Addressing and Resolving Mortgage Arrears in Dublin City Council

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Overview

1. DCC Mortgage Book at March 2015
   - Forbearance under Mortgage Arrears Resolution Process (MARP)
   - Spatial Distribution of DCC Mortgages

2. Shared Ownership Scheme
   - Origins and background

3. Research Study on DCC Shared Ownership
   - Stage 1 findings (2012/3)
   - Stage 2 findings (2013/4)

4. Policy Development Options for DCC

DCC Mortgages @ March 2015: the 'mortgage book'

Table 2: The DCC loan book at March 2015

Type of loan	Number of loans	Value of loans (€)
Shared ownership	1255	190,352,809
Annuity	1225	109,428,240
Voluntary body	97	7,340,752
Home choice	11	1,707,396
TOTAL	**2,588**	**308,829,200**

- 1,192 (46%) of all loans in arrears;
- €157.2m (51%) of capital balance outstanding is impaired;
- Average arrears value of €12,677 per impaired or non-performing loan (@ December 2014 data);

DCC Mortgages @ December 2014: total arrears due has increased fivefold since 2007

Table 3: Total arrears balance and amounts collected by DCC, 2007-2014

Year end (December 31st)	Total amount due (€)	Total arrears (€)	Amount collected (% of amount due)
2007	26,381,050	**3,028,871**	92.4
2008	26,672,691	3,535,646	89.9
2009	22,352,766	5,479,127	78.0
2010	22,271,820	7,120,607	79.0
2011	21,298,375	9,289,652	71.0
2012	21,568,881	10,985,896	68.0
2013	20,390,003	13,436,685	60.0
2014	21,169,307	**15,809,314**	58.3
31/03/2015	*5,676,657*	*15,755,148*	*27.3*

DCC Mortgages @ March 2015: Medium- to long-term arrears is clearly a significant problem

- Almost three quarters of impaired accounts (74%) are more than 3 months in arrears, and;
- Almost half are more than one year in arrears i.e. 605 households > 12 months in arrears.

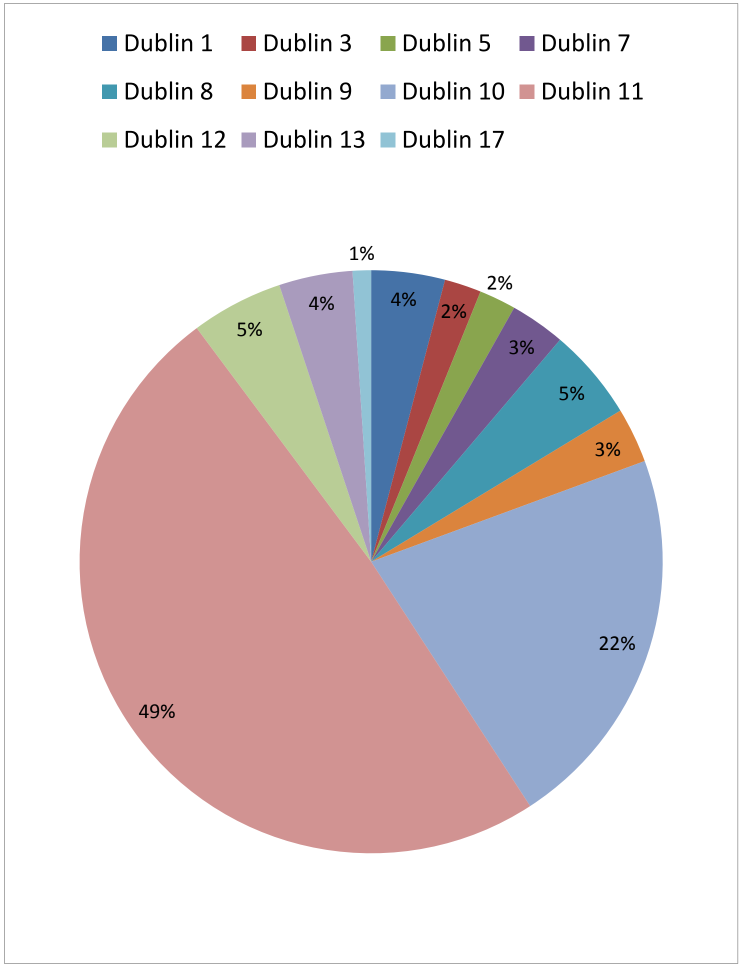
Category	Revenue Balance	No. loans	Loan Capital Balance	% of loan arrears per capital balance
Less than 1 month arrears	€46,037.85	149	€18,777,441.12	**0.25%**
1 – 2 month arrears	€100,387.21	95	€11,916,689.46	**0.84%**
2 – 3 months arrears	€94,979.69	57	€6,541,169.72	**1.45%**
More than 3 months	€1,537,392.81	286	€37,711,316.55	**4.08%**
More than 12 months	€13,976,351.39	605	€82,256,441.43	**16.99%**
Total Arrears	**€15,755,148.95**	**1,192**	**€157,203,058.25**	**10.02%**
Not in arrears		1,396	€151,626,141.94	
GRAND TOTAL	€15,755,148.95	2,588	€308,829,200.22	**5.10%**

DCC Mortgages: unsustainable accounts for Mortgage to Rent (MtR) and for possession (@ December 2014)

At the end of 2014, a total of 251 accounts are categorised as unsustainable with 154 being assessed for mortgage to rent and the balance of 97 being assessed for possession (there are 25 properties due for repossession in 2015, 12 of which are abandoned).

In terms of DCC repossessions, to date there have been 16 cases of voluntary surrender and 93 District Court repossessions (a total of 109 properties have therefore been taken into DCC's possession). The vast majority of these (n=100) relate to shared ownership including 'affordable' shared ownership. Repossessed properties are located across the city, with the majority in Dublin 10 and Dublin 11.

To date, only TWO households entered homeless services as a result of possession. Both departed to PRS.



DCC Forbearance under Mortgage Arrears Resolution Process (MARP)

At December 2014:

