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The Costs of Unsustainable Home Ownership in Britain

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ABSTRACT

This paper examines the costs of unsustainable home ownership in Britain as manifested through mortgage arrears and possessions. It suggests that there are a widely drawn set of costs that have an impact on a range of different actors and institutions, and offers a simple conceptual framework for developing an analysis of such costs. Further, the paper suggests that an examination of these costs has the potential to contribute to some key debates within social policy, not least to a series of issues about the development and maintenance of social and economic inequality. This claim is illustrated via an analysis of the financial costs of arrears and possession. The paper concludes that the financial losses incurred cannot be regarded as marginal either in terms of the number of people affected, the sums of money involved or the continuing social disadvantages that follow possession. The article concludes with a discussion of whether these issues can be regarded as 'yesterday's' problem or whether they should be viewed as a continuing feature of the contemporary social and economic landscape.

INTRODUCTION

In Britain between 1990 and 1996 over 380,000 households with a mortgage, containing over 1 million individuals, were subject to mortgage possession (CML, 1997). During 1996, on average, 1,537 mortgagors a week had an action for recovery entered against them in the county court as a result of mortgage arrears while, on average, 820 households lost their homes (Ford, 1997). In addition to this, mortgage arrears remain at historically high levels. Although levels peaked in 1991, at the end of 1996 there were still some 67,000 households with mortgage arrears equivalent to more than twelve months of mortgage payments, 100,960 households with arrears of between six and twelve months and

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almost 152,000 with arrears of between three and six months (CML, 1997). These figures give some indication of the extent to which for many people in Britain home ownership has become *unsustainable*.

Now is an appropriate time to consider some of the social implications of this growth in unsustainable home ownership for three main reasons. First, because now that there is more certainty that the housing recession has come to an end, it is important to ask whether high levels of arrears and possessions have simply been a function of the recession or whether they are likely to remain more enduring structural features of the British socioeconomic landscape. Even as the housing recession that started in the early 1990s ends the tax relief available to mortgagors, mortgage interest relief at source (MIRAS), has been curtailed further. While this change might be absorbed by middle income mortgagors, it may pose new problems for the growing number of low income mortgagors. Second, because after such a prolonged period of high levels of unsustainability it is important to begin to undertake some sort of audit of the wider social impact consequent on that development. Inevitably, the focus of most research on arrears and possessions has been concerned with assessing their extent, the characteristics of those affected, the immediate domestic and organisational experience and management of housing debt and its consequences in terms of homelessness. Consideration of a more widely drawn set of implications and outcomes is therefore due. Third, there are good reasons for suggesting that this more widely framed assessment of the 'costs' of mortgage arrears and possessions can contribute to a number of important substantive debates within social policy.

This paper does five things. First, and briefly, it details the mechanisms by which the growth in mortgage arrears and possessions came about. Second, it considers a framework for examining the overall costs of this growth for society as a whole. Third, it considers the ways in which a focus on arrears and possessions can contribute to, and have implications for, a range of debates in social policy. Fourth, it then takes one important illustrative example by drawing together the available evidence with respect to one set of costs (financial) for one set of actors (borrowers) and links them to the area of debate concerned with home ownership as a means of accumulating wealth. Finally, the paper considers the question of whether arrears and possessions are 'yesterday's' problem?

THE GROWTH OF UNSUSTAINABLE HOME OWNERSHIP

As has been well rehearsed, a key thrust of the housing policies of successive British governments since 1945 has been the expansion of home ownership. From being a minority of households at that time, home owners now form some 68 per cent of all households. The policy of increasing home ownership was however significantly accelerated by the Conservative governments in office between 1979 and 1997. By 1996 3.8 million more households owned their own home compared with 1979, an increase of some 38 per cent. Three policy initiatives in particular, combined with the formation of more households who wanted to buy their own homes, have contributed to the accelerated growth of owner occupation. First, the selling of council houses to tenants at discounted prices under the 'Right to Buy' (RTB) scheme – which formed part of the 1980 Housing Act – resulted in the sale of 1.57 million council houses between 1981 and 1995 (Forrest and Murie, 1990; Wilcox, 1996: 106). Second, restrictions on local authority use of their capital receipts to build new houses, in combination with the operation of the RTB, has resulted in a substantial reduction in, and a residualisation of, local authority housing available for rent (Forrest and Murie, 1990; Cole and Furbey, 1993). Third, the Financial Service Act (1985) and the Building Societies Act (1986) deregulated the credit market, encouraged new entrants and resulted in a highly competitive market where lenders increasingly offered mortgages to those groups who had hitherto been regarded as 'riskier' customers.

These initiatives together unleashed the 1980s housing boom which spanned the mid to late 1980s. Over this period, the ready supply of credit, coupled with significant pent-up demand, led to a rise in house prices and, given the more relaxed lending, higher percentages of loan to value and loan to income with the concomitant increase in the proportion of income committed to housing costs (Wilcox, 1996: 132). The ending of double MIRAS in 1988 fuelled house price inflation further. Under this system two unmarried persons buying the same house could each qualify for tax relief in respect to interest payments on the first £30,000 of any loan. In 1988 this system was replaced and the limit applied to the property rather than the person. The chancellor of the exchequer gave some three months notice of the change and this generated substantial additional housing market activity among households seeking to qualify for double tax relief before the system ended (Forrest and Murie, 1994: 59).

In an attempt to check the economy, interest rates, and so mortgage rates, were increased from 9.5 per cent in 1988 to a peak of 15.4 per cent in February 1990 before slowly decreasing throughout the 1990s. The ensuing recession led to job losses, under-employment and small business failure amongst substantial numbers of mortgagors while the housing market itself entered a deep and persistent recession characterised by reduced transactions, falling prices and the growth of negative equity. Thus, many borrowers paying substantial proportions of their incomes servicing their housing costs first faced rising mortgage costs, then lost income from employment, but were denied the possibility of selling their way out of problems due to the housing recession (Forrest and Murie, 1994). Consequently the number of households with mortgage arrears and giving possession increased (Ford *et al*., 1995).

