Housing Rights

www.housingrights.org.uk
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Policy brief

Mortgage debt and homeowner resilience November 2023

1.0 INTRODUCTION

Housing Rights is Northern Ireland's leading independent provider of specialist housing advice. For almost 60 years we have been helping people find and keep a home. We believe that prevention is better than the cure. Our work seeks to ensure individuals and families living in Northern Ireland do not reach this point of crisis. We recognise however that this is not always possible, and we also provide advice and assistance to help alleviate homelessness for people, who, for whatever reason, find themselves facing this crisis. Housing Rights believes passionately that no-one should be without a home and works tirelessly towards the goal that every citizen in Northern Ireland has a decent, safe and affordable home to live in.

1.1 MORTGAGE DEBT AND HOMEOWNER RESILIENCE REPORT

Housing Rights attempted to access data on the levels of mortgage debt among homeowners in Northern Ireland. We were unable to access this data and it was not publicly available. We therefore decided to commission market research to assess the levels of mortgage debt amongst homeowners in Northern Ireland to assess the likely impact of interest rate rises and the cost-of-living pressures on homeowners.

The aim of commissioning the research was that it would allow us to gain an understanding of the vulnerability of those with mortgages, identify appropriate interventions and provide some key information in relation to the situation of homeowners in Northern Ireland.

The research specifically sought to understand the profile of the market in Northern Ireland with regard to:

- Number of mortgage holders on variable/tracker mortgages exposed to interest rate rises;
- Number of mortgage holders on fixed term mortgages about to expire;
- Number of mortgage holders with interest only mortgages;
- Number of mortgage holders on suspended possession orders; and
- Levels of negative equity.

A research advisory group was set up to advise at each stage of the development of the research. The group is comprised of representatives from the Department for Communities, the Northern Ireland Housing Executive, the Arts Council and Housing Rights Board, PropertyPal, the Consumer Council for Northern Ireland and Co-ownership. The group met to advise on the research prior to it commencing, met again to review the draft findings and have inputted into the final report.

2.0 BACKGROUND

Since December 2021 to August 2023, Bank of England interest rates have risen from 0.1% to 5.25%.[1] Prior to this, the Bank of England base rate has been below 1% since 2009. This means that anyone who took out their first mortgage in the last 14 years will not have been exposed to, and therefore have no experience of, interest rate increases of this level. Alongside this, the surge in the cost of living means that households are facing additional pressures on their household budgets. These two

[1] Why have interest rates gone up over the past two years? | Bank of England

interconnected financial events occurring at the same time is extremely significant. Homeowners with a variable rate mortgage are exposed to both pressures simultaneously and for those with a fixed rate mortgage which is about to expire, not only will their rate be about to increase substantially, but their disposable income will also have shrunk due to the pressures caused by the cost-of-living crisis.

The rise in the base rate is higher than previously predicted, and there are concerns that it might rise again more aggressively to combat inflation.[2] Indeed, the International Monetary Fund has predicted that the Bank of England will need to keep interest rates at 5% moving into 2024 and stated that the United Kingdom is likely to endure high interest rates for the next 5 years.[3] It is also predicted that living standards will not return to 2021/22 levels until 2027/28, and in that year living standards will still be below pre-pandemic levels in real terms, meaning that the effects of the current cost of living crisis are likely to be felt for a long time.[4]

According to the 2021 Census, 30% of households in Northern Ireland are owned with a mortgage.[5] This equates to 227,856 householders who are potentially exposed to interest rate increases on their mortgages, through either having a variable rate mortgage or their fixed rate mortgage deal expiring.

However, there is little comprehensive data available on the profile of the homeowner mortgage market in Northern Ireland, and therefore the numbers affected by interest rate rises. A recent report, from The Centre for Progressive Policy[6], highlighted the lack of data on mortgage vulnerability in Northern Ireland. The report concluded that a major hurdle to drawing findings on the impact of the cost-of-living crisis was a lack of data on mortgage holders. Aside from the previously stated goals of this research, we are hopeful that this report can contribute to bridging that data gap, allowing for more detailed analysis of the cost-of-living crisis and its impact on homeowners in Northern Ireland.

3.0 POLICY CONTEXT

3.1 Northern Ireland Executive

The Northern Ireland Executive has overarching responsibility for vulnerability in the mortgage market. The Programme for Government[7] (PfG) outlines commitments to:

3.1.1 Inclusion and Tackling Disadvantage

"Tackling the issues that lead to inequality and disadvantage in terms of welfare and poverty, and providing support where it is needed in both urban and rural communities."

High interest rates and the cost-of-living crisis are leading to disadvantage in terms of welfare and poverty. As this research demonstrates, this is impacting people's ability to make mortgage payments. The Northern Ireland Executive has a responsibility to address the disadvantages faced by struggling homeowners and provide support to assist them.

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[2] UK Interest Rate Forecasts For Next 5 Years - Mortgageable
[3] World Economic Outlook, October 2023: Navigating Global Divergences (imf.org)
[4] Cost of living crisis | Institute for Government
[5] Census 2021 main statistics housing and accommodation tables | Northern Ireland Statistics and Research Agency (nisra.gov.uk)
[6] CPP_CoL-Devolved-nations_report_July-2023_SP_2023-07-18-144113_omnr.pdf (progressive-policy.net)
[7] PfG draft Outcomes Framework consultation (northernireland.gov.uk)

Responsibility for this commitment lies with the Department for Communities, The Executive Office, Department of Education and the Department of Agriculture, Environment and Rural Affairs.

3.1.2 Access to Justice

The PfG responsibility pertaining to access to justice includes a commitment to, "*improving the effectiveness and accessibility of justice at all levels."*

This policy briefing will discuss access to justice for people who are facing repossession orders, and make recommendations for improving the effectiveness, timeliness and accessibility of justice for homeowners facing legal action on their homes.

