MABS Clients and Mortgage Arrears

A profile of MABS clients in mortgage difficulty and factors associated therewith

Colette Bennett, MABS National Development Limited

January 2013

mabs
Money Advice & Budgeting Service

MABSndl
National Development Limited

funded & supported by
Citizens Information Board
information · advice · advocacy

Contents

Executive Summary

The Money Advice and Budgeting Service (MABS) continues to work in furtherance of the MABS Mission Statement, to protect, where possible, the family home and to ensure that the client is empowered to take control of their finances and to budget responsibly so that they can continue to participate in Irish society. To this end, MABS local services provided supports to over 26,000 new clients in 2012, and a further 24,202 calls were taken by the MABS National Helpline.

The aim of this Report is to provide an analysis of the experience of MABS clients with mortgage difficulties (discussed more fully later in this Report), often in addition to other debts and other issues, as well as the experience of MABS money advice staff in working with those clients to come to a resolution that is 'mutually-acceptable, affordable and sustainable' (IBF/MABS, 2009).

The findings contained in this Report are based on a survey of MABS money advice staff (the Mortgage Survey) of facts relating to their clients in difficulty with mortgage debt. The sample (n=5,995), taken in August 2012, is highly representative of this cohort of MABS clients with mortgages (n=11,562 as of Q.4 2012).

Chapter 2 provides an overview of the background to this Report:

- the MABS ethos in supporting clients to manage their finances and deal with their debt issues;
- a brief synopsis of the making of the mortgage crisis;
- an outline of the policy responses to date; and
- sets out the steps involved in the MABS Money Advice Process.

Chapter 3 builds a profile of the MABS client with mortgage loan repayment difficulties (the MABS "Mortgaged Client"), as reported in the Mortgage Survey. This Chapter focuses on their demographic characteristics and debt levels, and provides some illustration of the factors associated with dealing with mortgage difficulty experienced by these clients as relayed by MABS money advice staff.

Chapter 4 then takes an in-depth look at the clients' experience of the Central Bank's Code of Conduct on Mortgage Arrears, and the five stages of the Mortgage Arrears Resolution Process, and the level of support provided by MABS money advice staff in response to client needs. As the data was gathered prior to the implementation of the Department of Environment, Community and Local Government's Guidance on Dealing with Mortgage Arrears, we have not included data specifically relating to local authority mortgages here, however we intend to produce a smaller report in relation to these clients at a later date.

Finally, Chapter 5 provides some conclusions and policy recommendations based on the analysis on areas such as Forbearance Options, Income Retention, Mental Health Guidelines, Money Management Education and a further Research Programme.

Acknowledgements

The author and MABS ndl would like to sincerely thank the staff of the MABS Services for giving of their time to complete the Mortgage Survey. A special thank you is due to Marie White, Money Advice Co-ordinator of Tallaght MABS, for taking additional time to test the Mortgage Survey prior to its circulation and to Dr. Stuart Stamp, Research Associate, Department of Applied Social Studies, NUI Maynooth for his support during the preparation of the Report.

Chapter 1: Research Methodology

This Report looks at the demography of MABS mortgaged clients to establish who they are; it provides some information on the psycho-social issues (i.e. effects on mental health, stress, relationships etc.) experienced by these clients (as interpreted by the MABS money adviser supporting the client)[1]; and analyses the client's experience of engaging in the Central Bank's Code of Conduct on Mortgage Arrears.

Research Methodology

MABS ndl developed a survey, hosted by Survey Monkey® (the Mortgage Survey), and requested that all money advice staff complete an individual survey for each client who had sought the support of MABS in dealing with their mortgage difficulties and who were at that time (July to September 2012) still engaged with the Service.

The Mortgage Survey sample consists of 5,995 mortgage cases as reported by money advice staff across the MABS national network. Staff were asked to provide details for every client, currently "active" with the Service (i.e. not to include closed files) who had approached MABS for support with their mortgage difficulty. While the data does not reflect the totality of mortgage cases dealt with by MABS, it is highly representative thereof, being over half of the total number of MABS clients with mortgages as at the end of 2012 (n=11,562).

The data was subsequently collated, cleaned and analysed and the findings are set out in the following sections of this report.

Peer Review

The Report was peer reviewed by three highly regarded experts in Housing, Research and Financial Exclusion. The author and MABS ndl would like to thank them most sincerely for their time and comprehensive inputs. Any errors in this Report are the responsibility of the author.

[1] As qualitative interviews were not carried out with MABS clients, this data is based on the MABS money adviser's individual assessment of the client's circumstances.

Chapter 2: Context

Context for the Research

The Money Advice and Budgeting Service (MABS) has been both concerned about, and challenged by, the difficulties experienced by its client group[2] in relation to mortgage debt for several years[3] and, as such, has both adapted its own internal processes and worked to influence relevant policies in several ways.

The Citizens Information Board has statutory responsibility for MABS and, as part of its reporting requirements, the Department of Social Protection requested (July 2012) information on *inter alia* the number of MABS clients currently engaged in the MARP process. As producing this information required a survey of MABS money advice staff (the Mortgage Survey) and sought high level of manual data capture from their client files, MABS ndl expanded the Mortgage Survey to include all mortgage types, including local authority mortgages, to provide a full picture of MABS' engagement on mortgage debt and, in light of the gaps in information available to date, the Survey also provided an opportunity to gain some perspective on borrowers' experience of dealing with their mortgage debt. Data gathered in relation to local authority mortgages is not presented in this Report; instead the focus is on those lenders regulated under the Central Bank's Code of Conduct on Mortgage Arrears. Findings in relation to local authority mortgages will be published at a later date.

MABS' History and Ethos

The Money Advice and Budgeting Service (MABS) was established in 1992 under the auspices of the then Department of Social Welfare by way of five pilot projects with an initial objective of combating the problem of illegal moneylenders. Since then, MABS has developed to provide a professional, holistic debt advice service to households on low income experiencing, or at risk of experiencing, over-indebtedness (the target group).

Today, MABS consists of 53 companies operating from 63 offices nationwide. Information, support and advice is also available via the MABS website, www.mabs.ie and the MABS National Helpline. In 2004, a new national company, MABS National Development Ltd. (MABS ndl), was established to provide support to local MABS offices. MABS ndl now provides technical support, training, money management education, hosts MABS information systems and electronic fund transfer (EFT) facilities for the MABS Special Account, as well as providing national social policy development and promotional/communication supports. MABS ndl also manages the MABS website and the national MABS helpline.

In July 2009, statutory responsibility for the provision of the MABS serviced transferred from the Department of Social and Family Affairs to the Citizens Information Board.

In 2012, the MABS marked 20 years of supporting the communities in which the local Services are situated. The MABS' approach to case work follows the MABS' Mission Statement (below):

> *'To work towards the elimination of over-indebtedness through the provision of a free, confidential, independent community and rights-based Money Advice and Budgeting Service,*

[2] Those on a low income experiencing, or at risk of experiencing over-indebtedness
[3] A fuller account of MABS experience of and responses to problem mortgage debt is provide in Appendix 1

which identifies, supports, educates and empowers those experiencing or at risk of over-indebtedness, especially those on low income, and to use the knowledge and experience gained to bring about policy change towards this end.'

In 2003 MABS was chosen for Peer Review in the EU[4]. Quoting from the findings of the Eustace/Clarke evaluation, the MABS Peer Review report states (page 17):

'The extent to which MABS is regarded as a benefit to communities is extraordinary. Eighty percent or more of the respondents indicated that the community had benefited significantly because people had been helped to deal with debt and/or to manage their money better. Around seventy percent answered that MABS had contributed to improve health and quality of life'.

From Boom to Bust – the making of the Mortgage Crisis

In their research on behalf of Waterford MABS, Norris and Brooke (2011, Chapter 2) set out the background to the mortgage boom and bust, the synopsis of which, for the purpose of contextualising this Research, is provided below:

> Since the mid 1990s, radical changes have taken place in the Irish housing market and in the mortgage lending and public policies which underpin it. These have had very significant secondary social and economic impacts. An unprecedented boom in house prices took place between 1996 and 2006, when house prices grew by 292 per cent (Permanent TSB/ESRI, various years). This was driven initially by economic and population growth and housing undersupply, but particularly after 2000, expanding mortgage credit availability was a more significant driver (Kelly, 2009). Increased house prices and house building also helped support growth in employment, the banking sector, tax revenue and public spending, so when the housing boom began to falter in late 2006, it had negative downstream effects.
>
> House prices fell by 31.2 per cent between 2006 and 2009 and housing output contracted by 65.2 per cent concurrently (Permanent TSB/ESRI, various years; Department of the Environment, Heritage and Local Government, various years). These developments undermined employment, economic growth and the public finances, but also the viability of mortgages. Mortgages in arrears of more than 90 days increased from 3.6 per cent of loan accounts in December 2009 to [10.9% by Q.2 2012] (Central Bank, various years).

Source: Michelle Norris and Simon Brooke, Lifting the Load – Help for People with Mortgage Arrears, September 2011, updated with figures obtained from the Central Bank of Ireland, Information Release: Residential Mortgage Arrears and Repossession Statistics: Q2 2012, August 2012

Public Commentary and Policy Responses to the Mortgage Crisis

A great deal has been written about the rise and fall of Ireland's economy, however, with some notable exceptions (e.g. the report by Russell et al (2011(b)) on the effect of financial exclusion and over-indebtedness[5] in Irish households, Norris and Brooke (2011) qualitative research on MABS clients in mortgage arrears) the focus has largely been the macro-economic impact of mortgage debt, unemployment and household debt from the perspective of the financial sector. While the

[4] Korczak, D., 2004. *The Money Advice and Budgeting Service Ireland – Synthesis Report of the Peer review Meeting in Cork,* 18-19 November 2004. Report for DG Employment, Social Affairs and Equal Opportunities. Brussels: European Commission.
[5] *People are over-indebted if their net resources (income and realisable assets) render them persistently unable to meet essential living expenses and debt payments as they fall due. – Stamp, 2006.*

Central Bank of Ireland publishes quarterly data on mortgage arrears, no research has been published to date on the *experience* of over-indebted householders in endeavouring to deal with their mortgage arrears under the new Code of Conduct on Mortgage Arrears.

The Cooney Report, 2010

The Mortgage Arrears and Personal Debt Expert Group, led by Hugh Cooney, (the Cooney Group, 2010) published their Final Report (the Cooney Report), on the 16th November 2010 which recommended a standardised mortgage arrears resolution process (MARP) across lenders, a deferred interest scheme (DIS) for mortgage holders who could not afford to pay the full interest amount, but who could afford 66% or more, long-term forbearance options, the amendment of legislation to allow borrowers with unsustainable mortgages (i.e. unable to make mortgage payments over a significant period of time, p.16) to be placed on the local authority housing list prior to repossession, and personal insolvency arrangements. While much of what was contained in the Cooney Report was implemented to some extent within 12 months of its publication (e.g. DIS forbearance, a change to the regulations for accession to the local authority housing list, a Mortgage to Rent Scheme), the most important recommendation for the cohort of MABS clients in this Report was the introduction of the Mortgage Arrears Resolution Process (MARP) in the Central Bank's revised Code of Conduct on Mortgage Arrears.

Central Bank's Code of Conduct on Mortgage Arrears (CCMA), 2009/2010 - present

Originally issued in 2009, building on a voluntary code previously introduced by the Irish Banking Federation, to provide mainstream mortgage lenders with a framework in which to deal with their customers in mortgage arrears, the Code was amended in 2010 with the inclusion of a 12 month moratorium on legal action from the date the arrears first arose. Further, following a public consultation in mid-2010, the Code was revised to include sub-prime[6] mortgage lenders; the introduction of a standardised process (MARP); and the development of a Standard Financial Statement (the MARP SFS) which must be used by all lenders (except credit unions and local authorities) to gather information about their mortgage customer.

The MARP consists of five stages: Communication, Financial Information, Assessment, Resolution and Appeals. While the onus is on the lender to engage meaningfully with customers to come to suitable and sustainable repayment arrangements, there are many borrowers who, because of a lack / diminished capacity to fully address their arrears on their own, require the assistance and support of a third party advocate and intermediary, such as MABS.

1. Communication is the first stage and consists of the lender corresponding with the borrower to engage him/her in the process or, for pre-arrears cases, the borrower contacting his/her lender to initiate the process.

2. Financial Information is the second stage of the MARP process and consists of the borrower completing a Standard Financial Statement (MARP SFS) with their lender / third party agent and submitting same, together with supporting documentation, for consideration by the lender's Arrears Support Unit. The MARP SFS is a twelve page document which seeks information about the borrower's income, expenditures, debts and assets and can be quite challenging for borrowers who are not used to budgeting.

[6] Subprime mortgages were traditionally offered to borrowers with a low or impaired credit rating, usually at a higher interest rate than mainstream mortgages.

3. The Assessment Stage of the MARP begins when the MARP SFS is returned to the lender for consideration by the lender's Arrears Support Unit. The clients' overall circumstances are then considered by the Arrears Support Unit under the following headings[7]:
   (i) *the personal circumstances of the borrower;*
   (ii) *the overall indebtedness of the borrower;*
   (iii) *the information provided in the standard financial statement;*
   (iv) *the borrower's current repayment payment capacity; and*
   (v) *the borrower's previous payment history.*

   As can be seen from the criteria above, the MARP SFS is crucial to how the borrower's circumstances will be assessed and, ultimately, what Resolution option will be offered by the lender.

