

**Submission**  
**on**  
**Mortgage Debt Solutions**

**By**

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**(PAW)**

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### **1. Introduction**

The People's Association Watchdog (PAW) was formed in 2011 in response to a growing concern regarding issues affecting Ireland today. We are a group of concerned citizens who are informing ourselves of the current issues and intend to offer solutions based on our experience of speaking to people in crisis.

### **2. The Current Crisis and Mortgage Debt Solutions**

We, the members of the People's Association Watchdog, call on the Minister for Finance and the current Government elected by the citizens of Ireland to take immediate steps to correct the deteriorating mortgage arrears/negative equity issue plaguing the state currently.

The mortgage arrears/negative equity issue as it stands is destroying the domestic economy, individuals and families lives, and in many cases is resulting in death by suicide. The majority of citizens experiencing difficulties in meeting mortgage repayments in the state currently are in this position through no fault of their own, having been encouraged by banks and other lenders to take advantage of supposed cheap credit to get on to the property ladder and purchase a family home.

'Moral Hazard' in the theory of economics is where a party insulated from risk behaves differently from how it would behave were it fully exposed to the same risk.

This definition in Ireland today applies to the banks rather than the people of Ireland. The banks, insulated from risk, loaned recklessly and unconstitutionally, plus the government for its part contributed to this situation through a lack of regulation and therefore is answerable also.

We have seen household debt increased from 68.9 per cent of personal disposable income in 2000 to over 150 per cent in 2007, residential mortgage debt outstanding, rise from over €49 billion in December 2003 to €113.3 billion in March 2010, the ratio of house prices increase sharply from 1995 to a peak in 2006 when new house prices were over 7 times an individual's personal

disposable income.

Regarding 'Moral Hazard' in relation to home owners, it has been proven that where social responsibility exists, there is a minimizing effect on 'Moral Hazard' (Ref 1.), therefore we are less concerned about the threat of 'Moral Hazard' from our fellow citizens than we are with the behaviour of the banks.

We present an alternative meaning for 'Moral Hazard' from a social perspective: The danger of not engaging in correct behaviour.

- There is a moral hazard when people are being made homeless or when families are forced to choose between buying food and paying a mortgage.
- There is a moral hazard when people are so distraught that suicide is on the increase.

These examples clearly are moral hazards, clearly are prevalent in Irish society today and are issues which the state must concern itself with as a matter of urgency.

The government to date has failed completely in its duty to its citizens through not regulating the banking system adequately, not advising of the subprime issue and its inherent dangers, not capping the banking sector's ability to sell on its debt beyond a secure level, and through putting the interests of the banks, financial institutions and profits before those of Irish citizens, young and old.

**Article 45 IV of the constitution states: That in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people as a whole.**

The citizens of Ireland are not seeking debt forgiveness, but are seeking realistic ways forward that will enable them to survive, even in such basic matters as feeding and clothing their children, keeping a roof over their families' heads, not excluding balancing the common good with the fulfilling of their responsibilities towards the original lenders.

It is shocking and immoral that in Ireland today, under your watch, families are going hungry, not to mention unable to pay basic household utilities heading into winter, all this to pay a debt they can no longer afford, as a direct result of Government policy on Banking and the subsequent recession.

At the time these mortgages were agreed, the banks were throwing money at citizens in order to cash in on the cheap credit available while increasing their loan portfolios. Meanwhile, citizens took on these mortgages and debts with the security at that time of being employed and part of a booming economy. With sudden dramatic increased unemployment, taxes/levies and increasing interest rates, these citizens are now in dire straits through no fault of their own.

It is also unethical, unrealistic and uneconomical that families should have to move out of their family homes at the tax payers expense, i.e., rent supplement and social housing, not forgetting the detrimental social/psychological effects of such mediaeval actions on these families and on society

as a whole, while these very same family homes will then lie idle and empty, deteriorating in both condition and value.

It is obviously more humane, ethical, economical and socially responsible for these citizens to remain in their homes following an agreed and sustainable payment method.

We approve of the underlying principle of the Mortgage Arrears and Personal Debt Expert Group (Ref 2):

1. Any solution should, in so far as it is feasible and appropriate, be aimed at assisting borrowers to remain in their homes.
2. Repossessions should be minimized but it is acknowledged that in some cases, voluntary surrender may be the best option for both borrower and lender.
3. The borrower and the lender must act in good faith at all times.
4. Arrangements should be based on a thorough assessment being made by both the borrower and the lender of the borrower's ability to pay.
5. Arrangements should discourage any changes in behaviour by borrowers leading to an increase in arrears.
6. The start and termination of any State support should, in all cases be based on ability to pay and linked to an observable event, e.g. significant change in household circumstances due to unemployment or disability. Suitability and appropriateness of accommodation to meet a distressed borrower's needs should be a consideration in relation to possible transfer into longer term housing support.