Responsibility for delivery on this commitment lies with the Department of Justice, the Department of Finance and The Executive Office.

3.1.3 Disability

The PfG includes a commitment to, "*improving the quality of life of those of us with disabilities, empowering people to have more influence over their own lives and providing opportunities to participate in decisions that affect them."*

This report highlights people with disabilities as being particularly at risk to rising mortgage interest rates and the cost-of-living crisis. On almost all metrics, households which include a member with a disability report heightened vulnerability when compared with those who do not. This paper will make several recommendations to address this lack of support.

For the purposes of the policy recommendations outlined in this paper, responsibility for this commitment lies with the Department of Communities. Additional responsibility for this commitment sits with the Department of Health, Department for the Economy and the Department for Infrastructure. In all instances, Housing Rights encourages and supports strong inter-departmental co-ordination and co-operation.

3.1.4 Housing

The PfG includes a commitment to "*tackling the issues to ensure everyone has access to good quality, affordable housing."*

At the centre of this research is evidence of an emerging affordability crisis among homeowners in Northern Ireland. Indeed, this policy report makes several recommendations to address this. It is the responsibility of the Department for Communities and The Executive Office to introduce policy and legislation to uphold the commitment to good quality and affordable housing for all, including homeowners.

3.2 The Department for Communities

3.2.1 The Housing Supply Strategy and Affordability

The Department's Housing Supply Strategy 2022-37[8] proposes to adopt a 'whole system approach' to fulfil the vision of the document,

[8] Housing Supply Strategy 2022-2037 (communities-ni.gov.uk)

"Everybody has access to a good quality, affordable and sustainable home that is appropriate for their needs and is located within a thriving and inclusive community."

Indeed, on affordability specifically, the Department acknowledges that, *"affordability issues will then have to be a key factor in considering our supply challenges and solutions."*

This research is most relevant to the first and second strategy objectives:

1. Creating Affordable Options: Increasing housing supply and affordable options across all tenures meet housing need and demand;
2. Prevention and Intervention: Prevent homelessness, reduce housing stress and improve and prioritise housing solutions for those most in need.

This research details the cohort of people most in need in the homeowner tenure. Similar to the well-documented affordability issues in the Private Rented Sector, there are a number of groups identified within the homeowner cohort who are at risk of losing their homes due to affordability issues. The Department, therefore, has a policy responsibility to tackle this issue.

3.2.2 Data and Evidence

In relation to data and evidence, the Housing Supply Strategy states,

"*We are to developing an on-going housing evidence programme to support and inform all aspects of the Strategy. We will work with others to improve the data quality, availability and coverage to improve our understanding and measurement of the impact of our actions to achieve our vision."*

Referred to in more detail in this report, Housing Rights and other researchers were presented with major challenges in accessing levels of mortgage debt data. As part of the Department's overall responsibility for data and evidence, we urge efforts to create a comprehensive database on Northern Ireland mortgage levels inclusive of levels of debt. This would act as a key indicator of vulnerability levels and housing stress among homeowners.

3.3 Department of Justice

The Department of Justice has policy responsibility for determining eligibility for and the administration of legal aid. Homeowners in Northern Ireland who are subject to repossession proceedings are currently not entitled to legal aid to due to mortgage debt being defined as admitted debt. The Access to Justice Review Part 2[9] acknowledges the importance of access to legal aid for housing cases, recommending that housing as a category should remain within the scope of civil legal aid.

The Northern Ireland Judiciary's pre-action protocol for possession proceedings based on mortgage arrears in respect of residential property[10] is a set of guidelines that describe how the court expects the lender and the borrower to behave before starting a legal action to repossess a home. The protocol aims to ensure that the parties act fairly and reasonably with each other and try to reach an agreement without going to court. The protocol also encourages the use of alternative dispute resolution methods, such as mediation, to resolve the matter. The pre-action protocol states that unless there are compelling reasons, a lender shall not start possession proceedings for mortgage arrears where the borrower can demonstrate that they have submitted a claim for support with

[9] Access to Justice Review 2 Report (justice-ni.gov.uk)
[10] Pre-Action Protocol for Possession Proceedings - 20 October 2021.pdf (judiciaryni.uk)

mortgage interest.[11] The protocol applies to all residential mortgages and to agreements under the Consumer Credit Act 1974 secured by mortgage. The protocol does not apply to buy-to-let mortgages. The protocol was revised on 20 October 2021 and came into effect on 1 November 2021.

3.4 The UK Government

A significant means of mortgage support is the Support for Mortgage Interest Scheme (SMI). SMI is a UK government loan scheme. Originally a social security benefit, the Westminster Government reformed the scheme to become a loan in 2018, resulting in a dramatic decrease in uptake.[12] In April 2023, a further reform was introduced to allow Universal Credit claimants who are also working access to the scheme.

The UK Government, specifically the Department for Work and Pensions has policy responsibility for SMI.

3.5 The Financial Conduct Authority

The Financial Conduct Authority (FCA) is responsible for regulating the mortgage industry and ensuring that mortgage providers and intermediaries comply with rules and regulations to protect consumers. The FCA sets standards for mortgage affordability assessments, disclosure requirements, and conduct of business rules for firms involved in mortgage lending and brokering. They aim to ensure that consumers are treated fairly and that mortgage products are suitable for borrowers' needs and financial circumstances.

The FCA Mortgage Conduct of Business (MCOB) is a set of rules that governs the relationship between mortgage lenders and borrowers in the United Kingdom. It was issued in October 2003 by The Financial Services Authority, which has now been replaced by the FCA. The MCOB rules cover various aspects of mortgage lending, such as conduct of business standards, information and disclosure requirements, responsible lending and arrears management, and consumer protection measures. The MCOB rules are designed to ensure that mortgage customers are treated fairly and receive clear and accurate information about the products and services they are offered. There is a requirement in the FCA's MCOB that lenders make customers aware of the existence of any applicable Government schemes to assist borrowers in payment difficulties in relation to regulated mortgage contracts.[13] This includes the UK Government's SMI scheme.

