FINANCIAL RESILIENCE AND SECURITY: EXAMINING THE IMPACT OF FALLING HOUSING MARKETS ON LOW INCOME HOMEOWNERS IN NORTHERN IRELAND

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FINANCIAL RESILIENCE AND SECURITY: EXAMINING THE IMPACT OF FALLING HOUSING MARKETS ON (LOW INCOME) HOMEOWNERS IN NORTHERN IRELAND

Executive Summary

This research considers the significant fall in house prices that homeowners in Northern Ireland experienced following the financial crisis that unfurled from 2007/8. Specifically, the research considered what the loss of housing equity has meant for (low income) homeowners in the region, following a period when research suggested that housing equity had become increasingly important to households finances.

Research and commentary about the housing market and homeownership highlights the opportunity to accrue housing wealth, as housing equity is considered to be a key resource to help smooth income or to meet unexpected expenditures, not least for lower income households. Since the onset of the financial crisis in 2007, homeowners in Northern Ireland have seen their property values halve and significant sums of housing equity diminish. The study finds that a minority of homeowners have been adversely affected in a variety of ways: with limited residential mobility, the prospect of large shortfall debts if they sell the property or lose their home through repossession, an inability to switch mortgage deals and a feeling of financial insecurity. Owning a home was important to people, but it was those who viewed a house as a home and not as a financial asset that were provided with the most succour during uncertain economic conditions, regardless of the sums lost. The research is based on a review of existing evidence, analysis of the Family Resources Survey (FRS) and interviews with a range of homeowners (and stakeholders) across the region. This is the first study to document the impact of Northern Ireland's falling markets on homeowners.

Background

- Existing evidence presents the idea of resilience as the extent to which a household – or other agency, region or body - can independently overcome external shocks. In terms of personal finance, there are synergies between the qualities associated with the concept of resilience and asset-based welfare - where people save or accrue assets to draw upon when required. In the context of weaker state support there has been an increasing emphasis on the use of housing assets to smooth homeowners' income and manage unanticipated expenditure.

- Previous studies indicate that although housing wealth accrues more to affluent households, it remains the most evenly distributed asset and for low income households is often their only asset. Housing equity has been used to supplement retirement income and has been associated with meeting additional welfare spending through the life course. Therefore, research has posed the loss of housing wealth as a new risk to homeownership.

Key findings

- This study has found that Northern Ireland's homeowners have certainly seen their housing assets diminish and after a period of rapid housing price rises, their homes reduced in value by 50 – 60 per cent, losing an average of £101,388 per homeowner during the period 2007 to 2013. The incidence and magnitude of negative equity in Northern Ireland is greater than across the UK. By 2010/11, a total of 14 per cent of all mortgagors were estimated to have homes worth less than their mortgage debt and the mean average shortfall was estimated to be £35,162 (the median £18,942). Single people, couples under pension age with no children, those in one or two bedroom homes, who bought after 2005, had remortgaged and were in intermediate or professional occupations experienced negative equity most frequently in Northern Ireland and those in the bottom income quintile held the greatest estimated value of negative equity.

- The housing market in Northern Ireland stabilised during 2013 but the legacy of the housing market volatility remains. There has been a stubbornly high rate of claims for possession based on mortgage arrears in comparison to the UK as a whole, where mortgage possessions have steadily declined since 2009; reduced mobility in the housing market due to negative equity; and the highest rate of homeowners unable to remortgage across the whole UK.

- Northern Ireland has a greater proportion of homeowners on lower incomes and in lower occupational classes than the UK, where these households have to an extent been squeezed out of homeownership. A third of children in poverty in Northern Ireland live in households headed by a homeowner. Therefore, whether housing equity can support these households during a period of crisis and what the impact of that crisis has been is important to understand.

- Interviews with homeowners and housing professionals included narratives of 'greed' and housing equity withdrawal for consumption purposes contributing to the house price volatility in Northern Ireland. However, data analysis showed that Northern Ireland's homeowners, especially those on lower incomes, were more conservative in the mortgage market than homeowners across the UK, making less use of interest-only loans, subprime loans and remortgaging. Lower income homeowners had increased levels of remortgaging later in the market cycle.

- Regardless of the magnitude of housing equity losses, attitudes towards the market downturn rested on whether homeowners prioritised the *use-value* or *asset-value* of their property. Seeing the house as a home, rather than a financial asset to be used, offered a protective quality to homeowners in adverse economic circumstances. Those who had incorporated their housing equity into their financial plans, or expectations, were, understandably, the most anguished by the housing market downturn.

- Homeowners who had been affected by the market downturn were severely hampered by their inability or unwillingness to sell and/or incur shortfall debts, felt financially insecure and saw limited chances of the situation changing in the near term. Data analysis showed that homeowners affected by negative equity were most often those in early life stages of adulthood or middle aged.The interviews showed that they had entered complex relationships with former partners, siblings or friends with whom they used to live, as they wished to move on, but could not extricate themselves from their part ownership of property. The fear of debt for homeowners struggling to meet their mortgage payments also caused anxiety. Those with the most resources had greater opportunities to overcome the constraints the changed housing market had placed on them.

- Policy implications of the study in the short-term include using the opportunity afforded by the Housing Repossessions Task Force to consider the extent of unsustainable homeownership in the region and identify measures to support local homeowners while sharing the risks between all parties involved: lenders, homeowners and government. Securing mechanisms to provide advice to those in negative equity and facilitate the movement of existing homeowners within the market would alleviate the feeling of 'life on hold' for many homeowners, and limited the impacts of the market downturn on residential mobility.

- In the longer term, the use-value of homeownership should be reasserted, and solutions to constrained funding based on utilising individual homeowners' housing equity avoided. Housing equity is unevenly distributed suggesting people with more wealth or in certain locations have access to greater services, and public policy becomes skewed by the requirements to support the housing market. Moreover, such measures have the potential to undermine the values associated with homeownership that people suggest are important, notably security and control. Nevertheless, homeowners are sitting on large sums of, largely unearned, housing assets that could be usefully deployed to support public policy, but can only be equitably accessed by reform of land and housing taxation.

- Lastly, the study demonstrates that homeownership includes low income households, some of which are below the poverty threshold. A third of children in poverty in Northern Ireland reside in households headed by a homeowner. Although any housing wealth may be of limited use in practice for these households, as it is smaller and hard to release, there are implications for poverty alleviation strategies, not least area-based initiatives that may not capture a significant portion of struggling households if tenure is not considered.

1: INTRODUCTION

This report examines the significant fall in house prices in Northern Ireland since 2007 and, following a period when housing equity had become increasingly important to household finances, considers what the loss of housing equity has meant for homeowners in the region. There is a focus on lower income homeowners as the importance of housing equity and the opportunities it is said bring to homeowners has been a central tenet of policy support for the expansion of homeownership.

The housing market in Northern Ireland has experienced unprecedented house price volatility over the last decade and the impacts of the recent fall in house prices for homeowners remain largely unexamined. Northern Ireland's housing market fell 50-60 per cent between 2007 and 2013, and in 2013 house prices were below their 2004/5 values. The consequences of the falling housing market will be felt by many people, institutions and businesses and in multiple ways, including directly through negative equity or indirectly through the wider impact on the region's economy. This report is concerned with one aspect of the significant housing market downturn in the area: the impact of the loss of housing wealth on individual homeowners. During the housing market upswing, homeowners increasingly incorporated housing wealth into their financial plans and, consequently, the removal of housing wealth has been positioned as a new risk to homeownership. Substantial resources previously available to homeowners throughout the life course have reduced or become inaccessible as house prices have declined sharply and mortgage markets contracted. In this context, the report considers the impacts of the housing market readjustment specifically on lower income homeowners, for whom housing wealth has frequently been their only asset.

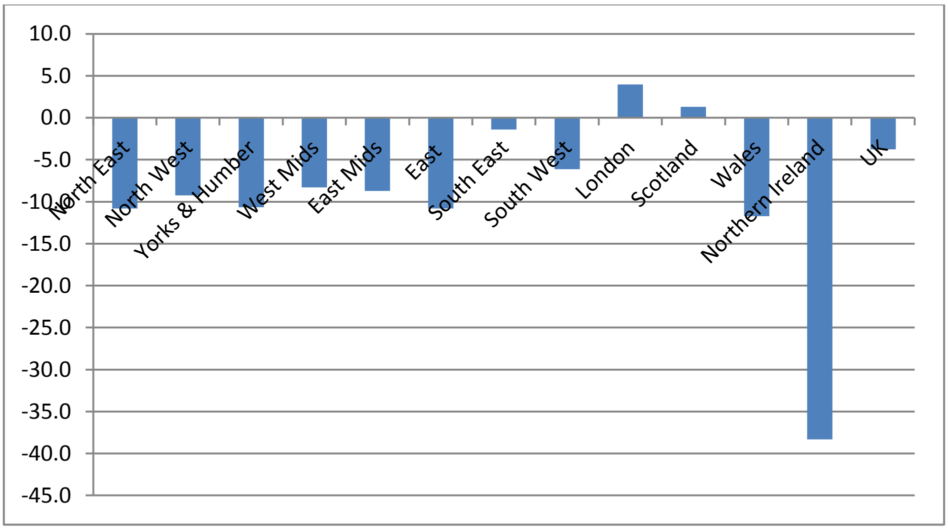
Specifically, the research explores the potential and limits of asset-based welfare policies for Northern Ireland homeowners following the financial crisis. Globally, if mortgage markets permit, homeowners have increasingly considered their home as a financial asset, deployed to repay debt, fund home improvements or one off items, provide a deposit for children to enter homeownership or used to supplement retirement income. Moreover, homeowners derive significant psycho-social benefits from the accumulation of housing assets, which enhances feelings of security and financial resilience. Claims are also made for the potential of homeownership to overcome poverty in lower income households. All of which suggests that a weakening of the asset values of people's homes could prove to be financially de-stabilising for homeowners over the long term, not least for lower income households.

The Office of the First Minister and Deputy First Minister has funded the Centre for Housing Policy at the University of York to undertake this study. This research will inform its Equality and Social Need Research Programme and provide support to the Executive in fulfilling its goals. A key ambition of the programme is to understand the extent, distribution and causes of inequality and the impacts of policies pursued to address disadvantages in order to support the delivery of the 'Lifetime Opportunities' anti-poverty strategy. Whilst building pathways to employment is a fundamental way to overcome deprivation and disadvantage, as identified in the Social Investment Fund initiative, another widely debated dimension to overcoming disadvantage has been the opportunity to widen participation in the accumulation of assets and wealth, in particular, housing wealth.

Paxton (2003:1) notes that the '*stocks of wealth that an individual holds and not just their income or consumption should be seen as important when assessing their wellbeing*'. Such arguments reflected a growing interest in asset-based welfare over the last decade, whereby individuals develop their own resources through savings, or other asset holdings, in order to smooth income fluctuations and increase self-reliance. Some hold strong ideological commitments to asset ownership amongst poorer households as an alternative to income maintenance policies and 'dependency' (see Wind-Cowie, 2009; Greenhalgh and Moss, 2009). Appleyard and Rowlingson (2011) concur that both income and assets are important when investigating economic inequalities, as housing assets are the most evenly distributed asset class and constitute 39 per cent of all net wealth. And yet there is much to learn about how people utilise the wealth stored in their home, and how spatial variations in housing markets may influence a person's appetite for using their housing wealth. We do know that younger cohorts of homeowners in later life are more open than current older homeowners to using the money stored in their home (Rowlingson, 2005), although generally, people derive profound security from acquiring the asset, so spending their home is the last resort (Jones, 2007).