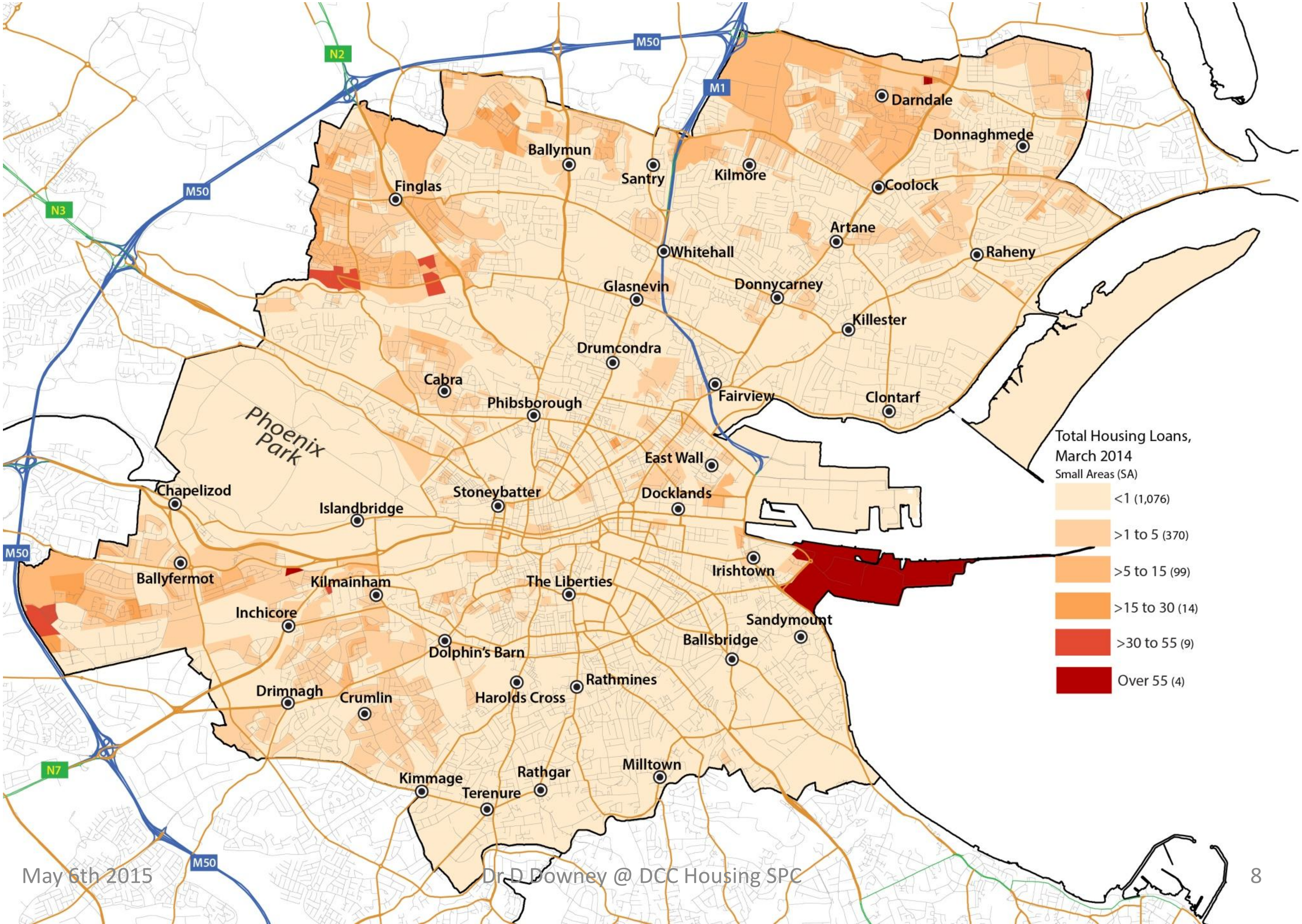
a) The majority of DCC's distressed borrowers (1157 or 93%) are engaging with DCC forbearance arrangements.

a) Only a minority (n = 90 or 7%) are currently not engaging and are being dealt with accordingly under the MARP.

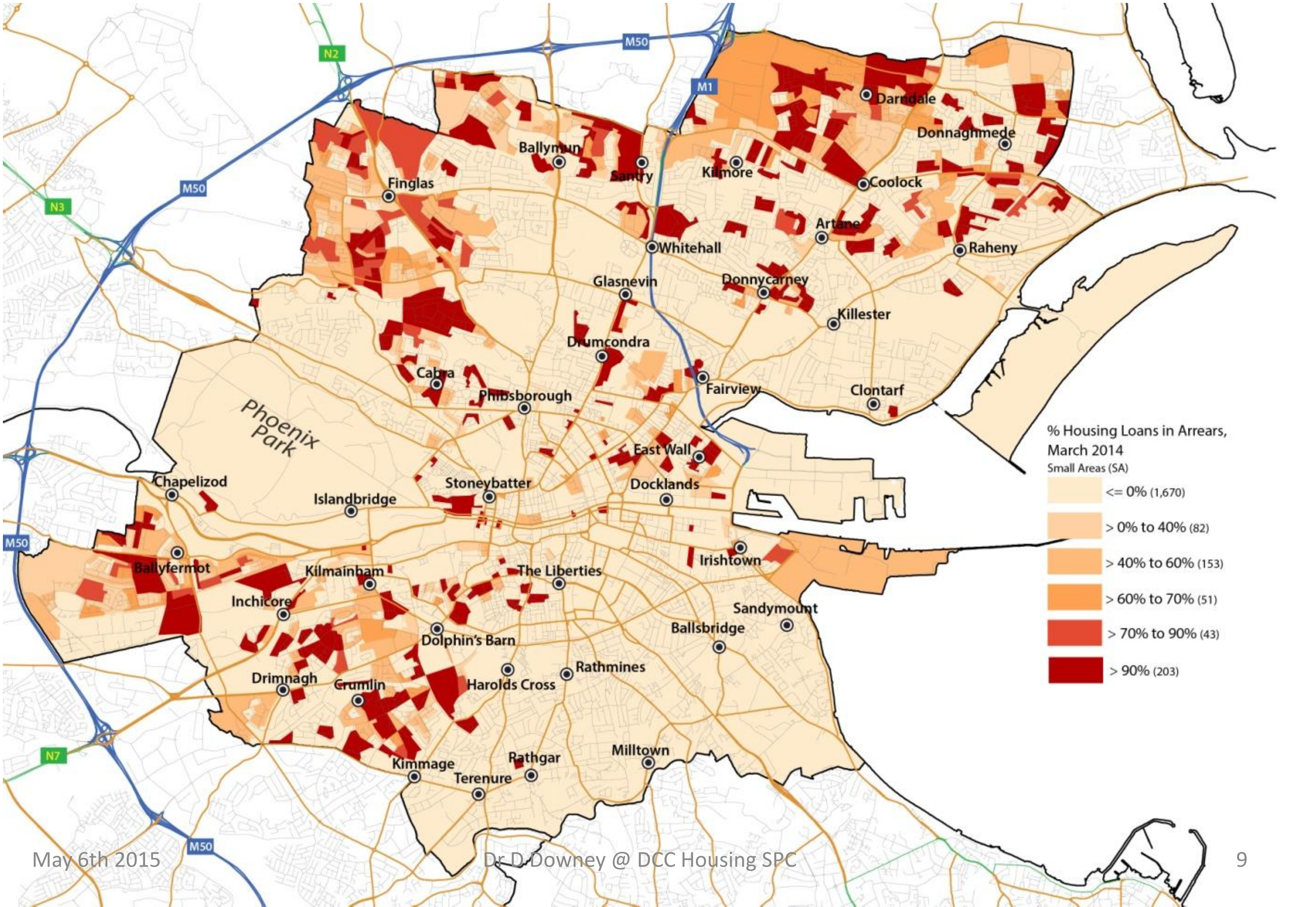
b) Around a quarter (n=310) are currently engaging under the local authority Mortgage Arrears Resolution Process (MARP); about two thirds (n=847) are currently being reviewed, assessed and ICB checked with regard to their Standard Financial Statements (a requirement of the MARP).

c) The <u>majority of borrowers are working </u>(n=876), but a sizeable minority is either unemployed (n= 358) or separated (n =95). The balance are self-employed (n=13).