4.0 KEY RESEARCH FINDINGS

Some of the key research findings include:

- **68% of respondents said they held a fixed rate mortgage, 24% had a variable rate or tracker mortgage, with the remaining 9% stating that they either had a different type of mortgage or were unsure of what they had**;
- **Of the 68% that have a fixed rate mortgage on their home, 13% said their mortgage was due to expire in 2023, with a further fifth (20%) saying it would expire in 2024. Under half (47%) have a mortgage that will expire between 2025 and 2027, with 10% having one that is due to expire in 2028 or later. It should also be noted that 11% were unsure when their**

[11] Section 6.1, Ibid.
[12] SN06618.pdf (parliament.uk)
[13] MCOB 13.3.4B

mortgage was due to expire, with those aged 45 and over (13%) more likely to report this than those aged under 35 (5%);

- **One fifth (19%) stated that they had an 'interest only' mortgage;**
- **Just seven respondents (1%) said they had a suspended possession order on their home;**
- **In relation to negative equity, 7% were of the view that they would not be able to pay their mortgage in full if they were to sell their home in the current market. A further 13% believed that they would break even in this scenario;**
- **15% said they had struggled to pay their mortgage in the last 12 months and 19% stated that their mortgage was either 'not at all' or 'not very' affordable;**
- **18% confirmed that they were finding it difficult on their current household income, 15% that they always or frequently ran out of money before pay day, 19% that they frequently or often borrowed to cover general living expenses.**

4.1 GROUPS MOST IMPACTED

The research found that not all mortgage holders in Northern Ireland are experiencing the impact of rising interest rates to the same degree. There are notable groups of people who display particular vulnerabilities and the findings of the research should be considered when developing initiatives and services to address the impact of rising mortgage interest rates and the cost of living crisis.

These include:

- **households with mortgages that are not fixed rate;**
- **households with a member with a disability;**
- **older mortgage holders;**
- **mortgage holders in the C2DE[14] socio-economic grouping;**
- **mortgage holders with children; and**
- **those living in rural areas.**

The research also found a notable number of people who were unsure of their financial situation. These respondents may be vulnerable due to their lack of knowledge of their financial situation.

4.2 MORTGAGE TYPE

The research identified mortgage holders with mortgages other than fixed rate as particularly vulnerable. These mortgage holders do not have the protection of a fixed rate mortgage deal and are exposed to the interest rate rises, reporting higher housing costs and difficulties managing on their current income.

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[14] C2 - All skilled manual workers, and those manual workers with responsibility for other people. Retired people, previously grade C2, with pensions from their job. Widows, if receiving pensions from their late husband's job.
D - All semi skilled and unskilled manual workers, apprentices and trainees to skilled workers. Retired people, previously grade D, with pensions from their job. Widows, if receiving a pension from their late husband's job.
E - All those entirely dependent on the state long term, through sickness, unemployment, old age or other reasons. Those unemployed for a period exceeding 6 months (otherwise classify on previous occupation). Causal workers and those without a regular income Only households without a Chief Income Earner are coded in this group.

- **While just less than half (47%) reported that their mortgage repayment remained the same as 12 months ago, 44% indicated that their repayments had increased, with the remainder unsure or not having a mortgage in the previous year (8%). Those on a variable rate (81%) were more likely to be paying extra compared to those on a fixed rate mortgage (28%);**

- **Those on variable rate (26%) were more likely to be finding it difficult on their present income compared to those with a fixed rate (15%);**

- **Respondents who have an interest only mortgage (27%) were more likely to say they were finding it difficult on their current income when compared with those who do not have one of these mortgages (16%);**

- **Respondents who have a variable rate or tracker mortgage (20%) were more likely to claim they always or frequently ran out of money when compared with those with a fixed rate (13%);**

- **Those who have an interest only repayment mortgage (20%) were more likely to say they always or frequently run out of money before payday when compared with those who do not have this type of mortgage (14%);**

- **Those who have an interest only mortgage (60%) were more likely to be paying extra on their mortgage when compared with those who don't have one (41%);**

- **Those who were on a variable rate mortgage (34%) were more likely to say their mortgage was not affordable when compared with those on a fixed rate mortgage (13%);**

- **Respondents who have an interest only mortgage (31%) were more likely than those without (15%) to say their current mortgage was not affordable;**

- **15% of respondents said they had struggled to pay their mortgage in the past 12 months, with those on a variable rate (26%) more likely to report this than those with a fixed rate mortgage (11%);**

- **One quarter (25%) of respondents with an interest only repayment mortgage reported that they have struggled to pay their mortgage in the last 12 months, compared to 15% who do not have this type of mortgage;**

- **When asked about the equity in their mortgage if they were to sell their home in the current market, three quarters (75%) said they would be able to make the repayment in full with money to spare, while 13% indicated they could pay it and just about break even. In contrast, 7% believed they would not be able to pay in full, resulting in negative equity. Respondents who were on an interest only mortgage (15%) or variable rate mortgage (11%) were more likely to report they would be in negative equity than those on a fixed rate mortgage (5%). Of those who would be in negative equity, 46% were unsure of how much they would still owe.**

4.3 SOMEONE IN HOUSEHOLD WITH A DISABILITY

Households with a member with a disability report particular vulnerabilities and difficulties in making ends meet. This is not surprising and there is a wealth of data which highlights the additional costs of living with a disability. The higher cost of specialist equipment, higher usage of everyday essentials and energy, and an inadequate welfare system, are all making it harder for disabled households to meet the extra cost of disability. Scope UK has recently published figures in its 2023 Disability Price Tag report which shows that on average, households with at least one member of the household with a disability need an additional £975 a month to have the same standard of living as non-disabled households. If this figure is updated to account for inflation over the current period 2022/2023, these extra costs rise to £1,122 per month. On average, the extra cost of disability is equivalent to 63% of household income after housing costs.[15]