4. The fourth stage of the MARP is the Resolution stage whereby the lender, having completed its assessment of the borrowers' case and considered all the options set out in provision 33 of the Code, determines which option(s) is most suitable for the borrower from a non-exhaustive list including:

   a) *an interest-only arrangement for a specified period;*
   b) *an arrangement to pay interest and part of the normal capital element for a specified period;*
   c) *deferring payment of all or part of the instalment repayment for a period;*
   d) *extending the term of the mortgage;*
   e) *changing the type of the mortgage, except in the case of tracker mortgages;*
   f) *capitalising the* ***arrears*** *and interest; and*
   g) *any voluntary scheme to which the lender has signed up e.g. Deferred Interest Scheme.*

5. The fifth stage of the MARP process is the Appeals stage, for borrowers who are unhappy with the Resolution proposal offered. Lenders must establish an Appeals Board, comprising three senior personnel who have not been involved in the borrower's case, and at least one of whom must be independent of the lender's management team[8]. Appeals are made by the borrower to the Appeals Board on any of the following grounds:
   - *the decision of the lender's ASU* (Arrears Support Unit)
   - *the lender's treatment of the borrower's case under the MARP process, or*
   - *the lender's compliance with the requirements of this Code.*[9]

The Keane Report, 2011

In 2011, the Government established an Inter-departmental Mortgage Arrears Working Group, led by Declan Keane. It was tasked with assessing the existing mortgage arrears resolution processes and researching and developing advanced forbearance options for borrowers in mortgage difficulty. Among the key recommendations of the Final Report (the Keane Report, 2011) published on the 30th September 2011, were:

[7] Provision 32 of the Code of Conduct on Mortgage Arrears
[8] Provision 43 of the Code
[9] Provision 42 of the Code

- reform of the bankruptcy regime in Ireland;
- restructuring the Mortgage Interest Supplement system;
- introduction of advanced forbearance options in the form of Mortgage to Rent and Mortgage to Lease Schemes, trade down mortgages, split mortgages, sale by agreement and;
- the establishment of an independent mortgage advice function.

At the time of writing, several of the recommendations have been implemented (e.g. introduction of a split mortgages pilot, development of the Mortgage to Rent Scheme, proposed reform of the Bankruptcy legislation). Those relating to advanced forbearance options (Mortgage Arrears Resolution Strategies or 'MARS') are currently being piloted by mainstream mortgage lenders and expected to be widely available in 2013.

Who is in Mortgage Difficulty?

The definition of "mortgage default", i.e. 91 days or more in arrears (Oireachtas Library and Research Service, 2010) goes only part way to establishing what constitutes "mortgage repayment difficulty". For the purpose of this Report, we offer the following definition in the absence of an agreed one 'someone is experiencing mortgage difficulty if, by virtue of being over-indebted, they have missed, or are at risk of missing, the scheduled payments on their mortgage account(s)'.

The Central Bank publishes an information bulletin on *Residential Mortgage Arrears and Repossessions Statistics* on a quarterly basis (available on the Central Bank website, www.centralbank.ie), which provides a breakdown of the number of mortgages in arrears, the number restructured (i.e. in some form of forbearance arrangement) and the number of repossessions that have occurred during the period for which it is published. The information bulletin for December 2012, detailing figures for Q.3 of 2012, showed that 86,146 (11.3%) of principle dwelling house mortgages were in arrears over 90 days, an increase from 81,035 (10.6%) in the previous quarter. The data for the same period showed 81,683 principle dwelling house mortgage accounts (a decrease of 3.8% from the previous quarter) as having been restructured by the lender, with almost two-thirds (63.2%) paying interest only or interest plus part capital. In addition, repossession proceedings were initiated in 466 cases and concluded in 119. (Central Bank, 2012).

While these figures are useful in determining the ***extent*** of mortgage arrears, they do not give us any indication of ***who*** is experiencing mortgage difficulty (i.e. household characteristics and demographic profile) and **how** they are experiencing it, particularly those in the "at risk" category.

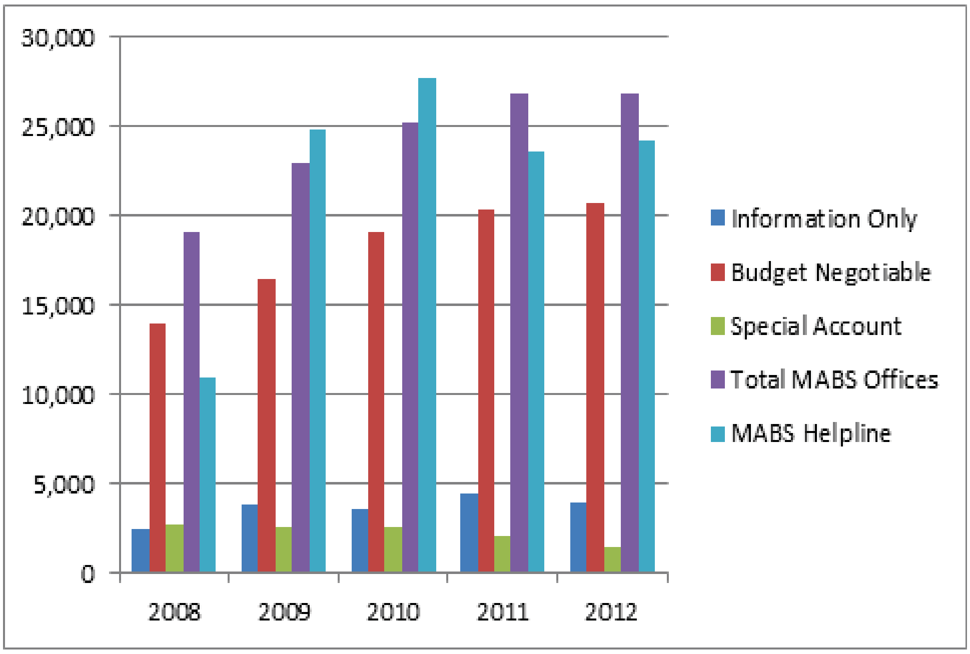
MABS Clients – An Overview

The number of people experiencing or at risk of experiencing over-indebtedness seeking the support of MABS has risen considerably since 2008, and with it the MABS client group (Fig.2.1[10]). To assist these clients, MABS has tailored its processes and information - support and advice are available through the MABS website and National Helpline in addition to the national network of local Services. To ensure that clients receive the most appropriate support in their circumstances, clients

[10]**Information Only -** MABS cases that do not require negotiation or the use of the Special Account facility
Budget Negotiable - MABS cases that require negotiation, but not the use of the Special Account facility
Special Account - a bill paying / saving facility operated through MABS in partnership with credit unions, available only on assessment of need

are assessed at the outset and offered the channel of support most suitable to their needs. The level of support required by the client is continuously assessed throughout their engagement with the Service to ensure that the support provided is appropriate.

Fig.2.1: MABS Statistics 2008-2012



Source: MABS National Development Limited, www.mabs.ie

While the number of clients has increased (Fig.1) over the last number of years the demographic profile of MABS clients has remained relatively stable, with the majority aged between 26 and 40; female and over 60% have children. In addition, currently almost 70% of MABS clients are in receipt of social welfare payments, (growing from approximately 63% in 2007). This demography is explored in relation to MABS clients in mortgage difficulty later in this Report.

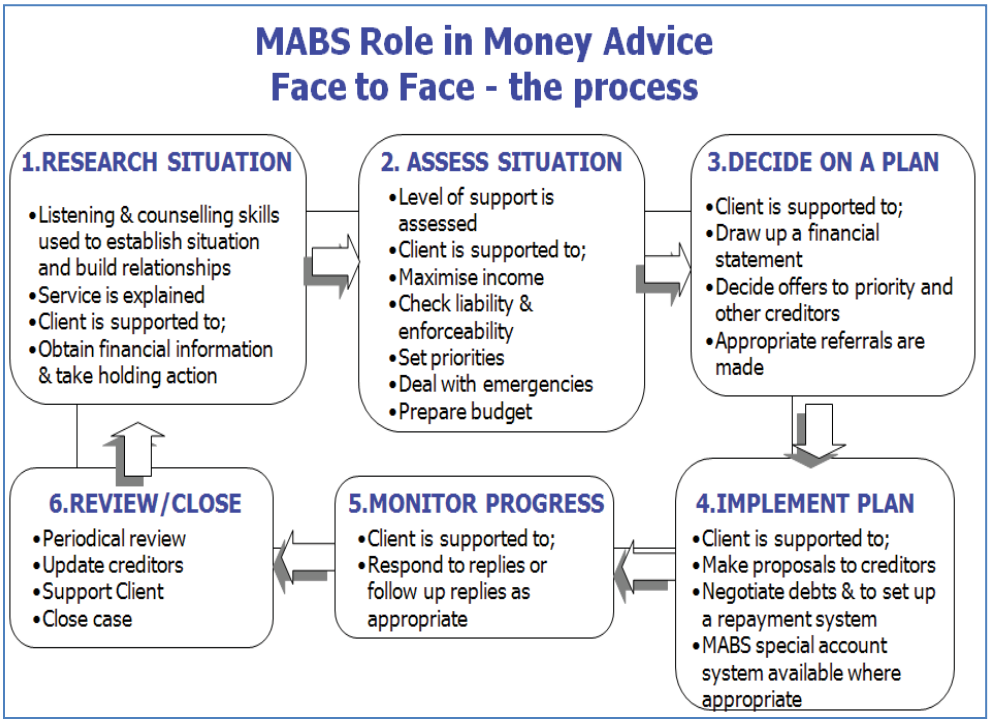
The number of mortgaged clients has grown (n=11,562 as at Q.4 2012) and is continuing to grow as a percentage of the total MABS caseload, currently amounting to over 47% of the client base where accommodation status is known (this compares with 21% for 2006, 35% for 2008 and 35% for 2009 and 39% in 2010). (It should be noted that not all MABS clients with a mortgage are having difficulty repaying their mortgage, however the mortgage debt would be a consideration in such cases as there may be debts secured on the home etc.).

The MABS Money Advice Process

The efficacy of MABS' work depends on adherence to the MABS Money Advice Process (Fig 2.2). The development of a household budget which endeavours to enable the client and his/her dependents to maintain a reasonable standard of living is central to the process and has assumed greater importance in the context of the decisions made by lenders on the basis of Standard Financial Statements required under the Code.

The money advice process operates within the context of the 'MABS money advice casework mission statement', namely; money advisers work towards *"the prevention of homelessness, fuel disconnection, the loss of essential goods or services, the loss of liberty, whilst establishing or* *maintaining an acceptable or minimum standard of living facilitating the client to clear his / her secondary debts at an affordable rate, within a reasonable period (e.g. 3 – 5 years), ensuring access to justice and that the client's rights are upheld and encouraging self-reliance*".

Fig.2.2: The MABS Money Advice Process



Source: MABS Money Advice Manual, October 2006

There are 6 main components to the process of rights-based money advice (i.e. supporting and empowering the client to exercise his/her rights consumer rights while ensuring a reasonable standard of living), all of which are carried out in every case and, in the case of those clients in mortgage difficulty, may be adapted to also take account of the arrears resolution processes available. These components can be summarised as follows (MABS Money Advice Manual, 2006):

(i) Identifying Problems

By using listening, counselling and interviewing skills to build a rapport with the client, the adviser begins the process of confirming the nature and extent of the difficulties involved. An explanation of the service is provided which describes the main features of the service, (free, confidential, independent etc.) The appropriate level of service to be provided is identified – based on an assessment of the client's capacity to engage with their lender, their ability to address their debt difficulties and the urgency of their circumstances. Once authorised to proceed, initial holding action (i.e. a formal request to the creditor to afford the client some time to review his/her budget and assess his/her repayment capacity) is taken either by the client or MABS as appropriate. This affords time to compile the client's financial profile.

(ii) Assessment of the Situation
Letters, phone calls and the client's own records are used, as appropriate, to establish a full picture of their financial situation. Emergencies are dealt with by requesting that creditors allow the Money Adviser sufficient time to consider the total extent of the problems. Discussions take place as to the liability and enforceability of the various debts and the client's rights relevant to their situation. Possible ways of maximising income are considered. Possibilities of redirecting or reducing expenditure are discussed. A preliminary budget is prepared, as priorities are set in partnership with the client. Where appropriate, discussions take place on the desirability of a client beginning to set aside agreed amounts e.g. into a credit union account, as per the agreed payment plan to ensure that the client can afford the proposed payments and to demonstrate to creditors his / her commitment to it.

Investigating ways of maximising a client's income is a particularly important part of the process in the current economic climate. While the time involved in processing applications for State supports and/or tax reliefs can be significant, a successful outcome can make every difference in a client's case.

This part of the process can take several weeks in order to gather sufficient information in relation to the clients' debts to advise them on the most appropriate course of action for their circumstances and, if deemed appropriate, to complete the MARP SFS. Delays in receiving a copy of a loan agreement to establish liability for a secondary debt could potentially have a negative impact on the clients' ability to obtain forbearance from their mortgage lender and, accordingly, MABS money advice staff maintain contact with all creditors (priority and secondary) to ensure that documentation is supplied in a timely manner.

(iii) Deciding on a Payment Plan
At this stage, a Standard Financial Statement providing extensive details of the client's financial circumstances is developed and signed by the client. A plan is developed giving priority to those debts with more serious consequences, housing, utilities etc. As well as setting aside sufficient disposable income to maintain an adequate standard of living, (giving priority to the provision for food, clothing, child costs etc.) this plan also endeavours to include a savings element for future credit / emergency needs. Finally, the plan distributes any residual income on an equitable (pro-rata) basis between the remaining creditors, generally unsecured loans owing to various financial institutions.

When there is a loss of income the Money Adviser must allow time for the client to come to terms with a new reality. Furthermore, clients' circumstances can be subject to further changes on foot of an interest rate change, changes resulting from State Budget measures or further loss of earnings (reduced hours, reduced pay). As such the MABS Money Advice Process may involve several iterations of a client's budget and financial statement being developed before the client and the Money Adviser are satisfied that they have established a true and accurate picture of the client's circumstances and that any proposals made on this basis are sustainable.

