

Development Department Research Programme

Mortgage Arrears and Repossessions in Scotland

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This research was principally prompted by the strong upward trend in Scotland in the 1990s in the number of actions raised for repossessions and the number of actual repossessions. The research examined these statistics, investigated the policies and practices of mortgage lenders, and explored the experiences of borrowers who had been in difficulty.

Main Findings

- The 2 sources of repossession numbers in Scotland (Civil Judicial Statistics (CJS) and the annual survey by the Council of Mortgage Lenders (CML)) both showed steep rises in the second half of the 1990s, particularly the CJS figures. The 2 sources record different things. CJS records the number of repossession decrees, of which about 60% do not lead to repossession. The CML figures are of actual repossessions, but are based on a sample limited to CML members.
- CJS figures are not reliable indicators of either the number or trends of repossessions. There appear to be errors and inconsistencies in the data collection, and the proportion of orders resulting in actual repossession is liable to change if lenders' practices change.
- CML figures should give a reasonably reliable estimate of trends but understate the absolute number of repossessions by about a quarter (because non-CML members and secondary lending are excluded).
- Repossession is more likely in the early years of a mortgage and the steep rise in the number of repossessions in the second half of the 1990s is much reduced if account is taken of the growth in the number of mortgages.
- A survey of lenders found that nearly all had less than 5% of their mortgages over 3 months in arrears. Lenders said that the main factors leading to arrears and repossession were financial over-commitment/mismanagement, job-loss, and marital breakdown, often exacerbated by poor communication.
- Low income borrowers are most at risk of repossession. According to the survey of lenders, nearly half of borrowers in arrears had loans equal to 100% of the property values; 40% had bought properties valued at £30,000 or less; and 7% were buying under the Right to Buy scheme.
- Lenders provide advice to borrowers in difficulties, but many charge for doing so (arguing that the cost should not fall on borrowers who are not in arrears), and these charges vary widely.
- Most lenders saw legal action for repossession as an effective way of tackling arrears, and they were uneasy about what the impact of the Mortgage Rights (Scotland) Act 2001 will be.
- In three quarters of cases, lenders incur losses on the properties they repossess.
- Only about two-thirds of the borrowers interviewed had taken any formal advice before taking on a mortgage; many had relied on brokers' advice and, in retrospect, were unhappy with the advice they had obtained. Multiple indebtedness was a common feature of those repossessed; many felt that access to secondary credit, additional to their mortgage, had been too easy for them.
- Borrowers who had been repossessed were generally dissatisfied with the actions of their lenders, saying they had been inflexible and unsympathetic. They would have liked more advice and face-to-face contact.

Repossession Data: Sources, Numbers and Trends

Only between 0.2% and 0.3% of mortgage borrowers in Scotland have their homes repossessed. The figure below compares repossession figures from the CJS and CML. The steep increase between 1994 and 1999, particularly in the CJS figures, is evident.

The CJS figures are of the number of orders granted; about 60% of these do not lead to repossession. The figures have risen in part because lenders have made more use of section 24 actions (included in the statistics) compared to calling up and default notices (which may not be included).

Examination of the records of 4 courts allowed the accuracy of CJS to be scrutinised. It was found that there were errors and inconsistencies in the data collection, and that the steep increase in 1994-99 may have been partly due to under-recording in 1994. As well as being unreliable in absolute terms, CJS also fail to provide a reliable indicator of trends in repossessions because the proportion of orders resulting in repossession can change in response to lenders' practices.

CML figures are of actual repossessions but are estimates based on a sample survey of CML members; they therefore exclude non-CML members and they also exclude secondary lenders.

From the survey of lenders, estimates were made of the number of repossessions in Scotland grossed up for non-respondents. The estimate for 1999 is of about 4,000

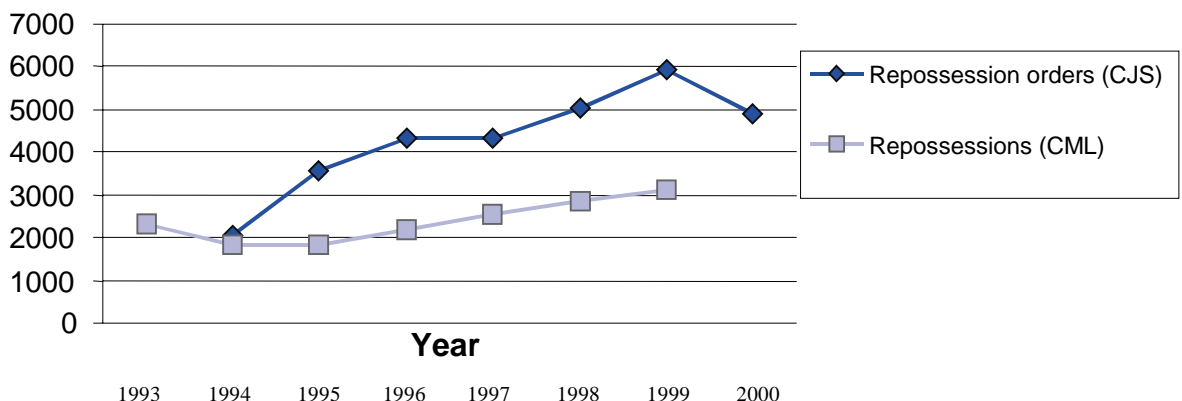
repossessions, one-third higher than the CML estimate for that year.