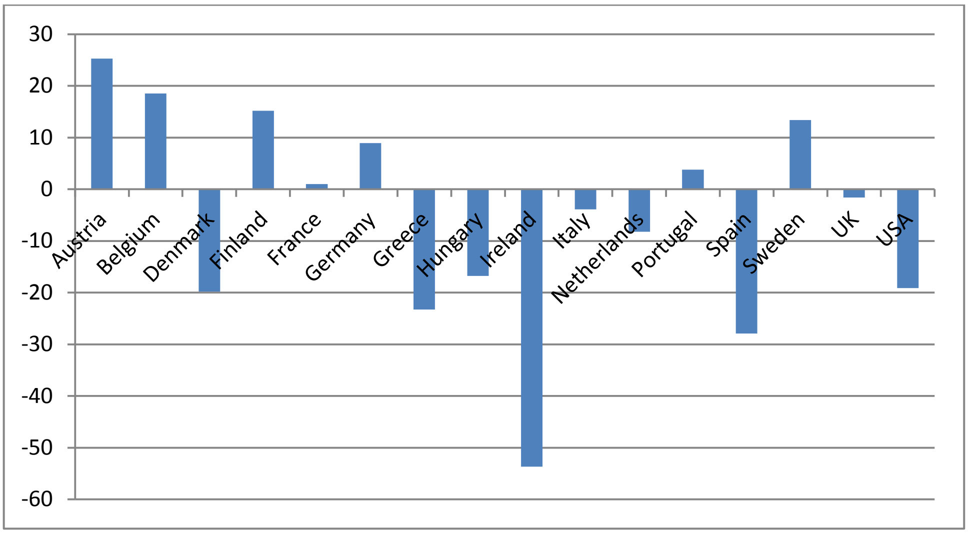
Over the period 1994 to 2004 homeownership in Northern Ireland increased from 64 per cent to 73 per cent (DCLG Live Table 108, source NI DSD) and remains the dominant tenure despite falling back from this peak to 67 per cent by 2011 (NISRA, 2012). Alongside tenure changes, the Northern Ireland housing market has also witnessed rapid rises and falls in local house prices over the last decade. The scale of Northern Ireland's house price decline has been greater than in any other part of the UK, falling 38 per cent by 2011 (Figure 1.1). Moreover, prices continued to fall and by 2013 were some 50-60 per cent below the 2007 market peak, a similar magnitude of house price falls to the Republic of Ireland, and greater than other European countries or the United States (Figure 1.2).

Figure 1.1: Percentage change in mix adjusted house prices by UK region (2007 to 2011)



Source: Department of Communities and Local Government Live Table 507

Figure 1.2: Percentage changes in Hypostat house price index 2007 to 2012



Source: Hypostat 2013 European Mortgage Federation

Property values in London have recovered their peak levels and are now subject to over-heating, but although the market now appears to have 'bottomed out' or stabilised in Northern Ireland house prices remain well below their values in 2007 (Bridie, 2013). Moreover, the Financial Services Authority (FSA, 2012) estimated that 35 per cent of mortgages taken out after 2005 in Northern Ireland were in negative equity, again the highest proportion in the UK.

The readjustment in Northern Ireland's housing market may be welcome for those entering homeownership for the first time, as prices are more attuned to local incomes, and lower house prices mean saving for a deposit is more achievable. Certainly, despite fewer transactions, the proportion of the market occupied by first time buyers has been high, around 59 per cent in 2012, up from a low of 32 per cent in 2007 (Council of Mortgage Lenders Table ML2). This compares to an average market share for first time buyers of 45 per cent for the UK as a whole (CML, 2014[1]). However, the wider economic context remains fragile in Northern Ireland as the economy is not expected to recover from the impacts of the recession until after the rest of the UK (Murphy, 2012). Indeed, the GVA per head – the measure used to reflect economic productivity in different locations- in Northern Ireland fell 10 per cent between 2008 and 2013 compared to the UK where it fell only 5.8 per cent and only 3.3 per cent in the South East of England (Plunkett *et al.*, 2014). Moreover, when the full impact of welfare reforms are felt research posits that a total of £750 million will be removed from the Northern Ireland economy; a greatest financial loss per working age adult than anywhere in the United Kingdom, with Belfast the worst affected city (Beatty *et al.,* 2013). During the period of the market downturn, household incomes, poverty rates and the labour market have all deteriorated in Northern Ireland and to a greater extent than in Great Britain (New Policy Institute, 2014). More positively, the Northern Ireland Composite Economic Index recorded a 1.2 per cent growth between Q3-2012 to Q3-2013, and stronger growth in the private sector between Q2 and Q3-2013 of 2.2 per cent (NISRA, 2014a). In this

[1] http://www.cml.org.uk/cml/media/press/3833

climate there has been a halt to the decline in the local housing market but it is uncertain how the economy and housing market will fare in the future.

Undoubtedly, the impact of the financial crisis on housing and mortgage markets has been profound; Williams (2011:55) suggests *'The credit crunch has changed the UK and will go on changing it'*. House prices have fallen and absolute housing equity for owners will have diminished, or become negative, leaving many with fewer resources on which to draw. In addition, mortgage market constraints render what equity that remains less fungible than prior to the crisis. Furthermore, a more prudent mortgage market following tighter regulation and the need for banks to re-capitalise will mean less of the stimulus to the housing market recovery that followed the last UK housing market recession, when liberal access to credit markets contributed to house price growth. Limits on access to housing assets due to falling house prices and mortgage constraints, especially in the context of increased welfare needs and declining state provision, may have important implications for welfare, as a source of financial support for some households has been removed (Parkinson *et al.*, 2009; Toussaint and Elsinga, 2009). Paradoxically, further retrenchment or reconfiguration of the welfare state may also prompt a greater reliance on a household's own resources and individual capacity to withstand income shocks.

Research aims and objectives

The main aims of the research were to examine:

- The extent and use made of housing equity in Northern Ireland by lower income households
- How the use of equity may have changed following the financial crisis
- How the loss of equity has impacted on the financial security and well-being of homeowners and their family members
- How the loss of equity in recent years may have influenced these households' financial planning
- What the possible policy implications of the loss of personal wealth of Northern Ireland homeowners might be in the future.

Specific research objectives included the following:

- Identify wealth inequalities in Northern Ireland and the role of housing assets in mitigating any disparities
- Identify the extent of housing equity gains made and/or lost for different Northern Ireland households
- Examine how housing equity has been used, by whom and what for and with what consequences prior to the market downturn
- Examine the importance of housing equity to lower income households' financial security, expectations and planning. What role did homeowners attribute to housing equity in smoothing income fluctuations, securing housing for younger family members, funding university places, pension provision and care in later life, for example, prior to the market fall?

- Assess the impact of the housing market collapse on the financial security, circumstances and planning of different groups and age cohorts of homeowners now and in the future
- Examine how lower-income homeowners have reviewed their finances to account for the loss of personal wealth. How have savings rates or other asset holdings such as pensions been affected? How have homeowners revised their financial plans or expectations?
- Examine the potential consequences for the state – e.g. in terms of welfare benefits, social care costs, long term care and housing - of lower income households having fewer private resources on which to draw in the future.
- Examine how lower-income homeowners view their future needs in the context of lower housing equity

Research Methods

The research adopted a range of methods to achieve its objectives. These comprised;

- A literature review
- Quantitative data analysis of statistical datasets
- Qualitative interviews with lower-income homeowners, and
- Qualitative interviews with policy makers and other key housing stakeholders.

Literature review

The literature review provides the context to the research, providing an overview of the role housing wealth may take as a component of financial resilience and its potential and limitations in overcoming poverty. Moreover, the review of data sources provided an overview of Northern Ireland's housing market.

In-depth qualitative interviews

A total of 61 qualitative interviews have been undertaken, 10 with housing market and/or policy stakeholders and a total of 51 interviews with a range of homeowners across Northern Ireland who had purchased their home up to 2007. The focus was on lower income homeowners, although higher income homeowners and homeowners who had used affordable homeownership options were included for comparison (Table 1.1).

Most of the homeowners were recruited using a local market research company, although five were obtained through a local advice service and housing agency, as the impacts on those with negative equity were under-represented. Participants were identified on the basis of the following attributes:

- Lower income- defined by the bottom two quintiles of equivalised household income
- Higher income – defined by the top two quintiles of household income
- Location- participants were drawn from across Northern Ireland to reflect any differences in local housing markets
- Age- to capture participants throughout the life course

- Affordable homeownership- including NIHE House Sales scheme or Co-Ownership. Such schemes have been positioned as potentially risk-reducing and these purchasers may have had different experiences to other homeowners.

Table 1.1: Selection of homeowners interviewed

<table>
<tr><th rowspan="3">All households homeowners prior to 2007</th><th colspan="3">Lower income homeowners</th><th colspan="2">Subsidised homeownership</th><th>Higher income homeowners</th><th rowspan="3">Total</th></tr>
<tr><th rowspan="2">25-35</th><th rowspan="2">40-50</th><th rowspan="2">60+</th><th colspan="2">Any age</th><th rowspan="2">Any age</th></tr>
<tr><th>House Sales</th><th>Co-Owner ship</th></tr>
<tr><td>East Region
South Down
Newcastle/ Downpatrick</td><td>6</td><td>1</td><td>2</td><td>1</td><td>1</td><td>3</td><td>14</td></tr>
<tr><td>West Region
Fermanagh/South Tyrone
Omagh/Enniskillen</td><td>4</td><td>6</td><td>1</td><td>1</td><td>1</td><td>4</td><td>17</td></tr>
<tr><td>Belfast
Local authority district</td><td>5</td><td>3</td><td>6</td><td>1</td><td>1</td><td>4</td><td>20</td></tr>
<tr><td>Total</td><td>15</td><td>10</td><td>9</td><td>3</td><td>3</td><td>11</td><td>51</td></tr>
<tr><td>Grand Totals</td><td colspan="3">34</td><td colspan="2">6</td><td>11</td><td>51</td></tr>
</table>

The interviews with homeowners were undertaken by telephone between July 2012 and January 2013. Digital recordings and notes were made during the conversation and typed up after the call. Participants were given a £20 shopping voucher as an incentive and to thank them for participating in the research. Interviews with housing market stakeholders were a mixture of face-to-face and telephone interviews and were undertaken between March 2012 and September 2012. Four follow up interviews were held with stakeholders in Autumn 2013 to capture any changes during the intervening period.

Topic guides were used for the in-depth interviews to guide the conversation and covered assessments of the period leading up to the market collapse, how this affected individual and institutional behaviour; if and how equity was withdrawn and used; the impact of the market fall on financial security now and their views on the longer terms impacts. The topic guide used for homeowners is shown in Appendix 1.

Quantitative data analysis

The quantitative data analysis is based on the Family Resources Survey (FRS). The FRS is a Government survey of a nationally representative sample of UK households. It is a continuous survey, launched in 1992, that currently has a target sample size of 24,000 households per financial year, with approximately 3,000 in Northern Ireland. For the purposes of this research, analysis of the FRS was focussed on the most recent nine years of data available when the study commenced, from 2002/03 to 2010/11. The FRS is a particularly useful resource for this research, since it is relatively large in scale, and provides a consistent data source across the entire UK. Alternative datasets such as the Wealth and Assets Survey are confined to Great Britain.

The nine years were divided into three groups of three years to explore changes in the owner occupied housing in terms of three housing market stages, which were identified through analysis of the house price index of the Halifax Bank, and the house price index produced by the University of Ulster. The three market stages are:

- 2002/03, 2003/04, 2004/05: Rising market
- 2005/06, 2006/07, 2007/08: Peaking market
- 2008/09, 2009/10, 2010/11: Falling market

The FRS data was re-weighted using calculations based on the existing annual weights within the data to produce nationally representative estimates for each of the three market stages. The result is that figures, percentages, and household counts produced in this analysis are effectively three-yearly averages for each market stage.

Equivalisation was used in the analysis of household incomes, involving either before or after housing costs incomes. Equivalisation adjusts household incomes based on the notion that a larger household requires a larger income to achieve a similar standard of living as a smaller household. The OECD modified equivalence scale has been used - the scale currently preferred in Government analyses - that allocates values for each adult, each child aged 0-13, and each child aged 14-18 within a household. This scale effectively allows household incomes to be compared with the reference category of childless couples (as childless couples have an equivalence value of 1.0), as set out in Table 1.2.

Table 1.2 : The OECD modified equivalence scale

Household members	BHC (OECD modified scale)	AHC (Companion scale)
HRP/HoH	0.67	0.58
Each extra adult	0.33	0.42
Each child aged 0-13	0.20	0.20
Each child aged 14-18	0.33	0.42

The FRS records the year of purchase and the property purchase price for mortgagors (only). These two variables in conjunction with the Halifax all properties UK house price index and the household's self-reported total mortgage debt outstanding were used to estimate the level of negative equity existing at the time a household was interviewed in the Survey. The Halifax indices started in 1983, meaning that the estimates of negative equity could only include mortgagors who had purchased their home from that year onwards (about four per cent of mortgagors were excluded due to them having bought their home prior to 1983). For mortgagors who had purchased from 1983 onwards, the original purchase price of their homes was inflated using the Halifax index to give an estimate of their value at the time they were interviewed in the FRS. The outstanding mortgage debt was then deducted from this estimate to give an estimate of the extent and size of negative equity amongst this group of home owners.

Structure of the report

The report continues by providing an overview of the literature on the role housing assets can play in strengthening resilience through asset-based welfare policies (Chapter 2). Chapter 3 examines the Northern Ireland housing market. Chapter 4 draws on the Family Resources Survey to present a profile of homeowners in Northern Ireland, how they have used mortgage finance and how their equity has changed during the market cycle. The following chapter (Chapter 5) draws on the in-depth interviews with homeowners to examine their perceptions of housing market change and the impacts on individual homeowners. The last chapter (Chapter 6) highlights some key findings and discusses the implications of the research.