(We do, however, reserve judgment on point 2 as we believe there should be no involuntary repossessions and would also question whether 'voluntary surrender' as it stands is really voluntary therefore recommend further review of this option re regulation)

### **3. Mortgage Debt Solutions**

The advantages of introducing a governmental run household mortgage initiative such as this would attract enormous widespread support from all sides concerned. The government would be seen to be acting for its people in a strong and caring manner while also gaining huge credibility internationally.

We recommend that the government takes back the monies incorporated into the banks recapitalization and redirect these monies into systems designed to rescue citizens in financial distress and that the State takes control of all troubled household mortgages. Should this not to be the case...we feel the banks must be 'obliged' under MARP to offer one of the solutions noted above.

We believe the citizens of Ireland would feel more confident if the banks return the money received through recapitalization and that rescue schemes were government ran and council implemented.

Irish Citizens have no faith in the banking system and believe there is an immense 'Moral Hazard' attached to banking practices.

The international markets would regain faith if our domestic economy were improved; we believe that stabilizing the mortgage debt crisis would generate increased spending, growth in confidence and in the domestic economy.

As people's circumstances vary so should there be a variety of options in place to assist those in difficulty.

#### **4. Recommendations for Sustainable Mortgages**

- Freeze interest incurred in the restructuring of mortgages to make it more feasible for people.
- Restructuring must be fluid to allow for peoples circumstance and ability to pay (people may pay the interest on their original term only).

#### **Mortgage Interest Supplement (MIS):**

- No legal action should be taken by the lender while MIS is being paid and the borrower is cooperating with the lender.
- The ban on paying MIS to a couple where one person is in full-time employment should be removed and a revised means test developed.
- The current rule which excludes the payment of MIS when a house is for sale should be suspended/eliminated.
- The means test needs to be reviewed to take into account real expenditure and ability to pay.
- Freeze mortgage payments/interest only to allow people to manage other debts that are in arrears and impacting on daily survival. This may prevent people from getting into mortgage difficulty in the first place. This may also help people who are self employed and struggling to pay mortgage and business loans.

#### **5. Recommendations for Unsustainable Mortgages**

- Shared Ownership Scheme: which will allow you to purchase a proportion of your home to begin with, increasing that proportion in steps until you own the entire house. We have similar schemes already in place; all that needs to be done is to widen the criteria.
- Government mortgage to rent: Rent will be credited against the purchase price of your home.
- Relocation: may suit individuals / families in negative equity who need to relocate as there is no longer work for them in the area, council/housing association takes over mortgage (or the part the person can't pay) so mortgage is for €280,000, house now worth €140,000, with an advisor, decide on figure person can afford e.g. the €140,000, this is then transferred to relocated house (plenty of empty houses on NAMA'S books, so we have housing available). Council holds onto original house which they rent out or use in other schemes such as this relocation scheme/rural settlement scheme/rent to buy, etc. There should be co-operation between councils in resettlement. This person would be entitled to social housing if evicted,

this way at least people can pay what they can afford and relocate to find employment. The council would receive money by renting the new property while the person would be free to relocate to find alternative employment while paying the amount they can afford to pay.

## **6. Further Recommendations**

- An independent group be formed which would be made up of a panel of people from the voluntary sector directly involved with debt solution, such as the Phoenix Project/MABS/Threshold etc...who offer a holistic service, to offer advice on debt and act as intermediaries between lender and borrower.
- Standard Financial Statement: should be done with the independent group in co-operation with the lender and borrower. This statement should also advise on how to manage debt and be an ongoing support.
- This independent group should receive support and additional resources to tackle the increased workload but should remain an independent body.
- Those in debt should receive free independent legal and financial advice.
- The system of debt resettlement and credit rating needs to be reviewed and made equitable.
- Homeowners in distress should be allowed to register on social housing lists, where there has been engagement with the lender, they should be registered as 'Voluntarily' surrendering their homes.
- We would request that the 8,000 apartments and 2,000 houses on the NAMA books be made available to housing associations for relocation schemes, rent to buy and shared ownership schemes.
- The setting up of an independent housing association to negotiate the buying of homes from the banks (including negotiating write down on some homes in negative equity), the acquisition and allocation of houses owned by NAMA, implementation of relocation, rent to buy and shared ownership schemes.
- The regulation of subprime lenders: IBF figures for mainstream lenders allow the sub-prime share of the market to be estimated at 2 per cent but share of repossessions at 43 per cent and share of arrears cases (90 + days) at over 20 per cent. These figures are unacceptable.
- To regulate the banks so as to prevent future 'moral hazards', as the people will not pay for their mistakes again. We demand accountability and that the banks are made answerable for their mistakes.

