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Survey of Sub-prime Borrowers: Results and Recommendations

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Shelter's Survey of Sub-prime Borrowers

The sub-prime mortgage sector, while a growth area of mortgage business a few years ago, has been severely hit by the credit crunch and has now all but dried up in respect to new lending. Many of the sub-prime borrowers who have either a poor credit history or have variable or uncertain incomes are, therefore, more vulnerable to market changes than most home-owners. Recent figures show that the number of new loan products available in this sector stands at eight: only 0.7% of all mortgages currently available. In comparison, 502 products were available at the beginning of this year which then accounted for 27.3% of the market (Moneyfacts). Borrowers are also facing increasing interest rates in this sector at a time when bank base rates have been falling.

Shelter's survey aims to understand the current experiences, attitudes and expectations of sub-prime borrowers. It explores how they are managing their mortgage payments and reviews their experience in contacting and negotiating with their lenders about payment difficulties.

This report presents the results and makes a number of recommendations.

Key findings

Of those sub-prime borrowers surveyed[1]:

- 22 per cent are struggling or falling behind with their mortgage. The main reasons given for falling behind with payments include increasing costs, problems managing debts, reduced working hours and unemployment.
- 40 per cent have borrowed money in the last six months to help cover their mortgage costs, with 29 per cent borrowing on credit cards, 14 per cent borrowing money from friends and 9 per cent taking out loans.
- Of those falling behind with their payments, a fifth (19 per cent) reported that their lender had not been in contact regarding payment difficulties.
- Of those who had contact from their lender, 38 per cent rated their lender's willingness to renegotiate a new payment plan as very poor/poor, compared to 27 per cent that gave a good/excellent rating.
- Of those who had been contacted, 25 per cent said their lender was unwilling to negotiate with them about mortgage repayment difficulties and 11 per cent said they could not meet the terms of the suggestions put forward by their lender.
- 18 per cent of respondents are on fixed rate mortgages that are coming to an end in 2009. However, a quarter of them do not expect payments to go up, a further quarter have not considered the issue and only 9 per cent have budgeted for an increase in payments.
- 27 per cent of all respondents expect a significant reduction in their income in the next six months and 36 per cent said that if this did happen, they would be unable to fully meet their mortgage payments each month.

[1] Shelter's survey was conducted online with 1,212 sub-prime borrowers from across the UK between 30th Jan 2009 to 03rd Feb 2009 by YouGov. We estimate that there are around 736,000 sub-prime mortgage borrower households in the UK (see section 2 – definitions and FAQs).

Recommendations

Government and lenders have committed to a number of initiatives to help homeowners struggling to pay their mortgages. But this survey shows that many sub-prime borrowers may still be falling through gaps in the safety net and that not all sub-prime lenders are managing arrears effectively.

- All lenders are expected to treat customers in arrears fairly and follow the requirements of the Financial Services Authority (FSA) regulations and the mortgage arrears pre-action protocol. But our survey suggests this isn't always happening, particularly in relation to contacting customers in difficulty and negotiating repayment plans. **Shelter calls for more effective regulatory enforcement by the FSA. We recommend that government gives courts the powers they need to apply sanctions when the pre-action protocol has not been followed, and urge courts to use the existing protocol to the best of their ability. We urge sub-prime lenders to act responsibly and fairly.**

- Sub-prime borrowers should have access to a range of forbearance options and the new Homeowner Mortgage Support (HMS) scheme may be an appropriate solution for some of those experiencing short term financial difficulty. We encourage **all sub-prime lenders that have not already done so to sign up to HMS, or to offer comparable support.** In addition, we recommend that second charge lenders co-operate fully with clients and other lenders, as borrowers may not be eligible for help unless all of their secured creditors agree to their entry onto the scheme.

- 18 per cent of the survey respondents will be coming to the end of their current deals in 2009, but may be unable to secure remortgages at affordable rates in order to cover their payments. Mortgage lenders, including nationalised institutions, should **offer affordable new lending to existing homeowners at risk of repossession** as well as to first time buyers and other key groups. One of the barriers that sub-prime lenders have identified both to participating in HMS and to commencing new lending is that they have been largely excluded from government-led financial help for the banking sector. We recommend that **government considers broadening access to these existing schemes to include sub-prime lenders.**

- Many of the respondents who were struggling with their mortgage payments had not yet sought advice. We recommend that **additional funding for early stage advice** tailored to sub-prime homeowners, is provided, alongside a comprehensive campaign to let sub-prime borrowers know about help available and to market free advice services.