The growth of mortgage arrears and possessions

Between 1987 and 1989 the number of mortgage possessions per annum varied between 0.3 and 0.17 per cent of all residential mortgages. However, in 1990 they doubled to stand at about 0.5 per cent. The rate peaked in 1991 when 75,540 (almost 0.8 per cent) properties were possessed, but has slowly declined since. In part, the subsequent reduction in possessions was influenced by a change in lenders' policy towards possessions following discussions with the government in December 1991, and the 'compact' that delivered greater forbearance, protection from possession for borrowers in receipt of Income Support Mortgage Interest (ISMI) and direct payment of ISMI from the Department of Social Security (DSS) to lenders.

Over the same period, arrears also peaked. In 1991, there were 850,650 households owing the equivalent of two or more months' payments. Due to the 'compact', the subsequent reductions in arrears have been less than might otherwise have been the case but repayment is also a slow, and easily reversible, process while new cases also develop. As a result, by late 1997, 349,240 households had arrears of two or more months' payments. A summary of the situation for selected years is shown in Table 1.

These aggregated figures are, however, problematic (Ford *et al*., 1995), not least because they conceal the complex patterns of mortgage indebtedness experienced by individual households over time. Recent survey work shows the extent to which mortgagors face financial difficulties with their mortgages but manage to pay, as well as the variety of missed payment patterns that contribute to the arrears figures. They also provide information on the incidence as well as the stock of arrears at any one time. Using the four-year period 1991 to 1994, Ford *et al*. (1995) showed that roughly one in five home buyers had been 'at risk' (either in terms of financial difficulties or missed payments) with the following profiles: 3 per cent had no current arrears but had previous arrears; 3 per cent were having difficulties paying and had arrears previously; 1 per

TABLE 1. *Mortgage arrears statistics for selected years, 1987–1997*

Year	1987	1989	1991	1993	1995	1996	1997
Number of mortgages at year ends (000s)	8,283	9,125	9,185	10,137	10,510	10,510	10,600
Cases in mortgages arrears at year end							
12+ months arrears	14,960	13,840	91,740	151,810	85,200	67,020	45,200
6–12 months arrears	55,490	66,800	183,610	164,620	126,670	100,960	73,840
3–5 months arrears	121,000	122,000	305,500	242,050	179,050	152,710	117,840
2 months arrears	164,400	153,900	269,800	198,400	119,715	148,350	112,360

Notes: Properties taken into possession include those voluntarily surrendered. 6–12 and 12+ months arrears are for the end of the year; 2 and 3–5 months arrears figures are for the March of the year. Changes in the mortgage rate have the effect of changing monthly repayments and hence the number of months in arrears which a given amount represents.
Source: *Housing Finance*, Council of Mortgage Lenders; Janet Ford, *Roof* (figures for 2 & 3–5 months arrears). All figures from J. Ford annual survey.

cent were in arrears again, having cleared previous arrears; 1 per cent had been in arrears for the whole of the period under consideration; 3 per cent had fallen into arrears for the first time in the last three years; and 9 per cent had no arrears over the period but had current payment difficulties.

The social distribution of mortgage indebtedness

Data from the *Survey of English Housing* (SEH) for 1994/95 allow the social distribution of mortgage arrears to be described in some detail (for a parallel analysis of SEH data for 1993/94 see Burrows, 1998). Table 2, derived via a secondary analysis of the SEH, shows, albeit crudely, how the risk of arrears is socially distributed based on two different measures; a 'minimalist' definition considering all those who are 3 or more months in arrears and a 'maximalist' definition considering those with any sort of arrears or who are currently finding mortgage payments 'difficult'.

Clearly, risk of mortgage arrears is not evenly distributed across households but is systematically associated with a complex range of demographic and socioeconomic factors. Before we examine the data, at least three caveats should be made concerning its interpretation. First, it is cross-sectional in nature, providing only a snapshot of the situation each household is in at the time of the survey interview. Second, and related to this, the data implicitly infers some sort of relationship between variables which is not always sustainable. Thus, to take an example, we might infer that the risk of arrears is increased if a head of household is a self-employed sole trader but we do not know whether self-employment was taken on after the onset of the arrears. It might be that unemployment was an initial trigger of the arrears and self-employment the response to

TABLE 2. *Proportions of mortgagor households (i) 3 or more months in arrears and (ii) in arrears of any sort or finding mortgage repayments 'difficult' by selected socioeconomic and demographic characteristics*

Selected socioeconomic and demographic characteristics of mortgagor households	% 3 or more months in arrears	% in arrears or finding payments difficult	Number of households in England ('000s)
Age of head of household			
16–29	1.8	16.5	1,180
30–44	2.2	19.0	3,749
45–54	1.8	17.8	2,064
55–64	0.9	13.7	915
65–74	0.9	21.4	220
75+	1.7	10.2	60
First time buyers?			
No	1.5	16.5	4,832
Yes	2.4	19.6	3,341
100% Mortgage			
No	1.6	16.9	7,223
Yes	3.6	24.3	952
Household structure			
Couples, no dependent children	1.0	11.9	3,063
Couples, with dependent children	1.9	19.1	3,296
Lone Parents	7.8	39.8	286
Large adult household	2.5	26.1	345
Single male	2.6	22.4	737
Single female	2.1	20.0	462
Marital status of the head of household			
Married	1.4	15.9	5,681
Cohabiting	1.7	14.8	751
Single	2.5	20.2	841
Widowed, divorced or separated	4.1	29.5	917
Economic status of head of household			
Employed full time	1.1	15.0	6,872
Employed part time	4.8	30.6	269
Unemployed	11.6	46.1	316
Retired	0.8	13.4	360
Unable to work	5.9	39.4	365
Social class of head of household			
I Professional	0.7	9.2	845
II Intermediate	1.2	13.8	2,819
IIIN Skilled non-manual	1.9	20.4	1,078
IIIM Skilled manual	3.0	21.8	2,261
IV Semi-skilled manual	1.8	20.8	855
V Unskilled manual	1.5	28.1	194
Self-employed or employee status			
Employee in private sector	1.7	16.4	4,994
Employee in public sector	0.7	14.3	1,614
Self-employment sole trader	4.2	27.9	957
Self-employed with employees	1.7	18.0	524
Ethnicity of head of household			
White	1.7	16.7	7,754
Minority ethnic	4.3	36.8	433
Property purchased under RTB?			
No	1.8	17.6	7,370
Yes	2.2	19.4	815

TABLE 2. (*Cont.*).

