that are currently being bought with a mortgage, while individual mortgagors are defined differently between the two datasets. In the FRS we define them as those who live in a property being bought with a mortgage and who are the Household Reference Person (HRP) or partner of the HRP. The HRP is defined as the highest earner within the household. In Understanding Society we define individual mortgagors as those who live in a property being bought with a mortgage and who are not adult children living with their parents. This was deemed necessary in order to include only those who would be most likely to be responsible for paying the accommodation costs.

All analysis is weighted to be representative of the wider UK population. The appropriate household-or individual-level weights were used depending on the variables being used within the analysis.

Regression Analysis

Binary logistic regression analysis of Understanding Society data is used to determine which socio-demographic groups have the highest odds of having fallen behind with their mortgage payments in the last twelve months. Due to the relatively small number of households in the Northern Ireland sample that had fallen behind with their mortgage, it was necessary to perform analysis on the UK-wide sample.

Again, this analysis was weighted to be representative of the wider UK population.

Mapping of mortgage lending data

Postcode sector lending data from the CML was matched with spatial data to produce maps of mortgage lending across Northern Ireland. Due to the limited availability of boundary data at postcode sector data it was necessary to first map individual postcode centroids using latitude-longitude co-ordinates. Voronoi polygons were then created to convert these individual postcode points into areas, which could subsequently be grouped into postcode sectors. This created approximations of postcode sector boundaries for Northern Ireland.

The CML lending data could then be matched with these boundaries and deciles mapped across the country. Further analysis was also undertaken which involved calculating estimates of lending per household, using estimated household counts at postcode level.

Appendix 2 – Full results tables

Table A1: Socio-demographic profile of mortgaged households in Northern Ireland in comparison to the general Northern Irish population (Data source: Understanding Society, 2014-15)

		Mortgagors in Northern Ireland	General population in Northern Ireland
Urban or rural area	Urban	49%	51%
	Rural	51%	49%
Number of bedrooms	One	0%	4%
	Two	5%	16%
	Three	56%	53%
	Four	30%	21%
	Five	8%	5%
	Six or more	1%	1%
Whether has internet access?	Yes	94%	70%
	No	6%	30%
Number of people in household	One	13%	33%
	Two	21%	29%
	Three	19%	15%
	Four	27%	14%
	Five	12%	6%
	Six or more	8%	3%
Number of children in household	None	51%	73%
	One	19%	12%
	Two	22%	11%
	Three or more	9%	5%
Any lone parents in the household?	None	95%	93%
	One or more	5%	7%
Number of pensioners in the household	None	91%	63%
	One	6%	25%
	Two	3%	12%
Number employed in the household	None	9%	44%
	One	28%	24%
	Two	51%	26%
	Three or more	12%	6%
Number not in paid employment in the household	None	58%	33%
	One	25%	43%
	Two or more	16%	24%
Unweighted base:		*519*	*1580*

Table A2: Socio-demographic profile of mortgagors in Northern Ireland in comparison to the general Northern Irish population (Data source: Understanding Society, 2014-15)

		Mortgagors in Northern Ireland	General population in Northern Ireland
Sex	Male	47%	44%
	Female	53%	56%
Age	10-19 years old	0%	0%
	20-29 years old	3%	7%
	30-39 years old	25%	14%
	40-49 years old	39%	22%
	50-59 years old	22%	20%
	60-69 years old	8%	17%
	70 years or older	3%	20%
Ethnic Group	White	99.4%	99.0%
	Mixed	0.3%	0.3%
	Asian	0.3%	0.4%
	Black	0.0%	0.1%
	Other	0.0%	0.1%
Highest qualification	Degree	30%	18%
	Other higher degree	13%	9%
	A-level etc	18%	16%
	GCSE etc	22%	19%
	Other qualification	7%	11%
	No qualification	10%	26%
Marital status	Single	8%	18%
	Married/Civil Partnership	83%	62%
	Divorced/Separated	8%	9%
	Widowed	1%	10%
Religion	Catholic	46%	42%
	Protestant	49%	54%
	Other religion	4%	3%
	No religion	1%	1%
Closest to which political party	Unionist	20%	25%
	Nationalist	20%	16%
	Other party	7%	7%
	Not closer to one particular party	53%	52%
Unweighted base:		*711 to 801*	*1997 to 2194*

Note: this analysis excludes adult children living with their parents as it was determined that this group may otherwise skew the results. The above profile therefore reflects only those adults who may be deemed responsible for paying mortgages and other accommodation costs.