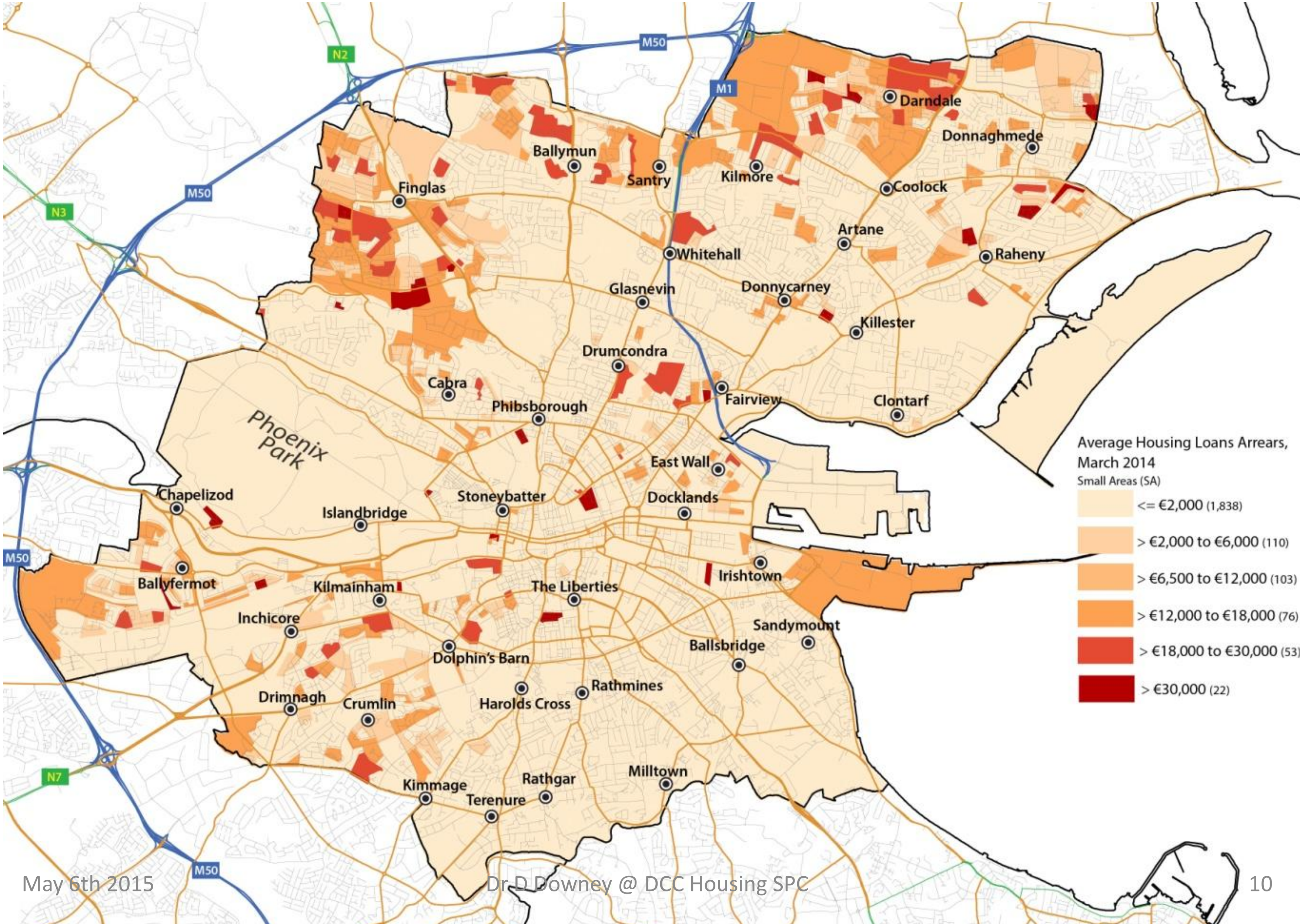
Spatial Distribution of All DCC Housing Loans (March 2014)



Spatial Distribution of Number of DCC Housing Loans in Arrears (March 2014)



Spatial Distribution of DCC Mortgage Arrears (March 2014)



Low-income homeownership *via* local government mortgages: Irish state-backed completion of residential mortgage market pre-EMU (i.e. *Shared Ownership v1*; Affordable Housing Scheme, 1999) and post-EMU (*Shared Ownership v2*; Part V Affordable Housing Scheme 2000/2002)

- The Shared Ownership scheme was one of the measures introduced by the then Department of the Environment under the policy document *'A Plan for Social Housing'* in 1991.
- Established to 'facilitate access to home ownership to those who were unable to buy a home outright with a conventional mortgage'.
    - In the early 1990s, the ERM Crisis and subsequent devaluation of Sterling and the its impact on the valuation of the Irish Punt produced a credit contraction and ensured that households on lower incomes were unable to access mortgage finance from a bank or building society.
    - High interest rates (1992-1995) were considered a further barrier to entry to Irish home ownership.
- Notable among the eligbility criteria was a requirement for asprirant borrowers to confirm <u>two</u> rejected applications for mortgage finance from 'high street' or prime lenders

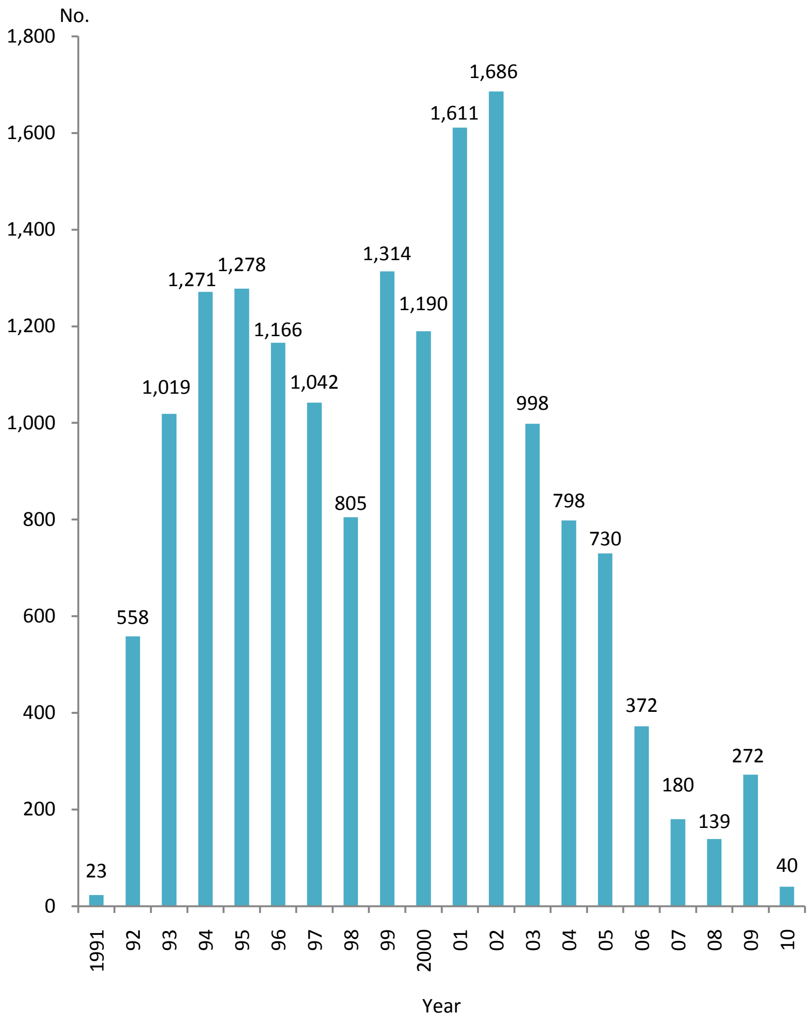
Index Linked Loans (pre EMU)