2: FINANCIAL RESILIENCE AND HOUSING ASSETS

Summary

- Resilience in terms of personal finance is the extent to which a household can manage a loss of income or unexpected expenditure alone, or require public assistance.
- There are synergies between the qualities of resilience and asset-based welfare, where people save or accrue other assets to draw down when required or that can be deployed to access opportunities otherwise unavailable.
- More housing wealth accrues to the highest income households but remains the most equally distributed asset class.
- Housing equity has been used across the income spectrum, not just in later life to supplement retirement income, but to support additional expenditure during the life course, for welfare associated needs as well as consumption.
- The loss of housing wealth has been posed as a new risk to homeownership.

Introduction

The development of financial and housing assets among lower income households has been a significant theme in international literature. The benefits said to derive from the accumulation of housing wealth have informed the discourse or rhetoric attached to policy shifts towards self-provision to overcome adversity rather than public endeavours. This chapter outlines what is meant by the terms resilience and asset-based welfare and provides an overview of the arguments surrounding the potentially transformative qualities of housing wealth in terms of personal financial planning.

Resilience

The concept of resilience is used widely in a range of policy contexts - including psychology, military security and terrorism, financial organisations, ecology, climate change or developing regional economies in global markets - but its meaning is malleable, rendering it able to transcend different domains (MacKinnon and Derickson, 2012; Davoudi, 2012; Walker and Cooper, 2011). Resilience is commonly used to encapsulate qualities within complex systems, organisations, communities - or even households and individuals - that can resist or successfully adapt to significant external shocks. The term comprises processes such as the ability to rebound, adapt and/or recover and is currently popular as it reflects contemporary concerns with insecurity and uncertainty (Christopherson *et al.*, 2010).

The concept can be problematic as focussing on resilience arguably places the onus on individuals and communities to secure their future independently, in the face of, for example, globalisation and economic change, when they may not have the resources or power to do so (MacKinnon and Derickson, 2012). Ben-Gallim and Lanning (2010) found that households' indebtedness was a function of the resilience of the industry in which people are employed, over which they have no control, rather than individuals' personal qualities and money management skills. While the interest in resilience reinforces people's agency, it also fails to account for power imbalances that limit the ability to 'bounce back' (Harrison, 2013). Walker and Cooper (2011) draw parallels between market-based philosophies and the concept of 'resilience' that accepts the organisation of the world is given and beyond public intervention. Moreover, Davoudi (2012) also finds synergies between neoclassical economic interpretations of resilience forged on self-reliance, minimal state support and returns of systems to equilibrium. These approaches often demand emergency measures to return the system to 'normal', and omit to acknowledge that previously normal practices may have been culpable in the shock, weaknesses or crises, suggesting a 'new normal' may be desirable (ibid.).

Nonetheless, other conceptualisations of resilience illustrate that a range of resources can be brought to bear to manage, or recover, from the adverse impacts of external shocks, and these may be at different levels: structural, cultural, systemic, coping, relational as well as individual (Cardenas and Lopez, 2010). Implicit in this perception – and in evolutionary non-equilibrium interpretations of resilience - is that multiple actors and agencies may also have responsibilities to increase the capacity of systems, organisations or people to manage and respond to disruptions over the long-term (Davoudi, 2012).

Although the concept of 'resilience' has been widely applied to regional economies and the organisational capacity of financial institutions to withstand future systemic shocks in the wake of the financial crisis, the term has been infrequently applied to personal financial management or individual economic circumstances. This report adopts the term to consider how individuals and households are able to respond to the effects of the financial crisis now and in the future, by their deployment of their own personal resources, highlighting what further support they may require to secure their own future.

Asset-based welfare

The concept of resilience, if understood in a limited sense of an individuals' preparedness to resist or recover from crises, is analogous with the discourse surrounding asset-based welfare. Asset-based welfare suggests that people can, through the accumulation of assets rather than additional income alone, increase their self-reliance and their ability to smooth income shocks, provide a financial cushion for households, increase self-efficacy and control and stimulate the growth of other assets, such as social and human capital (Sherraden, 1991). Some are explicit about the link, for example, Dolphin (2012) examined how enhancing savings behaviour and creating opportunities for asset accumulation for lower income young people can secure their financial resilience. This approach, as in the first conceptualisation of resilience above, makes individuals responsible for their own financial risk in society. Rowlingson and McKay (2012) note that the shift towards personal assets and away from collective welfare began from the 1980s onwards and has appeal for a wide spectrum of politics, by seemingly addressing inequality and making poorer people self-reliant (see Maxwell and Sodha, 2005; Wind-Cowie, 2009). Sherraden is enthusiastic about the role of governments or community agencies fostering opportunities for asset-accumulation so does concede that multiple players will be involved in supporting individuals.

Governments have adopted different models of asset-based welfare policies, notably the Individual Development Accounts in the USA, which are match funded savings accounts, which can be used for various uses including as a deposit to purchase a home, post-secondary education or business start-ups, and occasionally other goods (Sherraden, 1991). The 1997-2010 Labour Government in Westminster embraced the ideas of asset-based welfare and introduced savings mechanisms to encourage asset building among lower income households, such as the Savings Gateway and Child Trust Bonds (Prabkahar, 2009). These were explicit policies, but *de facto* asset-based welfare policies were also associated with the promotion of homeownership, where subsidised access to homeownership was provided, in part, to extend the opportunities for asset-accumulation to lower-income groups (ODPM, 2005). Arguably, these interventions to support homeownership also operated on a much wider scale than the other initiatives. Moreover, although the UK Coalition Government from 2010 abolished the Savings Gateway and Child Trust Bonds, the support for homeownership in Westminster remains strong (DCLG, 2011). Similarly, the commitment to homeownership and subsidising access to homeownership through the Co-Ownership and House Sales schemes has also been maintained in Northern Ireland (Semple, 2007) and accessing and sustaining homeownership locally are two of the three key areas that form the focus of the Northern Ireland Housing Strategy (DSD, 2013).

Discussions of homeownership and housing wealth have become increasingly important in many countries and as Forrest (2008) notes:

"…in the global scheme of things, home ownership has become an important dimension of an economic citizenship in which those with housing assets can enhance earned income directly and indirectly to sustain consumption, lifestyles and social status and are often better placed to weather adverse economic circumstances." (p.172).

What researchers have called an 'asset-effect' is evident, as regardless of other attributes, having savings early in adulthood has an independent and positive influence on earnings and employment later in life (McKnight, 2011). While financial assets are the most unequally distributed, housing assets are more widely held and represent a greater share of all wealth (Bastagli, 2012).

Housing wealth

Undoubtedly, in the period prior to 2007, when the financial crisis began, homeowners accrued significant sums of housing equity. At the peak of the market in 2007, UK net housing equity equalled £2.89 trillion, dropping back only marginally to £2.79 trillion by 2010 (Wilcox and Pawson, 2012). As with stocks and shares, housing wealth is unevenly distributed across the income spectrum, but remains the most widely held asset class, and for many lower-income households represents their only form of wealth (Rowlingson and McKay, 2011). Typically greater gains do accrue to wealthier homeowners (Bastagli, 2012; Burridge, 2010; Hamnet, 1999). Moreover, Belsky *et al.* (2003) found that US low income homeowners accumulated wealth at a slower pace as they have shorter stays in homeownership, are less likely to chase the best interest rates and benefit less from tax breaks in comparison to affluent owners. Pryce and Sprigings (2009) note that for lower income homeowners in the UK, their timing of entry in relation to market cycles, shorter periods of homeownership and greater volatility in the lower ends of the market may have deleterious effects on the relative gains of homeownership for some social groups.

Nonetheless, many low to middle income households also made, often substantial, equity gains prior to the financial crisis in 2007. Indeed, Thomas and Dorling (2006) noted growing inequalities arising from the differential performance of local housing markets, suggesting that this accumulation of housing equity affords some homeowners the opportunity to transcend inequalities generated by the labour market. While this spatial variation generates inequalities within homeownership, of significant concern are the cleavages housing wealth has exposed between those with equity (homeowners) and those without (renters) (Forrest, 2008; Stephens, 2011; Stephens and Williams, 2012). Moreover, intergenerational disparities occur as wealth increasingly accrues to older generations and inequalities are perpetuated, as home-owning parents increasingly support children into the tenure and strengthen the relationship that exists between homeownership and educational attainment (Hills *et al.*, 2013).

As noted above, the transformative quality of housing wealth is contingent on housing markets, mortgage products and the risks and processes associated with liquidising housing assets. Writing in the early 2000s, Burrows (2003) suggested that capital assets remain unavailable to homeowners in their lifetime, but since that time housing equity has become more fungible. During the period of rising markets up to 2007 homeowners became aware of the financial benefits arising from their home, and the financial products that help them unlock housing equity, and incorporated housing equity into their financial planning during the life-course or in retirement (Watson, 2009; Smith and Searle, 2008). The propensity to utilise housing equity, however, varies across countries as institutional arrangements prompt different attitudes and behaviours towards spending money stored in a person's home (Toussaint, 2011). Comparative research is therefore important in assessing the potential of housing wealth.

Homeowners can withdraw equity from their homes in many different ways; during housing market transactions by over-mortgaging, taking out a larger mortgage than is required to fund the purchase; last-time sales, when homeowners die or exit homeownership; when developers sell a new or vacant property or by trading down; or in situ- by taking out further advances or second loans or over-mortgaging (Reinold, 2011).

Equity withdrawal by over- or remortgaging became a substantial part of the mortgage market prior to the financial crisis from 2007 (Smith, 2004). Parkinson *et al.* (2009) found using longitudinal data in Great Britain and Australia that housing equity appeared to have become an important welfare-related resource as equity withdrawal was associated with critical life events, such as the birth of children, household dissolution and unemployment, as well as consumption and home improvements. Ong *et al.* (2013) indicate that withdrawing equity was associated with a range of financial distress and that the most common method, used by18 per cent of households, is to borrow equity in situ by increasing the mortgage, releasing £80 billion to the UK economy. Indeed, using the same data, Searle (2010) found that borrowing against the equity stored in the home was associated with increased risks of repossession. Moreover, secondary borrowing and remortgaging was an important feature of the biographies of borrowers exiting homeownership because of mortgage arrears and had complicated the management of mortgage default for borrowers and lenders (Wallace *et al.*, 2011; Wilcox *et al.*, 2010). Evidence suggests then that whilst housing equity can be a useful resource to draw on at critical times, there are negative risks associated with using housing wealth in this way.

Older homeowners who have repaid their mortgages can avoid poverty in later life because of the minimal housing costs associated with outright ownership (Stephens *et al.*, 2010; Tunstall *et al.*, 2013). Older homeowners may also access the wealth stored in their home using equity release products, whereby equity is given up to the lender in return for a lump sum or lifetime income (Williams, 2008). A small proportion of people in later life may be lifted out of poverty using these products (Hancock, 1998), but largely it is middle income younger retirees in average value homes who have engaged with this market not those at the bottom of the income scale (Overton, 2010). Equity release is a challenging market to develop, for borrowers and lenders, and therefore remains a marginal activity (Overton, 2010; Terry and Gibson, 2010; Fiona Boyle Associates, 2008).

Reinold (2011) and Schwartz *et al.* (2008) found the major cause of housing equity withdrawal was through older and/or last time homeowners in the UK and US selling up or downsizing, primarily to boost other asset holding. Banks *et al.* (2010) using longitudinal data shows that trading down, albeit for a variety of reasons, is an increasingly important part of older life as 11 per cent of older homeowners move each year. However, lower income older homeowners move less frequently and release less capital as their homes are smaller and of less value.

Following the death of a homeowner, the sale of the property may also lead to bequests. Saunders (1990) suggested that homeownership would make the UK a nation of inheritors. Holmans (2008) found that the low value of homes meant that for many homeowners there was insufficient equity to pay for long term care or other services and as many of the new entrants to homeownership from the 1980s onwards are still alive, the rate at which people inherit equity remained low. Longitudinal analysis reinforces this, as although the number and value of bequests of housing assets has grown slightly over recent years, few people receive substantial sums, and these are people who are already wealthy in their own right (Karaganakki, 2011). In these circumstances housing bequests have *increased* rather than decreased wealth inequalities.

Following the financial crisis, housing equity withdrawal is now negative as more people are putting money into the system than withdrawing it, with possible consequences for the wider economy (Reinold, 2011). This is primarily because there are fewer housing market transactions, not because homeowners are repaying their mortgages. As there are fewer first time buyers injecting equity into the market there are fewer chains and people – older homeowners or developers- extracting equity at the end of the transaction chain. There has also been fewer people obtaining further advances on mortgages, so equity has been less frequently withdrawn from over-mortgaging or seeking additional loans than prior to the financial crisis.