(iv) Implementing the Strategy

Proposals can now be forwarded to the various creditors on the basis of what is affordable and sustainable given the client's present circumstances, rather than what the creditor may demand. Negotiation and mediation may be required if the creditor refuses to consent. Appropriate payment facilities are agreed (household budget scheme, special account scheme[11] etc.). Where third parties are involved, (solicitors, debt collectors etc.), proposals are made to these parties also. The client commences proposed payments on a given date.

(v) Monitoring Progress

The Money Adviser acknowledges receipt of replies received from creditors to proposals made. Where MABS intercedes on the client's behalf, the client is kept informed of such communications and creditors are kept informed of progress. Those creditors who have not replied to the proposal letter are contacted again by the Money Adviser. Case notes of all contacts are kept. Payments through the Special Account Scheme are monitored. Clients who are having difficulty making payments in line with the agreed plan are contacted by the Money Adviser to ascertain why this might be so and whether the plan needs to be revised.

(vi) Case Review and Closure

At periodic intervals cases are reviewed, clients are contacted and payment plans are revised where appropriate. Creditors are updated as to progress/changes and a procedure for case closure is instigated where appropriate. As each client's circumstances are different, there is no definitive timeframe for case closure. The clients are given the opportunity to give feedback on the service they received. They are advised that the case can be reopened if, and when, necessary.

The empowerment of the client is core to the MABS approach to money advice, a 7 level model of client support is applied, that both respects the extent of the capacity (intellectual and emotional) of the client to do things for themselves whilst, at the same time, acknowledging the capacity of the service to respond to clients' needs.

The model further aims to maximise the usefulness of the MABS helpline, self-help workbook (MABS Money Management Guide), website and information leaflets produced by MABS (and other agencies) on different credit and debt topics as well as sample letters and other materials for those who can deal with their creditors directly.

Conclusion

MABS was initially established to support clients on low incomes to manage their budget and debt repayments, with a focus on empowering clients to take control of their finances and engage with their creditors. This ethos has stood the test of time throughout the economic boom, and subsequent bust, with the experience and expertise of Money Advisers evolving to meet the needs of an increasingly complex caseload.

[11] The MABS Special Account is a short-term debt management facility offered to clients who may not have access to banking

The policy responses developed to deal with the crisis are still in their infancy and, as such, their impact remains largely untested. This Report examines one such response in detail, i.e. the Central Bank's Code of Conduct on Mortgage Arrears, and reflects the experiences of the MABS client group as they work through that process with MABS' assistance.

Chapter 3: A Profile of MABS Clients in Mortgage Difficulty

Introduction

This Report provides a cross-sectional "point in time" depiction of the MABS Mortgaged Client Group's experience of engaging with their mortgage repayment difficulties. Through an analysis of the data, it is also possible to build a profile of these MABS clients, focused on six characteristics and, where appropriate, to cross-reference with MABS clients nationally (both mortgaged and non-mortgaged). An indication of the impact of mortgage difficulty on MABS Mortgaged Clients is then provided based on the feedback received from MABS money advice staff.

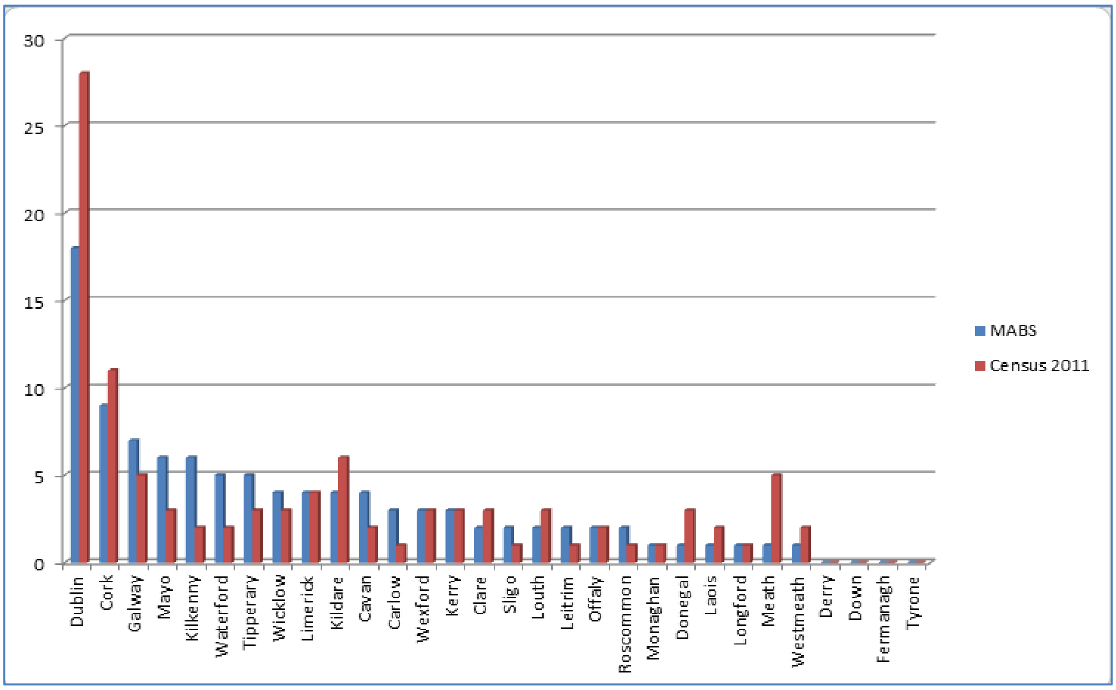
Client Characteristics

The six characteristics referred to above are: 1) Location; 2) Household Composition; 3) Age; 4) Employment Status; 5) Mortgage Lender; and 6) Level of Non-Mortgage Debt. Together these characteristics contribute to the development of a holistic profile of the MABS client with mortgage repayment difficulties.

1. Location

While the Mortgage Survey did not specifically request information on whether clients were living in urban / rural locations within their counties, the data relating to the County in which the client resides is instructive, with over a third (n=2,026) living in Dublin (18.4%), Cork (8.6%) and Galway (6.7%), indicating an urban majority. When compared to the Census 2011 data (CSO, 2012), there is a strong correlation in most cases between the proportion of MABS Mortgaged Clients in each county and that of the national mortgaged population (Fig.3.1).

Fig.3.1: Location – MABS Mortgaged Clients vs. National Mortgaged Population, % by County



Source: MABS National Development Limited, Mortgage Survey, August 2012 vs. Central Statistics Office, Census 2011, Profile 4 – The Roof over our Heads, August 2012

Accommodation Status

A further significant change introduced by the Central Bank's Code of Conduct on Mortgage Arrears was the definition of '*primary residence*' which means a property which is[12]:

(i) *the residential property which the borrower occupies as his/her primary residence in this State, or*

(ii) *a residential property in this State which is the only residential property owned by the borrower.*

This definition meant that those borrowers who, for financial reasons, moved to lower-cost accommodation and rented their primary residence could still be afforded the protections of the Code.

Of those respondents with mortgages regulated by the Central Bank (n=5,713), the mortgaged property was the home in 94% of cases, with the other 6% (n=329) living in private rented properties, with family / friends or in temporary / transitional accommodation. This suggests that, in some cases, the transfer of housing need to the private rented sector is an arrears management strategy for distressed borrowers.

2. Household Composition

The MABS National Statistics (new clients, Q.4 2012, excluding "Information Only" clients (see definition in Chapter 2)) indicate that 60% of all MABS clients have children. When compared to clients represented in the Mortgage Survey, this proportion increases by 12% to 67% of clients experiencing mortgage difficulty (Fig.2.1), indicating that the MABS mortgage client in mortgage difficulty (MABS Mortgaged Client) is more likely to have children.

Fig.3.2: Household Composition – MABS Mortgaged Clients vs. MABS National Statistics, % by Household Type

	Survey Sample	% Survey Sample	MABS National Statistics (excl. "Information Only")	% MABS National Statistics
Couple (unmarried)	32	1%	538	2%
Couple (unmarried) with Children	62	1%	1483	7%
Divorced	103	2%	297	1%
Divorced with Children	120	2%	350	2%
Married	765	13%	1943	9%
Married with Children	2693	45%	5413	24%
Separated	315	5%	960	4%
Separated with Children	741	12%	2391	11%
Single	674	11%	4095	19%

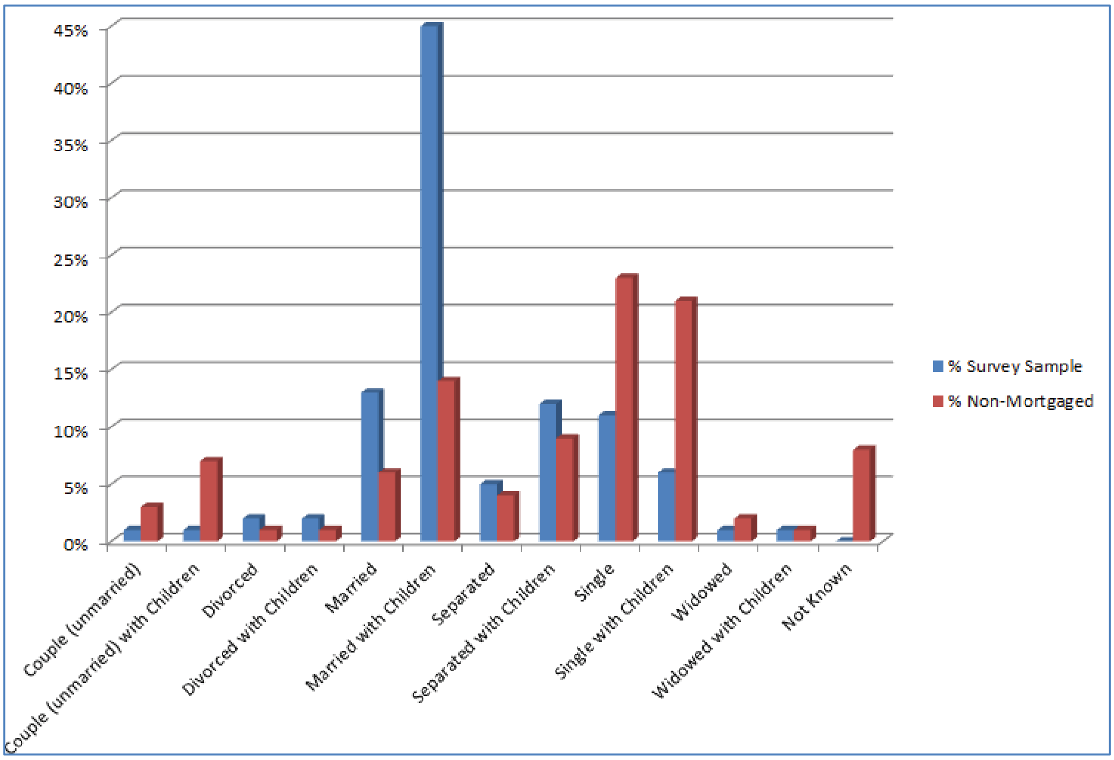
[12] Page 3 of the Code of Conduct on Mortgage Arrears

	Survey Sample	% Survey Sample	MABS National Statistics (excl. "Information Only")	% MABS National Statistics
Single with Children	342	6%	3495	16%
Widowed	70	1%	312	1%
Widowed with Children	37	1%	211	1%
Not Known	n/a	n/a	712	3%
Total	5,995	100%	22,198	100%

Source: MABS National Development Limited, Mortgage Survey, August 2012 vs. MABSIS data Q.4, 2012

The relationship between the family and mortgage debt is even more pronounced when comparing MABS Mortgaged Clients with MABS clients living in accommodation other than mortgaged accommodation (but excluding owner-occupied property)(Fig.3.3). The contrast between the proportions of single person households with no children and the married person households with children is noteworthy.

Fig.3.3: Household Composition – MABS Mortgaged Clients vs. MABS Non-Mortgaged Clients, % by Household Composition

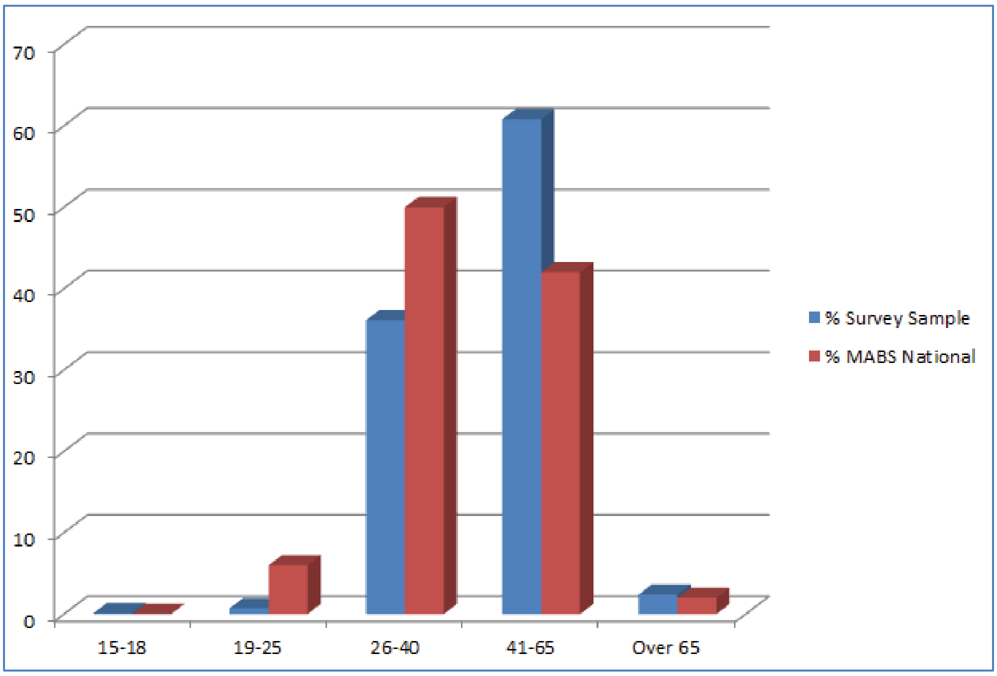


Source: MABS National Development Limited, Mortgage Survey, August 2012 vs. MABSIS data Q.4, 2012

3. Age

The age profile of the MABS mortgaged client is considerably older than the national MABS average, with the majority (60.8%, n=3,642) aged between 41 and 65 years and 36.1% (n=2,166) aged between 26 and 40 (Fig.3.4).