- Introduced in 1991.
- Loan is split between annuity and rental portions.
- Annuity loan is repaid on variable interest and capital repayment basis.
- Rent is charged at 4.3% on rental equity balance.
- <u>*Rental equity is not reduced*</u> by the amount of rent paid.
- Day 1 rental equity balance is adjusted by CPI each July.
- Rental equity can be bought out in special payments.
- <u>*Rental equity balance must be cleared at end of annuity loan term.*</u>

Post 2002 Loans (post EMU)

- Introduced in 2003.
- Loan is split between annuity and rental portions.
- Annuity loan is repaid on variable interest and capital repayment basis.
- Rent is charged at 4.3% on Day 1 rental equity balance.
- <u>*Rental equity is reduced by the amount of rent paid above amount payable on the going interest rate*</u>*.*
- 4.3% charge is increased by 4.5% each July (compounded).
- Rental equity can be bought out in special payments.
- <u>*Rental equity balance will normally be cleared by end of annuity loan term*</u>

Shared Ownership: growth and decline reflects changes in Irish mortgage market and lending criteria pre- and post-EMU; 'loosened' lending criteria, sub-prime market and rapid price inflation impact on demand for SO; Irish economic, financial and banking crisis from 2008 leads to elimination of schemes



- From 1991 to 2010 a total of 16,492 loans were issued by local authorities
  - 12,693 index-linked;
  - 3,529 post-2002 (post-EMU)
- 4,457 remain outstanding as of 31st March 2013.
  - 1,519 index-linked;
  - 2,938 post-2002 (post-EMU) (includes Part V Affordable units offered as Shared Ownership!)
- Of these 2,289 are in arrears >90DPD
  - 212 set to mature by March 2018
- As per the Irish government Housing Policy Statement of 2011, all mortgage loans under the Shared Ownership & Affordable Housing schemes are no longer available.

Two stages to research on SO

- Stage 1: quantitative (2012/13)
- Sample includes shared ownership and affordable shared ownership accounts in arrears for greater than 90 days @ June 2012
- N = 476 households

- Stage 2: > qualitative (2013/4)
- Representative sub-sample of N=44 households
- Semi-structured interviews
- Collation of ‘follow-on’ data on housing costs and household incomes)
- Case study

Stage 1: Profile of Borrowers

- Majority are single-income borrowers (70%).
- Average age of 32 years at time of borrowing.
- Over half of households had no children (51%).
- Average income at time of borrowing: €28,527 (single borrowers) and €38,702 (joint borrowers).
- Precariousness of employment and income is notable
- Majority of purchases were for apartments (47%) and many of these were two bed (63% of apartments purchased).

Predominantly focusing on 'boom-time' borrowing:

2003	2004	2005	2006	2007	2008	2009	2010
3%	**17%**	**19%**	**24%**	**19%**	**12%**	6%	<1%

Profile at time of Borrowing: Savings (deposits) at purchase year are low…

	Single Borrowers		Joint Borrowers		
	N	**%**	**N**	**%**	**Total**
€1,500 or less	105	**32**	36	**25**	**141**
€1,501 to €5,000	121	**37**	58	**40**	**179**
€5,001 to €10,000	33	10	12	8	45
Over €10,001	19	6	7	5	26
No savings (or missing)	52	16	33	23	85
Total	330		146		476
	€		**€**		
Average (amongst all respondents)	3,179		2,783		
Average (amongst those with some level of savings	3,773		3,571		

When compared to (approved) property price when purchased (prices is increasing throughout period of bubble)

Price Range	Number of cases	%
Under €150,000	45	9
Between €150,001 to €175,000	55	12
Between €175,001 to €200,000	117	25
Between €200,001 to €225,000	98	21
Between €225,001 to €250,000	86	18
Over €250,001	56	12
Missing	19	3
Total	476	
Average property price		

- The average property price was €207,118 with the median €205,000

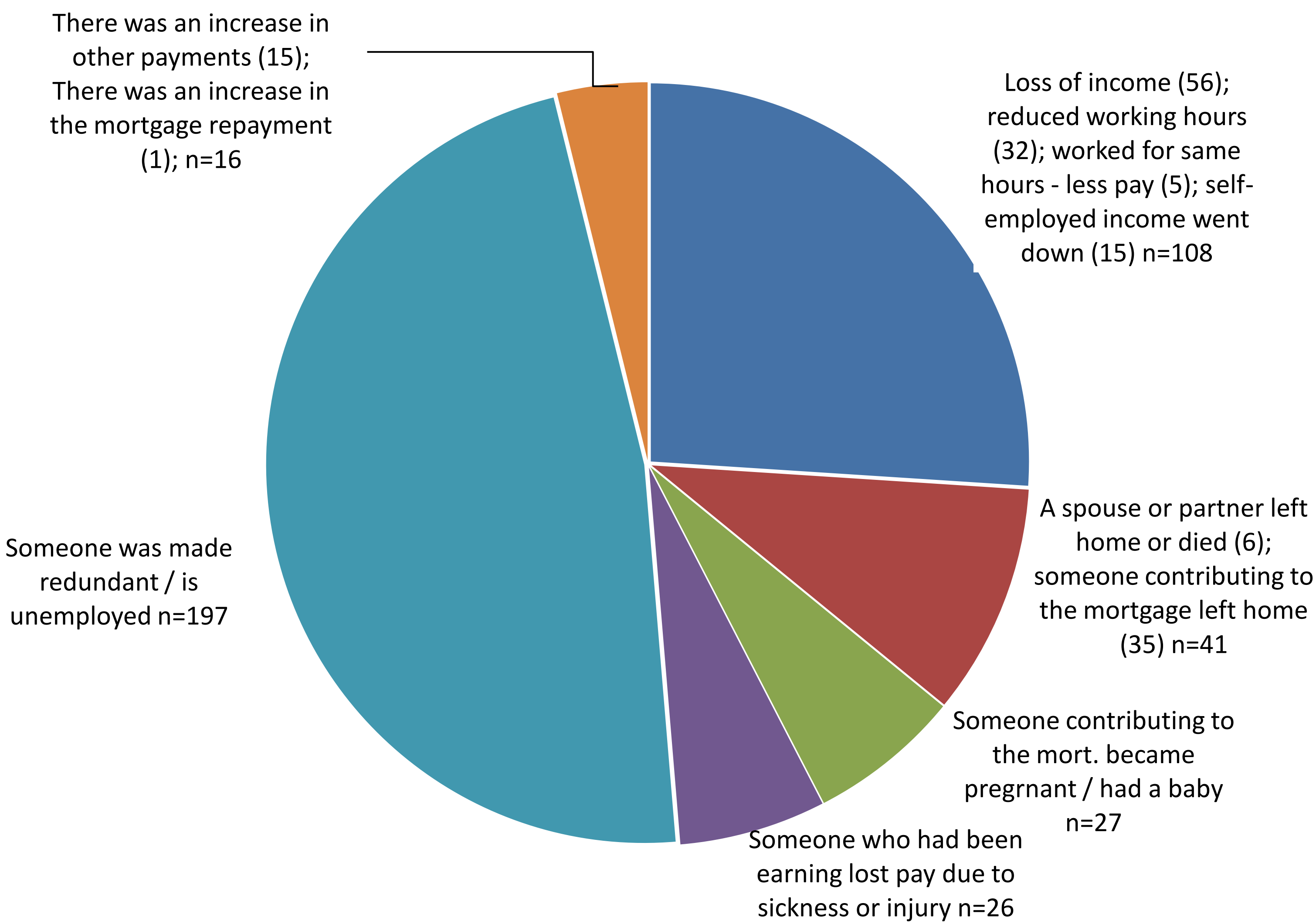
This reflected in the increase in actual loan size over the period…