- This survey reveals that often, borrowers found their mortgage to be unaffordable because of unexpected factors such as job loss and increases in other payments. Existing safety nets have not been flexible enough to cope with this, and the future mortgage market needs a strong safety net to allow for unforeseen circumstances and some higher risk lending. Shelter believes that a **fundamental review of both state and private safety nets** is needed. In the short term, we recommend further extensions to **improve Support for Mortgage Interest** (SMI), for example to extend eligibility to households where one partner is still in employment.

1. Shelter's Survey of Sub-prime Borrowers

1.1. Who was surveyed?

Shelter's survey was conducted online with 1,212 sub-prime borrowers from across the UK. This survey made use of the YouGov Plc UK panel of 220,000+ individuals who have agreed to take part in surveys. An email was sent to panellists who met the working definition of sub-prime mortgage borrowers, inviting them to take part in the survey and providing a link to the survey.

Respondents have been defined as sub-prime borrowers if they said, in a previous survey, that they had a credit repair mortgage[2], or if their lender is primarily operating in the sub-prime market.

Forty-eight per cent of respondents are aged between 35 and 55 years, 30 per cent are under 35 years and 21 per cent are aged over 55. Fifty-one per cent of respondents are female. The majority of respondents are working full-time (68 per cent, and 12 per cent were working part-time) and are from higher socio-economic groups (with 61 per cent classified as ABC1[3]). A third of respondents have incomes of more than £40,000 per annum and a further fifth have incomes of between £30,000 and £39,000. Three per cent of respondents receive Job Seeker's Allowance and 2 per cent receive Income Support.

Fifty-two per cent of respondents are on fixed rate mortgages, 40 per cent have variable rate mortgages and 3 per cent do not know the type of mortgage (the remainder have discounted or other mortgages). Sixty-one percent of respondents have a repayment mortgage and 22 per cent have an interest only mortgage with no investment in place to pay off the capital. A third of respondents are first time buyers and eight per cent bought their home through Right to Buy and Right to Acquire schemes. Thirteen per cent of respondents are currently repaying debts on a Debt Management Plan and 10 per cent declared a county court judgement or other legal proceeding in the last two years.

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[2] Credit repair mortgages are sub-prime mortgages where borrowers aim to maintain regular repayments over a period of time (usually at least 3 years) to enable a move to a cheaper 'standard' mortgage.

[3] ABC1 is a standard classification used in social and market research. This group includes people from higher socio-economic groups and in managerial, administrative, professional supervisory or clerical occupations.

1.2. Are they experiencing problems paying their mortgage?

One in five respondents (22 per cent) are struggling or falling behind with their mortgage (includes 6 per cent who are falling behind). Of those falling behind with their payments, 54 per cent are less than three months in arrears, and 26 per cent are more than three months in arrears. A fifth of those falling behind (20 per cent) have a payment agreement in place either through the courts or with their lender and a tenth (9 per cent) report that their home is in the process of being repossessed.

Respondents were also asked the main reasons for their arrears or falling behind with payments. Increases in other payments (37 per cent), problems managing debts (36 per cent) reduction in working hours (29 per cent) and unemployment (23 per cent) were the main reasons given. Other reasons given are provided in Table 1 below.

Table 1: Main reasons for arrears or falling behind with payments

What are the main reasons for your arrears/falling behind with payments?	
Increase in other payments	37%
Problems managing debts	36%
Loss of income - reduced working hours	29%
Loss of income – unemployment	23%
Other household changes	16%
Increase in mortgage payments	13%
Loss of income - sickness	12%
Relationship breakdown	9%
Other (please specify)	6%
My mortgage has always been unaffordable	2%
Base – Respondents falling behind with payments	*203*

1.3. What sacrifices have they made to cover their housing costs?

Four-fifths of respondents had made some form of sacrifice to help cover their housing costs over the last six months with 65 per cent reducing the amount they had spent on ‘treats’ or luxuries for their family, 51 per cent reducing the amount spent on food and 32 per cent saving less money. Over a quarter of respondents had used a credit card (29 per cent) and/or reduced the amount spent on fuel bills for their home (26 per cent) to help cover their housing costs over the last six months.