- Subprime Mortgages should be subject to the same legal practices as other financial institution.
- Debt advisors must be regulated.

## **8. Social Implications of the Mortgage Debt Crisis**

It is not only ethical that assistance be given to homeowners but imperative:

1. General Health issues are already evident with suicide statistics up by 24 per cent according to the Central Statistics Office.
2. Incidents of Mental Health problems are dramatically increased leading to further economic and social distress, with suicide statistics up by 24 per cent according to the Central Statistics Office.
3. Family unity and children's happiness and security is being negatively impacted due to financial distress.
4. A wider gap is obviously developing between the rich and the poor.
5. Greater pressure exists on all domestic expenditure and is negatively impacting on local and national economy with GDP reducing quarterly.
6. Taxes continue to increase to compensate for the drop in general spending to no avail.
7. Drug and alcohol abuse will increase as people seek to escape from unsolvable problems.
8. If the government persists in ignoring or being complacent in the support of the average householder in difficulty, it will eventually lead to a massive political backlash not just for the sitting government but for the entire political system.

All of the above can of course be avoided.

## 9. Statistics

Arrears and repossessions data for Q2, 2011

August 29, 2011 by namawinelake:

"This morning, the Financial Regulator Matthew Elderfield has finally released data on mortgage arrears, repossessions and restructured mortgages for the second quarter of 2011; the press release is here, the statistics are here. The data paints a disturbing picture of the deteriorating state of mortgage arrears. Total mortgages in arrears for more than 90 days are 55,763, up 12.4 per cent or 6,154 from Q1, 2011 and up 53 per cent or 19,325 from Q2, 2010, a year ago.

The total arrears are divided between those 90-180 days in arrears and those over 180 days in arrears. The latter category is widely considered to be so underwater that default of some sort is likely. The number of mortgages in arrears over 180 days rose to 40,040 in Q2, 2011, up 4,699 or 13.3 per cent from Q1, 2011 and up 61.5 per cent or 15,243 from Q2, 2010, a year ago.

Repossessions are also climbing and were 173 for the quarter, up from 140 in Q2, and up from the general average of less than 100 since records began."

### Unemployment Statistics:

Year	Unemp %	LT Unemp %	No. LT Unemp
1988	16.3	10.4	137,800
1996	11.9	6.9	103,300
2000	4.5	1.5	27,100
2001	3.8	1.1	20,300
2002	4.4	1.2	20,800
2003	4.6	1.4	26,200
2004	4.5	1.4	26,700
2005	4.7	1.4	29,200
2006	4.6	1.4	29,200
2007	4.7	1.3	28,800
2008	5.7	1.5	33,200
2009	12.0	2.6	57,300
2010 latest	13.9	6.5	140,400

## **Central Statistics Office**

### **1. Unemployment:**

The CSO Irish Quarterly National Household Survey reported that the number of people at work in Ireland in the fourth quarter of 2010 was 1.82m. Unemployment increased by 31,600 or 11.8 per cent over the year to 299,000. The seasonally adjusted unemployment rate for the quarter jumped to 14.7 per cent.

### **2. Suicide:**

- Central Statistics Office showed that in 2009, some 11,966 people presented to hospitals after attempting suicide and the number of people who took their own lives rose by 24 per cent – up to 527 cases. There can be little doubt that economic pressures are playing a major part in this increase.
- This equates to an average of two people taking their own lives every day in this country.
- In the first half of 2009 alone, the number of deaths by suicide increased by 35 per cent on the previous year. Some 228 people took their own lives in the first six months of last year, compared to 169 in the same period in 2008.
- Alarming, some 77 per cent of the deaths by suicide were among men, and 40 per cent of those who took their own lives were under 35 - the very groups that make up the largest proportion of those on the live register.

### **Reference:**

1. Nyborg, Karine and Brekke, Kjell Arne, Moral Hazard and Moral Motivation: Corporate Social Responsibility as Labor Market Screening (October 2004). University of Oslo Economics Working Paper No. 25/2004. Available at SSRN: <http://ssrn.com/abstract=645741>
2. Mortgage Arrears and Personal Debt Expert Group, Interim Report, 5th July 2010.