Average Loan Advanced	2003 €	2004 €	2005 €	2006 €	2007 €	2008 €	2009 €	2010 €
All accounts (n=474; missing=2)	99,977 (n=14)	104,347 (n=79)	132,026 (n=89)	117,352 (n=113)	124,088 (n=89)	132,886 (n=58)	124,849 (n=30)	126,725 (n=2)
Affordable Shared Ownership (n=308; missing =2)	105,898 (n=9)	99,692 (n=43)	140,306 (n=54)	117,495 (n=81)	123,556 (n=74)	133,923 (n=39)	116,831 (n=8)	-
Private Shared Ownership (n=166)	95,750 (n=5)	109,908 (n=36)	119,251 (n=35)	116,991 (n=32)	126,713 (n=15)	130,758 (n=19)	127,764 (n=22)	126,752 (n=2)

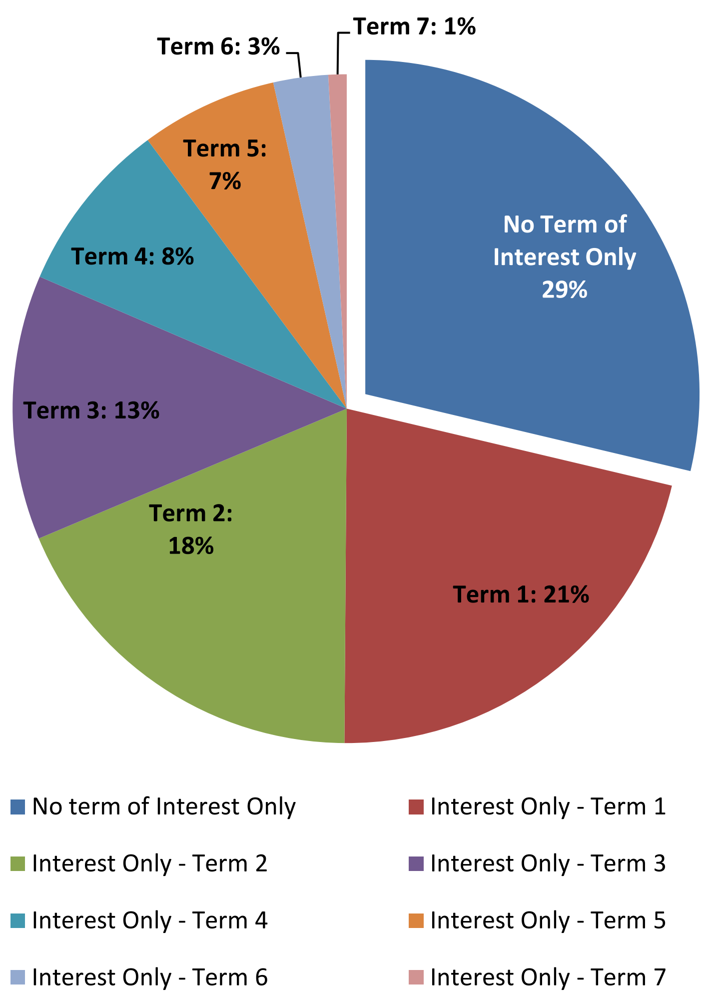
Price, loan and arrears..

- Average property price €207,118.
- Average % LA ownership of 47.89 % (but a number of annuity also).
- Average loan advanced was €121,106.
- Almost 68% of borrowers were borrowing under €125,000.
- Loan duration on average 26 years.
- On average these 496 accounts fell into arrears within 25 months (median = 20 months).
- Arrears owing on these accounts was €5.376m in January 2012, rising to €5.8m in June 2012
- However, important to acknowledge these arrears are not the only thing owing!
- Household Debt position (Consumer Debt/ Utility/ CU/ Moneylenders etc)

Reasons for arrears: predominantly economic determinates



Limited forbearance options: 'interest only' payments



- A term of Interest Only is six months. A maximum of six terms is allowed with an additional seventh term for exceptional circumstances
- Almost 70% of the respondents have had at least one period of 'Interest Only'
- Little evidence of capitalising arrears or extending loan term (n=16)
- There is evidence that approx. 1 in 3 have applied for MIS
- Little evidence of trying to sell the property (n= 27) or rent it out (n=30)
- One-quarter of the accounts had reached informal letter stage (movement of issue to law department)

Stage 2 Findings: Some dominant themes emerging…

Lack of alternatives i.e. social housing options:

“We went to go looking at apartments and everything to rent and they wouldn’t let us rent”.

Normalisation of owner occupation:

“I was brought up to think that you buy.. we were always told rent is dead money”

Incorporation into homeownership – optimism and positivity:

“It was giving the likes of me an opportunity to get onto the property ladder”

Despite mainstream mortgage refusals **trust (also surprise) in public body offering loans** – thought must be OK:

“If I had 10 years ago been told ‘Sorry, we are not funding your mortgage, we don’t think you’re suitable’ or whatever, at the time I would have been devastated, absolutely, but I’d have got over it. At this point in my life looking back I think I’d be saying ‘Phew, thank God. They did me a favour”.