Selected socioeconomic and demographic characteristics of mortgagor households	% 3 or more months in arrears	% in arrears or finding payments difficult	Number of households in England ('000s)
Type of accommodation			
Detached house/bungalow	0.7	12.1	2,142
Semi-detached house	2.1	17.1	2,891
Terraced house	2.6	22.6	2,472
Flat	2.0	20.0	676
Council tax band			
A Up to 40K	2.6	21.3	1,234
B 40–50K	2.4	17.6	1,609
C 50–68K	1.3	17.6	1,694
D 68–88K	1.5	18.4	1,508
E 88–120K	1.4	15.0	835
F 120–160K	0.4	10.9	453
G 160–320K	0.8	11.9	344
H 320 + K	3.5	11.2	47
Region			
London	2.2	23.8	1,087
Rest of South East	2.3	17.0	1,430
South West	1.8	19.6	819
Eastern	2.3	19.4	878
East Midlands	2.1	15.3	675
West Midlands	1.3	15.0	841
Yorkshire and Humberside	1.1	15.7	832
North East	1.4	12.8	382
North West	1.8	17.3	1,245
When property purchased			
Pre-1987	1.8	15.9	3,361
1987–1989	3.3	22.0	1,836
Post- 1989	1.1	17.3	2,989
Anyone in household ever previously subject to mortgage possession?			
No	1.8	17.6	8,109
Yes	12.2	37.6	79

unemployment. Third, much of the data tends to concentrate on the characteristics of the head of each household as a measure of overall household status. There is however a valid and well rehearsed set of critiques of this procedure which demonstrates the efficacy of the characteristics of other household members, especially female partners, on the overall socioeconomic status of the household.

With these provisos in mind Table 2 can now be examined. The data are organised in four columns. The first column breaks down mortgagor households in relation to fifteen different demographic and socio-economic factors, selected because on *a priori* grounds they might be thought to be associated with variations in the risk of arrears: the age of the head of household; whether or not the head of household is a first time buyer; whether or not the mortgage is a 100 per cent mortgage; the household structure; the current marital status of the head of the household; the current economic status of the head of household; the social class of the head of household based upon their current or last occupation; the employment status of the head of household in their current or last occupation; the self-identified ethnicity of the head of the household; whether or not the property was purchased under the 'right to buy' (RTB); the type of accommodation; the council tax band of the property (the only proxy for the value of the property in the SEH); region; the year the property was purchased; and finally, whether or not the household contains any member(s) who have previously been subject to mortgage possession.

The second column shows the proportion of households currently in arrears of 3 months or more, the third column shows the proportion in arrears of any sort plus those who, although not in arrears, are finding mortgage payments 'difficult' (which, of course, is a highly subjective evaluation). The final column shows the number of cases in the SEH upon which these proportions have been estimated.

The data in the table suggest that households headed by younger people tend to be at greater risk of arrears, as are first time buyers and households with 100 per cent mortgages. The composition of households also influences the chances of arrears. Couples with or without dependent children are at least risk whilst lone parent households are at greatest risk. Amongst single people males are at a slightly greater risk than are females. These differences are also reflected in the figures for differences in the marital status of heads of households. Married and cohabiting heads of household are at least risk followed by single people, but heads who are widowed, divorced or separated are at greatest risk.

The economic status of the head of household also exerts a strong influence on the risk of arrears. Those employed full time and the retired are at least risk. The risk is much greater for heads employed part time and for those unable to work. However, and as might be expected, those heads at greatest risk are the currently unemployed. The social class of the head of household also exerts an influence as does the nature of current or last employment. Those at least risk work(ed) in the public sector whilst those at greatest risk are self-employed sole traders (for further analysis of this see Burrows and Ford (1998)). The ethnicity of the head of household is also associated with differential risks. Households headed by someone from a minority ethnic group are more likely to be in arrears than are households headed by someone who identifies themselves as 'white'.

Households who purchased their properties via the RTB are marginally more likely to be at greater risk than are households who purchased through more traditional channels. The type of accommodation purchased is also associated with differential risks. Households purchasing detached properties are at least risk whilst those purchasing terraced houses are at greatest risk. The council tax band the property is allocated to is also associated with differences in risk. Crudely the pattern of association is 'U' shaped with those in the lowest and the very highest bands being at greatest risk. The regional location of the property is also related to the risk of arrears. Households living in the South West, the West Midlands and the North of England are at least risk of arrears.

The year the property was purchased also influences the risk of arrears. Households who purchased properties between 1987 and 1989, prior to the onset of the housing recession, are at a greater risk of arrears than are those who purchased pre-1987 or post-1989. Finally, one of the strongest predictors of risk is the presence or otherwise in the household of an adult who has previously been subject to mortgage possession.

Descriptions such as those offered above, while a useful starting point, need to be used cautiously. Such simple bivariate analyses may identify associations that are in practice artifacts of other variables (Burrows, 1998; Burrows and Ford, 1997). We shall return to this towards the end of the paper.