A major risk to homeownership was identified as the ability of homeowners to sustain their mortgage and remain in the home (Ford *et al.*, 2001). The increased incorporation of housing equity into homeowners' financial plans during the life-course and in retirement, however uneven this may be, means that the loss of housing equity becomes a new risk to homeownership (Smith and Searle, 2009). None of the empirical studies to date have examined the impact of significant house price falls on homeowners. With the substantial falls in housing equity observed in Northern Ireland, this study examines what potential remains, and what the limits are, to the use of housing equity in future welfare planning.

Conclusions

This chapter has provided an overview of the arguments that situate homeownership and the accumulation of housing wealth as an important component of asset-based welfare, and the expectations that people will be able to access these funds to provide for themselves at critical moments during the life course to increase their financial resilience. Evidence also shows, however, that the use of housing equity is contingent on a range of institutional and cultural factors and homeowners of different ages differ in their ability and desire to utilise these reserves. However, the use of these resources to smooth income is not risk free. Nevertheless, the resources potentially available to homeowners have, hitherto, been substantial and some homeowners obtain immense security from the knowledge that equity could be used in a crisis.

3: NORTHERN IRELAND'S HOUSING MARKET

Summary

- Northern Ireland's house prices rose rapidly up to 2007, since when prices have fallen substantially and have entered 2014 50-60 per cent below their peak market values.
- Homeowners have lost significant sums in the value of their homes, with the median house price reduced by £101,388 between 2007 and 2013.
- Housing market sale transactions are currently increasing and some modest price increases were witnessed during 2013, suggesting that the market had 'bottomed out'.
- As a consequence of the significant market falls, however, the incidence and magnitude of negative equity in Northern Ireland is still estimated to be higher than elsewhere in the UK.
- Court claims made for mortgage possessions against Northern Ireland's homeowners remain stubbornly high, but across the UK as a whole possession action taken by lenders has fallen steadily since 2009.
- More Northern Ireland homeowners are 'mortgage prisoners' stuck on old mortgage deals and unable to switch to new products or lenders, compared to across the UK.
- Residential property transactions were 63 per cent below their market peak by 2013, compared to 36 per cent below across the whole UK, indicating constrained residential mobility in Northern Ireland.

Introduction

The UK has been subject to the longest and deepest economic downturn ever and the economy remains 2.1 per cent smaller than in 2008 (Plunkett *et al.,* 2014). Although some growth was witnessed during 2013, it is uncertain how long any damage resulting from the downturn will take to repair and median household incomes are set to remain around 3.5 per cent below their peak in 2008 until 2018-2019 (ibid.). In this mix, the Northern Ireland housing market has experienced profound price changes. This chapter provides an overview of the local market, setting out the environment in which homeowners' loss of housing equity is considered in the remainder of the report. Trends in respect of prices, lending and transactions within the market are traced, and the reasons behind the volatility observed. The contraction in the housing market and the subsequent extent of negative equity and mortgage arrears in the region are examined.

Drivers of housing market change

Northern Ireland's housing market had not previously been subject to the rapid rises and slumps that began to characterise the market in Great Britain from the 1970s onwards (Adair *et al.*, 1998). The legacy of conflict in Northern Ireland meant for many years there was a lack of investor confidence in the region's housing market. However, during the last decade the housing market turned around dramatically and reached a situation of ‘irrational exuberance’ (Frey and Gray, 2010). There is a lack of consensus around the precise reasons why such volatility occurred, but essentially a series of processes and events coalesced to produce a very different housing market to what had gone before.

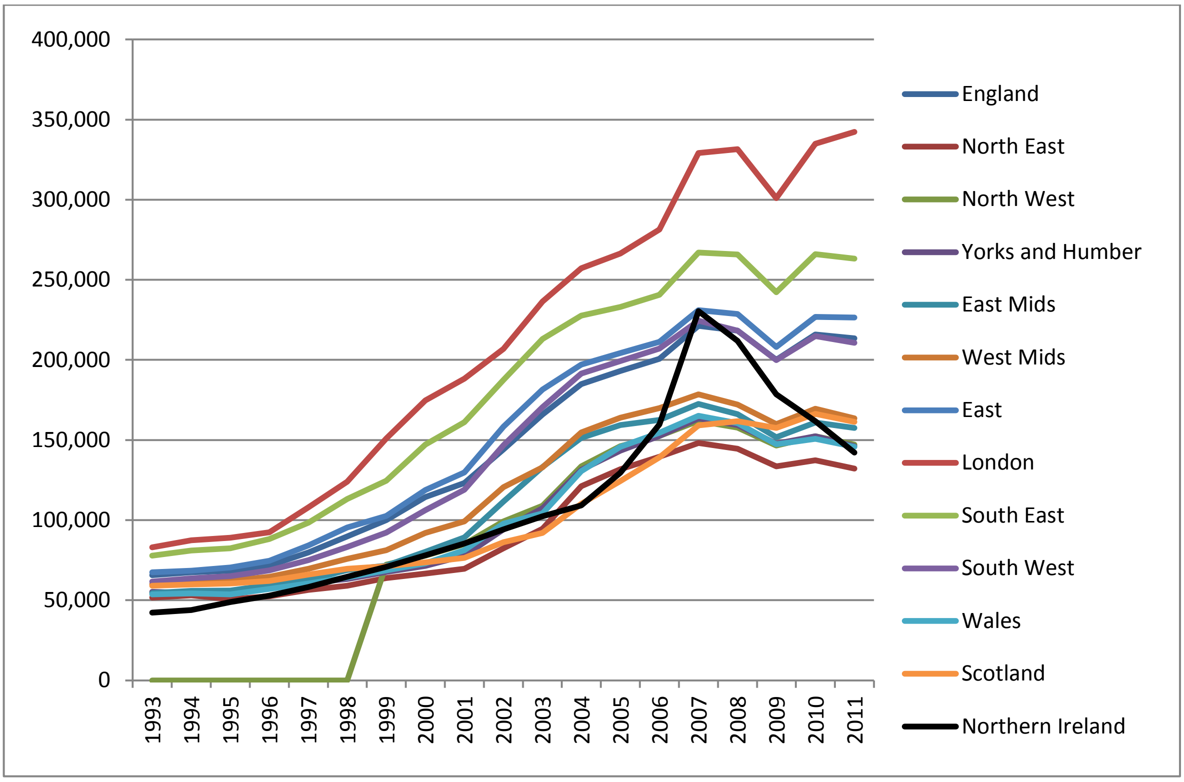
Adair *et al.* (1998) argued that the impact of the end of the historic conflict was important but subsidiary to economic factors in explaining the rise in house prices from the mid-1990s. Besley and Mueller (2011) did find a peace dividend reflected in house prices as there was a negative correlation between incidents of violence and house prices. However, Gibb *et al.* (2007) noted a wider range of influential factors that continued to fuel house price growth, including spill-over effects from the Celtic Tiger in the Republic of Ireland, a buoyant economy in Northern Ireland, UK macro conditions, low mortgage interest rates and demographic changes, which all had an impact on investment activity.

Advice NI (2007) examined qualitative responses to the affordability problems associated with the rising markets and found that property speculation was of great concern. Investment from the Republic of Ireland is spoken of as a contributory factor in speculative housing market activity. However, McCord *et al.* (2011) observe that although there is some cross border activity between Northern Ireland and the Republic there are few interconnections between the two housing markets. Frey (2008) suggests that the relationship between the Republic and Northern Ireland’s housing markets can be over-stated as the similar market trajectories are as much a response to the same wider international developments in global economies, liberal lending practices and international migration as direct transactional links. There is evidence of stalled investments in Northern Ireland by investors from the Republic who have defaulted and NAMA – the Government agency in the Republic charged with disposing of stock in possession of the bailed out banks- has holdings worth £90 million in Northern Ireland (NAMA, 2012). However, the market volatility in the North has been a product of multiple factors, and includes self-generated market behaviours. Frey and Gray (2010) record that NIHE (Q3-2006) did sound a cautionary note, suggesting that rising prices were unsustainable, but viewed the local construction and housing market industry as myopic in its inability to curtail its activities. Bridle (2008:1) suggested that the “upswing was marked by exuberance, some might say hubris”, and moreover, that the market adjustment represented a journey into the unknown as Northern Ireland lacked any precedent for a genuine market cycle.

House price volatility

After experiencing none of the housing market fluctuations of previous decades seen in the UK, Northern Ireland’s housing market has seen extraordinary instability during the past decade. The region witnessed an unprecedented surge in house prices before the onset of the financial crisis in 2007, followed by a severe market crash. Figure 3.1 illustrates the rise and fall of the Northern Ireland housing market with reference to UK regions.

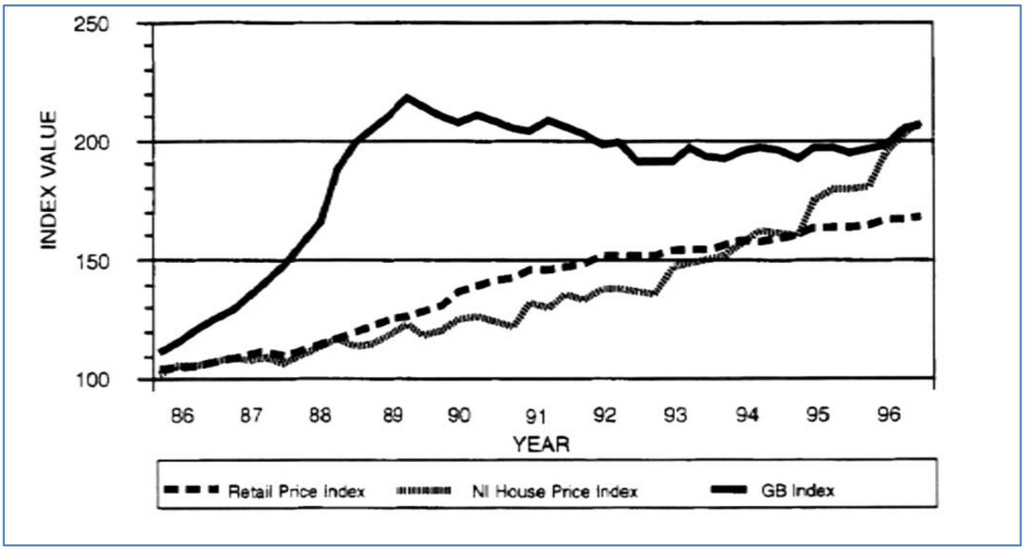
Figure 3.1: UK Mix-adjusted house prices 1993-2011 (£)



Source: DCLG Housing Statistics Table 507 NB: North West only calculated since 1999

Figure 3.2 compares Northern Ireland's house prices to that of Great Britain and shows that the housing market in Northern Ireland had previously been one of steady house price growth and had not been subject to the market fluctuations evident in Great Britain in the later 1980s and early 1990s. House prices rose nominally during this period but had not kept pace with inflation. The regional market did not experience the price booms of the late 1980s, but neither did it experience the price falls, mortgage arrears and repossessions of the early 1990s seen elsewhere in the UK (McCord *et al.*, 2011).

Figure 3.2: Comparative house price trends GB and NI 1985-1997



Source: Reproduced from Adair *et al.* (1998)

Rising housing market

During the period to 2007, housing affordability was of significant concern in Northern Ireland. In 2001, 16 per cent of those on median wage earnings could afford a lower price home, but by 2004 only five per cent of individuals on median earnings could do so (Semple, 2007). The median advance to first time buyers in 2001 was £50,000, but by the peak of the market in 2007 the median advance had more than doubled to £117,999 (Council of Mortgage Lenders, Table ML2). House prices to earnings ratios had increased sharply but unevenly across Northern Ireland (Wilcox, 2007). Wilcox's study used 2005 data and found that house prices for average two or three bedroom homes to earnings ratios for younger households ranged from 2.68 in Armagh to 4.24 in Strabane, suggesting that affordability problems were localised. While Strabane was the area with the highest average house price to income ratios, Cookstown had by far the highest proportion of younger working households unable to buy at the lower end of the market. During this period, mortgage rates were low, which meant that the relationship between mortgage costs and earnings was less problematic. However, the proportion of first time buyers in the market reduced from 62 per cent in 2001 to 32 per cent by 2007 (Council of Mortgage Lenders, Table M1NI).