Stage 2 Findings: Some dominant themes emerging…

Widespread **pauperisation** and imiseration:

"But it's just all bills and like to be honest we are not living. We don't go out as I say. I mean like it would be nice to even get out to the pictures. We can't go anywhere, we are confined to the house all the time. I am only 42 and as I said my partner is only 50 but it feels as if we have lived our life, we're about 90. I know it might sound mad but it's just its terrible".

Debt entrapment, arrears and growing mortgage balance...mitigated by refusal to financialise home (in contrast to many private sector counterparts):

"No, no I don't believe in loans and I don't… I don't believe in putting myself into arrears or anything"

"I wouldn't put myself into more arrears now for the sake of a kitchen"

Standard forbearance (interest only) welcomed as initial respite but then... "**Advanced forebearance**" (long-term interest only) **only prolonging problem:**

"It seemed to be going on forever to be honest with you, we had no certainty about anything (respondent had been on interest only for three years…)"

Mortgage to Rent: positive response – psychological and financial benefit tempered by loss of potential asset and money expended on property...

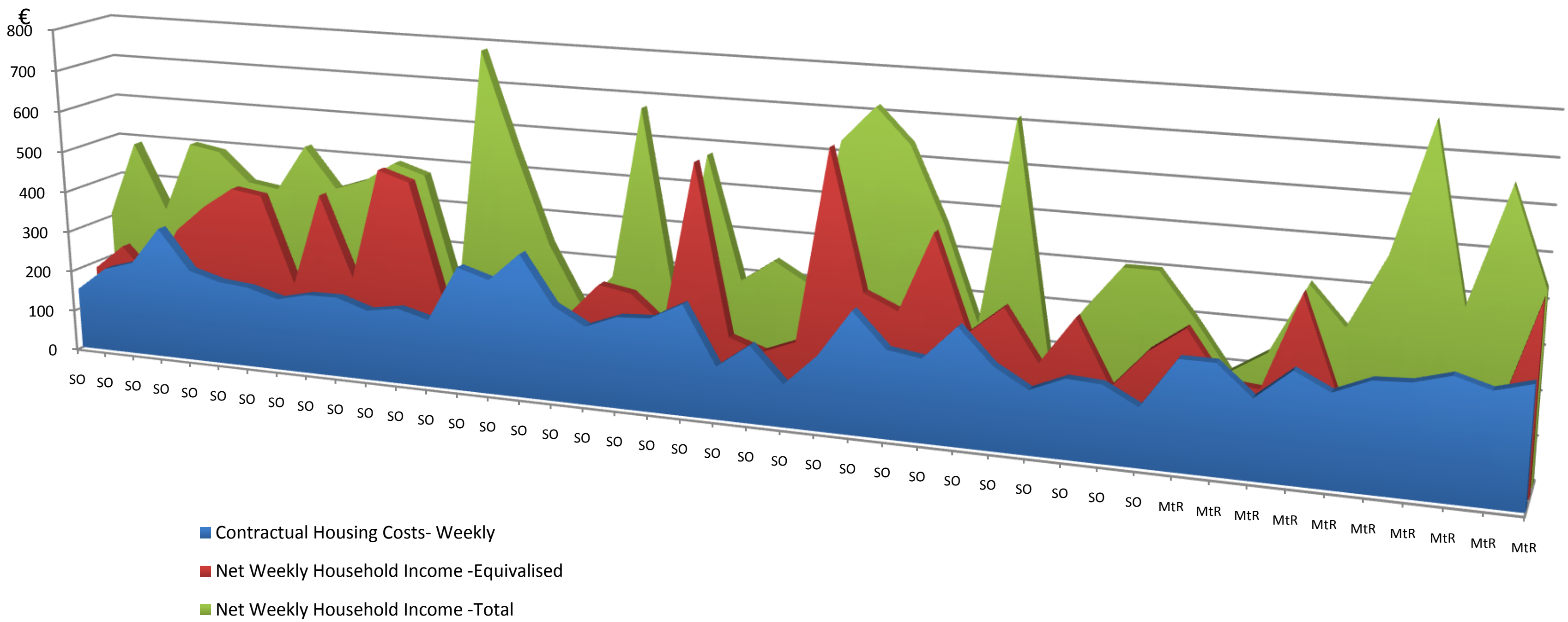
"It's just the security of it, you know, that I'm not going to lose the roof over me head…the most important thing to me was that I was able to keep the roof over my head…and it's very manageable now"

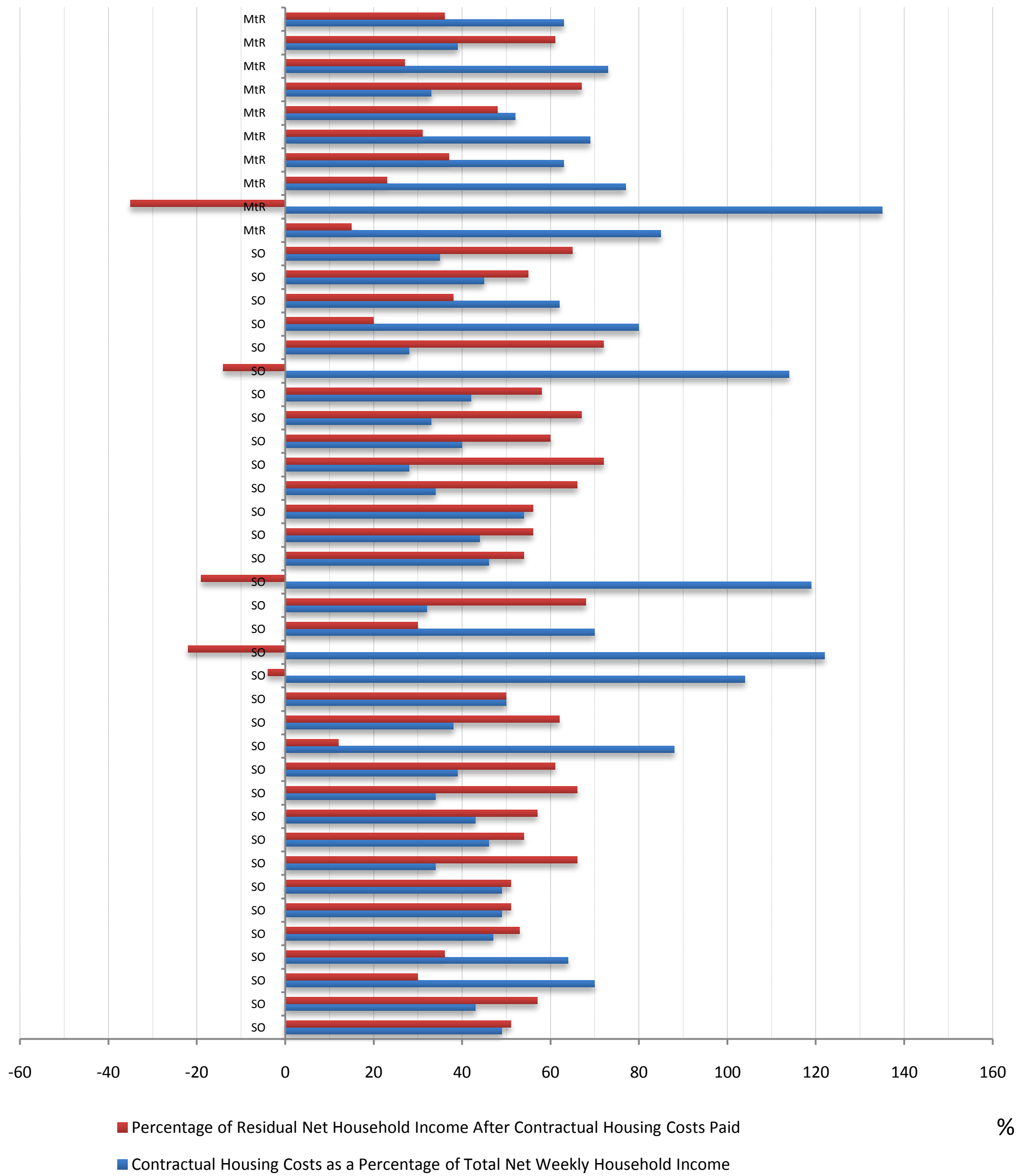
"What's more important to me is somewhere to live without the headache and the constant arrears building up around me"