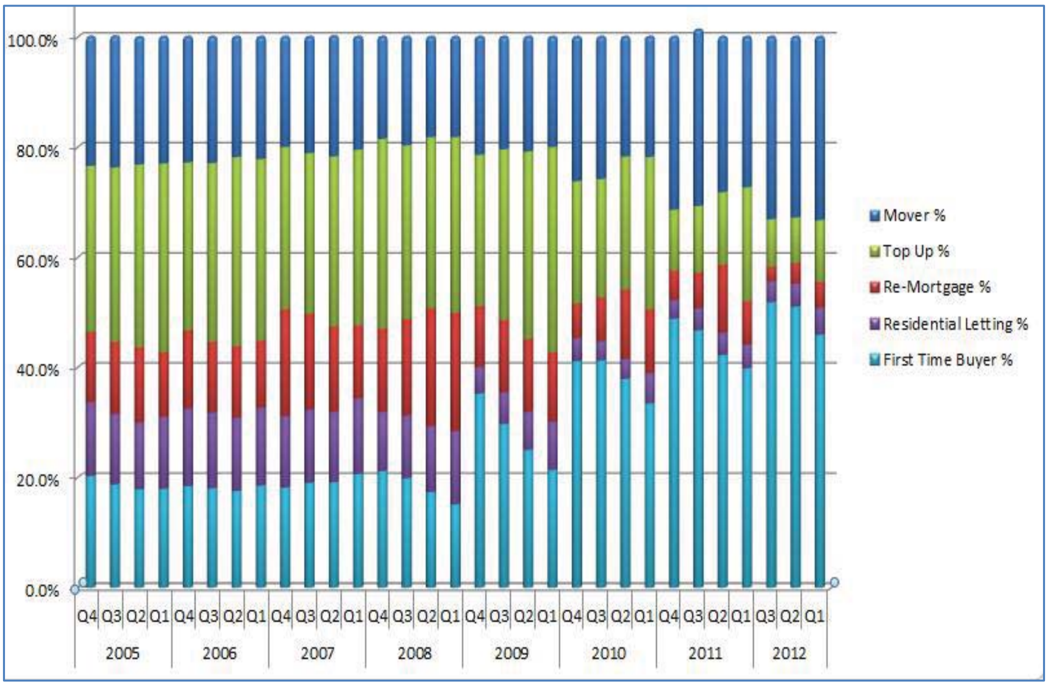
Fig.3.4: Age Profile of MABS Mortgaged Clients vs. MABS National Statistics (%)



Source: MABS National Development Limited, Mortgage Survey, August 2012 vs. MABSIS data Q.4, 2012

It is reasonable to assume that this cohort (those aged 41 to 65) should be approaching the end of their payment term, or in some instances should have paid their mortgage, in full. Statistics released by the Irish Banking Federation (IBF, 2012) show a high level of Top-Up, Re-Mortgage and Mover (i.e. having moved properties) mortgages between 2005 and 2009 (Fig. 3.5) which may go some way to explain why this age group are experiencing difficulty.

Fig.3.5: New Mortgage Lending by Mortgage Type, Q.1 2005 to Q.3 2012



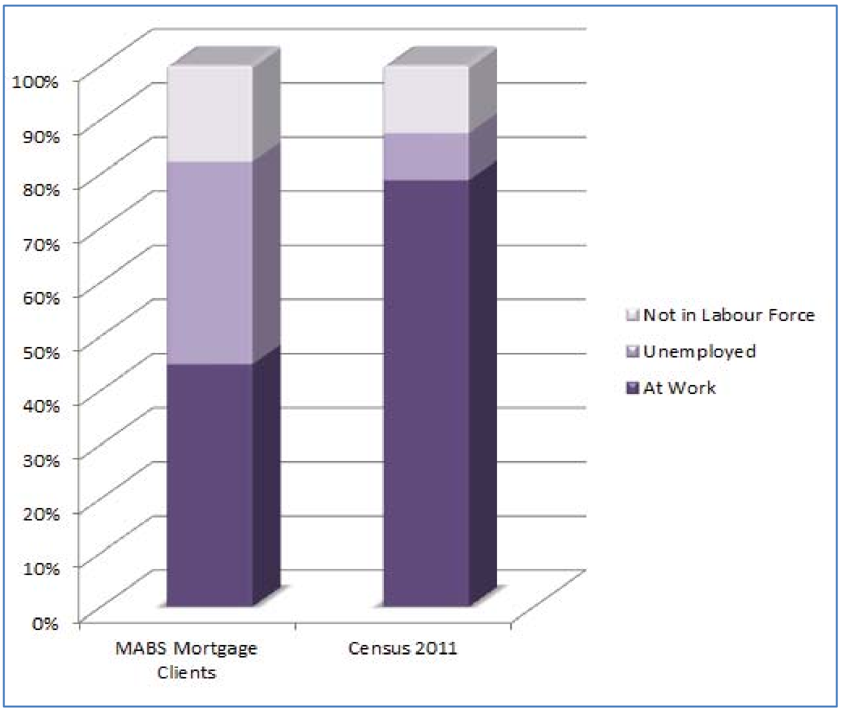
Source: IBF/PwC Mortgage Market Profile, www.ibf.ie

This is further supported by data contained in the Central Bank's Quarterly Bulletin 01/2012 (Central Bank of Ireland, 2012(b)) which recorded a growth in the number of Equity Release loans from 2004 to 2006, with the increase in value of these loans continuing to rise throughout 2007 (p.89-91). While establishing the reasons for the variation in the age profile falls outside the scope of this research, it is, nonetheless worthy of further analysis in the context of determining the suitability of long-term forbearance options for an aging cohort of borrowers in mortgage repayment difficulty.

4. Employment Status and Income Levels

The 'Roof over our Heads' profile, based on Census 2011 data (CSO, 2012(c)), indicates that 8.7% of all mortgaged households are headed by persons who are unemployed, 12.5% are headed by persons who are out of the labour force (i.e. are students, looking after home/family, retired, unable to work due to permanent sickness or disability or other) and 78.8% are headed by persons who are at work. Applying the same categories to the responses to 'Income Source' from the Mortgage Survey for comparison purposes, the profile of MABS mortgage clients is very different with 37.4% unemployed, 17.8% out of the labour force and 44.8% at work (Fig.3.6).

Fig.3.6: Employment Status – MABS Mortgage Clients vs. Census 2011



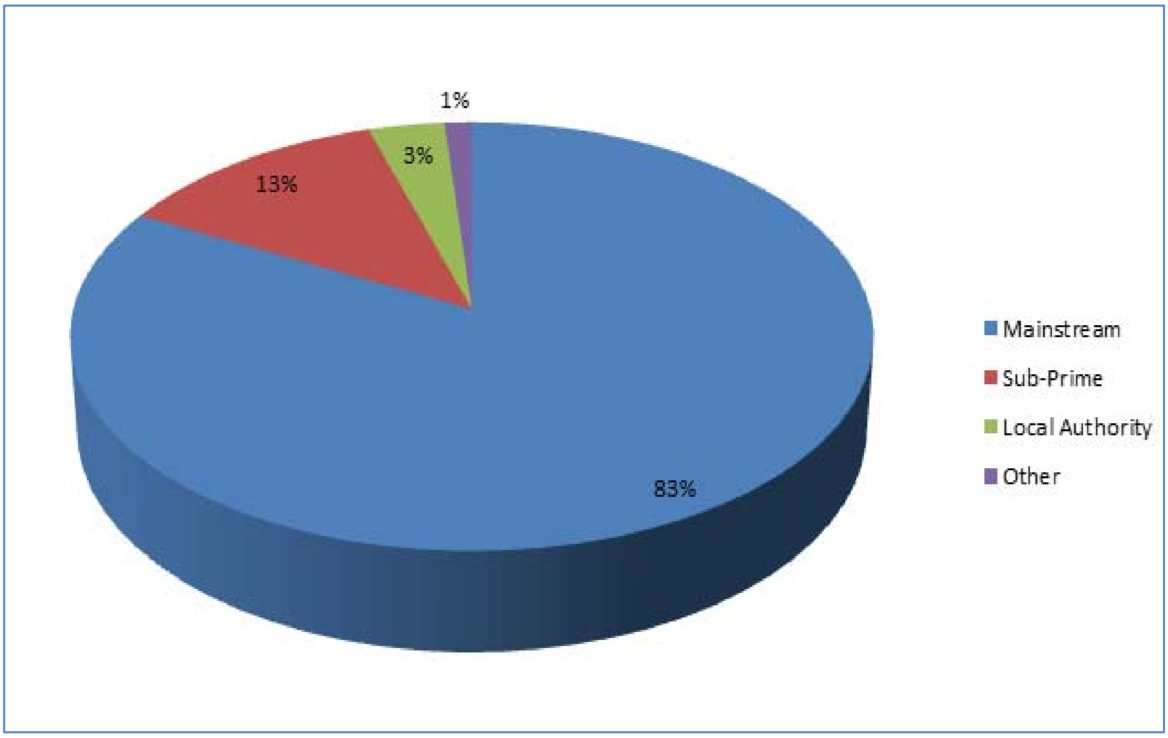
Source: MABS National Development Limited, Mortgage Survey, August 2012 vs. Central Statistics Office, Census 2011, Profile 4 – The Roof over our Heads, August 2012

An analysis of the monthly budgets for ***all*** new MABS clients presenting to the Service and having a mortgage debt in 2012 reveals that these households had an average annual residual income, after payment of essential expenditures (i.e. those expenditures prioritised in accordance with the MABS Money Advice Process – see Chapter 2) and before mortgage and other debt payments, of €9,256 (being €771.35 per month)(MABS National Development Limited, 2012(b)).

5. Type of Mortgage Lender

For the purpose of analysing clients' experience of the Central Bank's Code of Conduct on Mortgage Arrears (Chapter 4) data relating to mainstream and subprime lenders are combined. It is however worth noting, that 13% of MABS clients in mortgage difficulty are mortgaged by subprime lenders, with a further 3% mortgaged by local authorities and 1% with 'Other' (including credit unions and foreign lenders). The remaining 83% have mortgages with mainstream lenders. In their paper providing an overview of the mortgage debt crisis in Ireland, presented at a conference organised by the ESRI in October 2011, Lydon and McCarthy (2011) informed the conference that only 10% of all mortgage arrears held by Central Bank regulated lenders were with the sub-prime sector, further indicating that the issue of mortgage arrears is a mainstream problem.

Fig.3.7: Breakdown by Type of Lender



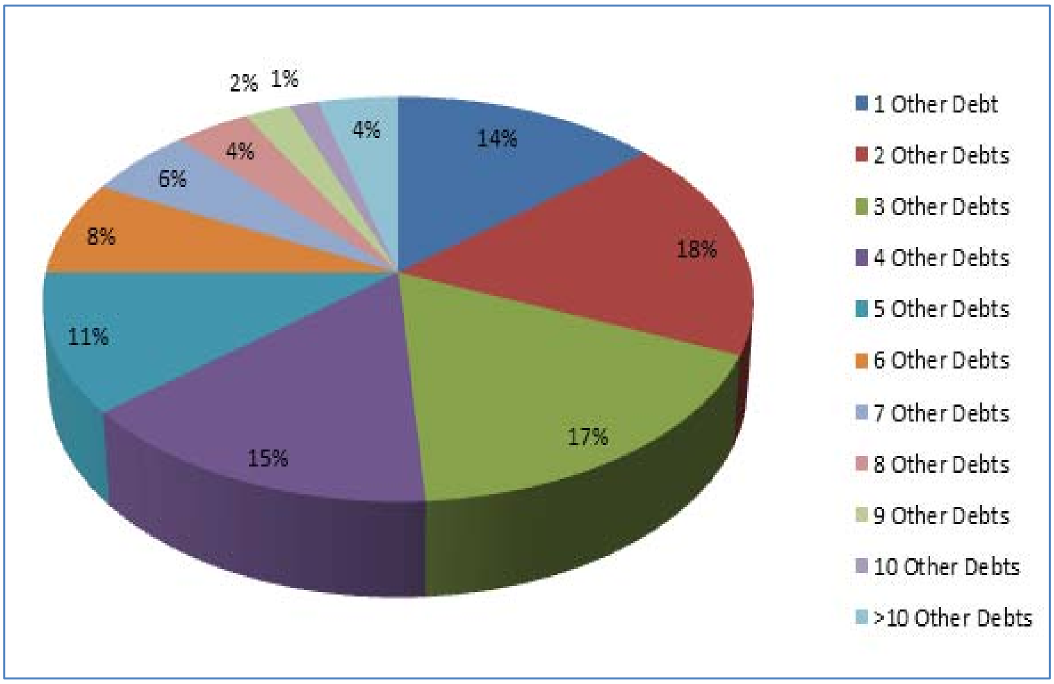
Source: MABS National Development Limited, Mortgage Survey, August 2012

6. Non-Mortgage Debts

It is the MABS experience that many clients present to the Service initially with the debt that causes them most concern, whether because of the possible sanctions involved for non-payment, or because they are experiencing pressure from creditors (or their agents) to enter into payment arrangements they believe they cannot sustain. The MABS approach is to treat the mortgage as a priority, but to consider it as part of a holistic assessment of the client's situation. As such, all other income and necessary expenditure are taken into account in the money advice process. So while the presenting 'debt trigger' may not be a mortgage difficulty, a difficulty with paying the mortgage may emerge on foot of the assessment

Given the rising trend in the number of Irish households going into debt to meet ordinary household expenses (Russell et al, 2011), it is not surprising that the majority (86%, n=5,165) of cases reported on in the Mortgage Survey had other debts (i.e. in addition to the mortgage on their primary residence and mortgages on any second properties), with 50% having between 2 and 4 debts and 5% having 10 debts or more (Fig.3.8).