- **Those who have someone in their household with a disability (31%) were more likely to be finding it difficult on their present income than those who do not (15%);**
- **Almost one quarter (23%) of households with a member with a disability reported that they always or frequently ran out of money before payday, compared to 13% of those without a disability;**
- **Those who have a household member with a disability (50%) were more likely to have had to borrow money in the past year compared to those without a disability (34%);**
- **Respondents who have someone in their household with a disability (54%) were more likely to be paying extra on their mortgage than they were 12 months ago compared to those without a disability (42%);**
- **One quarter (25%) of respondents with a household member who has a disability said their mortgage was not affordable, compared to 17% without a disability;**
- **Those who have a household member with a disability (24%) were more likely to state they have struggled to pay their mortgage compared to those without a disability (13%).**

4.4 AGE RELATED FINDINGS

The research has identified older mortgage holders; those in the 45 plus age bracket and those aged 35-44, as more likely to be impacted by the rising interest rates and cost of living crisis. This group was also highlighted as vulnerable by the Institute of Fiscal Studies (IFS) in 2022 due mainly to the higher proportion of older mortgage holders who have variable rate mortgages.[16] This is also borne out in our research where 86% of 18-34 year olds report having a fixed rate mortgage as opposed to 71% of 35-44 year olds and 63% of mortgage holders aged over 45.

- **Respondents aged 18 to 34 (44%) were more likely to say they were living comfortably on their present income compared to those aged 35 to 44 (30%) or 45 plus (34%). While 10% of 18 to 34 year olds indicated that they were finding it difficult on their present income, this increased to 17% for those aged 35 to 44 and 20% for those aged 45 or older;**
- **Those aged 45 and over (18%) were more likely to say they always or frequently ran out of money before payday when compared with those aged 35 to 44 (12%) and under 35 (9%);**
- **Those aged under 35 (25%) were less likely to have had to borrow money in the past year, compared to those aged 35 to 44 (41%) and those aged 45 plus (38%);**

[15] Disability Price Tag 2023: the extra cost of disability | Disability charity Scope UK
[16] Who is most affected by rising mortgage interest rates? | Institute for Fiscal Studies (ifs.org.uk)

- **Respondents aged 18 to 34 (61%) were more likely to be paying nothing extra on their mortgage compared to 12 months ago than those aged 35 to 44 (48%) and 45 plus (45%);**
- **Respondents aged 35 to 44 (20%) and 45 and over (20%) were more likely to say their mortgage was not affordable than those aged under 35 (9%);**
- **Those in the older age group (17% of those aged 45 or older) were more likely than those aged under 35 (8%) to say they have struggled to pay their mortgage.**

4.5 SOCIO-ECONOMIC GROUPING

The research also identifies mortgage holders in the C2DE socio-economic grouping as particularly vulnerable. This group tends to be on lower incomes and is defined as follows:

C2 - All skilled manual workers, and those manual workers with responsibility for other people. Retired people, previously grade C2, with pensions from their job. Widows, if receiving pensions from their late husband's job.

D - All semi skilled and unskilled manual workers, apprentices and trainees to skilled workers. Retired people, previously grade D, with pensions from their job. Widows, if receiving a pension from their late husband's job.

E - All those entirely dependent on the state long term, through sickness, unemployment, old age or other reasons. Those unemployed for a period exceeding 6 months (otherwise classify on previous occupation). Causal workers and those without a regular income Only households without a Chief Income Earner are coded in this group.

The IFS also identified lower income mortgage holders as particularly vulnerable to the mortgage rate interest rises in 2022, due to a lower proportion of this group holding fixed rate mortgages.[17] This is borne out by our research where almost three quarters (73%) of respondents in the ABC1[18] socio-economic group have a fixed rate mortgage, compared to 57% in the C2DE category.

- **Over a quarter (27%) of those in the C2DE group said they were finding it difficult on their current income compared to 15% in the ABC1 group;**
- **One quarter (25%) of respondents in C2DE households said they always or frequently ran out of money, compared to 11% in the ABC1 group. In contrast, those in the ABC1 group (68%) were more likely than those in the C2DE group (53%) to very rarely or never run out of money before payday;**
- **Respondents in the C2DE group (43%) were more likely to have borrowed money than those in the ABC1 group (35%);**

[17] Ibid.
[18] A These are professional people or are very senior managers in business or commerce or top-level civil servants. Retired people, previously grade A, and their widows.
B Middle management executives in large organisations, with appropriate qualifications. Principle officers in local government and civil service. Top management or owners of small businesses concerns, educational and service establishments. Retired people, previously grade B, and their widows.
C1 Junior management, owners of small establishments, and all others in non-manual positions. Jobs in this group have very varied responsibilities and educational requirements. Retired people, previously grade C1.

- **Half (51%) of those in the C2DE group were paying extra on their mortgage than they were 12 months ago, compared to 41% in the ABC1 group;**
- **29% of those in the C2DE group thought their mortgage was not affordable, compared to 14% in the ABC1 group;**
- **One quarter (26%) of respondents in the C2DE group indicated they had struggled to pay their mortgage in the past year, compared to 11% in the ABC1 group.**

4.6 CHILDREN

Our research found that mortgage holders with children are paying more for their mortgage than those without children. This cannot be explained by the type of mortgage that mortgage holders with children have as 70% of mortgage holders with children report they are currently on a fixed rate mortgage. However, mortgage holders with children are more likely to own larger homes, which may account for the higher housing costs reported. Analysis also shows that households with children are also more likely to find the cost of living crisis more difficult than other groups, with inflation rates for households with two children rising by an annual rate of 13%, according to research from the Joseph Rowntree Foundation and Loughborough University, faster than the 9% rate of inflation found in official statistics.[19] While this group face additional pressures due to having both higher housing costs and higher rates of inflation, they are more likely to be currently on fixed rate mortgages than those without children, currently shielding them somewhat from the full impact of the cost of living crisis and the mortgage interest rate rises. This is a group who may face significant financial difficulties as their fixed rate deals come to an end and additional support for mortgage holders with children should be urgently considered.