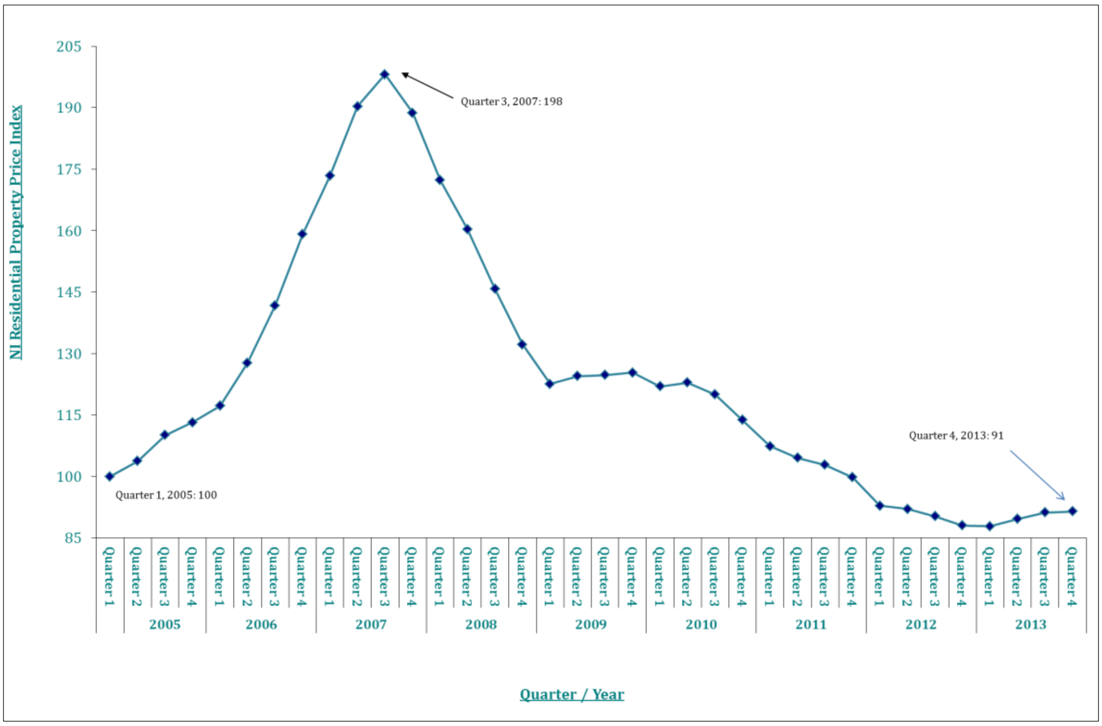
Falling housing market

Various house price indices are available in Northern Ireland, produced by the University of Ulster and NIHE, the Northern Ireland's Statistical and Research Agency's (NISRA) Residential Property Price Index (NI RPPI) and those produced by Halifax and Nationwide across the UK. The relative strength of these indices may be debateable as they are based on different transaction samples and adopt different methods, but it is beyond this study to consider the merits of each data source. The key point for the purposes of this study –examining the impact of any falls in house prices on the actual homeowner- is that all indices depict significant decline in house prices in the region from the market peak, unprecedented in any region of the UK.

Using the NISRA standardised data (NI RPPI), overall the market fell 54 per cent from the peak at Q3-2007 to Q4-2013. During the year 2013, Northern Ireland's housing market rose four per cent overall, so by Q4-2013 prices were still nine per cent below their 2005 values (NI RPPI, 2014b) (Figure 3.3).

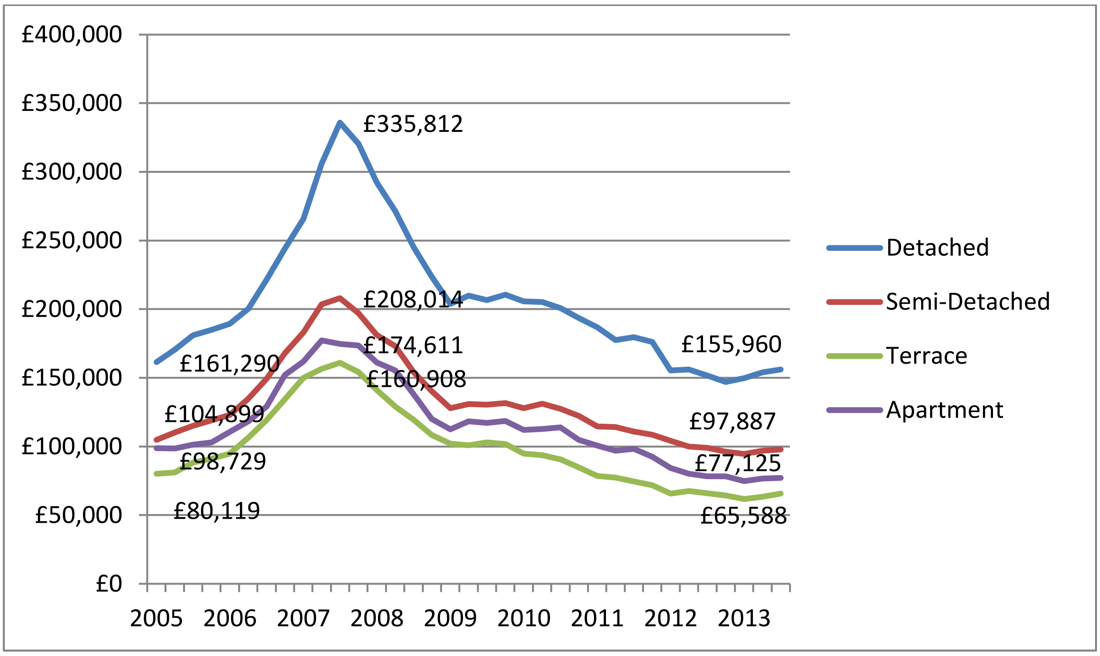
Of course, the picture is complicated by differential experiences of house price changes across different property types and locations. Figure 3.4 shows the standardised average house prices for different property types between 2005 and 2013. The house price falls vary from around 60 per cent for terrace homes to 54 per cent for semi-detached homes. In terms of absolute losses, the sums are substantial. The median standardised house price across all property types has fallen from £200,000 in 2007 to £98,612 by Q3-2013, a loss of £101,388 in house price values.

Figure 3.3: NI Residential Property Price Index 2005-2013



Source: NISRA NI RPPI

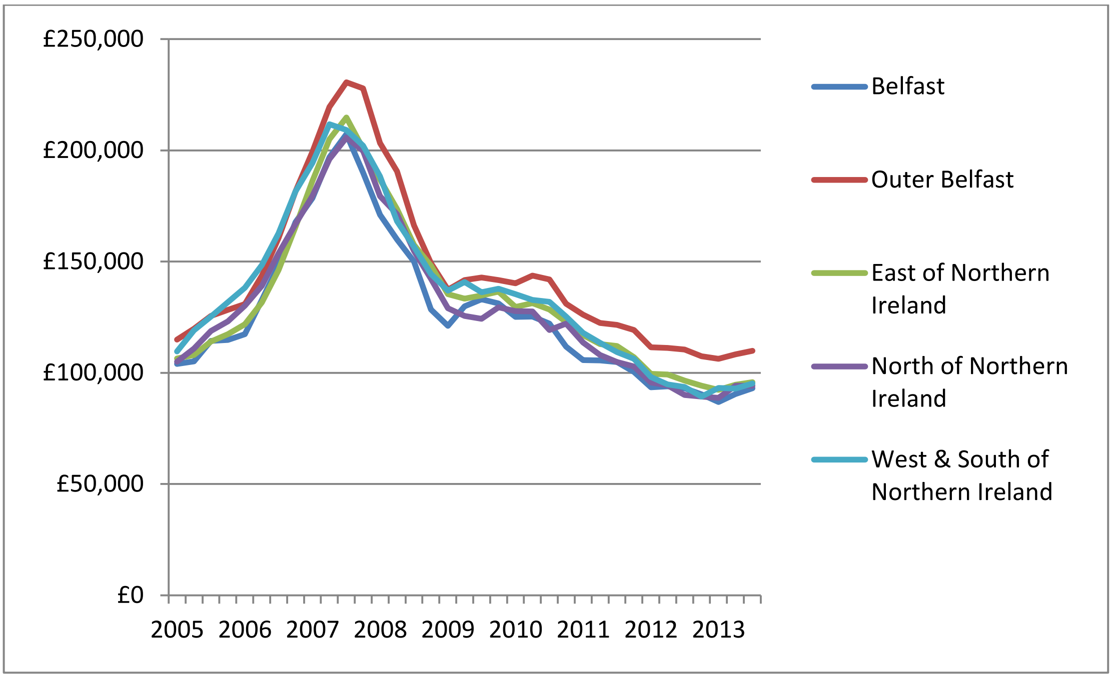
Figure 3.4: Standardised price by property type Q1-2005 to Q3-2013.



Source: NISRA NI RPPI

In respect of different local housing markets, areas such as Outer Belfast and the East of the region have higher house values than the North or the West of the region, but in terms of house price movements the fluctuations have, using NI RPPI data, followed similar patterns (Figure 3.5).

Figure 3.5: Standardised price by area 2005-2013.



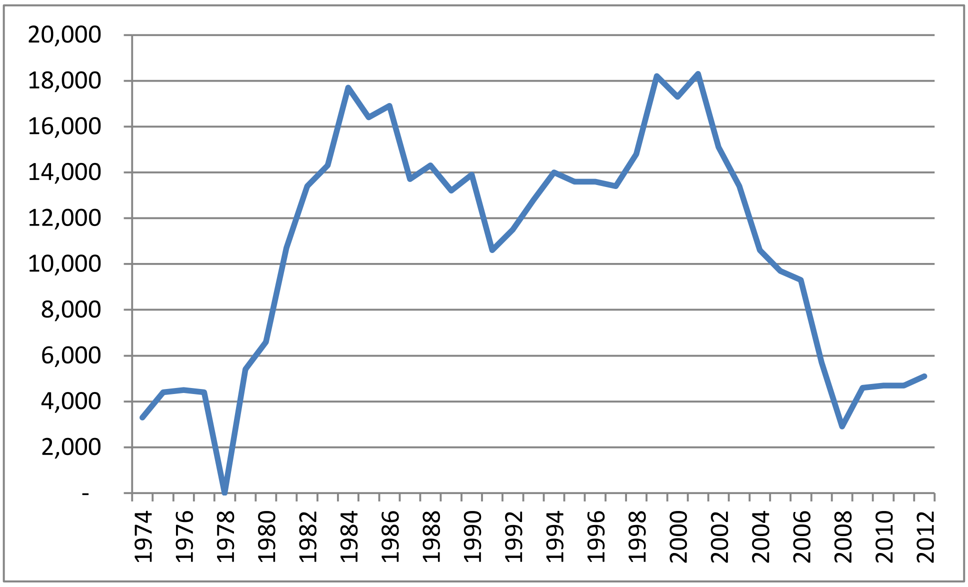
Source: NISRA NI RPPI

House price decline has now halted and all areas of Northern Ireland saw price growth during 2013. Using NI RPPI data, overall between Q1 and Q4-2013 the housing market in Northern Ireland rose by four per cent, the first rises across the whole market since 2007. There have also been increased market transactions through 2013, so by Q4-2103 there were 28 per cent more sales than at Q4-2102 (NISRA, 2014b). The strength of any market rise is subject to the vagaries of the local economy, the wider UK, Euro-zone, global economies; as well as the impact of welfare reform and public sector restructuring which may have adverse impacts on effective housing demand in the region in the coming period (Frey, 2013; UU/NIHE Q1-2013). Nonetheless, Northern Ireland's housing market enters 2014 more buoyant than at any time since the market crash.

First time buyers

It is clear the housing market peak was 2007, but first time buyer activity in the market rose and fell prior to this date (Figure 3.6). The number of first time buyers in the Northern Ireland market grew sharply from 1995 onwards, possibly due to greater confidence and more favourable market conditions following the ceasefires, and was at its highest in 2002 after which time first time buyer activity tailed off significantly most likely due to the affordability constraints up to 2007. This may have protected some vulnerable households from the subsequent fall in prices from 2007 onwards. Although well below the volume of market activity prior to the market downturn, by Q1-2013 first time buyers represented 60 per cent of all property purchases, perhaps indicating improved affordability as well as the challenges in moving on for existing homeowners, not least 'second steppers'.