Two-fifths (40 per cent) have borrowed money in the last six months to help cover their mortgage costs, with 29 per cent borrowing on credit cards, 14 per cent borrowing money from friends and 9 per cent taking out loans. Two-thirds (66 per cent) of respondents that are struggling or falling behind with their mortgage payments have borrowed money, with 38 per cent of respondents borrowing on credit cards, 34 per cent borrowing money from friends and 19 per cent taking out loans. Other actions taken are provided in Table 2 below.

Table 2: Sacrifices made to help with housing costs

Thinking of the past 6 months, have you or your partner, if you have one, done any of the following in order to help cover housing costs?	All sub-prime respondents	Sub-prime respondents who are struggling/falling behind
Reduced the amount you spend on 'treats' or luxuries for your family	65%	83%
Reduced the amount you spend on food for your home	51%	76%
Reduced the amount I save	32%	39%
Used a credit card	29%	38%
Reduced the amount you spend on fuel bills for your home	26%	42%
Sold some of my possessions	24%	48%
Had to take an additional job/ do more overtime	19%	28%
Reduced the amount you spend on clothing for your children	18%	35%
Borrowed money from friends	14%	34%
Taken out a loan	9%	19%
Reduced the amount you spend on school lunches for your children	8%	15%
None of the above	21%	3%
Bases – All/struggling or falling behind	*1212*	*260*

1.4. Where there are payment difficulties, how have lenders responded?

Of respondents that were struggling or falling behind with their payments, 39 per cent reported that their lender had contacted them in the last six months to discuss payment difficulties. However, of those falling behind with their payments, a fifth (19 per cent) reported that their lender had not been in contact.

Respondents who had been in contact with their lender were then asked to rate their lender's response to difficulties with their current repayment agreement. Of those in contact with their lender, the areas causing the most concern to respondents were:

- The range of options discussed with lender – 44 per cent reported this as very poor/poor compared to 21 per cent good/excellent
- Lender's willingness to renegotiate a new payment plan – 38 per cent reported this as very poor/poor compared to 27 per cent good/excellent
- Lenders suggesting borrowers should seek independent advice – 36 per cent reported this as very poor/poor compared to 25 per cent good/excellent.

Respondents reported on balance a more positive lender response to:

- Providing a point of contact - 39 per cent rated "able to contact/talk to the right person" as very good/excellent compared to 32 per cent that gave a very poor/poor rating
- Information provided – 37 per cent reported this as very good/excellent compared to 28 per cent that gave very poor/poor rating
- Helpfulness/friendliness – 36 per cent reported this as very good/excellent compared to 32 per that gave very poor/poor rating.

Respondents were asked about the outcome of their discussions with their lender (Table 3). A quarter said their lender (25 per cent) was unwilling to negotiate with them about mortgage repayment difficulties and 11 per cent said they could not meet the terms of the suggestions put forward by the lender. In relation to agreements made, 15 per cent of respondents reported that lenders agreed to reduce their monthly payments for a limited period and 12 per cent said their lender had changed the type of mortgage. Eight per cent of respondents were able to capitalise their arrears and 4 per cent were able to increase the length of the mortgage term.

Table 3: Outcome of discussions with lender about payment difficulties

What was the outcome of your discussions with your lender/lenders?	
My lender was unwilling to negotiate	25%
They agreed to reduce my monthly payments for a limited period	15%
Changed the type of mortgage (i.e. to pay off the interest only)	12%
I could not meet the terms of the suggestion/s put forward by the lender	11%
They agreed to capitalise arrears (i.e. arrears have been added to my loan amount)	8%
They increased the length of the mortgage term (i.e. from 25 years to longer time period)	4%
Base – Respondents that were falling behind and had contact with/from lender	*204*

1.5. How will sub-prime borrowers cope when their fixed rate comes to an end?

Half of respondents (51 per cent) have fixed rate mortgages, 35 per cent of which are due to come to the end of the fixed period during 2009.[4] Given the current increase in interest rates in this sector (see section 3), these borrowers were asked about any plans they had made to cope with the potential increase in their mortgage payment.