Trends in the number of repossessions should be interpreted with caution because the number of repossessions recorded in any year is a function of historical as well as current factors; in particular, because the likelihood of repossession is higher in the early years of a mortgage, the number of repossessions is likely to be influenced by the distribution of maturity of extant mortgages; a growing mortgage market size has a direct effect on the number of repossessions and an additional effect because it will contain a higher proportion of "younger" mortgages. The mortgage market size in Scotland grew strongly in 1994-99; if the effect of this growth and of the estimated likely "younger" distribution of mortgages are factored out, the 70% increase in the number of repossessions in 1994-99 is reduced to about 25-30%.

Investigation of Court Data

As already mentioned the analysis of records of repossession cases allowed the CJS figures to be assessed. The analysis of the records of the 4 courts (Glasgow, Edinburgh, Aberdeen, Falkirk) showed that nearly all repossession cases are granted in favour of the pursuer, and that 60% of cases are completed in less than 2 months from the time the case comes to court. Defended cases take longer than undefended but few borrowers defend proceedings, or appoint solicitors, or appear in court themselves. Many of the court orders obtained for repossession are not used; lenders can use the threat of repossession to stimulate repayments.

Figure 1: Trends in CML and CJS repossession figures



Lenders Policies and Practices

A postal questionnaire was answered by 33 lenders, representing an estimated 73% share of the Scottish domestic mortgage market. In addition 10 more detailed interviews were conducted with a variety of lenders.

Nearly all the lenders had less than 5% of their mortgages over 3 months in arrears. The number of repossessions varied widely between lenders, partly due to the variation in the size of their mortgage business. Three quarters of lenders incurred losses on the properties they repossessed; the loss was more than 20% of the loan outstanding on over half the repossessed properties.

Lenders thought the main factors leading to arrears in repossession included financial over-commitment and mismanagement, job loss, marital breakdown, and poor communication from the borrower.

Although arrears and repossessions are usually handled centrally and procedures have become standardised, all the lenders interviewed stressed that each case is dealt with on its merits. Lenders' policies seem to have less effect on the level of repossessions than the incidence among their customers of loans on low value properties, of first time buyers and of borrowers with high loans relative to property values (LTV). Nearly half of mortgages at risk of repossession had LTV of 100%.

Lending policies vary. For mortgages based on one person's salary, 50% of lenders lent up to 3 times the salary; 25% lent more than that, and the remainder lent according to affordability. Joint mortgages (for which most lenders are willing to lend slightly less than 3 times joint salaries) are at risk when childbirth or marital breakdown causes the loss of one income.

Lenders provide advice to borrowers in difficulty; this often involves charges (£70-£88 per home visit by a counsellor). Lenders argued that charges mean that these costs do not fall on borrowers who keep up their payments.

Lenders appear to often use the threat of repossession as a stimulus for repayment. About 20% of repossessions did not involve court action (which is needed if eviction is sought); of applications to courts to repossess, only about 40% of those granted result in repossession. Most lenders see legal action as an effective way of tackling arrears and they were uneasy about the impact they expected the Mortgage Rights (Scotland) Act 2001 to have.

Survey of Borrowers

Fifty-three borrowers who had had arrears or been repossessed were interviewed; it is not claimed that those who agreed to be interviewed are representative. Nevertheless they did provide illustrative examples of how people got into difficulties and what their experiences then were. All had found the experience a distressing one. Only about two-thirds had taken any formal advice before taking out a mortgage. Many had depended on brokers advice, and did not shop around. Many took on loans additional to their mortgage and felt that access to secondary credit had been too easy for them. Multiple indebtedness was a common feature of those who were eventually repossessed. Another common feature was to have several interacting difficulties (eg job loss, poor health, relationship breakdown). People who avoided actual repossession were more likely to have a single problem which in time could be resolved, and to have family or friends to whom they could turn for support. Most borrowers repossessed had found their lenders unsympathetic, inflexible, and difficult and some complained about lenders' administrative charges. They would have preferred better communication, preferably face-to-face.

Recommendations

It is difficult to envisage policies that would dramatically reduce the likelihood of arrears that would not have the side effect of preventing all but the comfortably off from becoming home owners. The report does make some recommendations, including:

- making the information and advice given to mortgage applicants more accessible and effective, about the costs as well as the benefits of home ownership;
- encouraging borrowers to seek advice as soon as they get into difficulties and to respond to any communications from lenders;
- ensuring that borrowers are aware of their rights under the Mortgage Rights (Scotland) Act 2001, and that legal aid or other independent support is available for defenders;
- expanding the availability of the Mortgage to Rent scheme, and introducing some form of short-term support for people with temporary problems.

About the Study

The research included:

- a literature review;
- analysis of Sheriff Court records of repossession orders from 1994 and 2000 in 4 courts (Glasgow, Edinburgh, Aberdeen and Falkirk). One hundred per cent of court registers (3,663 cases) were consulted; 16% (604 cases) of relevant cases were randomly sampled from the court processes;
- survey of lenders on Scottish residential property. Forty-one per cent of "in-scope" lenders (approximately 73% of the Scottish market) responded to a postal questionnaire. Personal interviews were conducted with 10 lenders;
- survey of borrowers who had been in arrears or been repossessed. Identifying relevant borrowers was difficult and various contact routes were used. Fifty-three borrowers were interviewed.

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