Household income (equivalised and net) and contractual housing costs

1. In 2013, the average (median) equivalised income figure for the general population was €337.52 per week. For our sample it is €240.00 per week. Expressed another way, on average, the equivalised income for our sample (n=44) is almost *30 percent below* the figure for the Irish population generally.

2. Income from all sources for the respondent households was also calculated in terms of total net household income for each household, and underlines the extent of low-income among the sample. Again by way of comparison, on the most recent SILC data available (for 2013), the average net household income figure for the general population was €643.63 per week. For our sample it is around €413.00 per week or *35 percent below* the equivalent figure for the Irish population generally.





Residual income affordability of contractual housing costs (n =44)

Approach uses net disposable income per household to gives a more accurate and reliable measure of the affordability of housing costs in terms of residual income remaining to meet cost of living expenses.

What is immediately notable is how extensive *unsustainable housing costs* are among the sample. If we assume, for example, that a housing cost of 30% of net household income is the accepted standard measure of affordable housing cost that is sustainable by a household over the medium-longer term, as

Just two households among the sample have a sustainable contractual housing cost on this measure.

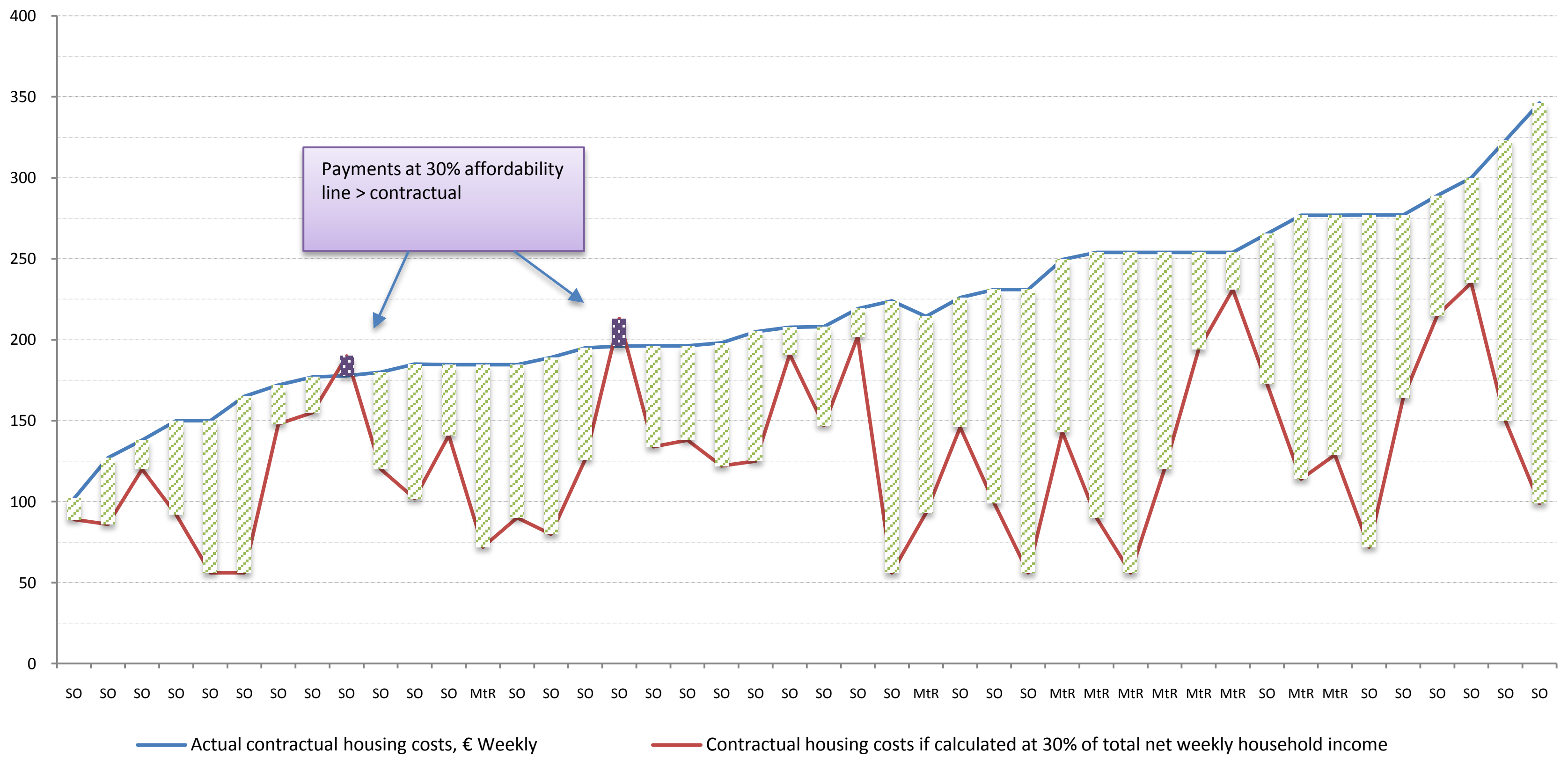
A further seven households have '*borderline sustainable'* contractual housing costs (in these cases contractual housing costs amount to between 30 and 35 percent of net household income).

Five households have contractual housing costs that are *in excess of* their total net weekly disposable income by values of 4, 14, 19, 22 and 35 percent respectively. In effect, these households would have no income remaining at all if contractual housing costs were met.