While a third of respondents with fixed rate mortgages due to come to an end (34 per cent) have been looking for a new mortgage with other lenders, a quarter of respondents (26 per cent) do not expect their payments to go up and a further quarter (23 per cent) have not thought about it yet. One in ten respondents would not be able to make additional payments. Table 4 below shows other responses to the question.

Table 4: Preparation for when fixed rate ends

Preparation for when fixed rate ends ***(Tick all that apply)***	**Sub-prime respondents whose fixed rate is ending**
Have been looking for a new mortgage with other lenders	34%
Do not expect payments to go up	26%
I have not thought about it yet	23%
Contacted my lender about a different rate	14%
I will not be able to meet the additional payments	10%
Have budgeted for an increase in payments	9%
Base – respondents due to come to the end of the fixed period during 2009	*214*

The proportion of sub-prime respondents with a fixed deal ending this year who report that they will not be able to meet payment increases rises to 28 per cent for those already struggling constantly or falling behind.

1.6. Are income reductions expected and how will housing costs be met?

Over a quarter of respondents (27 per cent) expect to experience a significant loss in income over the next six months (due to reduced working hours, redundancy or unemployment). This rises to 42 per cent for those already struggling to pay their mortgage and 60 per cent for those falling behind with payments.

[4] 18 per cent of all respondents are on fixed rate mortgages that are coming to an end in 2009.

Respondents were asked how they would pay for their housing or borrowing costs, if they were unable to work or had a significantly reduced income for six months (Table 5). Over a third of all respondents (36 per cent) said that if they had a significant drop in their income for six months they would be unable to fully meet their mortgage payments each month. This rises to 52 per cent for those already struggling to pay their mortgage and 74 per cent for those falling behind with payments. One in eight respondents (12 per cent) believe their income will drop significantly in the next six months and they will fall behind with their mortgage.

Twenty-eight per cent of respondents would expect to be able to claim state benefits to cover their housing costs if their income reduced significantly. A fifth would rely on their partner's earnings (21 per cent) and/or rely on savings (19 per cent); whereas 17 per cent would claim on their mortgage or income payment protection insurance. A fifth (21 per cent) would borrow money to cover housing costs: some would borrow from family and friends (14 per cent) and/or would borrow on credit cards (8 per cent) and/or would take out a loan (6 per cent).

Table 5: Strategies for paying housing costs if income reduced

If you found yourself unable to work or had a significantly reduced income for 6 MONTHS how do you think you would pay for your housing/borrowing costs? *(Tick all that apply)*	**All sub-prime respondents**	**Sub-prime respondents who are struggling**	**Sub-prime respondents who are falling behind**
Would be unable to make the payments in full each month	36%	52%	74%
Claim State benefits	28%	30%	33%
Rely on earnings from partner	21%	14%	10%
Rely on savings	19%	9%	3%
Claim on my mortgage/income payment protection insurance policy	17%	17%	7%
Borrow money	21%	29%	17%
Borrow money from friends/ family	*14%*	*19%*	*16%*
Borrow money on a credit card	*8%*	*13%*	*3%*
Take out a loan	*6%*	*8%*	*1%*
Bases: All/Struggling/Falling behind with payments	*1212*	*190*	*70*

1.7. Do respondents feel they are likely to have their homes repossessed?

Six per cent of all respondents think they are fairly or very likely to have their homes repossessed in the next six months because they cannot keep up with their mortgage payments. This rises to 9 per cent among respondents that are struggling with their mortgage and 40 per cent of those already falling behind.

1.8. Do respondents think they are in negative equity?

A quarter of respondents (25 per cent) think they might be in negative equity. This rises to 34 per cent among respondents that are struggling with their mortgage, and 41 per cent among those falling behind.

1.9. Have respondents sought advice?

Respondents were asked whether they had sought advice to help them manage their finances in the last 6 months (Table 6). While 43 per cent of respondents falling behind with their mortgage payments have sought independent financial advice, only 23 per cent of those struggling to pay have done so. Similarly, 37 per cent of those falling behind with their payments have spoken to their lender whereas only 16 per cent of those struggling to pay have done so.