- **Respondents who have children of pre-school age (81%) or children of any age (70%) were more likely to have a fixed rate mortgage compared to those without children (65%);**
- **28% of those without children pay less than £400 per month on their mortgage, compared to 18% with children. Those with children (22%) were more likely to pay more than £800 per month when compared with those who do not have children (13%);**
- **Respondents who do not have children (34%) were more likely to have up to five years left on their mortgage when compared with those who have children (18%).**

4.7 RURAL HOUSEHOLDS

The research has also identified mortgage holders in rural areas as a particularly vulnerable group. This is supported by data from the Department of Agriculture, Environment and Rural Affairs which has found that levels of home ownership are higher in rural than in urban areas (80% to 63%), with house prices in rural areas higher on average than in towns and cities. It also found that people living in rural areas were twice as likely as urban households to be in fuel poverty, with almost a third (32%) of rural households experiencing fuel poverty compared to 16% of those in urban areas.[20]

[19] Research by Loughborough finds families are facing increases in costs of £400 per month | Media Centre | Loughborough University (lboro.ac.uk)
[20] Key Rural Issues Publication - 2020 | Department of Agriculture, Environment and Rural Affairs (daera-ni.gov.uk)

- **Those living in rural areas (19%) were also more likely to have said that they struggled to pay their mortgage in the last 12 months when compared with respondents in urban areas (13%);**
- **Those living in rural areas (21%) were more likely than those in urban areas (16%) to be paying more than £800 per month;**
- **Those living in rural areas were more likely to have a shorter time remaining on their mortgage than those living in urban areas.**

4.8 LACK OF KNOWLEDGE ABOUT FINANCIAL SITUATION

There is a considerable cohort of respondents to the survey who are unsure of their financial situation and are unaware of their mortgage type, how much they are paying per month, when their mortgage is due to expire or who have not yet looked at options to replace their mortgage when their fixed rate deal ends. This is a vulnerable group who may be protected currently through having a fixed rate mortgage but who are likely to be exposed to the interest rate rises and the impact of these in the near future.

- **4% were unsure of the type of mortgage they have;**
- **8% were unsure if their mortgage repayments had increased or remained the same as 12 months ago or reported that they did not having a mortgage in the previous year;**
- **9% were unsure how much they pay per month on their mortgage;**
- **Respondents were asked how much extra they were paying per month on their mortgage compared to 12 months ago. 7% were unsure how much extra they were paying;**
- **11% were unsure when their mortgage was due to expire, with those aged 45 and over (13%) more likely to report this than those aged under 35 (5%);**
- **Less than one third (32%) of those respondents who said their fixed rate mortgage would expire in 2023 said that they have looked at options to replace their mortgage. Of the 29 respondents who reported this, six were unsure how much extra per month they were being quoted to replace their mortgage deal, and four said they were quoted the same amount as 12 months ago. 19 respondents confirmed that they had received quotes that would increase their monthly payment, with six saying that their quote was up to £100 per month extra, five confirming it was £101 to £200 extra, three stating it was between £201 and £300, and five saying it was more than this.**

5.0 ANALYSIS AND RECOMMENDATIONS

5.1 VULNERABLE GROUPS AND FINANCIAL ASSISTANCE

The research identified mortgage holders with mortgages other than a fixed rate as particularly vulnerable. Mortgage holders on a variable rate or interest only mortgage were more likely to be paying extra compared to 12 months previously, were more likely to be finding it difficult on their present income, were more likely to always or frequently run out of money before payday and were more likely to say they were struggling to pay their mortgage or report that their mortgage was not affordable.

Table 4.1 of the research report breaks down type of mortgage by age, social grade, location, children and disability. The data shows that the groups least likely to be on a fixed term mortgages (Socioeconomic grouping C2DE, interest only mortgage holders and households with a member with a disability) are groups who are otherwise most vulnerable to cost-of-living pressures and who are reporting increasing costs and difficulties in paying their mortgage.

Households with a disabled member display a high level of vulnerability to increased interest rates in particular. Households with a disabled member were more likely to find it difficult on their present income than those that did not, more likely to always or frequently run out of money, more likely to have had to borrow money in the past year, more likely to be paying extra on their mortgage than 12 months previously, more likely to say their mortgage was unaffordable and more likely to have struggled to pay their mortgage.

These findings are supported by recent research. Two recent reports from the IFS warn how interest rate rises are forcing increasing numbers of households to spend over 20% of their income on mortgage repayments.

In an article published in September 2022[21], at a time when the Bank of England had just voted to increase interest rates to 1.75%, Cribb and Sturrock included a stark warning for low-income households, stating that,

"not only will wider inflationary pressures be putting greater pressure on household budgets, but more than two-in-three low-income mortgagors could end up paying more than a fifth of their income on mortgage repayments, if mortgage interest rates rise by 2.50ppts. In addition, lower-income mortgagors, along with older people, are also more likely to be on a variable rate mortgage than and so more likely to face such an increase coming sooner."

Since this, interest rates have risen by a further 3.50ppts, exceeding the rate at which IFS expressed serious concerns for low-income mortgage holders. This has had serious consequences for mortgage holders. In June 2023, IFS published another article[22] outlining the impact of the interest rate rises on the income of mortgage holders. It is estimated that 60% of all mortgage holders are spending more than a fifth of their income on mortgage payments. In March 2022, this was true for only 36% of mortgage holders. Of all adults in the United Kingdom, 19% are spending a fifth or more of their income on mortgage repayments, and 10% are spending over 30% or more of their income on mortgage repayments.