THE COSTS OF MORTGAGE ARREARS AND POSSESSIONS

As suggested earlier, any concern that there has been with the implications of the growth in arrears and possessions has been rather narrowly drawn; for example, focusing on homelessness (Ford, 1997) or the operation of the housing market *per se* (Wilcox and Williams, 1996). While these issues are central, potentially there is a much wider range of implications and issues posed by the fact that around a fifth of owner occupiers have, since 1990, faced socioeconomic and policy contexts that have engendered considerable uncertainty about their ability to remain as home owners. The rest of the article will begin to consider these questions by, first, attempting to map out schematically some of the wider sociostructural implications of the high levels of mortgage arrears and possessions and, second, by concentrating in some detail on the financial costs to borrowers.

At an individual level, in most instances, arrears and possessions are at best stressful and in some cases traumatic (Davis and Dhooge, 1991; Nettleton and Burrows, 1998a). However, our main concern here is not with individual responses to arrears and possessions in and of themselves, but with the aggregate meaning and impact of the growth of arrears and possessions. In order to do this we develop a simple analytic framework which facilitates a systematic consideration of the full range of costs associated with unsustainable home ownership.

'Costs' are defined here as the price paid or required for acquiring, producing, maintaining or losing something, measured in money, time or energy. However, costs fall differentially on different types of actors and organisations so it is also important to consider the full range of possible parties involved. With respect to mortgage arrears and possessions, there are a range of costs, and a range of individuals and organisations who incur these costs.

The purpose of developing the framework, and arguing for a series of analyses based around it, has also to be considered. One way of doing this is to identify a series of debates and issues within social policy to which a discussion of the costs of arrears and possessions can contribute. As a consequence, studies of mortgage default can begin to be seen in a less restrictive light.

The relevance of costs to some wider debates in social policy

Undertaking an audit of the composition, extent, distribution and impact of different types of costs can make a direct and important contribution to a number of different substantive questions and debates. An illustrative, rather than exhaustive, list includes the following:

- An analysis of costs, particularly the extent and distribution of financial costs, but also costs in terms of the physical deterioration of property, or the social costs associated with housing debt and restricted residential mobility contribute to the debate about the growing diversification and fragmentation of owner occupation (Forrest *et al*. 1990) and the role of housing in the production and reproduction of social divisions (Watt, 1996).
- Considerations of financial costs that crystallise as outright losses following mortgage possession, to the extent that they are widespread and substantial, contribute to a critical assessment of the thesis that owner occupation offers the basis for the accumulation of wealth and so the modification of patterns of social inequality (Saunders, 1990; Hamnett and Seavers, 1996).
- Either the direct or indirect knowledge and experience of costs may be important influences contributing to the formation of attitudes and preferences with respect to tenure (Kempson and Ford, 1995) and so contribute to assessments of how to meet housing need. Costs may

also contribute to debates about the development of a risk society and the implications for social policies in the light of increasing socioeconomic 'insecurity' (Wilkinson, 1996; Nettleton and Burrows, 1998b).

- Some costs are recoverable, raising questions about the circumstances in which recovery is pursued. Thus there is a contribution to more generic issues of regulation and consumer protection. Substantive questions pertaining to the role of the civil courts in holding the balance between powerful lenders and relatively powerless borrowers, and the rhetoric and reality of 'access to justice' are also illuminated through a consideration of the costs of mortgage arrears and possessions.
- Analyses of the costs of arrears and possessions are also analyses of the inter-relationship between housing, employment and social security through, for example, a consideration of the extent to which the structure of benefits for those in arrears constitute a work disincentive, or the extent to which one implication of cost recovery via the courts is to encourage a detachment from the labour market (Caplovitz, 1974; Ford and Wilson, 1993).
- The implications of the growth of costs associated with arrears and possessions are also significant for considerations of the relationship between the market and the state with respect to sustainable owner occupation and thus the future shape of housing policy.

Towards a typology of costs invoked by mortgage arrears and possessions

Table 3 sets out some preliminary thinking about costs, identifying different types of costs, the different groups and institutions affected and some examples of the specific forms they might take. One or two brief illustrative examples of the *potential* content of the cells noted in the table are given below. In practice, few such costs have yet been assessed and remain a matter for empirical consideration. A more detailed assessment of one cell, the financial costs to borrowers, then follows, drawing together the data that are available.

Social costs

Borrowers unable to sustain owner occupation are likely to be subject to quite profound processes of – to use the modern argot – *social exclusion*. One of the clearest manifestations is homelessness (Burrows *et al.*, 1997). The experience of mortgage possession is also likely to have a number of social consequences for families. Indeed, Ford's (1994) study of possessions, which examined the *financial* consequences of this experience for households, noted in passing that for the respondents it was *social* rather than financial considerations that were most central. The full range of

TABLE 3. *Illustrative typology of the range of costs associated with mortgage arrears and possessions*

	Examples of costs experienced by							
Type of cost	Borrowers	Lenders	Insurers	Central government	Local government	Housing market institutions	Labour market institutions	Health services
Social	Social exclusion; insecurity							
Administrative		Collection costs		ISMI Direct Payment	Homelessness provision			
Financial	Admin charges; Residual debt	Technol-ogical investment; 'real' losses	MIG pay out	ISMI	Increased homelessness provision	Reduced transactions		
Social psychological	Stigma associated with debt					Reduced confidence		
Health	Mental health and wellbeing		Increased risk of accidents?					GPs and counselling services
Political		'Cooler' relationships with Govt.?		Electoral conse-quences				
Organisational	Changes in financial manage-ment	Refocusing of activities and culture			Advice provision		Adjust to reduced mobility	

Note: The example of 'costs' given above are illustrative not exhaustive. An empty box does not necessarily mean an absence of any costs.

social consequences for families who have had their homes possessed are not known (although are the subject of ongoing research). However, they are likely to include: disruption of social networks and systems of social support; problems for children in terms of their schooling, friendships and responses to new social and physical environments; and a negative impact on relationships between family members both within and beyond the family unit. In addition, it is worth noting that the experience of mortgage possession is for many families caused by social factors such as divorce or separation, illness, job loss or reduction of household income (Ford, 1994). Losing a home may therefore be a further compounding factor for a family that is *already* experiencing difficulties and hardship. Further, the social costs of possession may continue post-possession given the evidence that 16 per cent of households separate post-possession. A further 16 per cent of households eligible for re-housing by the local authority were not initially re-housed as a whole unit (Ford *et al.*, 1995).