Table 6: Advice to help manage finances

Have you sought any of the following types of advice to help you manage your finances in the last 6 months?	All sub-prime respondents	Sub-prime respondents who are constantly struggling	Sub-prime respondents who are falling behind
I have not sought advice	28%	32%	13%
I got independent financial/debt advice (e.g. from CAB free debt line debt counsellor)	15%	23%	43%
I have asked family & friends for advice	14%	18%	37%
I contacted my lender/other debt lender	9%	16%	37%
Spoke to a personal financial adviser	9%	12%	13%
I do not need advice	15%	8%	3%
Spoke to local authority/council	2%	5%	9%
Bases: All/Struggling/Falling behind with payments	*1212*	*190*	*70*

1.10. What's known about mortgage rescue schemes? Would they be considered?

Over two-thirds of respondents (69 per cent) either said they are not aware of mortgage rescue schemes[5], or that they know nothing about them. Only 4 per cent said they know a lot about them and/or have enquired about them.

Of those aware of mortgage rescue schemes, a quarter (24 per cent) said they are fairly likely or very likely to consider mortgage rescue schemes (if available to them). Whereas just under half (47 per cent) would be fairly unlikely or very unlikely to consider these schemes if available to them.

[5] The schemes were described as follows: *"There are schemes available whereby people experiencing problems with keeping up with their mortgage payments can be assisted. These are sometimes known as mortgage rescue schemes. They are often provided by Housing Associations or Local Authorities but some lenders and commercial companies also offer them. A mortgage rescue scheme involves the council, association, lender or specialist company purchasing your property from you and then allowing you to live in the property in exchange for rent."*

2. Definitions and FAQs

2.1. What are sub-prime mortgages?

Borrowers who have variable or uncertain incomes (such as the self-employed and contract workers) are more likely to access a mortgage in the sub-prime market. Sub-prime borrowers may also have poor credit histories. This may include: county court judgements, previous or existing mortgage or loan arrears or defaults, rent arrears, bankruptcy or individual voluntary agreements (IVAs). Sub-prime mortgages carry a higher risk to the lender and therefore tend to be priced at a higher interest rate.

2.2. How many sub-prime mortgages are there?

In 2008 there were 10.5 million mortgages in the UK (excluding buy-to-let).[6] Industry estimates suggest that the broadly defined sub-prime market accounts for around 7 per cent of the UK mortgage market.[7] Therefore we estimate that there are around 736,000 sub-prime mortgage borrower households in the UK.

2.3. How many sub-prime mortgages are in arrears?

In November 2008 Standard & Poors reported that UK sub-prime mortgages in arrears of more than 90 days stood at 13.1 per cent (compared to 1.44 per cent reported by CML for all mortgages) and sub-prime in arrears of more than 30 days increased to a record level of 25 per cent in the three months to the end of September, from 23.3 per cent in the second quarter of the year.[8]

2.4. How many sub-prime lenders are there and how many products are available?

There has been a significant reduction over the last year in the number of lenders operating in the sub-prime market. Sub-prime lenders are mainly 'specialist' in that they get the majority of their funding from the wholesale market, which has been severely impacted by the credit crunch.[9]

- In May 2009 there is only one provider offering sub-prime products, in May 2008 there were 13 (and 36 in July 2007).
- In May 2009 there are only eight products to choose from, in May 2008 there were 602 products available in the market (and 8,148 in Aug 2007).

It is to be expected that interest rates are higher in the sub-prime sector. However, the current average rate on offer for sub-prime mortgages has been increasing over the last year while mainstream standard variable rate trends are downwards. In January 2009 the average sub-prime fixed rate stood at 9.56 per cent and variable at 10.57 per cent (July 2007 rates were 6.87 per cent for fixed rate and 7.01 per cent for variable rate).

[6] CML, 2009
[7] Datamonitor, UK Sub-Prime Mortgages 2007
[8] Information sourced from www.mortgagestrategy.co.uk/
[9] The number of sub-prime lenders, products and sub-prime interest rates were sourced from www.moneyfacts.com.