

Are still more home owners likely to default on their mortgage?

At the beginning of 2009, the Council of Mortgage lenders (CML) predicted that up to 75,000 homes would be repossessed by the end of 2009. However, the Council's own statistics published in August 2009 suggested that 24,100 homes were repossessed in the first 6 months of the year. This seems to suggest that the original CML year end prediction was overly pessimistic.

There are a number of reasons why repossessions have so far not been as great as many predicted. Arguably the government has put significant pressure on mortgage lenders to provide help to customers who find themselves in financial difficulty. The government's mortgage pre action protocol has introduced a number of guidelines for lenders. These encourage lenders to work with delinquent borrowers to explore all options of reducing the monthly cost of the mortgage. These include extending the term of the mortgage, changing the type of mortgage, deferring payment of interest, capitalising the arrears or a combination of these. Where a lender cannot demonstrate that such avenues have been explored, a court is less likely to grant a repossession order.

Low interest rates are also a significant contributor to reducing the number of repossessions. Many home owners have seen their monthly mortgage payments plummet since March 2009 when Bank of England lending rates fell to 0.5%. As a result, even where household incomes have been reduced through shorter working weeks and unemployment, families have been able to maintain their mortgage payments.

Despite the obvious optimism surrounding the number of repossessions in the first half of 2009, there are still significant reasons for concern. Unemployment is continuing to rise and the economy still weak. Clearly, the Bank of England is unable to reduce interest rates further. As such, if incomes continue to come under pressure, the number of mortgage defaults and subsequent repossessions could accelerate again.

The Government has devised two schemes which are designed to help if low interest rates fail. The first, known as the Mortgage Rescue Scheme enables households facing possible repossession to sell some or all of their home to a social landlord and rent it back. The second is the Homeowner Mortgage Support Scheme which enables eligible borrowers to reduce monthly mortgage interest payments for up to two years if they suffer a sudden loss of income. So far it has been extremely difficult to gauge how successful these schemes will be as their uptake has been minimal. Reportedly only 6 households have been helped by the Mortgage Rescue Scheme and only 6 mortgage lenders have agreed to implement the Mortgage Support Scheme. Mortgage lenders are extremely worried about the workability of such a scheme. Not least because it is difficult to see how borrowers and their debts will be dealt with where they still cannot pay at the end of the two year period.

Many economists agree that the UK economy will only begin a sustained recovery when consumer confidence improves. Consumer confidence in the UK seems to be deeply interwoven with how homeowners feel about the value of their property. If house prices fall, consumer confidence falls. If house prices stabilise, confidence seems to increase. House prices have risen slightly in the last couple of months and some commentators are suggesting that we have seen the bottom of the house price slump. If this proves to be the case, then economic growth may start to return and

the risk of a significant increase in the rate of home repossessions during the second half of 2009 and into 2010 should be avoided. This is of course a big if.

11th September 2009

Steve Jackson

<http://www.beatmydebt.com>