Table A3: Socio-demographic profile of mortgagors in Northern Ireland in comparison to the general Northern Irish population (Data source: Family Resources Survey, 2013-14)

		Mortgagors in Northern Ireland	General population in Northern Ireland
Sex	Male	48%	47%
	Female	52%	53%
Age	Age 16 to 24	1%	4%
	Age 25 to 34	21%	17%
	Age 35 to 44	37%	19%
	Age 45 to 54	30%	21%
	Age 55 to 64	10%	16%
	Age 65 and over	2%	22%
Ethnic Group	White	98.6%	98.4%
	Non-white	1.4%	1.6%
Marital status	Single	5%	11%
	Married/Civil Partnership	80%	66%
	Widowed/Divorced/Separated	6%	15%
	Cohabiting	8%	9%
Whether has a disability?	Yes	16%	31%
	No	84%	70%
Employment status	Full-time employed	62%	39%
	Part-time employed	15%	12%
	Self-employed	9%	8%
	Unemployed	3%	3%
	Retired	2%	23%
	Student	0%	1%
	Looking after family/home	3%	5%
	Other	4%	9%
Unweighted base:		*958*	*3019*

Note: this analysis includes only those individuals who are classified as the Household Reference Person (HRP) or the spouse/partner of the HRP, as it was deemed that these individuals were most likely to be responsible for paying the mortgage. The HRP is the highest earning individual in the household.

Table A4: Socio-demographic profile of mortgaged households in Northern Ireland in comparison to the general Northern Irish population (Data source: Family Resources Survey, 2013-14)

		Mortgagors in Northern Ireland	General population in Northern Ireland
Accommodation Type	Whole house/bungalow, detached	41%	38%
	Whole house/bungalow, semi-detached	38%	27%
	Whole house/bungalow, terraced	20%	29%
	Purpose-built flat or maisonette	1%	6%
	Converted house/building	0%	1%
	Other	0%	0%
Whether address is multi-household?	Yes	13%	11%
	No	88%	89%
Number of bedrooms	One	0%	3%
	Two	6%	15%
	Three	55%	55%
	Four	31%	22%
	Five	7%	4%
	Six or more	1%	1%
Household Income	Under £100 a week	1%	2%
	£100 and less than £200	2%	10%
	£200 and less than £300	4%	15%
	£300 and less than £400	5%	12%
	£400 and less than £500	7%	10%
	£500 and less than £600	11%	10%
	£600 and less than £700	12%	9%
	£700 and less than £800	10%	7%
	£800 and less than £900	10%	5%
	£900 and less than £1000	7%	5%
	Above £1000	31%	17%
Number of adults in the household	One	16%	32%
	Two	66%	54%
	Three	13%	10%
	Four or more	5%	4%
Unweighted base:		*545*	*1965*

Table A5: Binary logistic regression to predict the odds of having fallen behind with mortgage payments in the last 12 months, using various socio-demographic variables (Data source: Understanding Society, 2014-15)

Variable	Categories	Odds Ratio	Significance (P-Value)	
Sex (Base is female)	Male	0.99	0.926	
Age Group (Base is 40-49)	29 or under	1.10	0.615	
	30 - 39	1.14	0.232	
	50 - 59	1.10	0.369	
	60 - 69	0.92	0.658	
	70+	1.00	0.037	*
Marital Status (Base is married/civil partnership)	Single	1.00	0.986	
	Divorced/Separated	1.13	0.409	
	Widowed	1.05	0.887	
Employment Status (Base is employed)	Not in employment	1.27	0.050	*
Education level (Base is no qualifications)	Degree level	0.46	0.000	***
	Other higher degree	0.68	0.058	
	A-Level	0.65	0.028	*
	GCSE	0.69	0.052	
	Other qualification	0.70	0.109	
Ethnic Group (Base is white)	Mixed	1.36	0.462	
	Asian	1.22	0.253	
	Black	2.19	0.005	**
	Arab	2.81	0.051	
	Other	2.50	0.063	
Net household monthly income (Base is £3,500+)	Less than £500	2.76	0.002	**
	£500 to £1,500	2.05	0.000	***
	£1,500 to £2,500	1.63	0.000	***
	£2,500 to £3,500	0.86	0.177	
Number of people currently in household (Base is one)	Two	1.05	0.779	
	Three	1.28	0.197	
	Four	1.18	0.406	
	Five	1.37	0.165	
	Six or more	1.99	0.008	**
Urban/Rural area (Base is urban)	Rural area	1.21	0.053	
Any lone parents living in household? (Base is no)	Yes	1.62	0.014	*
Constant		0.08		