Fig.3.8: No. of Other Debts (in addition to the Mortgage(s))



Source: MABS National Development Limited, Mortgage Survey, August 2012

Priority and Secondary Debts

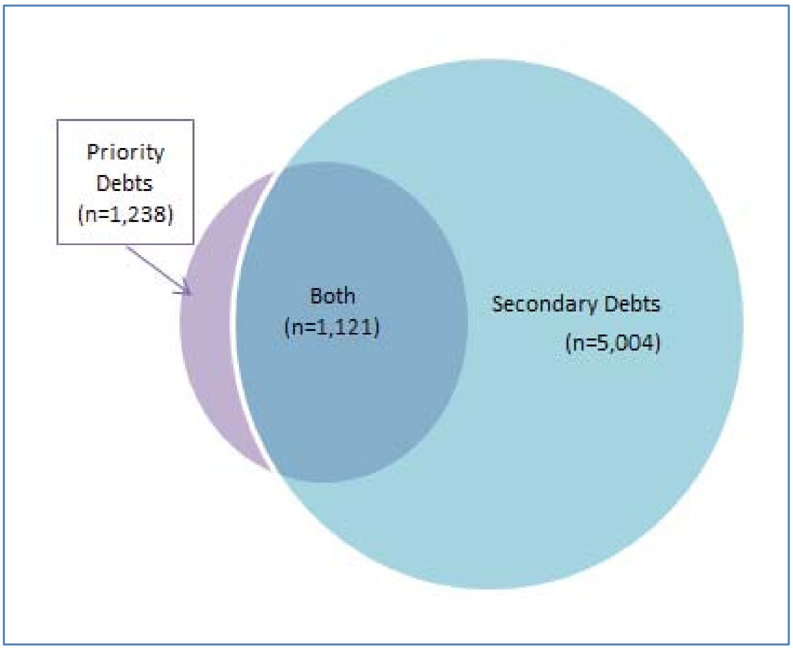
The MABS' 'Money Advice Process' categorises debts into 'priority' (i.e. those for which non-payment may result in a loss of accommodation, essential utility or liberty, and as such they include utility debt, court fines etc.) and 'secondary' (i.e. all other unsecured debts).

Of the 5,165 cases reported to have other, non-mortgage, debt, almost a quarter (n=1,238) were to 'priority' creditors, of which 58% (n=703), were less than €5,000 and a further 12% (n=139), were valued between €5,000 and €10,000. A small proportion (7%, n=85) were in excess of €50,000.

The amount of debt owed to 'priority' creditors contrasts sharply with the amounts owed by the 97% (n=5,004) of cases that owed debts to 'secondary' creditors (usually unsecured consumer debt). Of this cohort, 16% (n=802) of 'secondary' debts were valued between €20,000 and €30,000 and almost 19% (n=951) were valued in excess of €50,000.

Over one fifth (n=1,121) of the sample had **both** priority and secondary debts (Fig.3.9). Those respondents who provided additional information about their clients with non-mortgage debt in excess of €50,000 (n=10), reported debt levels of between €75,000 and €502,000 (the latter refers to the case of a self-employed individual being supported in respect of their business debts by an accountant and supported by MABS in respect of their personal / household debts).

Fig.3.9: Proportion of Priority and Secondary Debts



Source: MABS National Development Limited, Mortgage Survey, August 2012

Factors associated with Mortgage Difficulties at the Household Level

The Mortgage Survey both 1) specifically requested information on certain 'non-debt' categories (Relationship Breakdown, Mental Health, Physical Health, Addiction Issues, Employment, Legal Issues, 'Other') with which a mortgaged client presented to the Service (this may have been the reason the client approached the Service, or may have surfaced during case work), and 2) asked an open question for money advice staff to provide further information in relation to their view of their clients' circumstances. Of these non-debt issues, the most prevalent were Relationship Breakdown, Mental and/or Physical Health, Employment / Business Failure and Addiction Issues.

Fig.3.10: Issues experienced by MABS Clients in Mortgage Difficulty

Issue Identified	Number of Respondents[13]
Relationship Breakdown	720
Mental Health	720
Physical Health	721
Employment Issues / Business Failure	554
Addiction Issues	133
Other	690

Source: MABS National Development Limited, Mortgage Survey, August 2012

The above issues are substantially the same as the "root causes" of over-indebtedness identified by Stamp (2009) in qualitative interviews held with 36 MABS clients and are similarly reflective of the findings of Daly and Walsh (1988).

[13] It was possible to choose more than one issue per case.

The “Other” category contained instances of the following: Bereavement, Difficulties in Accessing Entitlements, Homelessness (in one case, a client with a mortgage is living in accommodation for the homeless having first moved in with parents due to inability to service the mortgage debt), Language Barriers and Emigration Issues, Literacy Issues, Revenue Debt, Insurance Issues and Legal Issues associated with other debts. In many cases (n=833) Money Advisers reported clients experiencing more than one of these issues. Where literacy issues presented, Money Advisers reported that their clients found the paperwork associated with the arrears’ collections processes confusing and difficult to understand thus requiring significant reliance on the Money Adviser to support their clients in negotiating an affordable and sustainable arrangement with their lender. This was an issue previously identified by FLAC in their 2009 report (Joyce, 2009) in relation to debt collection procedures generally.

Of those clients whose Money Adviser reported ‘Money Management’ issues as being a particular factor in their case (n=571), 16% were referred to the Society of Saint Vincent de Paul, 35% were referred to Health Executive Officers (formerly CWOs) and just over 10% were referred to both, with the remainder supported through the MABS Money Advice Process.

Conclusion

From the data presented, it may be concluded that in general the MABS client experiencing mortgage repayment difficulty is part of a family unit living in an urban area, aged between 41 and 65 years old, at work (and having their income supplemented by social welfare payments) or unemployed, mortgaged with a mainstream lender and carrying a high level of non-mortgage debt.

Having established *who* the MABS client in mortgage difficulty is, Chapter 4 will explore their experience with the Central Bank’s Code of Conduct on Mortgage Arrears.

Chapter 4: Clients' Experiences of the Central Bank's Code of Conduct on Mortgage Arrears – Survey Findings

Introduction

This Chapter looks at the levels of mortgage debt associated with MABS clients for whom returns were made to the Mortgage Survey and then proceeds to analyse the experience of those clients with mortgages regulated by the Central Bank's Code of Conduct on Mortgage Arrears.

The Experience in Context - Mortgage Debt Levels

The most recent figures released show the level of debt attributed to residential mortgages for principal dwellings regulated by the Central Bank amounted to €111billion by the end of September 2012 (Central Bank, December 2012). The Mortgage Survey yielded data on the mortgage balance in 5,739 cases. The total amount of mortgage debt on both primary residences and second properties was €1.3 billion, consisting of €1.28 billion owing to Central Bank regulated lenders, €18 million owing to local authorities and €5 million owing to 'Other' lenders[14].

Home Loans

The total amount of mortgage debt in relation to the primary residence was €1.13 billion (average of €193,311 and median of €175,000), most clients had one mortgage (n=5,197), but a small number (n=9) had in excess of 5 mortgages secured against their primary residence.

Second Properties

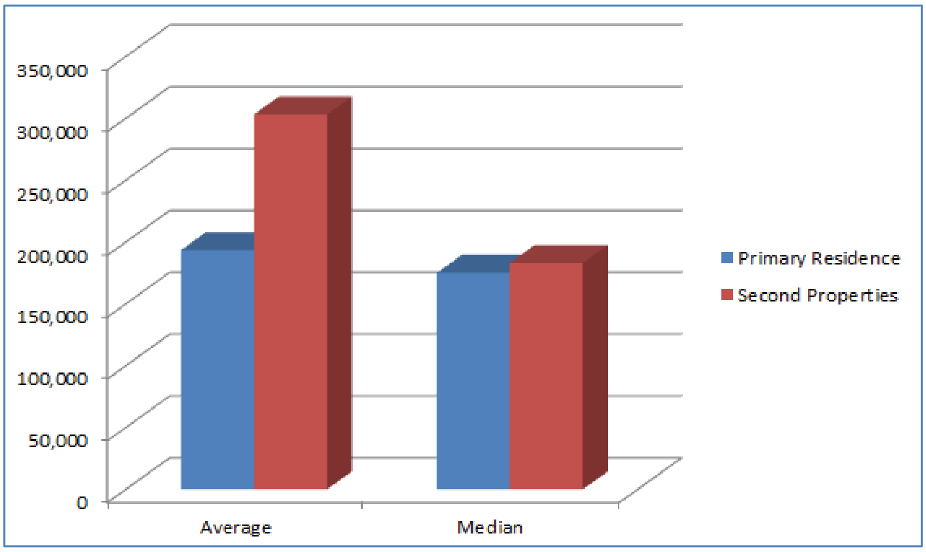
In line with the MABS objective of providing support to those on low incomes, the MABS target group did not traditionally have other properties outside of the family home. The focus on property development in the 'Celtic Tiger' era, together with the extension of borrowing facilities by the banks (see Chapter 2), enabled people, sometimes on relatively modest incomes, to purchase investment properties. In MABS experience often such purchases were made on a pragmatic basis and were designed to supplement pension entitlements or to support children studying away from home. With rents falling from their peak (and that peak being in line with the mortgage repayment at the time of purchase) in Dublin and other cities since 2008 (CSO, 2012(b)), coupled with a decline in incomes (CSO, 2012), these borrowers are experiencing increasing difficulties maintaining the mortgage payments on these properties.

Just over 10% (n=608) of the MABS Survey Sample had second properties. Of the respondents who provided the mortgage balance in respect of these (n=493), the total amount of mortgage debt was €171 million (average of €303,099 and median of €183,000). As can be clearly seen in Fig.4.1 below, the average reported mortgage balance on a primary residence was two-thirds that of a second property.

No data was captured on the extent of arrears on second properties; however MABS is supporting the client to negotiate in 16% of cases.

[14] See Chapter 2.

Fig.4.1: Average and Median Mortgage Debt levels – Primary Residence vs. Second Properties (€)

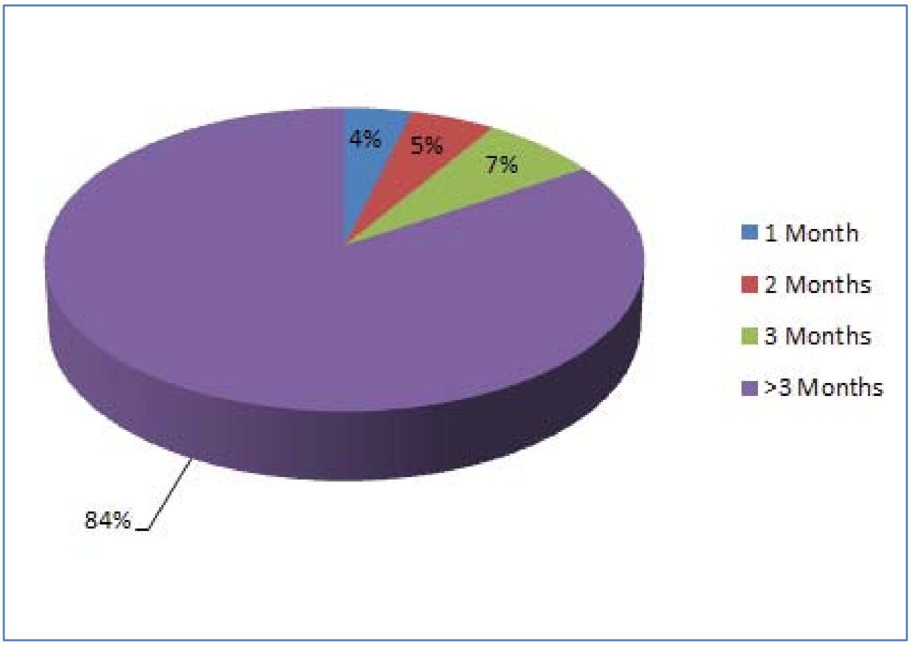


Source: MABS National Development Limited, Mortgage Survey, August 2012

Duration of Mortgage Arrears

Respondents to the Mortgage Survey were not asked to provide the monetary amount of the arrears outstanding, but for the duration of arrears in months. Of the responses received to this question (n=4,469), the majority of clients (n=4,090) were in arrears of three months or more (Fig.4.2).