Administrative costs

Increased administrative costs have been experienced in a number of different institutions. For example, lenders have had either to establish or restructure their debt collection facilities to ensure practices and procedures consistent with 'mass processing'. In addition, the growth of mortgagors in receipt of ISMI, and the shift to direct payments has increased the administrative costs for both central government and lenders. Local authorities have faced greater administrative costs in processing households made homeless due to increased levels of possession (Ford, 1997). As will be noted below, these administrative burdens have a financial counterpart.

Financial costs

Increased financial costs obviously fall on borrowers. In addition to arrears, they may face one or more of interest on arrears, administrative charges from lenders for letters or setting up payment arrangements, court charges, charges for essential maintenance post-possession, estate agency fees etc. However, financial costs also accrue to lenders who not only face 'real' financial losses but also have to increase levels of human and capital investment to 'manage' arrears and possessions. Insurers providing Mortgage Indemnity Guarantee (MIG) cover to lenders also face increased levels of 'pay out' (about which more below). Central government has faced higher levels of ISMI pay out (hence their attempt to encourage private insurance cover). In 1989, ISMI payments totalled just £353 million. The figure peaked in 1992 when payments totalled some

£1,143 million. In 1996 the total figure still stood at £867 million (Wilcox and Sutherland, 1997). Local government obviously faces costs of housing homeless households (Ford, 1997). Housing market institutions experienced reduced fees as the number of transactions fell.

Social psychological and health costs

Although more difficult to measure, the growth of arrears and possessions also have social psychological and health costs. The stigma and worry associated with debt have a measurable impact upon the subjective well-being of those in arrears or facing possession (Ford, 1988; Davis and Dhooge, 1991) and also lead to an increased use of primary health care services, especially visits to GPs (Nettleton and Burrows, 1998a) and thus increased costs to the health service. It could also be that the worry invoked by indebtedness could lead to an increased risk of accidents and suicides which will increase costs not just to the health service but also to private insurers. As we have already argued, knowledge of the risks of arrears and possessions could also contribute to a wider sense of unease amongst the population as a whole which impacts upon the health and well-being of everyone (Maclennan, 1994; Wilkinson, 1996).

Political costs

Throughout the 1980s, the expansion of owner occupation was regarded as an electoral guarantee. The significance of this particular positional good was clear in the 1991 intervention by the government, and the prime minister's concern to convince people that on the basis of that intervention, the problem of arrears and possessions was 'solved'. Their persistence, particularly coupled with negative and reduced equity and low transactions could potentially have electoral consequences (Pattie *et al.*, 1985). There is, for example, evidence indicating the dearth of young first-time buyers in the housing market (Holmans, 1995) with some writers suggesting that the risks associated with owner occupation are part of the explanation for their flight from the market.

Without having to detail every instance, it is clear that the growth of mortgage arrears and possessions invoke a potentially wide range of costs to a range of different actors. In the next section we focus in more detail on the financial costs to borrowers, starting the process of assembling the available evidence and assessing its impact.

THE COSTS OF ARREARS AND POSSESSIONS TO BORROWERS: CAN HOUSING DAMAGE YOUR WEALTH?

A consideration of the financial costs incurred by borrowers addresses directly questions about the consequences, if any, that the growth of arrears and possessions has for the argument that home ownership provides the means to reshape the social stratification system by radically altering access to wealth and the distribution of wealth. This argument was most clearly articulated by Saunders (1990), but the link between ownership and access to wealth has also been a central aspect of government ideology for many years. However, in considering this issue, there are a series of questions that need to be explored. For example, what impact has the growth of arrears and possessions – in association with other related developments such as the emergence of negative equity – had on capital accumulation? What is the scale of any loss, in terms of numbers affected and size? Are there longer-term financial implications for any households who are so disinvesting?

In working through the financial implications of arrears and possessions for issues of social divisions, there may be a more complex set of outcomes than typically suggested. Potentially, with respect to capital accumulation, those in arrears and possession can be classified into six categories:

Borrowers in arrears may have:

- increasing housing equity, but arrears, leading to a temporary slowdown in capital accumulation;
- no growth in equity, and arrears, leading to the erosion of capital accumulated; and
- negative equity, and arrears, leading to increasing levels of negative equity.

Borrowers in possession may have

- positive equity, possession with a surplus
- negative equity, possession with a loss (residual debt), loss written off; or
- negative equity, possession with a loss, residual debt pursued.

In addition, borrowers may be reducing other forms of wealth such as savings, insurance and/or selling goods as they seek to raise income to stem arrears.

Looking at these six possible outcomes, it is clear that not all of them preclude capital accumulation, while others moderate rather than deny a gain. Thus, in principle, arrears and possession do not necessarily preclude access to wealth or a surplus, albeit at a level lower than might have been the case had arrears not accrued. There is also an important distinction to be made between potential and realised loss paralleling the distinctions drawn in the accumulation debates between a realised and

TABLE 4. *Accumulation of financial costs by a hypothetical mortgagor in default*

This example assumes a property bought in June 1989, default starting in January 1991, repossession in June 1991 and the sale of the property in December 1991.
Purchase price: £52,632
Mortgage: £50,000 (repayment mortgage)
Sale price: £41,312

		Outstanding debt	Net costs to borrower*	Total costs
Purchase	July 1989	£49,976	£517.90	
	June 1990	£49,743	£576.14	Repayments of £9,983
	Dec 1990	£49,610	£548.32	
Default	Jan 1991	£50,119	£508.83	Arrears of £3,003
Repossession	June 1991	£52,614	£481,65	Admin £125
Sale	Dec 1991	£55,797	£529.65	Interest on arrears £3,184

Note: Net costs are calculated as follows; gross monthly payment, less MIRAS plus £15 mortgage protection policy. In the calculation the mortgage protection policy is not activated.
Source: Derived from data published by AKG consultancy as the AKG Mortgage Report 'Repayment with interest'.

potential (illusory) gain. So in order to assess the meaning of arrears and possession for the wider debates outlined above it is necessary to try and obtain some empirical leverage on the point at which any loss or surplus crystallises, and particularly the magnitude of any such losses.