Variables marked with asterisks are found to be statistically significant: * p <0.05 ** p <0.01 *** p <0.001
Results weighted to be representative of UK population.
Unweighted base is 11,401
Nagelkerke R-Square = .037

Appendix 3 – Qualitative methodology

Demographics of interviewees

SEX	
Male	13
Female	17
AGE	
UNDER 35	6
36 – 49	15
50+	9
FAMILY SITUATION	
No children	2
Younger family	10
Older family	11
Empty nesters	7
Married/ living with partner	17
Single	13
AREA	
Belfast	8
Lisburn and Castlereagh & Newry, Mourne and Down	7
Fermanagh and Omagh Mid Ulster, Armagh,	5
Antrim, Causeway Coast	4
Glen & Derry	6
ENGAGEMENT WITH ADVICE	
No/ little contact or advice received	9
Advice from Lender	11
Third party advice	10

Recruitment was carried out

8.4 Screener

DSD DEBT ADVICE: RECRUITMENT QUESTIONNAIRE

Good morning/afternoon/evening. My name is …………and I'm calling from ………. working on behalf of the Department of Social Development in NI and the University of Bristol

We are inviting people to take part in one-to-one research interviews about their views and experiences of financial difficulties, particularly in terms of the burden of mortgage repayments. Before we go any further I would like to assure you that absolutely no selling is involved - this is purely a research exercise.

The aim of the research is to gain a better understanding into what help and support can be provided when someone is concerned about falling behind on their mortgage repayments. The research is being carried out by the Personal Finance Research Centre based at the University of Bristol, a well-respected independent research centre. A professional interviewer will conduct the interview, which will take about 45 – 60 minutes. The interview will take place on [DATE] at [LOCATION]. To say thank you for your time, we would like to offer you £40, which you will receive at the interview.

The information collected in the interview will be completely anonymous and only the University of Bristol's Personal Finance Research Centre will know that you have taken part in the research. They will then write a report of its findings but no individuals will be mentioned by name.

1. Would you be interested in taking part?

Yes	1	CONTINUE
No	2	CLOSE

We are looking for particular types of people to take part in the research, therefore I would like to ask you a few questions about yourself. Is that OK?

2. HOWCARD In which of these ways do you occupy your home?

A	Own it outright	1	CLOSE
B	Own it with a mortgage	2	CONTINUE
C	Rent it from a private landlord	3	CLOSE
D	Rent it from a local authority or housing association	4	
E	Live with parents//other family member/friends	5	
F	Have some other arrangement	6	
G	Don't know/refused	7	

3. SHOWCARD Which of these statements best describes your current household financial situation (Please just read out the letter)

A	Managing without any difficulties	1	CLOSE
B	Managing but it is a struggle from time-to-time	2	CONTINUE
C	Managing but it is a constant struggle	3	
D	Falling behind with some bills or payments	4	
E	Having real financial problems and have fallen behind with many bills and payments	5	
H	Don't know	6	CLOSE

4. SHOWCARD: Not everyone can pay their bills when they become due. Which of these bills or commitments, if any, are you currently at least three months behind with, or have been three months behind with in the last 12 months? (CODE ALL THAT APPLY)

A	Water	1	
B	Electricity	2	
C	Gas	3	
D	Council Tax	4	
E	Mortgage	5	ONLY CONTINUE IF IN AREARS ON MORTGAGE
F	Credit Cards	6	
G	Loan	7	
H	Other credit commitment	8	
I	Other bill/ commitments	9	
J	None of these	10	CLOSE
K	Don't know/Refused	11	

5. SHOWCARD And which lender do you have your mortgage with?
6.

A	Ulster Bank	1	
B	Banks of Ireland	2	
C	First Trust	3	
D	Dasnke Bank	4	
E	Lloyds	5	
F	Barclays	6	
G	RBS	7	
H	HSBC	8	
I	Santander	9	
J	Nationwide	10	
K	Halifax	11	
L	First Direct	12	

M	Natwest	13	
	Other (write in)		

7. SHOWCARD And have you been in any contact with your lender, or any third party regarding your arrears in mortgage payments?