Fig.4.2: Duration of Arrears – All Lenders

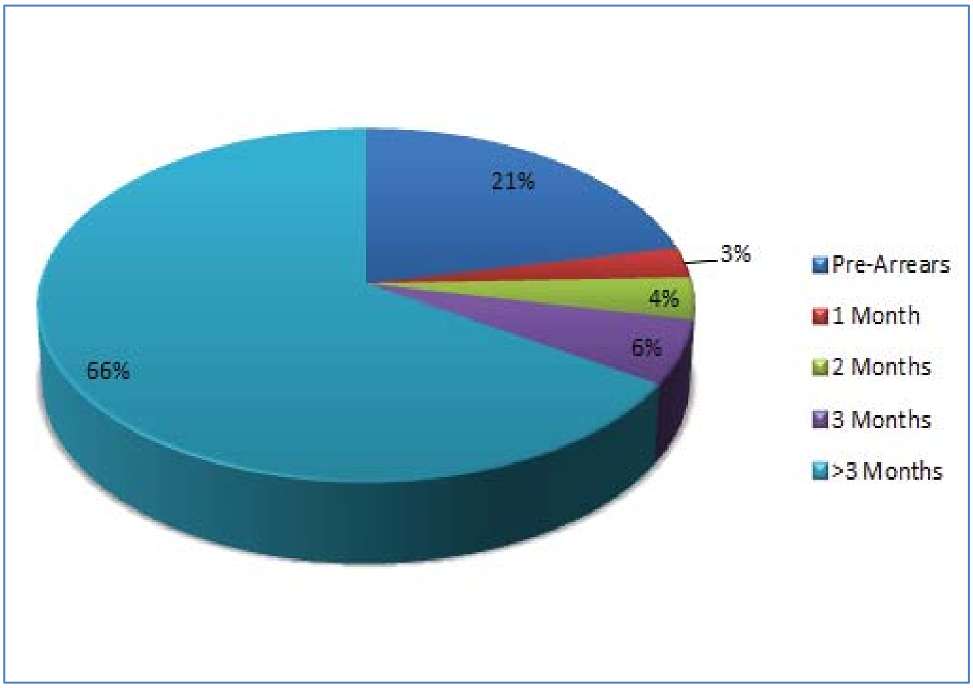


Source: MABS National Development Limited, Mortgage Survey, August 2012

The Code of Conduct on Mortgage Arrears and the Mortgage Arrears Resolution Process (MARP)

The introduction of the Central Bank's Code of Conduct on Mortgage Arrears defined, for the first time, 'pre-arrears' cases as "where the borrower contacts the lender to inform them that he/she is in danger of going into financial difficulties and/or is concerned about going into mortgage arrears"[15] (Central Bank, 2010) and is in line with the definition of 'mortgage difficulties' used in Chapter 2. Over one fifth of MABS clients in mortgage difficulty were at this stage of the process (n=1,191), with two-thirds being over three months in arrears (n=3,619)(Fig.4.3).

Fig.4.3: Level of Arrears - Central Bank Lenders



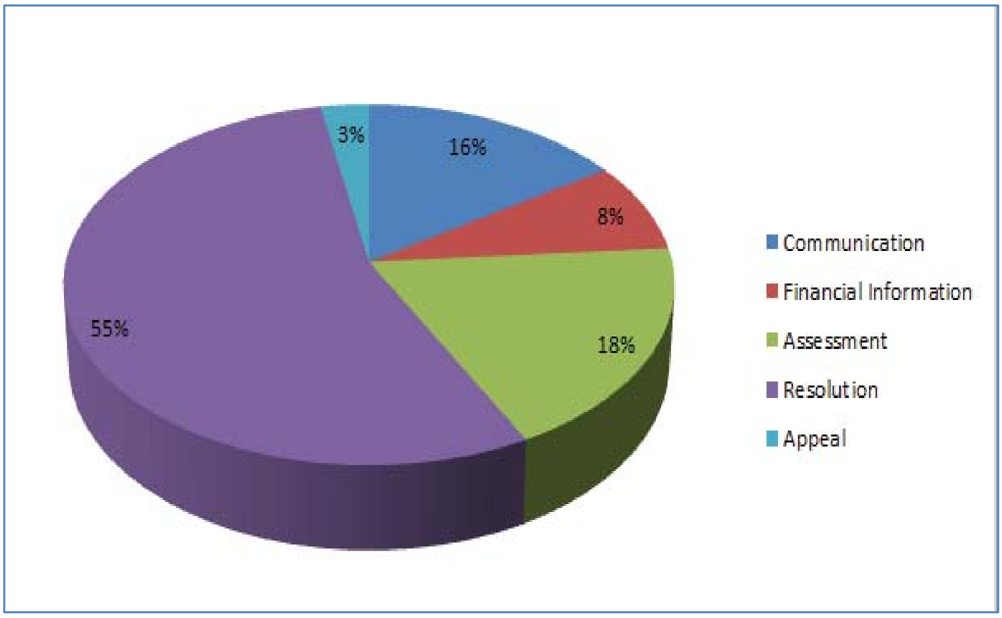
Source: MABS National Development Limited, Mortgage Survey, August 2012

The Mortgage Arrears Resolution Process (MARP)

Eighty five per cent (n=4,882), of the Central Bank regulated mortgages represented in the Mortgage Survey were being dealt with under the MARP (the remaining 15% relates to those not yet accepted to the MARP or those at 'Repossession' stage, with a small number for which this question was not answered). The majority of those in MARP were in the 'Resolution' stage (i.e. having received an alternative payment proposal from their lender) (Fig.4.4).

[15] Page 3 of the Central Bank's Code of Conduct on Mortgage Arrears

Fig.4.4: Breakdown by MARP Stages



Source: MABS National Development Limited, Mortgage Survey, August 2012

Financial Information

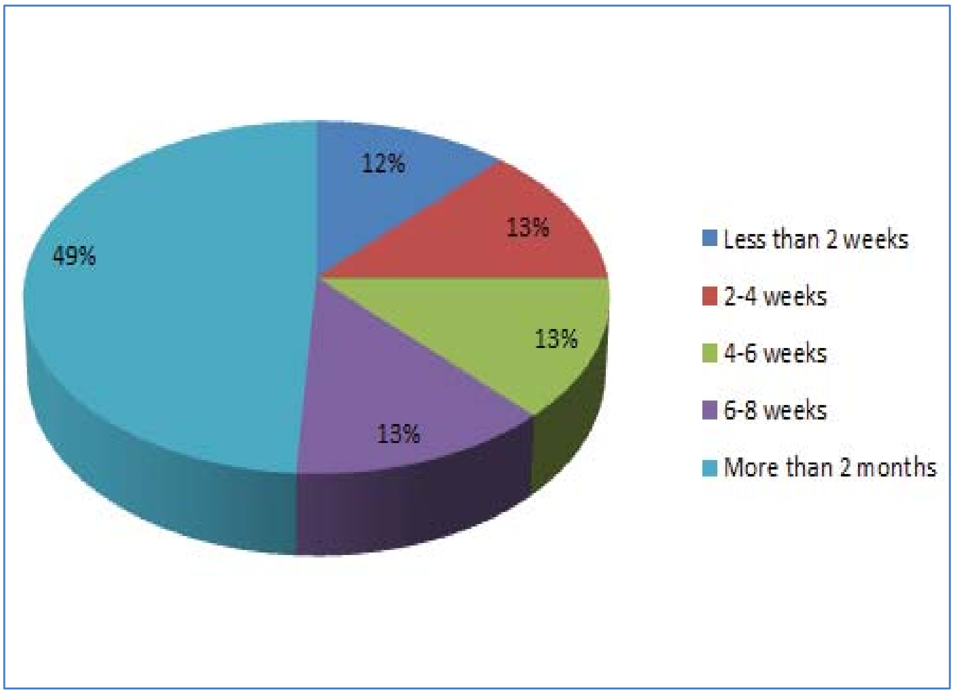
'Financial Information' is perhaps the most important stage of the process, as it is primarily on the basis of the information contained in the Standard Financial Statement (MARP SFS) that lenders make their determination in each case. When supporting a client to complete the MARP SFS, the MABS adviser will first go through the budgeting and money management exercise described in the MABS Money Advice Process (see Chapter 2) before completing the MARP SFS[16].

Assessment

As can be seen in Fig.4.4, almost 20% of respondents were at 'Assessment' stage at the time the Mortgage Survey was completed, i.e. they had submitted a MARP SFS to their lender and were awaiting a decision. Once the MARP SFS is submitted to the lender's Arrears Support Unit, it must be reviewed to determine the most suitable option for the borrower. As there is no timeframe specified in the Code for the completion of the Assessment stage, timelines may vary from case to case and lender to lender, however the 12 month moratorium on legal action for possession contained in the Code continues to run during this time. In this context it is worth noting that **almost 50% (n=448) of the respondents to this question were waiting in excess of two months for their case to be assessed** (Fig.4.5). Of those waiting in excess of two months, 84% (n=376) were in arrears for more than three months (i.e. officially in "mortgage default" (Oireachtas Library and Research Service, 2010).

[16] MABS has stressed the importance of a robust process for the completion of this form as the consequences for a borrower can be quite severe if, on foot of a poorly-completed MARP SFS, their lender has deemed their mortgage to be unsustainable. (CIB / MABS Pre-Budget 2013 Submission)

Fig.4.5: Length of time awaiting Assessment



Source: MABS National Development Limited, Mortgage Survey, August 2012

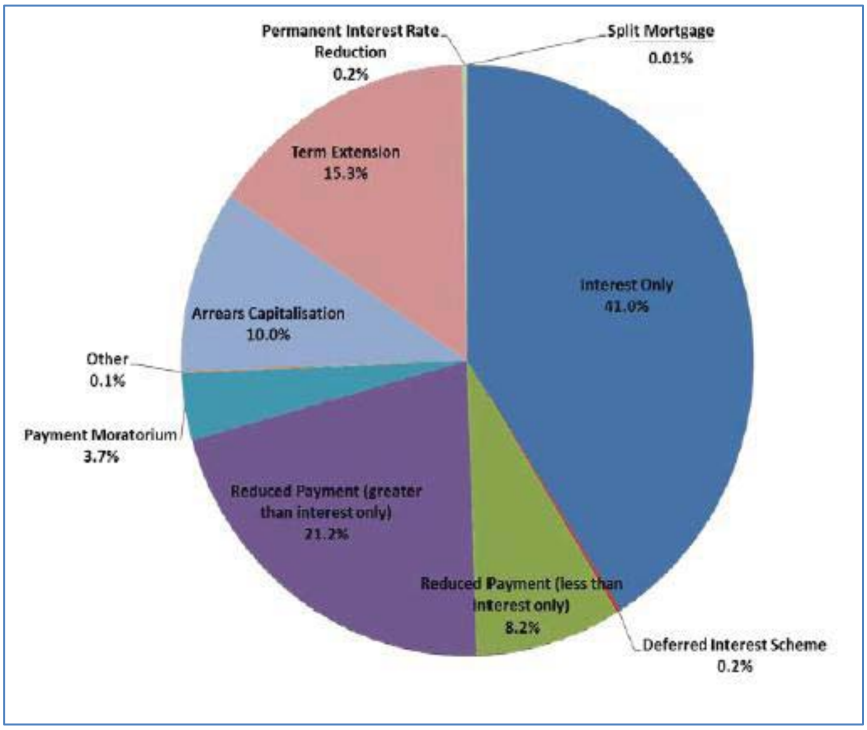
The delay in assessments can be frustrating for the client. MABS encourages clients to pay what they can afford while awaiting a decision, however, the lack of a formal solution may, as reported in the Mortgage Survey, cause delays with applications for State supports due to lack of appropriate documentation (as documentation is required to be completed by the lender before such applications may be made), which may result in any forbearance option offered being unsustainable to a borrower who was precluded from accessing such State support. Requesting updates and responding to multiple requests for documentation to be submitted can also be resource-intensive for the MABS adviser (MABS Mortgage Survey, 2012).

Resolution

Over half (55%, n=2,671) of respondents were at 'Resolution' stage at the time the Mortgage Survey was completed (Fig.3.5), i.e. they had received a proposal from their lender for consideration. The Code sets out a range of Resolution, or restructuring, options[17] which must be considered by lenders and publishes details of all restructured mortgages in their Information Release (Central Bank, 2012). Fig.3.6 below is taken from the Central Bank's Information Release published in December 2012, and shows each restructure type as a percentage of all restructured residential mortgage accounts.

[17] Provision 33 of the Code

Fig.4.6: Restructure Type – Central Bank Statistics



Source: Central Bank of Ireland, Information Release: Private Dwelling House Mortgage Arrears and Repossession Statistics: Q3 2012, December 2012

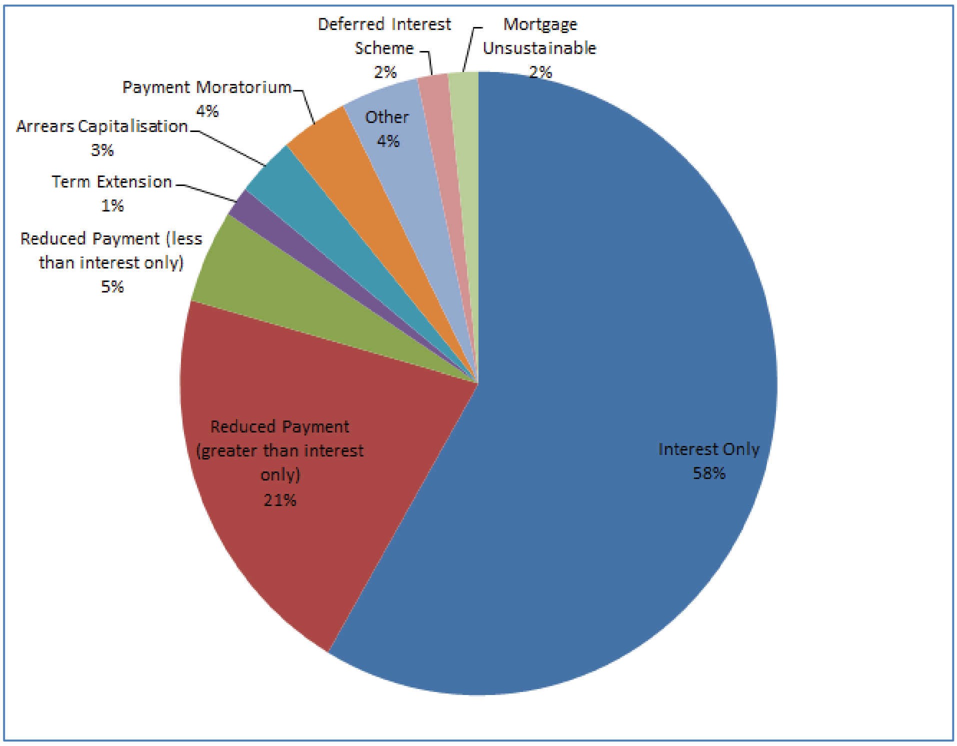
Almost half (n=43,742) of the restructured mortgages represented in the above chart were not in arrears at the end of September 2012 when this data was gathered (Central Bank, 2012), which may account for the differences when compared to the same information gathered from responses to the Mortgage Survey (re-classified to match the Central Bank data for comparison purposes) (Fig.4.7).