The financial costs to borrowers in arrears and possession are made up of several different items and are cumulative. They include: missing monthly mortgage payments; interest on arrears; charges for arrears administration; and charges for court and litigation costs. Once possession is taken, there are additional costs: for example, interest on arrears (accruals); estate agency fees; and essential maintenance to property such as changing locks.

Table 4 provides an example of the way costs accumulate for a hypothetical mortgagor, who bought a house in June 1989 with a £50,000 repayment mortgage, paying without difficulty until December 1990 but then defaulting. The hypothetical lender took possession after only a few months (court actions can be entered after three months default although the average number of months in arrears at possession is around twelve). The property was sold six months after possession.

The hypothetical property was sold for approximately £41,000, and Table 5 sets out the borrowers' potential obligations (residual debt) following the sale: the negative equity; arrears; interest on arrears; legal and estate agency fees; and administration costs. This gives a total remaining debt of £16,714.

TABLE 5. *Residual debt and costs of home ownership period (same loan/sale details as in Table 4)*

(a) Residual debt	£
(i) Outstanding mortgage balance after sale (£50,000–41,312)	8,688
(ii) Arrears	3,003
(iii) Accrued interest	3,184
(iv) Legal and estate agency fees	1,714
(v) Administration costs	125
Total residual debt	16,714
(b) Costs of home ownership for 23 months	
(i) Mortgage payments made	9,.983
(ii) Arrears	3,003
(iii) Deposit (5%)	2,632
Total cost	15,618
Total costs of entering/experiencing/exiting from home ownership	29,329
Costs of occupancy + accrued interest + administrative charges + legal and agency fees + outstanding mortgage balance	

Table 5 also indicates the costs of occupancy incurred by the borrower by providing an indication of what the borrower has spent by entering owner occupation, spending twenty-three months in the house and then exiting owner occupation as a result of possession.

The figures in these tables are only illustrative but show the complex, cumulative make-up of costs. However, while all borrowers in arrears and possession incur financial *costs*, whether they become financial *losses*, and on what scale, depends on several factors, few of which the borrower can control. For example, it depends on the length of time the lenders will forebear before seeking possession, on the speed of sale, the decisions taken about the method of disposal (open market or at auction), the degree of 'trashing' and post-possession vandalism (all of which may have to be rectified before a sale), but also the equity the borrower has in the property. Even where there are absolute losses a lender may decide to write them off from the borrowers' responsibility. At that point they become direct costs to the lender, indirect costs to the investor or shareholder, but no longer a cost to the borrower.

Using a number of recent empirical studies it is possible to undertake some initial assessments of the financial costs of possessions for borrowers. The most comprehensive data come from a random sample survey of 111 households giving possession between 1991 and 1994 (Ford *et al.*, 1995). In this study, average arrears for households in possession were £5,600; the average costs associated with the administration of arrears, litigation and selling were estimated at £2,500, giving average costs of

£8,100; 72 per cent of those giving possession had negative equity. Only three-quarters of properties in possession had been sold at the time of the survey, with approaching 70 per cent sold at an average loss of £6,200. Combining negative equity with arrears and costs indicates an average residual debt approaching £14,400.

The figures from Ford *et al.* (1995) confirm those available through a series of other studies. For example, a study of families rehoused by Portsmouth City Council (Evans, 1992) estimated that around 70 per cent were likely to have a residual debt. A similar figure was reported by Ford (1993) in a study of 307 possession cases with one major lender. However, a lower figure (54 per cent) of residual debtors was found in a qualitative study of 16 households rehoused through two local authorities (Ford, 1994). Average arrears in that study were £4,328. Given that these were exclusively low income households, the figure is consistent with the £5,600 reported above and both are broadly consistent with figures of £5,600–£4,700 from surveys of lenders (Ford, 1994–1997). The qualitative study (Ford, 1994), however, noted a rather larger gap between the outstanding loans and the selling price, in all probability the result of the data being collected from two areas characterised by high levels of negative equity.

Using the information above, it is likely that some 70 per cent of the 380,000 households giving possession since 1990 – a total of 266,000 households or 2.5 per cent of all mortgagors – did so with an average loss of £14,400. These borrowers have clearly not shared in any wealth creation process. Even with the calculation based solely on arrears and costs, the total loss to borrowers is £2.1 billion. Including the estimate of average negative equity calculated above, the loss equals £3.83 billion.

The majority of mortgage loans that initially exceed 75 per cent of the valuation have a compulsory, associated insurance – the Mortgage Indemnity Guarantee (MIG). Where there is a loss on sale, the lender can claim on the cover, up to the value of the insured portion, which is usually met in full or in part by the insurers as a payment to lenders. However, having paid the lender, the insurer has the right to recover the whole of the claim from the borrower. They can do this directly or the lender can pursue the debt on the insurers' behalf. In addition, if the loss is greater than the insured portion, lenders will pursue that further shortfall. Insurers and lenders initially have six years in which to commence recovery procedures but that can be extended for a further six years. The decision to pursue borrowers for residual debt is a discretionary decision for insurers and lenders, although the trend is towards pursuing recovery in a greater proportion of cases, using debt tracing and debt collection agencies where necessary.

Thus, amongst those giving possession with a loss, two situations emerge. At best, borrowers have lost wealth they had, have no asset, but no debt. At worst, borrowers have lost wealth they had, have no asset but have continuing debt, repayable over the foreseeable future. In the random sample survey (Ford *et al.*, 1995), a third of those with residual debt were currently being pursued.