A	Yes – I am getting help/ have received help from my lender	1	Continue - Recruit to group 1*
B	I've tried to contact my lender but haven't gotten a response	2	Continue – recruit to group 2*
C	My lender has tried to contact me but I haven't got back to them	3	
D	No, I haven't had any contact with my lender	4	
E	I am getting help / have received help from a third party agency / debt advice agency	5	Continue - recruit to group 3*
H	Don't know/ refused	6	CLOSE

*see numbers required in each group below

8. Code area

Belfast	1	RECRUIT MIX
North Down and Ards, Lisburn and Castlereagh, Newry, Mourne and Down	2	
Derry and Strabane, Fermanagh and Omagh	3	
Mid Ulster, Armagh, Banbridge and Craigavon	4	
Antrim and Newtownabbey, Mid and East Antrim, Causeway Coast and Glen	5	

•

9. May I ask how old you are?

Under 30	1
30-39	2

40-49	3	RECRUIT MIX OF AGES
50-59	4	
Over 60	5	

10. What is the occupation of the main earner in your household?
WRITE IN AND CODE BELOW

____

A	RECRUIT MIX
B	
C1	
C2	
D	

11. Are you at present..?

Married / Cohabitating	1	RECRUIT MIX
Single	2	
Divorced / Separated	3	
Widowed	4	

12. Which of the following categories do you fit into?

No children	1	RECRUIT MIX
Younger Family (oldest child aged under 10 years old)	2	
Older Family (oldest child aged 11 + years and at least 1 living at home)	3	
Empty Nester (all children living away from home)	4	

13. CODE (DO NOT ASK)
14.

Male	1	RECRUIT MIX
Female	2	

Contact Details

Name	
Address	
Postcode	
Email address	
Telephone No	
Mobile No	
Best time of day to ring	
Time and location of interview	

Thank you for your time and help with this project; this is the end of the interview. I would like to confirm that my name is ***[your name]*** and that I have been calling you from xxxx.

Declaration:

I declare that the respondent, whose name and address appear above, was unknown to me until the interview. I confirm that I have checked that this questionnaire was carried out in accordance with the MRS code of conducted and instructions supplied to me for this study. I understand that the information given to me during the course of this screening interview must be kept confidential.

INTERVIEWER DECLARATION

I have recruited this person to the criteria specified by this questionnaire and other briefing provided. Please explain that respondents may be called by telephone, to check that recruitment & booking procedure meet quality standards. Thank you.

NAME ____

SIGNED____

DATE ____

Topic guide

1. **Introduction**
    - From PFRC, University of Bristol
    - Independent research, commissioned by Department for Communities
    - Study of how people can be better helped and supported at times when they are concerned about their mortgage repayments
    - Confidential, anonymised,
    - Lasting around 45 minutes; thank-you of £40
    - Recording to ease note-taking; destroyed once project is completed.
    - Questions?

2. **Background**
    - Age/,Who live with, number/age of children
    - Work situation/partner's work situation/how long (un)employed
    - Sources of income
    - Regularity and flexibility of income

3. **Mortgage**
    - How long have you lived in this house?
        - Was this the first house you purchased? (explore housing history)
    - And how long have you had your current mortgage?
        - Lender, fixed term vs. SVR, reason for choosing mortgage
        - At the time when you took out mortgage, How manageable did you think it was going to be?
            - If any concerns, why went ahead?
            - Any other options?
            - Any independent advice?

4. **Financial difficulty**

    - Which of these statements best describes your financial situation? (Showcard A) Why?
        a. What are the main factors that led you to be in this situation?
    - At what point, if any, did you have start to have concerns over being able to keep up with the mortgage repayments?
        - What were these concerns? E.g. were you struggling with any other bills or credit repayments?
            - If so, types of credit used and amounts borrowed

- How did you prioritise the different commitments – i.e. which do you make sure you paid first? Why these?
- Were any particular events or triggers the cause of your financial difficulty? or anything else that had an effect (positive or negative) on your finances over this time e.g. reduced hours, increased costs?
    - And did this have a knock-on effect on your ability to manage your mortgage/ bills/ credit commitments?
- What sorts of coping strategies, if any, did you employ to deal with your concerns?
    - For example, cutting back on spending, drawing on savings, turning to family or friends for financial or emotional support, ignoring calls/letters from creditors
    - To what extent did you prioritise your mortgage repayments? Do you feel this was an effective course of action?
    - What prompted you to use these coping strategies at a particular point in time?