Fig.4.7: Comparison of Resolution Options – MABS Survey Sample v Central Bank Statistics

Resolution Option	% MABS Survey Sample (CBI lenders)	Central Bank Statistics
Interest Only	58	41
Reduced Payment (greater than interest only)	21	21.2
Reduced Payment (less than interest only)	5	8.2
Term Extension	1	15.3
Arrears Capitalisation	3	10
Payment Moratorium	4	3.7
Other	4	0.1
Deferred Interest Scheme	2	0.2
Mortgage Unsustainable	2	Data Unavailable
Permanent Interest Rate Reduction	Data Unavailable	0.2
Split Mortgage	Data Unavailable	0.01

Source: MABS National Development Limited, Mortgage Survey, August 2012 and Central Bank of Ireland, Information Release: Private Dwelling House Mortgage Arrears and Repossession Statistics: Q3 2012, December 2012

Fig 4.8: Resolution Options offered to MABS Clients – Central Bank lenders



Source: MABS National Development Limited, Mortgage Survey, August 2012

Worthy of note from the MABS data, is the low proportion of mortgages deemed to be unsustainable by the lender (n=36), however the 69% not making any capital repayments (i.e. those on Interest Only, Reduced Payments less than Interest Only, Payment Moratorium and Deferred Interest Scheme) will be subject to on-going review to establish the sustainability of this type of arrangement, and the mortgage overall, if their circumstances do not improve.

Of the 2,671 proposals offered by lenders, the majority (93%, n=2,473) were accepted by the client, with over half (52%, n=1,386) scheduled for review within 6 to 12 months, and almost a third (29%, n=775) scheduled within 3 to 6 months. Of the 55 respondents who were unhappy with the proposal offered, 29% intended to appeal the decision to the lender's Appeals Board on the basis of affordability, with a further 43% as yet undecided on this course of action, but reporting the same concerns in respect of capacity to afford the proposal amount.

Appeals

Only 141 respondents were at 'Appeals' stage at the time the Mortgage Survey was completed, i.e. they had submitted an appeal to the lender's Appeals Board. The Code sets out three over-arching grounds for making an Appeal[18]:

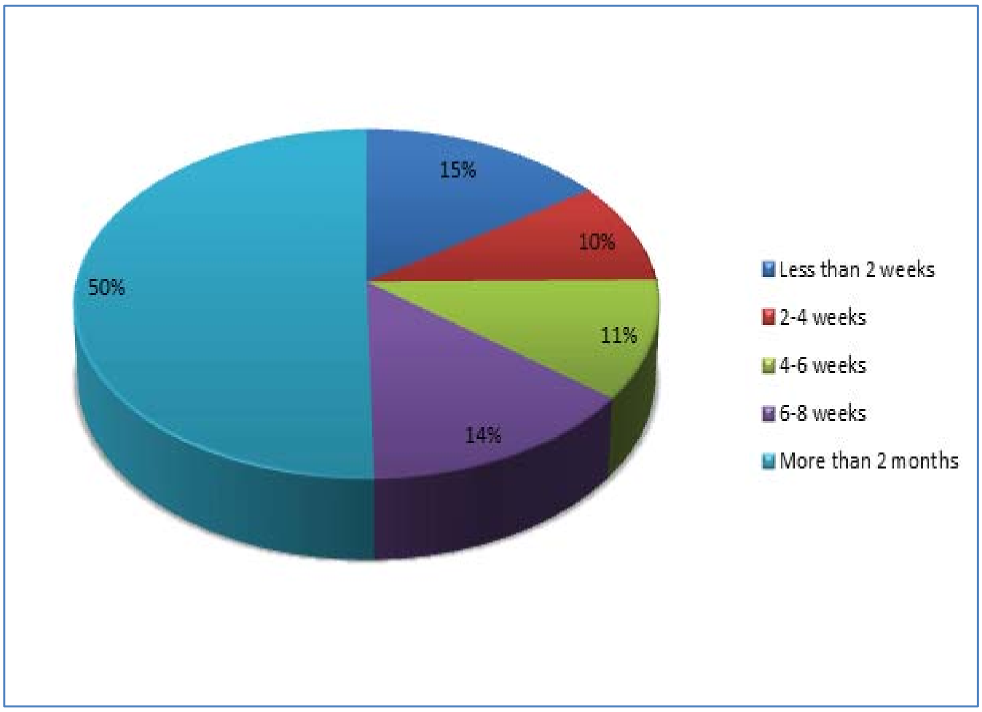
a) The decision of the lender's Arrears Support Unit;
b) The treatment of the borrower's case under the MARP process; and
c) The lender's compliance with the Code.

[18] Provision 42 of the Code

It is possible for a borrower to bring an appeal on more than one ground, and in the case of the respondents to the Mortgage Survey, the main reason for appealing the lender's decision (reported in 113 cases) was the decision of the lender's ASU, primarily on the basis of affordability of the forbearance measure proposed. While outside the direct scope of this Report, MABS ndl intends to publish an in-depth Report on these households as part of its Research Programme.

While the Code provides timelines for the processing of Appeals[19], and specifically excludes the time taken to process an Appeal from the 12 month moratorium on legal action, delays in the process were clearly evident in the responses to the Mortgage Survey, with 50% taking more than two months to process (Fig.4.9).

Fig.4.9: Time taken to respond to Appeal



Source: MABS National Development Limited, Mortgage Survey, August 2012

Where the outcome of the Appeal was received (n=91), 50% were successful. Of those who were unsuccessful (n=46), 17% intended to appeal the decision to the Financial Services Ombudsman (FSO), with a further 60% undecided on this course of action. Where the clients had appealed to the FSO (n=8), 37% were waiting more than two months for a decision.

MABS' Experience of the CCMA

Where a client lacks the necessary information and requires additional support from MABS to obtain it, the MABS adviser will write to the client's creditors to request details of the client's debts, which can substantially add to the length of the process. MABS supported 39% (n=2,210) of the clients represented in the Mortgage Survey to complete the MARP SFS, with 43% taking 1 to 2 hours, and a further 36% taking between 30 minutes and 1 hour. The length of time taken by skilled Money

[19] Provision 44 of the Code.

Advisers, experienced in analysing and completing budgets and financial statements on behalf of clients, in completing the MARP SFS demonstrates the complexity of the process involved. Lenders must fully engage with their customers to ensure that the document is completed accurately before they can make any decisions in respect of the most appropriate forbearance proposal.

Engaging with the Lender

Of those responses reporting difficulties engaging with the lenders (n=28), delays in processing documentation, multiple requests for documentation and the imposition of pre-conditions, were the main causes reported by money advice staff.

Repossession

While the repossession *rate* among respondents was relatively low, at less than 3%, this represents 205 cases being brought against clients of MABS for possession of their family home. During Q.3 of 2012 the Central Bank reported that legal proceedings were issued in 466 of the 86,146 private dwelling house mortgages in arrears of over 90 days (0.54%) (Central Bank, 2012).

Conclusion

The majority of mortgage debt dealt with by MABS was in respect of the family home, with average mortgage debt levels of €193,311. A high proportion of MABS clients were in arrears in excess of 3 months, with many of those engaged in the MARP experiencing delays in process. The sustainability of the main form of forbearance offered to MABS clients, i.e. 'less than interest only' to 'interest plus part capital', is questionable with many clients making no indent into the outstanding balance of their mortgage.

The level of delay experienced by some borrowers in having their case considered under the MARP process requires action to ensure that banks are sufficiently resourced with staff who are fully trained in the process and its implementation and that the client (or their adviser) is kept apprised of progress for the duration.

The importance of a robust process for completing a financial statement must be stressed, as it is the content of this document that primarily determines the outcome of the borrower's case. In light of the rate of Appeals being brought on the basis of affordability of the proposal offered, it is also critical that the borrower's budget is assessed in order to determine the suitability of any proposal offered by the lender.

Under the Central Bank's Code of Conduct on Mortgage Arrears, lenders must allow a borrower at least 20 business days from the date of the offer of forbearance to make an Appeal. This can be a short time to gather sufficient information if the MARP SFS was not completed correctly at the Financial Information stage. For experienced MABS advisers supporting these clients, the time taken to accurately complete a Standard Financial Statement ranges between 30 minutes to 2 hours which demonstrates the complexity of the work involved to ensure the accuracy of the data provided in the MARP SFS to enable lender's to properly assess the client's repayment capacity.

Chapter 5: Conclusions and Recommendations

MABS Mortgaged Client Profile

Based on the findings from the Survey Sample, the MABS Mortgaged Client is generally between 41 and 65, having possibly re-mortgaged / traded-up, has children, lives in a large town or city, is mortgaged with a mainstream lender, has significant non-mortgage debt and a low amount of disposable income with which to service them. As evidenced in Chapter 3 many are experiencing a range of other personal and family issues alongside their mortgage difficulty.

This profile is far removed from the borrower who is "strategically" defaulting on their loan in the hope of getting a better deal[20].

Forbearance Options

MABS Mortgaged Clients appear to be paying more towards their mortgages than those that are not in receipt of MABS support (Fig.4.7). This is possibly as a result of the high priority MABS has always given to housing debt. Even at this level of payment, and in consideration of the amount of disposable income left to the borrower after payment of essential expenditures and something towards the mortgage, it is clear that for some clients the current forbearance options are unsustainable.

We would further conclude that Mortgage Arrears Resolution Strategies, such as debt warehousing / split mortgages, will not provide relief to many MABS clients in mortgage difficulty as, given their age, it is unlikely that these borrowers would be in a position to repay the "warehoused" portion when the time came. Accordingly, broader long-term solutions, taking account of the full debt portfolio of the household, and mechanisms which address the capital balances (e.g. write-down of the "unsustainable" portion) on mortgages would be of greater benefit to borrowers whose total over-indebtedness (both mortgage and non-mortgage debt) is continuously increasing with every application of interest and charges.

Recommendation 1, Department of Finance: Further development of long-term solutions addressing the capital element of the mortgage and the borrowers overall indebtedness.

Mortgage Arrears Resolution Process

While the MARP provides a standardised process for mortgage lenders to engage with their borrowers to address payment difficulties, the delays in assessing cases and in determining appeals reduce the effectiveness of the process overall, with the uncertainty of outcome increasing the borrower's anxiety (and, in some cases, negatively impacting their ability to maximise their income). The imposition of agreed, reasonable, timelines throughout the process by the Central Bank, who may impose sanction for lack of adherence to these timelines, would greatly enhance its efficiency and success.

Recommendation 2, Central Bank of Ireland: Introduction of specified timelines for each Stage of the Mortgage Arrears Resolution Process.

[20] Irish Times article, April 10, 2012 - http://www.irishtimes.com/newspaper/finance/2012/0410/1224314564929.html

Non-Mortgage Debt – the Personal Insolvency Legislation and Voluntary Arrangements

The high level of non-mortgage debt accumulated by MABS clients in mortgage difficulties, who are struggling to repay their priority expenditures, highlights the need for a streamlined approach to household indebtedness. It is possible that many of the MABS Mortgaged Clients represented in the Mortgage Survey may apply for a Debt Settlement Arrangement or a Personal Insolvency Arrangement once the relevant sections of the Personal Insolvency legislation are commenced. However, as these clients have insufficient income with which to make any payments to non-mortgage debts, it is questionable whether proposals to enter into an insolvency arrangement will succeed at a creditors' meeting, potentially resulting in either an increase in bankruptcy applications or an increase in voluntary arrangements.

In light of the above, we reiterate the recommendation contained in the CIB / MABS Pre-Budget 2013 submission to place the IBF / MABS Operational Protocol on a regulatory footing to provide a stronger framework for lenders to engage with their borrowers in respect of their non-mortgage debts as part, together with a strengthened Code of Conduct on Mortgage Arrears, of a holistic package of responses to personal over-indebtedness.

Recommendation 3, Central Bank of Ireland / Department of Finance: Introduction of a non-judicial regulatory framework to address non-mortgage debt as part of a holistic package of responses.

Income Retention

MABS does not provide financial assistance in the form of cash or vouchers, however MABS clients are regularly referred to other organisations for such support. The difficulties associated with living on a reduced income, and attempting to service debt payments, are expressed throughout the responses in relation to this cohort. Money advisers frequently reflected clients' frustration with the slow progress of reducing their debts, particularly where interest and charges continue to be applied to the capital amount on secondary debts. The lack of a minimum retained income standard among creditors, to secure a reasonable standard of living for the household, places additional pressure on debtors endeavouring to make arrangements in respect of multiple debts. This can result in some, particularly the most vulnerable, succumbing to "those who shout loudest" and agreeing unsustainable arrangements, default on which exacerbates an already difficult situation.

The issue of retention of an adequate income will become even more pronounced with the implementation of the Personal Insolvency legislation which makes statutory provision for "reasonable essential expenditures" and a "standard of living".

Recommendation 4, Department of Social Protection, Department of Justice and Equality and Department of Finance: The introduction of a minimum retained income for which the recent work carried out by the Vincentian Partnership for Social Justice (2012) may be instructive.

