

# Britain: Millions threatened with negative home equity and repossession

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A report by Standard & Poor's revealed that 335,000 households in Britain now find themselves in negative equity, meaning that the value of their homes has fallen below the cost of their mortgage. This is an increase of 250,000 in only four months, and the report makes clear that this may only be the beginning. By 2010, it predicts that as many as 2 million households could be threatened with falling into negative equity.

Ernst & Young believe that house prices will have dropped 14 percent by year's end and will fall a further 10 percent in 2009. Halifax, part of HBOS, claimed that the fall in the value of homes was the greatest in over 50 years. The most severe decline in prices has been forecast by Capital Economics and Standard & Poor's, who both see values dropping by 35 percent. In the case of Capital Economics, they predict this will take place by October 2009. One thing which almost everyone is prepared to agree on is that the current fall in house prices is unprecedented.

Figures also show a sharp increase in the number of repossessions, with 19,000 homes in the first six months of the year taken over by lenders, an increase of 40 percent over the previous six months. Leading the way in repossessions is the now government-owned Northern Rock, which has evicted nearly twice as many customers compared with the industry average. Of the 19,000 repossessions in the first half of this year, Northern Rock was responsible for over 4,000. Predictions suggest that in the second half of 2008, overall repossession numbers will increase to 26,000 households.

With increasing numbers of workers out of a job as the recession bites, many will find it impossible to meet the cost of everyday living, including keeping up with mortgage payments on their homes.

Banks are continuing to increase the pressure on people trying to re-pay their mortgage. When the Bank of England announced its emergency 0.5 percent interest rate

cut earlier this month, mortgage lender Abbey revealed that it would not pass on any of it to its customers. Within a week, Nationwide, Woolwich and Cheltenham & Gloucester all announced that rates for new customers would increase by as much as 0.7 percent.

A week later, Nationwide announced a second increase, particularly targeting borrowers with small deposits i.e. those who are least able to make payments. "It is regrettable that we have to increase our tracker rates, but we must take into account ongoing volatility in the wholesale markets and the high cost of funding," said Matthew Carter, divisional director for mortgages at Nationwide.

Proceedings to permit banks to repossess homes have been started against people who have fallen behind by as little as £800 with their payments, or against homeowners who have missed only two monthly instalments. In one case cited in the *Times*, Esther Spick, who had fallen behind by only three installments on her mortgage with Northern Rock, was facing eviction despite the fact she only owed the bank £1,200.

Housing charities have raised concerns about the mounting rate of repossessions, particularly as they are forced to deal with more people facing homelessness. Adam Sampson, head of Shelter wrote in the *Daily Mirror* of October 22, "The financial crisis has its roots in the housing market, and that's where the effects are most serious. Frighteningly, one in every 25 of us is at least one month behind with our mortgage payments. Millions more are crying out for somewhere to call home.

"These are the true victims of the credit crunch, and they are the voices which the government must listen and respond to. It would cost the Treasury far less to meet their needs than the £500 billion to bail out the bankers."

That those facing homelessness will have to rely on charity for support is testimony to the complete absence of any social programmes from the government to provide

people with housing. Since coming to power in 1997, Labour has continued where the previous Conservative administration left off, encouraging people to take out a mortgage to purchase properties—including many that were once council houses. Next to nothing has been done to build affordable social housing for those who need it most.

One story reported to the BBC was typical. Charles Okwalinga, a father of two from London, had been persuaded to purchase a council house through the government Right to Buy programme, a scheme where the government pays a percentage of the deposit on a mortgage. Unable to keep up with the payments on his mortgage, Okwalinga has been facing the prospect of eviction for over a year. He commented, "Family and friends started to bail us out as we began to have problems. In court, it was decided we could continue the repayments and stagger the outstanding payments. We paid most of it, but irregularly, so in March this year, the court granted the lender repossession."

Another person threatened with losing their home revealed the dangers of the sale-and-rent-back scheme, which has flourished as people try desperately to remain in their home. The scheme allows people to sell their home to a company and then continue living there by renting it back. Facing eviction, Shirley Hayles took up this option in 2006, selling her house to a firm called Repossessions Stopped. Describing the visit she received from the company representative, she told the BBC, "He came and he liked what he saw... he said 'we can't offer the £85,000 that you say it's worth, but I can offer you the £60,000 and offer you a lifetime of living in it at £300 a month rent'. And I thought, that's brilliant."

Within a year, her house was repossessed in spite of her meeting her rent payments, since her landlord had not paid the mortgage. A spokeswoman from Shelter commented that this was a common occurrence. "People are going from being homeowner to homeless in (a) matter of months. It's an extremely distressing time... we need to do something about it."

The fact that Northern Rock, which received vast sums of taxpayers' money, now leads the way in evicting people from their homes is deliberate policy. When £50 billion was made available to Northern Rock when it was nationalised earlier this year, the Brown government claimed that far from handing a blank cheque to the banking executives to continue with their operations, it was meant to safeguard ordinary people from the dangers of financial collapse.

Notwithstanding these claims, the reality of the situation is now clear. Enjoying the full financial backing of the government, the bank is now emboldened to step up the pressure for ever greater returns on its loans to maximise its profits. Having extended mortgages to some of the people with the lowest finances, with many having little prospect of paying back their loans, it has decided that repossession is the best option.

With the rising threat of homelessness, the government has been compelled to issue statements claiming that it will "do everything it can" to prevent people losing their homes. Treasury Secretary Yvette Cooper attempted to reassure people that the government would take measures to support them. "We need a more responsible approach to repossessions," she said. "What we are looking at is something looking much more widely at all of the banks, because I think repossession needs to be a lot rarer. We need to do everything that we can to keep people in their own homes."

Announcing government changes to repossession regulations, Prime Minister Gordon Brown stated that mortgage lenders would have to demonstrate that they had "exhausted every avenue" before they could issue repossession proceedings.

These claims will mean nothing for those struggling to meet their payments. Writing in the *Telegraph*, Tracy Corrigan observed, "The Government has been having discussions with the banks to ensure that strict criteria are followed in repossessing homes. This is clearly desirable, as are possible measures, such as more guidance for the courts on repossession. But I cannot see how any of this will result in repossession becoming, as Miss Cooper suggested, 'a lot rarer', as house prices continue to fall and job losses to rise."



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