These figures go some way to highlighting the pressure low-income households are under as a result of increasing mortgage payments brought about by the interest rate rises. This is particularly damaging to a cohort which is already struggling[23] with this cost-of-living crisis.

Housing Rights believes that the support system to prevent these vulnerable groups from entering arrears and risking homelessness must be strengthened.

[21] Who is most affected by rising mortgage interest rates? | Institute for Fiscal Studies (ifs.org.uk)
[22] Interest rate hikes could see 1.4 million people lose 20% of their disposable income | Institute for Fiscal Studies (ifs.org.uk)
[23] 5.7 million low-income households having to cut down or skip meals, as JRF's cost of living tracker shows "Horrendous new normal" | JRF

Recommendations

1. **The Support for Mortgage Interest (SMI) should be reinstated as a non-repayable grant that can be accessed after 13 weeks. It should also be increased to reflect current interest rates.**

2. **The Mortgage Charter[24] commitment to that a, 'borrower will not be forced to leave their home without their consent unless in exceptional circumstances, in less than a year from their first missed payment,' must expand in scope to precede the current date of the 26th June 2023 and apply to anyone who is able to demonstrate that their payment problems arose as a result of the concentration of interest rate increases beginning in December 2021. Further, given the additional cost of living pressures on vulnerable groups, consideration should be given to extending this commitment to members of these groups in all circumstances.**

3. **The Government should urgently explore the introduction of a mortgage rescue scheme in Northern Ireland, as exists in other parts of the United Kingdom,[25] to enable homeowners facing repossession to stay on in their homes either as tenants or shared owners.**

4. **There are a number of groups who are identified as particularly vulnerable in this research. Access to equality of opportunity is a central tenet of the Northern Ireland constitutional settlement as enshrined in the Northern Ireland Act 1998. People with disabilities, older people, those on lower incomes, those with dependants and those living in rural areas face particular difficulties, and the research shows that the impact of the cost of living and interest rate rises are disproportionately adversely impacting on members of these groups. It is vital that financial support is made available to assist members of these groups to prevent them losing their homes.**

5.2 ADVICE, HELP AND SUPPORT

The case studies highlighted in the research display a worrying level of uncertainty among struggling mortgage holders about where they can turn for advice and support. The case studies range from fear of contacting the lender because of a perception of lack of lenience, to being unaware of alternate advice or support services, to information being difficult to find, interpret, or work out if the support will apply to them as the mortgage holder. Research from the Financial Conduct Authority and Money Helper[26] similarly highlights a lack of willingness to seek support and found that 42% of borrowers who were struggling and ignored their lenders' attempt to contact them had done so because they felt ashamed. Two out of five people (40%) who were struggling financially incorrectly thought simply talking to a debt adviser would have a negative impact on their credit file. Research by Sopra Steria[27] found that over a third (38%) of respondents who had a loan or mortgage were fairly or very uncomfortable in contacting their lender for support if they were behind on repayments. It also found that while most people (88%) reported that they are confident in managing their finances, 30% of people were not confident that they could cope with an unexpected bill or unforeseen expenditure. Financial shocks, such as the end of a fixed rate mortgage deal

[24] Mortgage Charter - GOV.UK (www.gov.uk)
[25] Get help from the government - mygov.scot
[26] Consumers struggling with rising prices urged to seek help | FCA
[27] Research: Consumers lacking awareness of debt support (soprasteria.co.uk)

coupled with the impact of the cost of living crisis, are likely to present some difficulties for many consumers. Of those who said they would struggle to pay an unexpected bill, worryingly 15% said they would do nothing.

Housing Rights' experience in working with people who are the subject of legal action such as repossession orders corroborates the fears expressed in the case studies in the research report around a lack of lenience and the stigma that remains around debt. In the experience of our legal team, mortgage lenders are often least likely to exercise options once litigation stage is reached. Housing Rights is also finding that the recent Mortgage Charter is not benefitting the vast majority of our clients, as they are already in arrears and the Mortgage Charter makes limited provision for people in this situation.

Although not explored in this research, there is a knock-on effect accompanying serious financial and housing pressure on the mental health of mortgage holders which needs to be considered in policy recommendations. Mind, a mental health charity in England, published research revealing that interest rate rises have impacted the mental health of 14 million people in England and Wales[28] with a greater impact on people who have pre-existing mental health issues and younger people. Dye & Durham commissioned independent market research firm Danebury Research to carry out a survey on the impact of the cost-of-living crisis on mortgage holders in the UK.[29] It found that 56% of mortgage holders say the cost-of-living crisis has impacted their mental health. 30% of those surveyed are worried they will miss a payment within the next year.

It is clear that there is a vital need to increase ease of access to financial, housing and debt advice and other sources of support. It is also clear however, that this crisis is impacting on the mental health of mortgage holders, something which needs to be taken into consideration in considering the type of support required by mortgage holders in Northern Ireland.

<u>**Recommendations**</u>

5. **Lenders and their agents should adopt an end to end,[30] 'person-first' approach, whereby the priority of any interaction with a customer should be focused on supporting the customer and meeting their needs. An effort should be made to fully understand a customer's circumstances, financial capacity and willingness to engage, with the objective of any conversation to be a collective agreement.**

6. **To achieve this, all available options for support and assistance, along with the long-term impacts of these options, should be explained to the customer upon completion of an assessment of their financial situation and before any enforcement is issued, provided there is customer engagement. Advice, guidance and support should be provided for the customer at every step of the process, including signposting to independent agencies such as Housing Rights in all correspondence about housing debt.**

[28] Soaring mortgage rates hit 14 million people's mental health - Mind
[29] More than Half of UK Mortgage Holders Struggling with Mental Health as Cost of Living Crisis Hits Home - Dye & Durham (dyedurham.co.uk)
[30] 'End to end' should be from the customer's first concern about potentially falling into arrears to the eviction stage.