Figure 3.6: Number of first time buyers Northern Ireland 1974 to 2012



Source: CML Table MINI

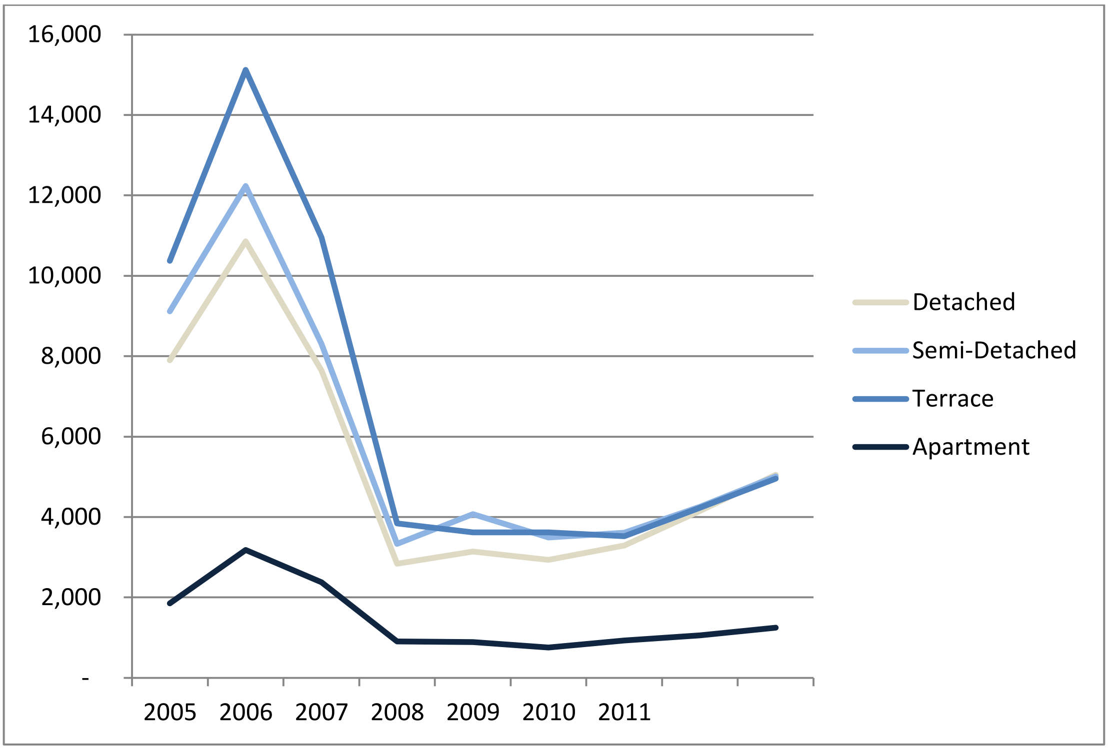
Affordability has improved with first time buyers in Northern Ireland entering the market using loans based on lower income multiples, 2.85 by Q4-2013 compared to multiples of 3.55 at the peak of the market Q2-2007; and also using smaller advances of £70,200 Q4-2013 compared to £121, 949 in 2007 (CML Table ML2NI). Typical first time buyer advances in 2012 represented 80 per cent of the property's value (ibid.), suggesting deposits of 20 per cent. In percentage terms, deposits have been broadly similar to this since 2005/6, with higher loan-to-values only being present when the market was first rising. However, while proportionately typical deposits may be similar, the absolute values are now much reduced. Mortgage payments as a proportion of income have reduced significantly from a quarter of income in 2007/8 to below a fifth (17.2 per cent) by the beginning of 2013, a further indication of improved affordability. Household incomes used to obtain loans also decreased from nearly £35,000 in 2007 to £23,000 in 2013 meaning that the market has become accessible to a broader range of buyers. Moreover, 72 per cent of first time buyer purchases in Northern Ireland purchased property below the £125,000 stamp duty threshold compared to only 40 per cent in the UK (CML, 2014). Deposit constraints – as well as wider market confidence and prudent mortgage lending- remain a barrier to entry to some first time buyers as there was a limited supply of reasonably priced high loan-to-value mortgages available on the market. There has been some loosening up of the mortgage market, but the impact of the new regulatory regime from April 2014, which seeks to enforce tighter affordability checks and prudent lending in the market, remains to be seen. Nevertheless, the house price falls have produced benefits for many new entrants to the market.

The UK Treasury's Help-to-Buy scheme introduced an equity sharing scheme from April 2013, providing loans of 20 per cent of the property's value but this is unavailable in Northern Ireland. The second stage of the Help-To-Buy scheme, where taxpayers will guarantee 95 per cent loans, was introduced in October 2013 and is available in Northern Ireland, but its' impact remains unclear, although it obviously has the potential to boost housing market activity. Although the proportion of first time buyers has grown in recent years in Northern Ireland, there were only 3500 mortgaged home-movers in 2012, the lowest level since 1974 (CML Table M1NI). Help-to-buy may offer some comfort to second time movers who also require high loan-to-value loans to move on. However, the extent of negative equity in Northern Ireland (see below) sees Help-to-Buy of limited value to some existing homeowners, and as first time buyer activity is relatively buoyant in the market, addresses a problem relevant to elsewhere but arguably fails to address local requirements.

Property transactions

The volume of verified transactions recorded by NI RPPI in 2012 (13,651) represent less than half the transactions during 2006 (41,387) (Figure 3.7). Although by 2010 the market had contracted to a quarter of its peak activity (10,787), the volume of sales has picked up and in 2013 the total sales are estimated to be the highest since the market crash. Only sales of apartments remain sluggish, although this may reflect a decline in new supply in this submarket following the market downturn.

Figure 3.7: Verified property transactions in Northern Ireland 2005-2013



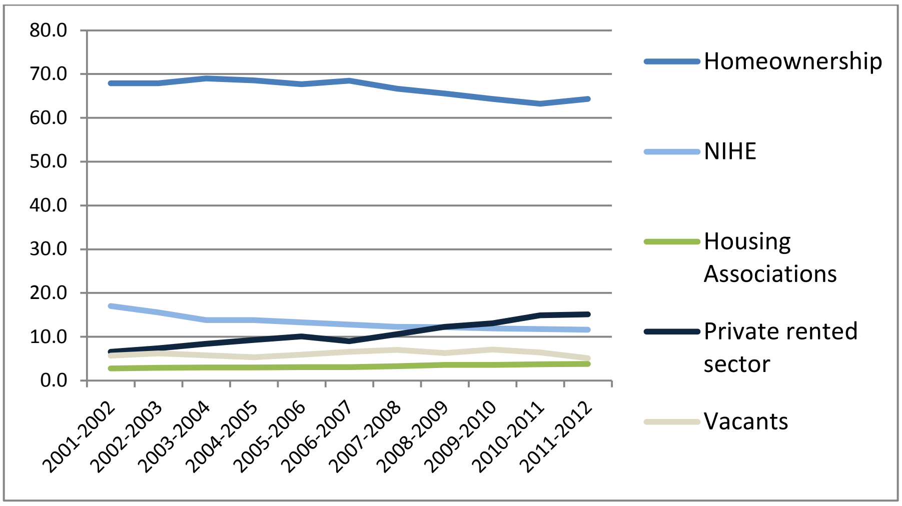
Source: NISRA NI RPPI

HMRC figures for property transactions over £40,000 in Northern Ireland show an increase from 14,800 in 2009 to 18,690 during 2013, but transactions are still 63 per cent below the peak in 2006 of 50,330, compared to 36 per cent below peak across the UK (HMRC, 2013).

Tenure distribution

The market volatility has also had an impact on the proportion of owner-occupied homes in Northern Ireland. As in the rest of the UK, homeownership peaked early in the last decade and stood at 69 per cent in 2004/5, but has since fallen to 64 per cent by 2011/12 (Figure 3.8). Constrained access to homeownership due to affordability problems in the boom and a combination of low consumer confidence and inability to secure large mortgage deposits mean fewer younger people have entered the tenure, increasing demand, and supply, in the private rented sector. Private renting grew from six per cent in 2001/2 to 15 per cent in 2011/12.

Figure 3.8: Total housing stock by tenure in Northern Ireland (per cent) 2001-2012.



Source: DSD Northern Ireland Housing Statistics 2011-12 Table 1.2

The prospects for the Northern Ireland market are uncertain. Although the bottom of the market in Northern Ireland has been called several times, there are signs that price decline has now halted, activity is growing and prices better reflect the local economy and incomes. However, several indicators suggest that the context of a weak economic recovery, government austerity, welfare reform, household indebtedness and cautious mortgage markets could suppress activity in the short to medium term.

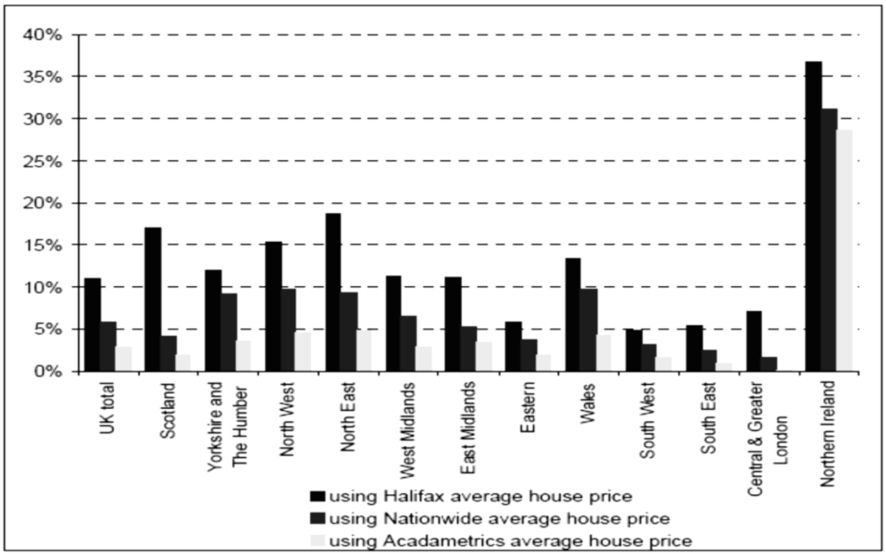
Negative Equity

One consequence of declining housing markets is negative equity, where, for a cohort of mortgagors at least, the value of their homes falls below the amount owed on their mortgages. Not only have any accumulated assets diminished, but should the homeowner wish to, or be required to, move they will experience further problems. As the sale of their home fails to achieve sufficient funds to repay the loan they immediately crystallise this loss and incur a shortfall debt to the mortgage lender. However, the vast majority of mortgagors retain significant sums of housing equity, despite the housing market downturn, the incidence and magnitude of negative equity has ramifications for individuals, the wider local economy and institutions such as banks and government agencies.

Estimating the scale of negative equity is 'notoriously difficult' and sensitive to the data, methods and assumptions used (Hellebrandt *et al.*, 2009; FSA, 2012; Purdey, 201; Tatch, 2009). Nonetheless, recent assessments of the extent of negative equity in the UK mortgage market suggest that around 10 per cent of mortgagors have loans in excess of the value of their homes (CML, 2012; FSA, 2012). The CML estimated that around 719,000 borrowers were in negative equity by 2012, with borrowers who bought at the peak of the market most affected. Indeed, the CML estimated that 26 per cent of UK mortgages taken out in 2007 were in negative equity.

Within these aggregate figures there are, however, great spatial variations. Figure 3.9 illustrates a range of estimates of the incidence of negative equity in Northern Ireland and regions within Great Britain, using lenders' data. It is important to note that these data record only those loans advanced since 2005 and do not represent all mortgagors. During spring 2012 it was estimated that Northern Ireland had the greatest incidence of mortgagors in negative equity, with estimates ranging from around 28 per cent to 37 per cent of all homeowners who purchased from 2005, compared to Greater London where, depending on which house price index is adopted, only between zero and 6-7 per cent of loans exceed the value of the home on which they are secured.

Figure 3.9: Proportion of borrowers in negative equity by UK region Q1-2012



Source: Financial Services Authority (2012)
NB: estimates use only mortgages LTV >100 per cent advanced since 2005.

Possible impacts of negative equity

There are a possible range of consequences of negative equity for the wider economy and individual borrowers, but isolating the effects of negative equity from wider phenomena during a recession is difficult. In aggregate, widespread negative equity may have an adverse impact on the macro-economy. For individual borrowers, negative equity may constrain residential mobility, limit their ability to remortgage, and may complicate their management of mortgage arrears.