Unsustainable housing costs 1: only two households can afford contractual housing costs without breaching the 30% affordability line (calculated on residual net income basis)

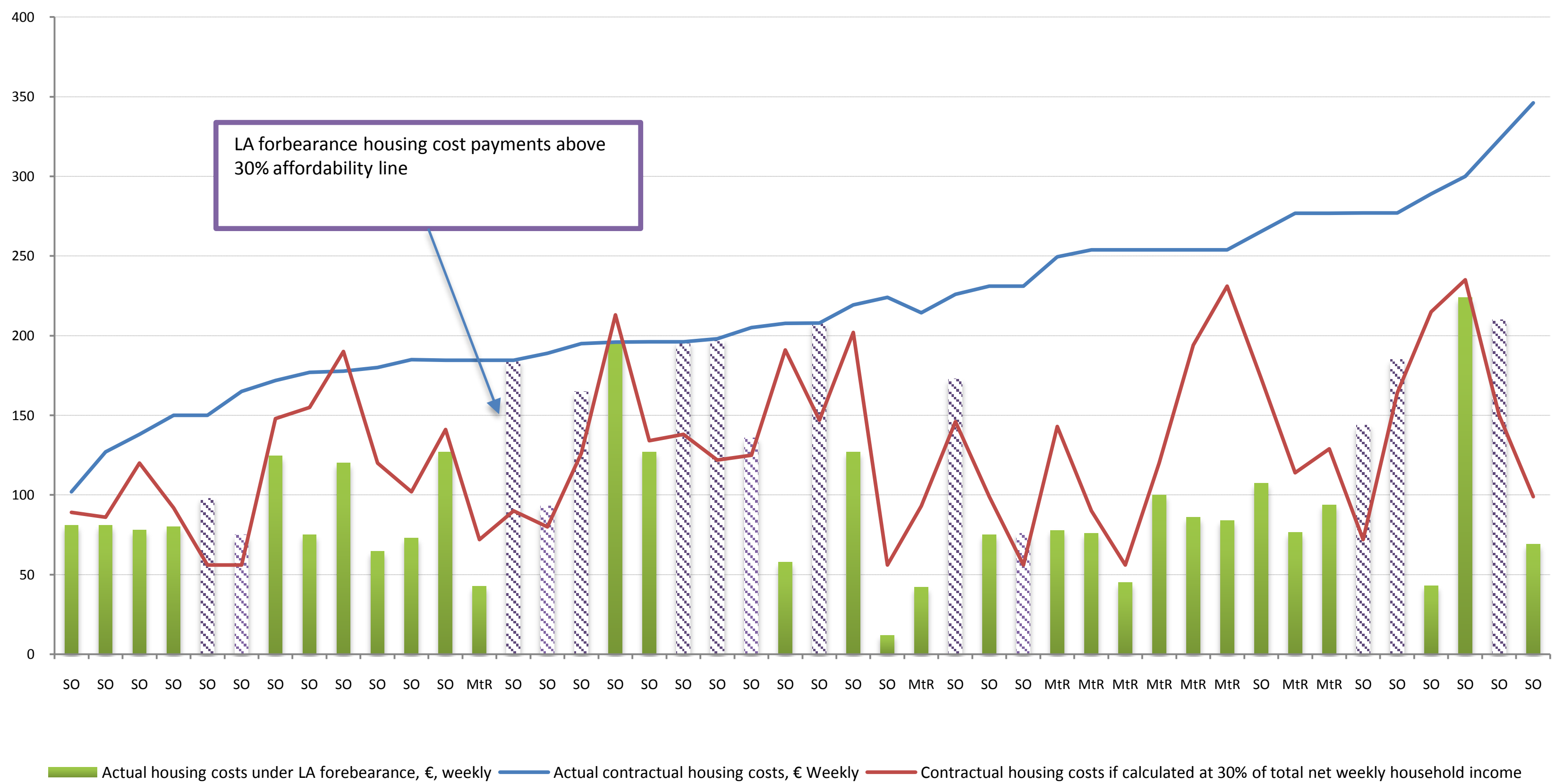
€

Figure x.3: Housing Costs: contractual and calculated at 30% affordability line (n=44)



Unsustainable housing costs 2: Despite being in long-term forbearance arrangements, 14 households are making weekly payments that are above the 30 % affordability line.

Figure x.4: Actual housing costs under forbearance arrangements (€, weekly)



To allow each stage 2 household establish a sustainable forbearance arrangement requires contractual housing costs to be reduced by 41 percent

(mean = €4,908; median = €6,084 per household)

A. The annual value of the contractual housing costs for the sample households is estimated at €497,335.28.

B. To allow each sample household to establish a sustainable forbearance arrangement - i.e. one that ensures a minimum residual (i.e. after housing costs are met) net weekly household income of 70 percent of total weekly income - requires the annual value of contractual housing costs to be reduced by an estimated €206,128.00 (or 41 percent) for the sample as a whole.

C. As above figure illustrates, there is considerable variation in the extent of reduction required per household to achieve sustainable forbearance payments.

D. However, the estimate of the value of the annual reduction required per household in the sample ranges from a mean value of €4,908.00 to a median value of €6,084.00.

E. This is, in effect, the estimated annual cost required to produce affordable and sustainable forbearance arrangements for these low-income shared ownership households. This is not the cost of a debt write down for the arrears outstanding and unpaid among these households.

Policy development options for DCC and stakeholders

1. For mortgage holders with unaffordable DCC mortgages, a debt-for-equity swap to reduce their contractual housing costs to a maximum of 30 percent of net disposable household income is proposed.

2. For mortgage holders with unaffordable DCC mortgages who are in arrears and in forbearance arrangements with DCC, the following is proposed: progressive warehousing arrangements (i.e. a split mortgage), or arrears capitalisation and term extension that reduces the contractual payments to our affordability standard, avoids penalty interest accruing and provides incentives to redress the balance of outstanding debt towards resolution within a fixed time period. This time period to be determined in accordance with the principles of current options under Irish personal insolvency legislation and guidelines, and the need to achieve:

   - Security of tenure
   - Sustainability and affordability of housing costs
   - Foreseeable discharge from outstanding debt
   - Suitability of accommodation.

Policy development options for DCC and stakeholders

3. For mortgage holders with unaffordable DCC mortgages who are in arrears and in forbearance arrangements with DCC, but who wish to leave their mortgage arrangements, a more expansive Mortgage to Rent scheme is proposed that can take account of the complexities of income and liabilities (including management fees), household relationships, size, location and current open market value (OMV) of property and other relevant eligibility criteria that are restricting the current rates of take up of the scheme.

4. For mortgage holders who wish to move-on from their properties (e.g. those who are 'under-accommodated'), options on annuity mortgages on a 'right-to-sell' basis (i.e. sell back to DCC), including ideas on negative equity mortgages, extending maturity terms, and other options on renting out their property in order to avoid voluntary surrender or strategic default, are proposed.

5. However, it should be noted that additional issues relating to repossession and voluntary surrender (with the aim of avoiding homelessness), should also be considered a priority for DCC policy development.

6. Finally, the negative outcomes for such a high percentage of borrowers (and by extension for the City Council), coupled with widespread confusion stemming from the Scheme's underlying complexity, begs the question for the future as to whether DCC should continue to approve subprime mortgage finance or should consider discontinuation of all such lending pending the effective resolution of current forbearance arrangements for its mortgage holders.

Next steps…

- Publication of finalised research report
- Publication of policy options and ‘position’ paper
  - Feedback from DCC elected representatives
  - Debate on policy options
  - Costing of policy options