7. **Guidance on an end to end,[31] 'person-first' approach should be issued to everyone working on behalf of lenders who may be required to give advice and support. Targets for agents and solicitors operating for lenders should reflect this approach to incorporate agreements made, support provided and households retaining their home.**

8. **Lenders, their agents and solicitors should routinely signpost the customer to independent organisations offering free housing or debt advice to maximise the customer's access to information and support from both the lender and from an independent perspective.**

5.3 ACCESS TO JUSTICE

The current cost-of-living crisis and high interest rates are combining to create the perfect storm for low-income and vulnerable mortgage holders. It is clear that low-income households, households with a disabled person, mortgage holders on deals other than fixed rate and mortgage holders whose deals are expiring within six months are particularly vulnerable to further mortgage rate increases. It is important to note that people expressing affordability concerns at time of interview in May or June 2023, will have these compounded by a further interest rate rise of 0.75ppts since June. Further, mortgage holders who are one of the 1.4 million across the UK[32] whose fixed rate deals are expiring this year, will face an immediate financial shock in the form of a substantial increase in their monthly payments.

Evidence of the effects of interest rate changes on people's standard of living often take several months to become apparent. It is Housing Rights' experience that, while the research shows a significant cohort of approximately one fifth of mortgage holders in financial difficulty at the time of interview, compounded by developments since May and June 2023, the full scale of the impact on people's ability to maintain their home is now coming to fruition.

This is borne out by the client experience of people in need calling Housing Rights for help in relation to their mortgage and the danger of losing their home. In Northern Ireland, legal aid is not available for admitted debt / repossession cases. This is in contrast to England and Wales where legal aid can be accessed for repossession cases where a customer passes a means-tested eligibility test.[33] In Scotland, the Scottish Legal Aid Board funds projects across Scotland to help people who are facing legal problems, including assistance and representation focused on the resolution of a mortgage repossession.[34] Housing Rights has developed an emergency Housing Possession Court Duty Scheme (HPCDS) wherein a solicitor from Housing Rights will attend the High Court in Belfast, to assist those at risk of losing their homes due to mortgage debt and who are unrepresented at court.[35] New court cases are the most likely to engage with this service. Housing Rights access the public lists and determine what days and times we should attend to make the most of our limited resources available. The High Court involved has recently moved from a process of virtual hearings due to the pandemic, back to in person hearings.

[31] Ibid.
[32] 1.4 million fixed-term mortgages set to expire in 2023 (lpropertylawyers.co.uk)
[33] Who can get legal aid? - Public Law Project
[34] Do you need help with housing eviction, repossession, welfare benefits, debt or small claims? - Scottish Legal Aid Board (slab.org.uk)
[35] Housing Rights receives funding for 0.5 FTE of a solicitor's post for the provision of this service from the Department of Justice.

There has been a notable rise in the number of cases in recent months, which is presenting serious capacity issues and hindering our ability to offer assistance and representation to everyone who needs it at court. During the week ending 28/05/23 there were approximately 26 potential cases that Housing Rights could assist in, 5 of these were new court cases. During the week ending 15/10/23 there were approximately 113 potential cases Housing Rights could assist in, 63 of these were new court cases. It is simply not feasible for Housing Rights to meet the need and facilitate equal access to justice for all the people on court lists who are at risk of losing their homes. Although this increase can also be attributed to the reversion to in person hearings, discussions with the Northern Ireland Court Service (NICTS) have led Housing Rights to believe that this increased level of litigation in Northern Ireland courts is likely to become the new norm.

Many of our previous clients are also getting in touch again, as Court Orders made but suspended in the past are being reactivated, due to the multiple increases in interest rates leading to default on the Orders and the lenders bringing the matters back before the Court.

A typical client's mortgage interest rate was 4.49% in June 2022 and it was 7.99% in June 2023. These are people who were already struggling at the lower rate and whose homes are now no longer affordable. They usually find it difficult to refinance due to their credit rating and it is our experience that lenders are generally less willing to apply forbearance measures such as restructuring the mortgage, when the client is in arrears or has had previous litigation action.

Recommendations

9. **Lenders, their agents and solicitors should provide the subject of legal enforcement with advice regarding access to justice at every stage of the process. Lenders and those acting on their behalf should also signpost mortgage users to free, independent housing or debt advice organisations so that the customer has full access to legal representation and justice from end to end.**

10. **As the worrying impacts of the interest rate rises force more people into housing stress, it is vital that they are provided with appropriate means of accessing the justice they are entitled to. This includes access to expert advice and court representation. Organisations offering such services should be sufficiently resourced and equipped to do so to ensure that everyone who requires legal advice and court representation can access it, with the goal of preventing mortgage holders from becoming homeless.**

5.4 AWARENESS RAISING

The Mortgage Charter[36] as agreed on 26th June 2023 offers welcome protections for mortgage holders who are struggling with rising payments or worried that they may not be able to cope in the future. The Mortgage Charter is an agreement between mortgage lenders and the Financial Conduct Authority, laying out a set of standards agreed by the Chancellor to support regulated residential mortgage borrowers. It includes provisions aimed at promoting transparency in lending practices, a commitment to the fair treatment of borrowers, and measures designed to make mortgages more accessible and affordable. Housing Rights particularly welcomed the commitment from lenders in the Charter that customers have the chance to lock in a deal up to six months ahead of the end of their

[36] Mortgage Charter - GOV.UK (www.gov.uk)

fixed rate deal. Customers also have the ability to manage their new deal and request a better like-for-like deal with their lender right up until their new term starts, if one is available.

However, this research shows that less that one third (32%) of interviewees who said their fixed rate mortgage would expire in 2023 have looked at options to replace their mortgage. Interviews were carried out in May and June 2023, which means that, once the Mortgage Charter was agreed and implemented, the respondents who had not considered their mortgage options would, or would soon, be eligible to avail of this ability to lock in a favourable deal.

