Britain: House repossessions rising sharply

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Figures released by the UK Ministry of Justice (MoJ) on May 9 showed a marked increase in homeowners facing court action for repossession of their homes. The figure of 37,740 for the last three months was an increase of 17 percent on the last quarter and a 20 percent increase on the figures one year ago.

Repossessions have risen in most of the English regions. The figures indicate that lenders are quicker to resort to the threat of court action. A press release issued by the housing charity Shelter explained that at the time of the last housing crisis in 1991, there were 2.5 court actions initiated for each repossession that went ahead. Last year the figure was five.

Adam Sampson, Shelter’s chief executive, stated: “The worst fears of thousands of homeowners are now becoming a tragic reality. Mortgage lenders should be helping homeowners stay in their homes, but with some, it’s a case of miss a couple of payments and you’ll find yourself in court.”

Shelter estimates the likely total number of repossessions this year will be around the 53,000. During 1993 at the height of the economic turndown, figures for repossession peaked at just under 60,000.

The Citizens Advice Bureau (a charity offering advice to people, especially on debt) issued a statement in response to the MoJ. It said: “We have seen a very sharp rise in the number of people coming to us with mortgage arrears, and evidence that in too many cases lenders are using court action as a first rather than last resort.”

A BBC2 “Newsnight” report by Paul Mason featured a regional breakdown of the figures finding a correlation between the numbers of repossessions and falling house prices. They showed an increase in repossessions of 23 percent in the West Midlands, 32 percent in Lincolnshire, 37 percent in South Wales and 44 percent in North Wales. In each case house prices in the regions were markedly down. The only region to buck the trend was London, where repossessions were slightly down and house prices were still rising.

Repossessions in Shrewsbury were up 111 percent, Haverford West up 91 percent and Skegness up by 76 percent. All were low income towns. Families who had struggled to get on the property ladder were now coming under pressure. Adam Sampson interviewed for the programme said that vulnerable families now being hit by job losses, sickness or marital break-up were under threat.

The programme made the point that the last time repossessions were as high was in the economic downturn of the early 1990s, but the big difference was that we are not seeing unemployment significantly rise yet. But it is clear that job losses are increasing. The Chartered Management Institute has just reported an increase in the number of managers who are being made redundant. The figure is up by three percent on last year.

Savings levels, which have historically been low in Britain, have fallen dramatically. According to a report from Call Credit, the reference agency, millions of families are using what savings they have to survive in the face of rising mortgage payments food and fuel costs.

Those who have no savings are sinking further into debt. Debt agencies report an increase in the number of professional workers in well-paid jobs who are turning to them for advice. Community Money Advice, a charity which provides advice throughout the UK, has experienced an 85 percent increase in clients.

“The rise is huge because of the big increase in middle class debt,” said Jane Elliot, coordinator of Transact the umbrella organisation for debt advice services.

For the moment those in well paid jobs are managing to hang on to their homes. But they are disappearing beneath a mountain of debt. A further increase in the number of repossessions is likely as the impact of the credit crunch deepens. Sections of the population who would once have thought of themselves as financially secure are increasingly being drawn into the morass.

A Shelter report issued in January of this year showed how the crisis in the finance industry is impacting on house repossessions. They note “dramatically rising house prices have made home ownership less affordable to the majority of first-time buyers,” which means people borrowing many multiples of income to finance the purchase.

The sub-prime mortgage sector is not as big in England as in the United States, but the report notes that “levels of repossessions in the sub-prime sector are 10 times higher than in the mainstream sector.”

The report also pointed out the growing trend of people with multiple debt problems re-mortgaging in an attempt to simplify and resolve their debts. The report says that “Households who are experiencing financial difficulty can face a barrage of aggressive marketing encouraging them to address their debt in some way. These arrangements are often debt consolidation loans ... converting an unsecured, low priority debt into one that can result in the loss of their home.... Shelter advice workers report that the party seeking possession of the client's home is increasingly a second charge lender whose charge on the property can amount to as little as a few thousand pounds."

Figures issued by the Royal Institute of Chartered Surveyors (Rics) show house prices falling across the country, resulting from a fall in demand. Around 40 percent less mortgages were issued over the last year than over the previous year. The Halifax bank (a leading mortgage provider) is expecting prices to fall a further 10 percent over the next couple of years.

Ian Perry, a Rics spokesman, told the *Independent*, "The real issue is the collapse in the number of housing transactions, which has very real implications, not just for the property industry but also the high street and the wider economy."

In spite of recent Bank of England interest rate reductions, mortgage lenders are becoming increasingly reluctant to sell mortgages to people, reflecting fear of the still ongoing impact of the sub-prime crisis in America which has led to the credit crunch and the severe tightening of money supply.

A recent BBC TV programme, "The Truth about Property," explained that a year ago there were around 15,000 mortgage products on offer. Today the figure is 4,000. Also lenders are demanding big deposits and in most cases will not lend more than 90 percent of the value of the house. The programme featured Simon Elkin, married with two children and earning a good salary of £50,000-plus as a wedding photographer. He had savings and a good credit record, yet was unable to obtain a mortgage.

A growing phenomenon is the rise in so called Mortgage Rescue companies. They offer to buy houses from people in difficulty or under threat of repossession. The Shelter report says of these schemes that "advertising is often misleading, implying that borrowers can stay in their homes on a long term basis ... the company will buy the property at a price far below full market value and rent it back to the former owners on an assured short hold tenancy that gives minimal security of tenure."

Currently these types of schemes are unregulated. The tightening of the mortgage market is also affecting people who took out mortgages to produce rental income, which mushroomed over the last few years. Many people bought property as a secure income for the future. They are also subject to the tightening of the mortgage market and when mortgages are due for renewal end up with more expensive ones, often costing more than the incomes they get from rents. These properties can become subject to repossession, leaving the tenants with no home.

Attacks on the welfare state that began under Thatcher and were enthusiastically endorsed by Labour have hit housing provision. Currently mortgage holders, who through loss of job, illness, etc., are forced to turn to the state for financial support may be entitled to help from the Income Support for Mortgage Interest (ISMI) scheme. The Shelter report of January 2008 shows how this has been eroded. "This safety net was cut back in stages as a reaction to the rapid rise in claims," the report explains, "during the housing market crash of the early 1990s. The ability of the current safety net to deal with the effects of economic recession, or a collapse of the housing market, is untested. Many fear that the current arrangements would lead to significant hardship and rapid rises in repossessions."

When the government cut back on ISMI, the expectation was that people would be able to rely on Mortgage Payment Protection Insurance policies. But only a quarter of mortgages are covered by these insurance policies. Those without protection tend to be the less well-off. Also the report notes, "Payment protection insurance policies in general ... have been criticised for being inadequate, because they do not cover many common reasons for falling behind with payments ..."

Also under attack over the last three decades has been the provision of social housing. Currently around four million people are on the waiting lists of councils or housing associations. A Local Government Association (LGA) report published May 16 expects this to rise to five million by the year 2010 and that around 50 percent of councils cannot meet current demand.

"With the banks overstretching their credit facilities," Paul Bettison, LGA chairman explained, "it could well mean that in the coming months councils will have to pick up the pieces as people end up on social housing waiting lists."

A catastrophic housing crisis is unfolding, of which the government is fully aware. Labour's housing minister, Caroline Flint, inadvertently let the cat out of the bag when a photographer caught details of a cabinet paper she was carrying. One line read, "Given present trends they will clearly show sizeable falls in prices later this year—at best down 5-10 percent year on year."