Thus, the majority of the 380,000 households giving possession have lost financial resources as a result of their home ownership. Set in the context of the value of owner occupied housing *per se* the sums of money may seem insignificant. In the context of a household's finances and the levels of savings amongst home owners, the debt is significant as is the loss of a potential basis for continuing accumulation. These figures though do not exhaust the extent of the financial costs and losses associated with home ownership. Potential additional loss is tied up with at least two other major issues. The first concerns the proportion of borrowers in arrears that might end up in possessions – the conversion rate of arrears to possessions. The second concerns likely house price movements as these, in part, determine the extent of loss or surplus.

Since 1992/3, the year on year fall in arrears of six and more months is largely accounted for by possessions (see Table 1). This suggests that, as of early 1997, there are likely to be in the order of another 160,000 possession cases in time. Other research (Ford *et al.*, 1995) has calculated that amongst households with arrears of three or more months, and during the period 1991–4, the position of as many as 50 per cent of those with arrears was deteriorating, increasing the risk of possession. These were defaulters who had either not made an agreement to pay or were not keeping to existing agreements. There is no more recent research which indicates if this is still the current position, but the stubbornness of arrears in a low interest rate environment suggests that recovery still poses some difficulty.

Assuming that most of the 160,000 cases with arrears of six and more months do end in possession and that 50 per cent of cases between three and six months deteriorate, an indicative figure would be that a further 230,000 households may therefore be at risk of possession, although the exact number and the timing of possession proceedings will vary by lender. Assuming that other things remain constant, about 70 per cent of these households will exit from owner occupation with at best nothing and in half the cases with residual debt. This amounts to around 160,000 households at quite considerable risk of loss. In practice, the numbers with a loss, and the size of the loss, will depend on house price movements, but other than in London and the South-East changes in house prices are still negligible or very modest. Thus, while this will have limited the size of the outstanding debt in some cases it is unlikely as yet to alter the overall picture.

Adding these ‘at risk’ households to those who have already lost their property, in total around 4 per cent of home owners have lost or are very likely to lose resources as a result of the socioeconomic context of home ownership in the 1990s; approximately 420,000 households in total, all of whom face debt recovery procedures for those losses. Again, it is hard to regard these figures as temporary setbacks or irrelevancies on the margin.

One last point on the scale of losses. A full picture would also need to include those not in arrears but realising a loss, because, while they have negative equity, they nevertheless have to move. Estimates of negative equity are highly variable (Holmans and Frostzega, 1996; Thomas 1996; Dorling and Cornford, 1995), but it may still affect at least half a million households. The point is that, whatever the exact figure, they are in addition to the 4 per cent of households already identified as highly likely to experience a loss. Potential losses characterise all households with negative equity.

Four per cent of home buyers either have realised losses already or may be about to do so. But who is likely to lose? There are assertions that the risk is only applicable to low income households, those whose position was always marginal. Other commentators have asserted that the losses have been sustained primarily by professional and managerial home owners in the South-East where the boom was greatest and the slump most pronounced. The question has important implications for the extent to which arrears and possessions should be regarded as potentially impacting on the tenure as a whole or as restricted to more marginal borrowers.

Recent multivariate analysis of the characteristics of households in arrears (and thus potentially facing possession in the future) using the same data as shown in Table 2 (Burrows and Ford, 1997: 22) paints a complex picture. Factors associated with economic and employment status, age, household structure and type of accommodation are important determinants of arrears, whilst those associated with marital status and region are less significant. Being a first time buyer or purchasing a property from a local authority has no impact on the odds of getting into arrears. However, the year of property purchase and the mortgage to purchase price ratio all have a significant impact upon the odds of mortgage indebtedness. A previous history of problematic home ownership is also an important predictor of current problems.

So far the focus has been on assessing the extent to which owner occupation has disadvantaged rather than advantaged borrowers in terms of financial accumulation. For many of those who have lost capital, the disadvantage does not stop there. Rather, the loss of home ownership becomes the starting point for other processes that contribute to the growth and continuation of financial poverty. Here, we only intend to sketch the process and its contributory factors in outline whereas, ideally, it warrants a much longer treatment. This is also an area where further work will be necessary as the knock-on disadvantages are likely to emerge over time.

Borrowers giving possession have considerably lower incomes than borrowers in arrears, who in turn are less advantaged than non-arrears borrowers. For example, in a wider study conducted in Luton and Bristol in 1993 (of which the in-depth study (Ford, 1994) was a part), average household incomes were £157, £251 and £304 respectively. A similar distribution was found in the random sample survey (Ford *et al.*, 1995). Lower income amongst those giving possession was associated with greater problems in exercising choice with respect to subsequent housing, housing mobility and temporary housing. A higher proportion of those who had given possession had arrears on other services and commitments than did those with and without arrears. This combination of higher demands on the budget and lower incomes presaged further default. Such households often faced the need for additional resources in order to manage the household's budget, yet their County Court Judgements precluded them from access to mainstream banking services and credit. At best, this forced them into the high cost sector of the commercial market or, at worst, paved the way for illegal money lenders (Rowlingson, 1994; Ford and Rowlingson, 1996). In both cases these developments contributed to their growing poverty. And while a small number of those who had given possession (often voluntarily), but with a surplus, had already re-entered owner occupation, the vast majority in possession knew that they would not easily obtain another mortgage because of credit referencing procedures and the register of County Court Judgements.

Further, a wide range of other resources would be more expensive, even if access was possible. Thus, issues of unsustainable owner occupation connect very directly with wider issues of exclusion and poverty. This article has concentrated on one potential outcome of arrears and possessions – financial loss and growing disadvantage – and judged that it is a significant and growing issue. The findings presented here at least question the view of owner occupation as unequivocally associated with wealth accumulation and shared interests, and, on the contrary, indicates that the extent and distribution of loss cannot be considered as a marginal issue.

SHORT-RUN PROBLEM OR LONG-RUN TREND?