It is of paramount importance that customers are made aware that in the majority of cases, their mortgage payments will increase upon the expiry of their fixed rate term and the potential impact on their financial circumstances and standard of living. Mortgage holders should be made aware of options to secure the best possible deal available to them and encouraged to address this with their lender or other providers at the earliest possible stage.

Recommendation

11. **The UK Government should run an awareness campaign highlighting the changes made through the Mortgage Charter and encouraging mortgage holders to contact their lender at least six months before the expiry of their current mortgage term. All lenders should write to customers who are approaching the final six months of their mortgage term, advising them of their current mortgage situation, the options and support available and encourage them to engage as soon as possible so that the customer may have the maximum opportunity available to them to secure a deal which best suits them.**

5.5 LENDERS

As the case studies and research cited above at 5.2 show, there is often a reluctance on the part of mortgage holders to contact their lender. Lenders should aim to address these fears by adopting a person-first approach, whereby the priority of any interaction a lender, their agent or solicitor have with a customer, is focused on supporting the customer and meeting their needs in both the short and long term. By providing bespoke and proactive support to customers, lenders could contribute more effectively to enabling their customers to make their mortgage payments and help them remain in their homes.

Similarly, we believe this person-first approach should be broadened to include the exercise of more discretion in the legal stages of forbearance. Options to display leniency, including forbearance, should be exercised where feasible to enable struggling customers the maximum opportunity possible to retain their home.

Every step of the mortgage enforcement process should be accompanied by advice and guidance for customers, with the full range of options available to them clearly explained. Staff, including agents and solicitors working on behalf of lenders, should be issued with customer centred guidance and receive training on this approach and it should be adopted as the standard means of approaching customers in financial difficulty or falling behind on their mortgage payments.

We believe early signposting to free, independent, specialist housing advice, such as that provided by Housing Rights, would also be beneficial to mortgage holders. There should also be an obligation on lenders to signpost should a customer express unhappiness with advice they have received from the lender, or expresses an interest in receiving a second opinion on their situation.

Recommendations

12. **Lenders should encourage customers in arrears to proactively seek advice and support and take action to dispel any fears customers may have. While in many cases lenders will be obliged to operate within the Mortgage Charter, they should endeavour to deal with customers in the spirit of the Charter as far as practicable in all cases.**

13. **Lenders should work towards being more proactive in identifying vulnerability, and providing support before customers fall into arrears. Strategies should be urgently employed to break down the barriers of fear and embarrassment, while building up levels of education in consumers. By predicting behaviours, lenders should become better equipped to effectively support customers throughout their financial lifecycle with personalised contact strategies, delivered at scale. This should include signposting to independent support available from organisations like Housing Rights, as well as support from other agencies for issues including mental health difficulties.**

5.6 TRANSPARENCY AND DATA

A recent study[37] from the Centre for Progressive Policy highlighted the lack of data and information available on levels of mortgage debt in Northern Ireland as a major barrier to effectively assessing the full impact of the cost-of-living crisis in Northern Ireland. Similarly, recent research into Destitution in the UK[38] also reported limited data sets available for Northern Ireland, preventing complete analysis across all regions of the UK. Indeed, Housing Rights was frustrated by the same lack of access to Northern Ireland specific data when commissioning this research. We are aware from recent discussions with UK Finance that there are plans to make more data available on mortgages in Northern Ireland, and we welcome this as we believe this is necessary and overdue.

While it is Housing Rights' intention that this research will help plug some the data deficits for Northern Ireland, we are aware that the findings are a snapshot of a point in time. Given the pace of change and subsequent interest rate rises since the field work for the research was carried out, it is vitally important that detailed, Northern Ireland specific data is made publicly available and updated on an ongoing basis.

Housing is a central tenet of people's lives, and a stable home is the foundation upon which a fulfilling life can be built, personally, professionally and economically. The health of the mortgage market and its associated levels of debt is a vital piece of missing data that should inform policy makers and policy decisions at a local, Assembly and national level. Given the pace of change in the current financial landscape, the lack of access to transparent and detailed data on an ongoing basis severely prevents us from having an up to date and comprehensive picture of the scale of the cost-of-living crisis in Northern Ireland and the impact of the interest rate rises. Significantly, it also limits the ability of decision makers to make evidence based policy decisions which, among other areas, may ultimately mean the difference between a person maintaining their home or becoming homeless.

[37] CPP | The cost of living crisis in Scotland, Wales and Northern… (progressive-policy.net)
[38] Destitution in the UK 2023 | JRF

Recommendation

14. **We are aware that there are plans to make more data available on mortgages in Northern Ireland, and this should be urgently prioritised. Detailed, Northern Ireland specific data on the level of mortgage debt and circumstances of those in debt should be publicly available and regularly updated to allow for timely, evidence based policy decisions in this area. The Department for Communities should consider how appropriate data on mortgages and vulnerability in the market particularly in relation to levels of mortgage debt, can be gathered, published and analysed. This may include but should not be limited to engagement with UK Finance and the Financial Conduct Authority.**

6.0 CONCLUSION

The cost of living crisis and rising interest rates are compounding to put pressure on many mortgage holders in Northern Ireland. This research shows that not all groups are experiencing these issues uniformly and highlights particularly vulnerable groups among those as being hardest hit. Without detailed data on mortgage debt and homeowner resilience in Northern Ireland, we have been unable until now to get a clear picture of the level of pressure being borne by whom as a result of rising interest rates and the cost of living crisis. This research allows us to have a clearer understanding of the type and level of supports which need to be put in place to help people struggling to meet their mortgage payments and avoid housing crisis.

There is a pressing need for the urgent restoration of the Northern Ireland Executive to take action on these findings and to develop fit for purpose initiatives and services to ease the burden on struggling households. Housing Rights will work to ensure that the recommendations in this Policy Brief are acted upon in a timely and comprehensive manner and will continue to assist, support and represent struggling mortgage holders to retain their homes.

Housing Rights

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