Mental Health Guidelines for People in Debt

The findings in relation to stress and mental health associated with mortgage repayment difficulty is supported by the Mental Health Commission's 2011 Report, *The Human Cost, An overview of the evidence on economic adversity and mental health and recommendations for action* (2011), which referenced actions taken in the UK to address debt-related mental health issues (e.g. the Good Practice Mental Health Guidelines produced by the Money Advice Liaison Group; the Debt and Mental Health Evidence Form, approved by the UK Information Commissioner's Office) and made a series of recommendations, some of which explicitly reference the use of MABS resources.

MABS made a workshop presentation at the Irish College of General Practitioners (ICGP) Summer School (2012) which focused on issues of mental health. Most GPs in attendance at the MABS workshop expressed concern at the increase in debt-related mental health issues arising in their patients and indicated that they too would welcome a national response to dealing with this growing problem. The introduction of robust Mental Health Guidelines, such as those introduced in the UK, would be of significant benefit to the MABS client group and others.

Recommendation 5, Mental Health Commission and Stakeholders: The establishment of a Working Group to develop and agree Mental Health Guidelines similar to those implemented in the UK by the Money Advice Liaison Group and we reiterate this recommendation in this Report.

Prevention – Money Management Education

MABS aims to facilitate low income families to develop the knowledge and skills they need to avoid getting in to debt and to deal effectively with debt situations which arise. (MABS National Development Limited, 2007). This empowerment of clients to manage their finances and deal with their debts is core to its ethos and MABS has tailored the types of supports provided (i.e. MABS Helpline, website and local Services) to ensure that, in as far as possible, money advice is always available and no one is waiting for support.

The MABS Money Advice Process (see Chapter 2) is centred on a robust budgeting exercise which takes account of the client's income (with maximisation taking place as required) and essential expenditures in light of their circumstances. This exercise takes time, with verifications required for objectively 'high' expenditure items where they arise. Prior to engaging with any mortgage arrears resolution process, MABS encourages clients to keep 'spending diaries' to keep track of spending, and to make adjustments to expenditures as necessary. This helps clients to prepare a realistic budget which will, in turn, inform their financial statement(s) and proposals to creditors. This exercise, if done correctly, will also enable clients to make informed decisions about the viability of proposals received from their mortgage lender and may help them to formulate Appeals under the relevant Appeals Processes.

The MABS Money Advice Process prioritises expenditures such as accommodation costs, essential utilities, food, child-related costs and payments to debts with sanctions resulting in loss of liberty, shelter, utilities (priority payments) over unsecured debts (secondary debts) in order to secure a reasonable standard of living for the client and their household. Of those responses specifically concerned with Money Management issues, lack of prioritisation due to lack of awareness of budgeting principles and/or pressure from creditors and their agents was reported.

Recommendation 6, Department of Social Protection, Department of Education and MABSndl: Solid Money Management Education is a combination of attitude, knowledge and skill, and when consistently applied, it can maximise the level of control an individual has in life as well as having the potential to greatly reduce the incidence of problem debt. A national strategy on Money Management Education, which allows development of attitude, knowledge and skill within all learner groups, is required.

Further Research

The data set which resulted from this survey is significant and is worthy of further and deeper analysis in relation to several of the themes already highlighted. MABS, by virtue of the type of work it does with its clients, necessarily collects extensive data on the totality of their situation. This data can and should be used to inform relevant policies and regulations. Furthermore, this research indicates that there are other factors which should, perhaps, form part of the national (Central Bank) data set on mortgage arrears. The SFS completed by borrowers provides extensive data on income and other debts and, as such, it should be possible (providing the SFS was completed accurately in each case) for periodic statistical reports to provide not only the numbers in mortgage arrears, the duration of arrears etc., but also a profile of the net disposable income of that group as well as their total indebtedness. That data could, in turn, inform the various policy options emerging for this group and could also be used to benchmark the efficacy of the new personal insolvency arrangements.

On foot of the data contained in this research, a research programme could be developed along the following lines to expand on the experience of over-indebted borrowers and to make further recommendations for policy enhancements and supports:

- The impact of trading up / re-mortgaging on overall indebtedness.
- A study of borrowers' experience as they progress through the Mortgage Arrears Resolution Process.
- Debts associated with the collapse of a business, and supports required.
- Mortgage debt and mental health.
- The psycho-social effect of over-indebtedness.
- Social Lending and Access to Credit.

MABS ndl has identified a number of areas within the dataset which it will examine further under its own research programme. Specifically, our first priority from this programme will be an examination, based on an in-depth analysis of a representative sample of the Survey Sample, on the affordability of forbearance options available.

Recommendation 7: The implementation of a research programme specifically dealing with over-indebtedness, policy enhancements and supports.

Appendix 1 – MABS' Experience

MABS National Development Limited (MABS ndl) was established in 2004 to provide support to local MABS offices. MABS ndl now provides casework support, training, money management education, hosts MABS information systems and electronic fund transfer (EFT) facilities for the MABS Special Account, national social policy development and promotional/communication supports. MABS ndl also manages the MABS website and the national MABS helpline.

Under the Social Welfare (Miscellaneous Provisions) Act 2008, statutory responsibility for MABS was assigned to the Citizens Information Board. The CEO of the Citizens Information Board participates on the Inter-Departmental group on Mortgage Debt. CIB has also established an internal sub-group of its Board, the 'Board Group on Debt Initiatives' to consider on-going developments in this area.

Emerging Concerns about Mortgage Debt

MABS first noted the difficulties emerging for clients with mortgage debt, particularly those with sub-prime lenders, in 2007 and held training sessions for staff. In 2009, as the issue became more 'mainstream', MABS held a national seminar on mortgage debt with guest speakers from the (then) Department of Social Welfare and the Financial Regulator, as well as industry representatives.

In 2009 MABS ndl developed a submission to the Minister for Social and Family Affairs outlining its considered experience and views on possible solutions to the mortgage debt difficulty.

Initiatives

In 2009, MABS and the IBF jointly launched an operational protocol "*Working Together to Manage Debt*" (the Protocol)[21] aimed at establishing a common process between MABS and the banking sector to deal with debt in a holistic and consumer-centric way, with an emphasis on achieving mutually-acceptable, affordable and sustainable repayment plans. To date this process has been largely successful with the majority of MABS clients engaged in the process repaying their debts in accordance with their means.

In 2010 CIB, together with MABS, launched www.keepingyourhome.ie, the agreed central portal for all mortgage-related information.

Consultations

In 2010, MABS made two presentations to the Cooney Group detailing the MABS experiences in relation to mortgage debt and again outlined its suggestions in relation to possible solutions.

MABS ndl also engaged extensively with the Central Bank on their consultation on the Code of Conduct on Mortgage Arrears (the Code), providing a written submission to the consultation paper in September 2010 and, between February and April 2011, taking part in negotiations with the IBF, facilitated by the Central Bank, on the content of the Standard Financial Statement for use with the Code to bring commonality of process, so successful in relation to the Protocol, to the management and resolution of mortgage arrears.

Materials Development

In order to try to bring clarity to the process of completing the Standard Financial Statement, MABS also worked with the Central Bank to draft their guide "*Mortgage Arrears – A Consumer Guide to*

---

[21] Available online at http://www.ibf.ie/pdfs/IBF-MABS-Protocol-June09.pdf

Completing a Standard Financial Statement” available on the Central Bank website, www.centralbank.ie. A comprehensive guide to the Code of Conduct on Mortgage Arrears, entitled “*MABS Guide to the Central Bank’s Code of Conduct on Mortgage Arrears*” was prepared by MABS ndl and is available on both the MABS website, www.mabs.ie, and www.keepingyourhome.ie.

Training and Development within MABS

Since the introduction of the Code, MABS ndl has made available almost 100 days of training events to money advice staff, including training in the legal issues associated with mortgage debts.

As well as specific mortgage related training, MABS recognises that the reality of the client’s situation requires well rounded knowledge in other areas. Therefore training events also include areas such as the social protection system, the supplementary welfare system, and the legalities of debt collection, judgement mortgages, the consumer credit act, hire purchase, income maximisation and key protocols. Training is complemented by a casework technical support unit which supports services individually in the delivery of money advice. The training unit has developed and delivered numerous training and support sessions, including the development of computer-based training modules, specifically in relation to mortgage related issues.

Key materials have also been developed by MABS ndl such as the ‘MABS Mortgage Manual for Money Advice Staff’ (2012).

Research

In September 2011, Waterford MABS, with support from the CIB and MABS ndl, launched its mortgage research, *“Lifting the Load – Help for People with Mortgage Arrears”*, a qualitative study of 40 MABS clients detailing their experience of being in difficulty with their mortgage repayments and the supports provided by MABS in this area.

This research was launched by the Minister for Social Protection, Joan Burton T.D., on the 29th September 2011, who said:

"The dramatic housing boom and equally dramatic housing bust that followed have had very significant social and economic consequences. Among these has been a very substantial increase in mortgage arrears and negative equity, resulting in turn in a marked increase in demand for the services of the Money Advice and Budgeting Service (MABS)… MABS staff daily witness the negative impacts on client lifestyle and their personal and familial well-being. Significant numbers of MABS clients reported that the stress generated by their indebtedness problems had negative implications for their physical health, their relationships with their spouse or partner and children and undermined the quality of their family life."

References

1. Central Bank of Ireland [2010]: Code of Conduct on Mortgage Arrears.

2. Central Bank of Ireland [2012]: Information Release – Residential Mortgage Arrears and Repossessions Statistics: Q3 2012 available online at http://www.centralbank.ie/polstats/stats/mortgagearrears/Documents/Residential%20Mortgage%20Arrears%20and%20Repossessions%20Statistics%20Explanatory%20Notes.pdf [Accessed 13 December 2012].

3. Central Bank of Ireland [2012(b)]: The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears, Quarterly Bulletin 01/January 12 available online at http://www.centralbank.ie/publications/documents/the%20irish%20mortgage%20market%20stylised%20facts,%20negative%20equity%20and%20arrears.pdf [Accessed 18 December 2012]

4. Central Statistics Office [2012]: Survey on Income and Living Conditions (SILC) 2010. Stationery Office, Dublin, March 2012 available online at http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2010/silc_2010.pdf [Accessed 07 December 2012].

5. Central Statistics Office [2012(b)]: Consumer Price Index Detailed Sub-Indices, September 2012 available online at http://www.cso.ie/en/media/csoie/releasespublications/documents/prices/2012/prices/cpisubindices/pic_sep2012.pdf [Accessed 18 January 2013]

6. Central Statistics Office [2012(c)]: Census 2011 Results – Profile 4 The Roof over our Heads – Housing in Ireland available online at http://www.cso.ie/en/media/csoie/census/documents/census2011profile4/Profile%204%20The%20Roof%20over%20our%20Heads%20Full%20doc%20sig%20amended.pdf [Accessed 07 December 2012].

7. CIB / MABS [2012]: Pre-Budget 2013 Submission.

8. Daly, M. and Walsh, J. [1988]: Moneylending and Low Income Families, Combat Poverty Agency.

9. IBF / MABS [2009]: Operational Protocol: Working Together to Manage Debt.

10. Irish Banking Federation (IBF) [2012]: IBF/PwC Mortgage Market Profile, Q.1 2005 to Q.3 2012, available online at http://www.ibf.ie/Libraries/Research_Statistics/IBF-PwC_Mortgage_Market_Profile_Q3_2012.sflb.ashx [Accessed 07 December 2012]

11. Inter-departmental Mortgage Arrears Working Group [2011]: Final Report, September 2011 available online at

http://www.finance.gov.ie/documents/publications/reports/2011/mortgagearr2.pdf [Accessed 07 December 2012].

12. Joyce, Paul [2012]: To No One's Credit, FLAC.

13. Lydon, Reamonn and McCarthy, Yvonne [2011]: What Lies Beneath? Understanding Recent Trends in Irish Mortgage Arrears, Conference Paper, ESRI Mortgage Conference, October 2012.

14. MABS National Development Limited [2006]: A Good Practice Manual for Money Advisers.

15. MABS National Development Limited [2007]: Money Management Guide.

16. MABS National Development Limited [2012(a)]: Mortgage Survey, August 2012.

17. MABS National Development Limited [2012(b)]: MABS statistics.

18. Mental Health Commission [2011]: The Human Cost, An overview of the evidence on economic adversity and mental health and recommendations for action.

19. Mortgage Arrears and Personal Debt Working Group [2010]: Final Report, November 2010, available online at http://www.finance.gov.ie/documents/publications/reports/2010/mortgagearrrepfin.pdf [Accessed 07 December 2012].

20. Norris, Michelle and Brooke, Simon [2011]: Lifting the Load – Help for People with Mortgage Arrears. Waterford MABS, Citizens Information Board and MABS ndl.

21. Oireachtas Library & Research Service [2010]: Debt: Part 1 Mortgages, available online at http://www.oireachtas.ie/parliament/media/housesoftheoireachtas/libraryresearch/spotlights/Debt_Part_1_Mortgages.pdf [Accessed 30 November 2012]

22. Russell, Helen; Maître, Bertrand; and Whelan, Christopher T. [2011]: Economic Vulnerability and Severity of Debt Problems: An Analysis of the Irish EU-SILC 2008. UCD Geary Institute Discussion Paper Series, WP2011/13, July 2011. (2011(a))

23. Russell, Helen; Maître, Bertrand; and Donnelly, Nora [2011]: Financial Exclusion and Overindebtedness in Irish Households. ESRI, Social Inclusion Research Report No.1, 2011. (2011(b)).

24. Stamp, Stuart [2006]: 'Research Highlights Need to Focus on Higher Persistent Debt Risk to Poor Households'. *Action on Poverty Today*. 14: 12–13, Autumn, 2006.

25. Stamp, S. [2009]: Personal Debt, Poverty and Public Policy in Ireland. Phd Thesis, NUI Maynooth.

26. Vincentian Partnership for Social Justice [2012]: A Minimum Income Standard for Ireland: a consensual budget standards study examining household types across the lifecycle. The Policy Institute, Trinity College Dublin.