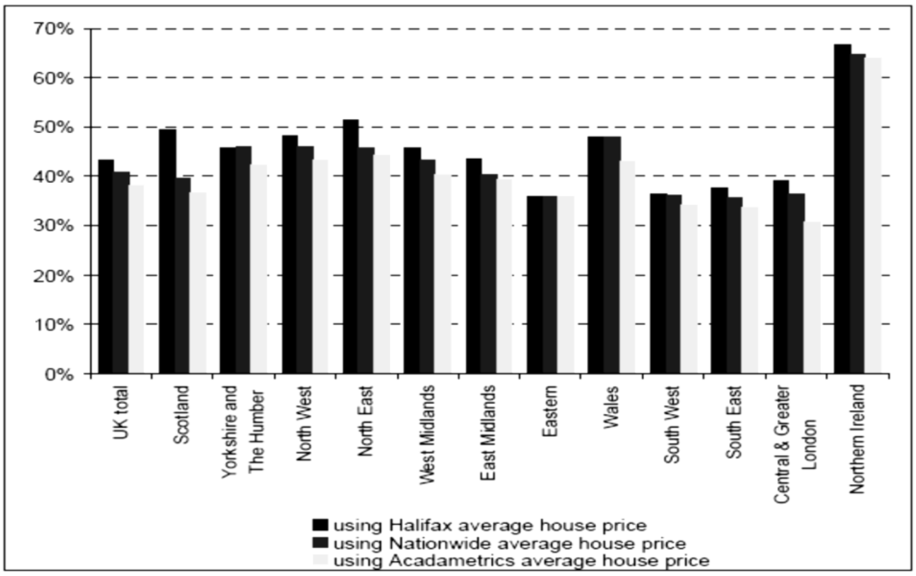
Lower house prices may reduce investment in housing or, through what economists term 'wealth effects', indirectly depress consumer spending in the wider economy (Hellebrandt *et al.*, 2009). The association between negative equity and weak demand is uncertain, however, but there is an association between lower collateral and lower consumer spending. Moreover, Hellebrandt *et al.* also suggest that consumers may increase their savings rate to overcome the shortfall in other resources due to falling house prices, thus lowering consumption, and experience constrained access to credit thus reducing the supply of credit to the wider economy. Disney *et al.* (2008) suggest only a weak relationship between consumption spending and house price changes, although the effect is much stronger for homeowners in negative equity.

Often borrowers in negative equity are not unduly concerned, unless they wish to move, following a change in circumstances, a job move or if they were struggling with household finances (Tatch, 2009). Aside from household impacts of constrained mobility in such circumstances, an aversion to realising any losses on the home can lead borrowers in negative equity to be reluctant to move, reducing tax receipts, and spending on housing markets services, including durable goods and agents' fees, with implications for the wider economy (Hellebrandt *et al.*, 2009). Henley (1998, cited in Hellebrandt *et al.*, 2009) notes that twice as many homeowners in negative equity would have moved than actually did in the 1990s if it had not been for the negative equity. However, as the CML note, negative equity may well be a cause of lower property transactions, but low consumer confidence, economic uncertainty and restrictive lending criteria also have an effect and suppress demand (CML, 2012).

Another impact of negative equity is that borrowers are unable to remortgage and have become 'mortgage prisoners' (FSA, 2012). Being locked into a current mortgage deal may also be influenced by tighter lending criteria, following a more cautious approach to the mortgage market following the crisis, but having no or very little equity contributes to an inability to access other mortgage deals. Some borrowers may be locked into good deals although others may experience standard variable rates rising in the short-term. In 2008, 66 per cent of mortgage market activity in Northern Ireland constituted remortgaging, but this fell to 34 per cent by 2012 (CML Table ML1NI). A high proportion of UK borrowers are now unable to remortgage and are trapped because they have high loan-to-values (typically first time-buyers), interest-only loans that are no longer available (typically remortgagors or home-movers), but also because of previous remortgaging and a history of payment problems (typically Right-to-Buy purchasers) (FSA, 2012). Across the UK, the FSA estimates that around 30 per cent of remortgagors who did not withdraw any housing equity are now mortgage prisoners, compared to around 50-55 per cent of those who withdrew additional funds for home improvements, and around 45-50 per cent of those who withdrew funds for debt consolidation are now trapped in their current deals (ibid.). Figure 3.10 illustrates the extent of mortgage prisoners by region. Again Northern Ireland has the greatest incidence of 'mortgage prisoners' with the highest volume of borrowers trapped in mortgage deals compared to other regions of the UK at almost 65 per cent, although the gap between Northern Ireland and other regions of the UK is less pronounced than the incidence of negative equity.

The impact of negative equity on mortgage arrears is moot. The evidence may turn on the data used and the methodological approaches and assumptions brought to bear on the issue. For example, economic theories indicate that negative equity is necessary for mortgage default to occur, and that homeowners with positive equity rarely default on their loans (Foote *et al.*, 2008). Classical economics will consider the asset-value of a property and thus suggest that when returns diminish the borrower will rationally decide to exit from the investment. However, empirical data indicates a much lower number of borrowers in negative equity who are in mortgage arrears than economic theory would suggest. Foote *et al.* therefore find that the loan being "underwater" –or in negative equity- may be necessary but is not sufficient for default to occur, as borrowers also make rational calculations about the prospects of forbearance and loans modifications offered by lenders.

Figure 3.10: The proportion of borrowers considered to be 'mortgage prisoners' by region



Source: FSA (2012).

Foote *et al.* reject subjective explanations – such as the sentimental attachment to home, transaction costs or stigma - that limit the link between negative equity and mortgage arrears and favour rational economic justifications. But residential property also has a use-value, so borrowers do often consider their commitment to the family home, the stability for children, and feel shame at being repossessed and stridently attempt to keep their home when faced with repayment difficulties (Wallace *et al.*, 2011; Nettleton *et al.*, 1999).

The US evidence is mixed, but most strongly suggests that borrowers make conscious decisions to stop paying their mortgage when faced with negative equity even if they have the resources to meet their mortgage. The legal context differs between the US and the UK, as in some, but not all, 'non-recourse' states in the US, lenders are prohibited from pursuing borrowers for shortfall debts incurred when the sale proceeds were insufficient to repay the loan in full. In the UK, lenders may seek repayment of shortfall debts for 12 years. While some US studies confirm the view that negative equity is the most significant driver of arrears (Goodman, 2010), others reject this and suggest that unemployment is the main influence on the rate of mortgage default (Gerardi *et al.*, 2013).

UK evidence typically rejects a causal link between negative equity and mortgage default and such a link is not accepted by the Council of Mortgage Lenders (Tatch, 2009; Purdey, 2011; CML, 2012). Several studies may lend evidence to support the CML position but determining the exact relationship is empirically challenging. The first obvious observation to make is that homeowners with positive housing equity *do* fall into mortgage arrears; indeed around half of borrowers seeking support in the first year of the Mortgage Rescue Scheme in England held equity in their home (Wilcox *et al.*, 2010).

Secondly, May and Tudela (2005) found no evidence of equity (positive or negative) having an impact on mortgage arrears. However, May and Tuleda note that their data went back as far as 1993 and omitted part of the price fall from 1990-1993 in the last housing market downturn.   In addition, in the Republic of Ireland, Kelly *et al.* (2012) found only a weak relationship between arrears and negative equity, but one that grew stronger between 2009 and 2011, when the probability of a borrower being both in financial distress and with negative equity increased from 2.4 per cent to 6.5 per cent. Using qualitative data, Forrest and Kennet (1996) identified the ways in which borrowers in negative equity coped with their situation during the 1990s. Borrowers did not always have a rationalised strategy to overcome their situation and did not necessarily believe it was something that needed to be resolved in the short-term. However, higher earners were able to save more to reduce their negative equity; others delayed their progression on the 'housing ladder', rented out their home to facilitate mobility, traded down or improved their home to decrease the *loan-to-value* ratio. At no juncture in Forrest and Kennet did borrowers suggest that they would make strategic or 'rational' calculations to default.

The third observation to make is that there is strong UK evidence that shows labour market disruption is a major prompt for mortgage arrears- i.e. a reduction in working hours and/or overtime, failure of self-employment or unemployment- accounting for around half of all cases, with relationship breakdown and sickness and ill-health also being important (Gall/BSA; Wilcox *et al.*, 2010; Ford *et al.*, 2001; Policis, 2010). The FSA agrees that life events do trigger mortgage arrears, but that the causes of arrears may be deeper, as many mortgage borrowers have high *loan-to-value*s and are financially over-stretched (FSA, 2012). The greater incidence of secondary loans and multiple debts has complicated the management of arrears for lenders and borrowers (Ford and Wallace, 2009; Wilcox *et al.*, 2010). Aron and Meulbauher (2010, 2012) found that there was an association between the rate of repossessions – not just mortgage arrears - and the proportion of mortgages in negative equity, as well as the debt service ratio, unemployment rate, lenders' forbearance policies and credit factors.

Several studies try and untangle the relationship between other triggers to default such as unemployment and negative equity (Gerardi *et al.*, 2013; Goodman *et al.*, 2010) and acknowledge that having multiple adverse circumstances can amplify the rate at which people fall into mortgage arrears. However, the magnitude of negative equity may be critical. A US study, Bhutta *et al.* (2010), found that strategic default only emerged once negative equity reached -62 per cent of the home's original value. So borrowers only made strategic decisions to not pay their mortgage when their equity fell substantially.

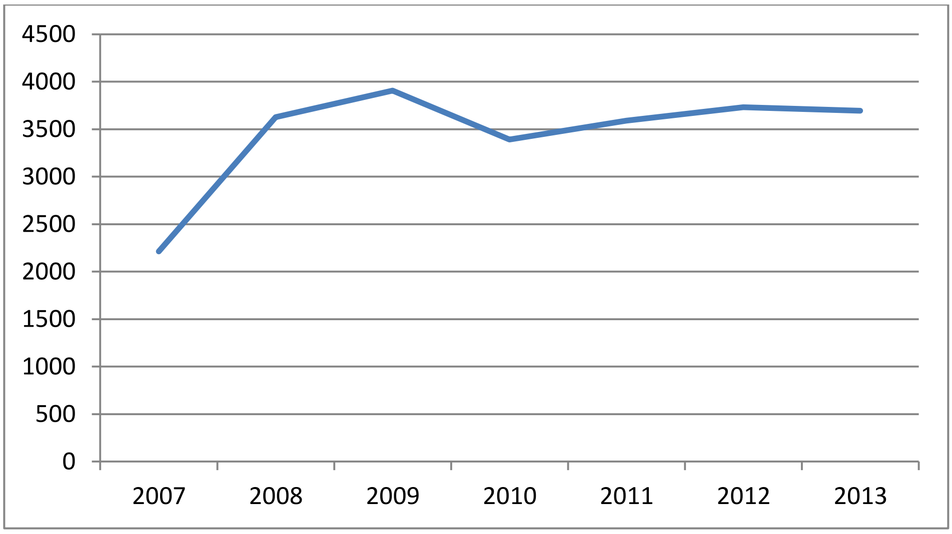
Two further points are also important to bear in mind when considering the impacts of negative equity. Firstly, negative equity may produce short or medium term effects, but it is also important to take a lifecycle perspective. Over the course of a person's homeownership career the long term impacts of negative equity may be minimised. Secondly, for borrowers who have only small amounts of positive equity in their homes, the impacts in the current market may be the same as if they had negative equity, with constrained access to credit and immobility, for example, so the effects may be felt more widely than the numbers in negative equity may suggest (CML, 2012).

There have been no other studies of negative equity in the context of Northern Ireland, but a study in the Republic of Ireland provides some interesting insights into who has been affected (Murphy *et al.*, 2013:10). It was apparent in the Republic that rural homeowners took a conservative approach to mortgage finance, with most rural homes in the study being owned outright, and that it was urban dwellers who could be considered to have been the most 'profligate' during the boom years and thus had the greatest incidence of negative equity. Furthermore, self-build housing reduced the exposure of homeowners to market volatility, as they typically have low *loan-to-values*.

Mortgage arrears

Notwithstanding the uncertain relationship with negative equity, one consequence of the wider market downturn has been the increase in mortgage arrears and repossessions. Across the UK repossessions peaked at 48,900 during 2009 and reduced to 28,900 in 2013 (CML, 2014). Across the UK as a whole there has been a clear downward trend in the number of possessions since 2009. The primary data on repossessions in the UK derives from the Council of Mortgage Lenders and the Financial Conduct Authority, but neither publishes regional variations in arrears and repossessions. The Northern Ireland Courts and Tribunals Service publish quarterly data on possession actions and decisions entered in the Chancery Division (NICTS, 2012). Figure 3.11 shows that the number of cases (applications for possession) lenders made to the Chancery from 2007 to 2013 had been consistently high throughout the period of market downturn. After a steep rise from 2007 onwards, when the claims made peaked at 3,906 in 2009, there was a short drop in claims made for possession on the grounds of mortgage arrears, possibly due to the introduction of the Pre-Action Protocol into the Northern Ireland court system. Following this dip claims for possessions entered in court have increased and totalled 3,694 cases in 2013.