5. Dealing with arrears

- Generally, what courses of action have you considered, such as contacting lender/ creditors, seeking advice, taking out more credit, borrowing from family,?
- Opinion on pros/cons of different courses of action
        - Why were some better than others?
        - Were there any particular barriers
    - What courses of actions have you tried?
        - What happened as a result?
        - What factors did you consider when deciding on a course of action?
    - Are you considering any further actions?
        - Why/why not?

6. Relationship with lender

- What sort of relationship do you have with your lender (i.e. other products, longstanding, any previous contact)?
- Have you had any contact with your lender since you started having difficulty keeping up with your mortgage repayments?
- If yes, what form did the contact take?
    - Who initiated contact?
    - Telephone/ mail/ face to face in branch/ face to face at home/ other
    - If initiated yourself, how did you make contact – where obtained number, what department, etc.
    - What prompted you to contact your lender at that particular point in time?

- Have you received any help or advice from your lender?
    - (IF NO, ASK SECTION 7; IF YES, ASK SECTION 8)

7. **Lack of Contact with lender <u>(if not receiving help from lender)</u>**

- What are the main reasons you haven't contacted your lender, or responded to any contact from them?
    - Probe for:
    - Didn't feel any need – able to deal with it individually?
    - Concern over options available?
    - Didn't know how to go about it?

- What, if anything, would have encouraged you to engage with your lender?
- What (if anything) would you like your lender to do going forward?
- Have you considered seeking help from any third party / advice agency?
    - Why/ Why not?
    - Aware of this option?
    - Did you know how to go about it?
    - Did you try and fail?
    - What would have encouraged you to talk to an advice agency?
    - What could a debt advice agency do to help going forward?
- What sort of support do you feel would be most beneficial to you?
    - Why?
    - Who would best provide it? Lender/ debt agency/ other?
- Have financial concerns been resolved or not?
    - Reasons for non-resolution or not?

8. **Process for those who are getting help from their lender**
- If you made contact, when and what were the main reasons for contacting your lender at that time?
- How did you feel about contacting your lender?
- Can you please describe the contact that you had with your lender after this initial conversation?
    - Who spoke to/ which department
    - Dealt with same person most of the time or different staff?

- Easy/ difficult to get through?
- Number and frequency of calls (to and from lender)
- Outcome of each call
- Length of time in contact overall
- Overall views of the contact(s) you had

- What options did your lender discuss with you?
    - Nature of options/ timescales of options
    - What course of action did you take? Why?
    - Any recommendations from your lender you rejected? Why?
    - How was the course of action decided?
        - Together with your lender or you deciding based on discussions?
- What did you find most helpful about the process?
- And what would you change, or feel could be improved?
- Have you considered seeking help from any third party / advice agency?
    - Why/ Why not?
    - Aware of this option?
    - Did you know how to go about it?
    - Did you try and fail?
- Based on your experiences, would you be more or less likely to contact your lender if you were concerned about your financial situation in the future? Why?

9. **Process for those who are getting / have had help from a third party/ debt advice agency**
    - What were the main reasons for seeking third party advice at that time?
    - What were you hoping to get out of the process?
    - How did you contact the advice agency?
        - Phone vs. face to face,
        - Number and frequency of contacts (to and from agency)
        - Outcome of each contact
        - Length of time in contact overall
        - Overall views of the contact(s) you had
    - What options did the advice agency discuss with you?
        - Nature of options/ timescales of options
        - What course of action did you take? Why?
        - Any recommendations that you rejected? Why?

- How was the course of action decided?

- What did you find most helpful about the process?
- And what would you change, or feel could be improved?

10. Outcomes

- What impact did your receiving advice/ support have on your ability to manage your mortgage arrears?
  - Were all financial concerns resolved or not?
    - Reasons for non-resolution - outside of your control/ outside of your lenders' control?
- What effect, if any, did this advice have on your attitudes towards managing your money generally?
  - Changes in attitude (how/why?)
  - Changes in behaviour (how/why?)
- What help do you feel would have been/ would be the most effective for you?

11. Summing up

- What would you suggest that others in this situation should do?
- What are the main aspects that you feel are important for lenders to bear in mind when having contact with customers who might be concerned about their financial situation?
- What are the main aspects that you feel are important for the government or policy makers to consider?

THANK AND CLOSE

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