There has been some popular debate about whether this dramatic increase in the vulnerability of home owners is simply a product of a short-run conjunction of events or if it represents a more permanent structural change. Are the costs of being a nation of home owners now contained or will they be a continuing feature of contemporary British social and economic life? There are at least six reasons to suggest that risk and vulnerability are likely to be a permanent feature of the British socioeconomic and cultural landscape for some time to come.

First, low(er) levels of inflation have meant that the costs of a mortgage form a significant proportion of household expenditure for a far longer period than would be the case under conditions of high(er) inflation. Households are thus more vulnerable for a much longer period of time.

Second, in a volatile global economy the costs of credit will continue to be highly variable and unpredictable – financial risks are thus increased.

Third, the restructuring or 'flexibilisation' of work is resulting in continuous and secure employment contracts being replaced by more insecure and short-term employment contracts and/or increasing rates of self-employment. While 60 per cent of the stock of jobs in Britain are still full time, only 30 per cent of all vacancies filled are for full-time jobs (Gregg and Wadsworth, 1995). Temporary working, while growing rapidly, is relatively insignificant for home buyers, but the well documented high risk self-employment is growing and the self-employed are already over-represented amongst mortgagors (Burrows and Ford, 1998). Mortgages are premised on the assumption of stable employment over a long period of time yet a recent analysis suggests that a quarter of mortgagors are now in 'flexible' employment (Maclennan *et al.*, 1997). There is an increasingly clear disjuncture emerging between the supposed need for flexible labour markets and the ability of people to sustain mortgage costs over long periods (Burrows, 1998; Ford and Wilcox, 1994).

Fourth, at the same time as the risks associated with home ownership (especially the risk of non-eroding mortgage costs and unemployment) have been increasing, the welfare state has been retreating from its 'safety net' provision for mortgagors (Oldman and Kemp, 1995) in order to encourage the take-up of private insurance schemes. Currently, however, the most optimistic assessment of take-up is no more than 21 per cent, and amongst the third of borrowers who would be eligible for Income Support on losing their income, three-quarters have no private insurance (Ford and Kempson, 1997). Problems also persist with respect to particular groups of mortgagors either accessing cover or making a successful claim on insurance.

Fifth, housing costs have meant that entry into sustainable home ownership increasingly necessitates dual-earner households. As households fragment due to the pressures of contemporary life this necessarily translates into increased rates of unsustainable home ownership.

Sixth, there are also other, more indicative factors, that suggest that owner occupation will continue to have 'costs' in the form of losses, not least the resurgence of aggressive lending and self-certification mortgages where there is little emphasis on credit assessment, above average interest rates and punitive penalties for default.

Recent evidence shows that arrears and possessions are indeed still features of the housing market. The 1995/6 *Survey of English Housing* reports that 17 per cent of borrowers had missed payments or were finding it difficult to pay. Possessions in 1997 were around 700 a week and while lower than the peak of 1991, they remain far above the pre-recession figure.

CONCLUSIONS AND DISCUSSION

This article has suggested that, in principle, a consideration of the costs of mortgage arrears and possessions can contribute to a wide range of substantive issues. It has sought to identify the range of costs to which unsustainable home ownership can give rise, the range of debates to which a consideration of such costs might contribute and to develop the assessment of one set of costs (financial costs to borrowers) in some detail. The analysis forces the conclusion that the costs and losses are substantial both in terms of the numbers affected, the sums of money foregone and the wider individual, social and economic consequences that follow. Such outcomes are likely to continue to be a feature of our society, their incidence clearly rising and falling in line with the economic cycle, but also becoming more routinely embedded in the experience of owner occupation.

For a significant number of households, their immediate life chances have been affected detrimentally. The expectations of an asset on which to draw in later life or to pass to the next generation have been disappointed. As a group they have become impoverished and caught up in a chain of interconnecting processes which reinforce the initial detriment of losing their home. Such disadvantage, however, clearly has its roots in the interaction of government policies towards housing, the management of the economy and the re-structuring of the welfare state; policies that show little likelihood of reducing the risk of home ownership in the foreseeable future (Nettleton and Burrows, 1998b).

The issues raised in this article have clear policy implications. The many detailed concerns can be thought of as two broad streams; one addressing the extent to which policy should continue to support the current tenure balance, and the second addressing a range of ways in which policies might be formulated in order, where appropriate, to support mortgagors in retaining home ownership or to cushion or protect those who have lost their homes from the continuing impact of repossession. These two sets of policy implications are, clearly, inter-related. The arguments in favour of a more balanced tenure system, and particularly for more support to be directed towards the private rented sector, are well established. An adequate private rented sector would enable younger people to delay their entry to owner occupation, increasing the likelihood that they did so with more stable and secure employment and lower loan: value ratios, thus reducing the risk of arrears. Proposals for revitalising 'mortgage rescue' (HACAS, 1995) or for achieving comparable ends by different means through 'flexible' tenure (Terry, 1996) are all concerned to seek ways in which to reduce the social, economic and housing dislocation currently experienced by many households following mortgage repossession, although the attractiveness and feasibility of such schemes to households, lenders and housing providers is variable.

Consideration of the ways in which mortgagors can be 'protected' from the risk of arrears is essentially a discussion about safety-net provision. The curtailment of state safety-net support for mortgagors in receipt of Income Support (ISMI), and the limited take-up of the proposed alternative, private mortgage payments protection insurance (Burchardt and Hills, 1997; Ford and Kempson, 1997), has led to industry-based initiatives to develop alternative private or public–private partnership solutions (Wilcox and Sutherland, 1997). To date, however, these initiatives have met with little success other than that of a commitment to tighten the voluntary code of conduct for the sale of mortgages and associated products and to include mortgage intermediaries within the code. Meanwhile, estimates indicate that around 2.5 million mortgagors who, prior to 1995, were likely to have been covered by ISMI (should their income cease) currently lack any safety net provision, but remain at risk of arrears.

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