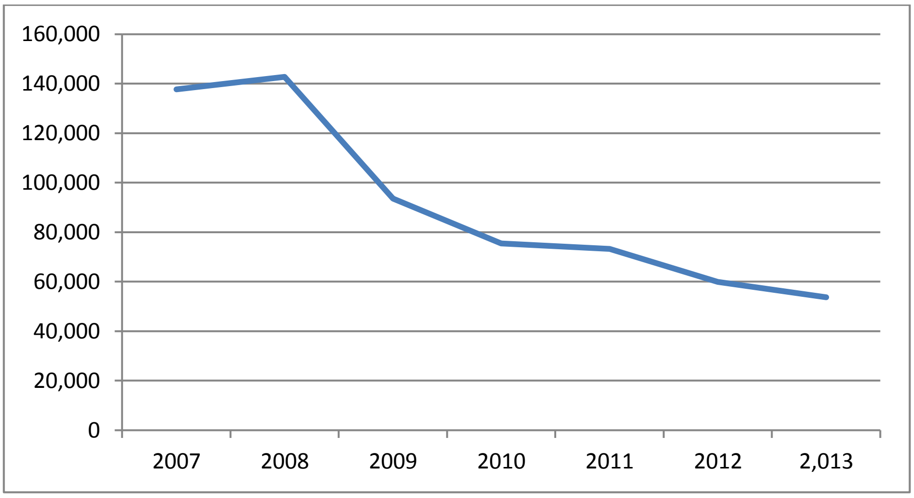
Figure 3.11: Possession claims for mortgage arrears in NI 2007 to 2013 (No.)



Source: NI Courts and Tribunals Service

In contrast, the number of mortgage possession claims in County Courts in England and Wales increased from 62,862 in 2002 to a peak of 142,741 in 2008, since when it has fallen 62 per cent to 53,659 in 2013 (Ministry of Justice, 2014) (Figure 3.12).

Figure 3.12: Possession claims for mortgage arrears in England & Wales 2007-2013 (No.)

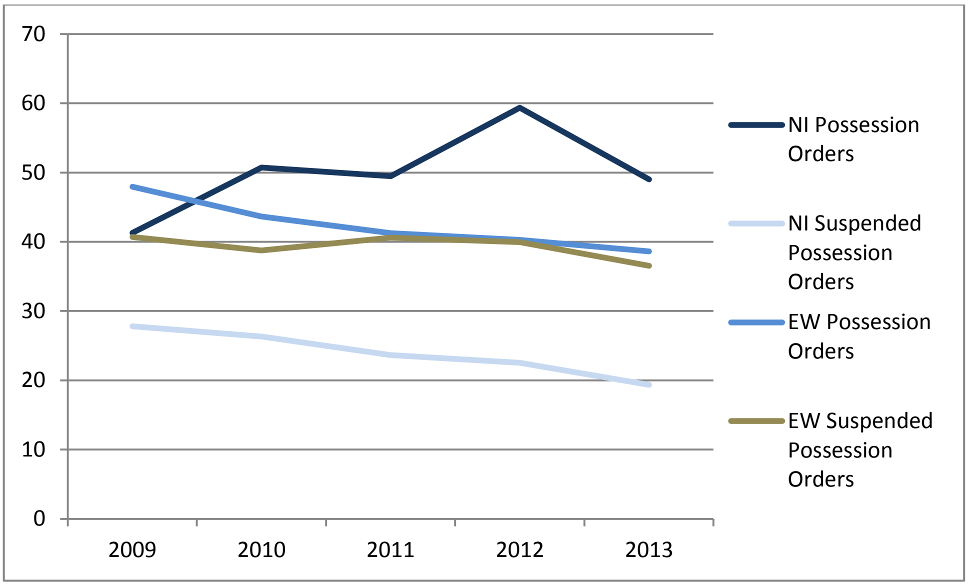


Source: Ministry of Justice

Not all applications lenders make for possession of the property may result in a possession order or eviction, but possession claims data are an indicator of housing stress and insecurity among mortgagors. Lenders are subject to the same mortgage regulation in England and Wales and Northern Ireland and must therefore adopt the same approach to the industry guidelines of *Treating Customers Fairly* when managing mortgage arrears and agreeing forbearance. However, there are differences in the legal framework between the two jurisdictions and the length of the legal process is significantly longer in Northern Ireland (Waller, 2012). Lenders must also return to court if a suspended possession order is broken in Northern Ireland, but in England and Wales they can move directly to request a bailiff warrant. When orders are granted in Northern Ireland claims made more often result in a full possession order being granted than in England and Wales where courts are as likely to award an order suspended on terms (for example, requiring the contractual amount of the mortgage to be paid plus £50/£100/£150 a month towards the arrears, depending on the borrowers' circumstances) (Figure 3.13).

Overall across the UK, the proportion of mortgagors experiencing possession during this market downturn is much lower when compared to mortgagors during the 1990s recession. During this downturn the contributions made by historically low interest rates, amendments made to Support for Mortgage Interest from 2009, lower than anticipated unemployment and greater forbearance on the part of lenders has limited the number of possessions. While attention in Great Britain has turned to an improving situation in respect of arrears and possessions potentially being reversed by the spectre of welfare reform and rising interest rates as the economy recovers (Wilcox and Williams, 2013), the situation in Northern Ireland remains challenging without considering the prospect of these further threats.

Table 3.13: Proportion of orders made on possession claims in England & Wales and Northern Ireland 2009-2013 (per cent)



Source: NICTS and Ministry of Justice

One explanation why possession claims in Northern Ireland remain high compared to England and Wales may be the limited opportunities for Northern Ireland homeowners to sell their way out of financial difficulties. The Council of Mortgage Lenders do not publish data on the number of sales made by homeowners in financial distress, but it is necessary to understand this exit from homeownership as well as the formal possession figures to understand the extent of struggling mortgage borrowers (Ford *et al.,* 2010). The English Housing Survey suggests that the number is consistent and is likely to exert a downward pressure on possessions. These voluntary sales decline in a recession, possibly due to the presence of negative equity, which would inhibit sales. Consequently, it is likely that more homeowners are pushed through the formal procedures to resolve default than is the case in areas where the markets remain more buoyant and voluntary sales can be achieved.

Another issue to consider is that analysis of lenders' loan book data has revealed that Northern Ireland also has the highest rates of mortgage arrears on buy-to-let loans of all UK regions (Wallace and Rugg, 2014). As at September 2013, 6.2 per cent of all buy-to-let loans in Northern Ireland held by one large UK lender were at least one month in arrears. Lenders adopt formal court processes to take possession of a property when buy-to-let loans default, or use the Land and Property Act 1922 to appoint a receiver of rent to manage the property, collect the rent and then dispose of the property. CML data includes properties that have been repossessed through the courts as well as taken into possession by the receiver and shows that the proportion of possessions attributed to buy-to-let is growing as residential possessions are falling (ibid.). Policymakers in Northern Ireland must consider, therefore, that the local court data includes a proportion of orders granted in respect of buy-to-let loans and that further data is required before concluding the exact scale and trends relating to local residential mortgage possessions.

The adverse impacts of mortgage possession on individuals and their families are well documented (Nettelton *et al.*, 1999; Pevalin, 2009). Since the downturn various steps have been taken to support borrowers in mortgage arrears and prevent possessions. The Northern Ireland Assembly has responsibility for social security in Northern Ireland but largely maintains parity with the welfare system that exists in Great Britain. Therefore, Support for Mortgage Interest (SMI) – a subsidy to meet mortgage interest payments to those on certain qualifying benefits – is available in Northern Ireland. SMI was made more generous from January 2009 and proved effective in supporting lenders to offer forbearance in response to the financial crisis, although the payments were reduced from October 2010 and the scheme rendered less successful in supporting borrowers in arrears (Munro *et al.*, 2010; Ford *et al.*, 2011).

As in England and Wales and Scotland, in 2010 the Northern Ireland Courts and Tribunals Service adopted a Pre-Action Protocol setting out the courts' expectations of lenders seeking possession on the basis of mortgage arrears, which was revised in 2011 to ensure that lenders pursued repossession as a last resort. The Northern Ireland protocol provides for sanctions should the lenders fail to comply. However, as in England and Wales, the impact of the protocols –independent of lender forbearance – is uncertain, as lenders had already changed their arrears management practices to offer greater forbearance terms (Ford and Wallace, 2009). As in Great Britain, the Northern Ireland Department for Social Development has also enhanced funding to advice services to provide effective support to borrowers in mortgage arrears (Dolaghan *et al.*, 2010). Demand for the Mortgage Debt Advice Service increased by 26 per cent betweenQ2-2012 to Q2-2013 (NI Housing Rights, 2013).

However, other support for homeowners struggling with mortgage payments in Northern Ireland varies slightly to that in Great Britain. Unlike England (Wilcox *et al.*, 2010), Scotland (Bramley *et al.*, 2009) and Wales (WAG, 2009) a mortgage rescue scheme is absent from Northern Ireland, although it has been considered. These schemes were developed to provide an opportunity for qualifying borrowers in unsustainable arrears, usually at the lower end of the housing market where they are unable to trade down to avoid possession, to sell all or part of their property to a housing association and then rent it or occupy it on the basis of a shared equity arrangement. The schemes are small but considered cost effective when set against the expenditure on homeless services, housing benefit and hard to monetise costs to education, health and family relationships. An important, arguably the most important, feature of the schemes is that the possibility of a resolution prompts more borrowers to make contact with their lender and engage with debt advice services, thus avoiding the need for possession or mortgage rescue. Unfortunately, in England new applications for Mortgage Rescue cease from April 2014, and have already ceased in London. The Preventing Repossession Fund was also introduced in England during 2009 and provided local authorities with funds to use as they saw fit to prevent individual households from losing their homes (Parliament, 2014). The funds were not tenure specific and were typically £1000 to £3000 but capped at £5000. These funds had been used to facilitate the mortgage rescue schemes (Wilcox *et al.,* 2010) but had also been used to provide small interest free loans to tide struggling homeowners over periods of financial stress and prevent them losing their home due to the recession. Again this scheme is not available in Northern Ireland.

Wilcox and Williams (2013:11) note the threats to the safety nets and support available to borrowers with welfare reform, not least because borrowers may have to wait 39 weeks instead of 13 weeks before receiving any Support for Mortgage Interest (SMI), in a period when the full effects of the credit crunch have yet to work through. Struggling homeowners in Northern Ireland are therefore in a vulnerable position. Moreover, under the Universal Credit proposals, support to homeowners will be weakened further as homeowners will not qualify for SMI at all if any work has been undertaken in the household, rather than up to 16 hours per week which is currently permitted. This will mean a cliff edge fall off in support despite the rationale for Universal Credit being the smooth transition of people into work and the gradual removal of benefit as hours of work and income increases.

Conclusions

The Northern Ireland housing market has for various reasons experienced extraordinary house price change leaving local homeowners subject to greater negative equity and an inability to remortgage to competitive rates. Transactions and mortgage lending, particularly for home-movers, have fallen substantially since the market peak in 2007, although there has been increased housing market activity during 2013 and the decline in house prices has now halted. Further impact of the downturn remains, however, as more homeowners in Northern Ireland are unable to remortgage, are in negative equity and possessions for mortgage arrears remain high at a point when possessions have fallen steadily across the whole UK.

4: NORTHERN IRELAND'S HOMEOWNERS AND (HOUSING) ASSETS

Summary

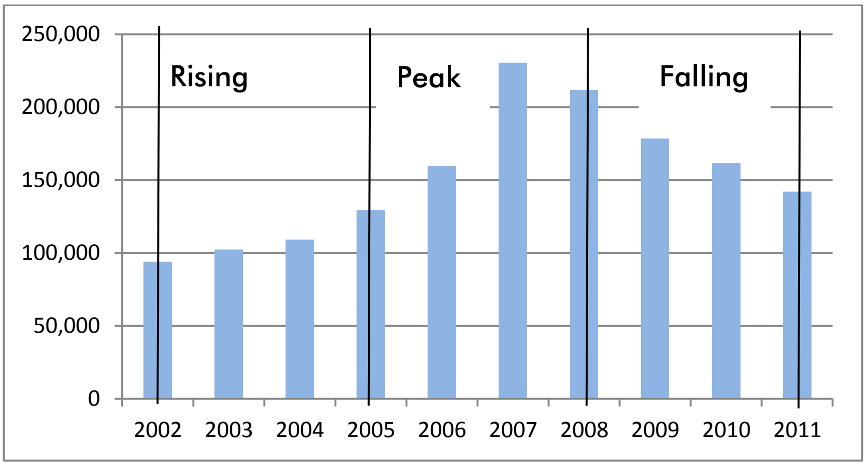
- The Family Resources Survey records that the proportion of all households in homeownership grew during the housing market boom, reaching 72 per cent during the period 2005/6 to 2007/8, but declined to around 66 per cent during 2008/9 and 2010/11. The tenure shifts away from homeownership towards private renting appear more pronounced in Northern Ireland than across the UK as a whole.
- Northern Ireland has a greater proportion of homeowners in lower income bands and lower occupation classes than the rest of the UK, where the proportion of these households in homeownership has reduced.
- A third of households with children in the bottom income quintile live in households headed by a homeowner.
- Northern Ireland's homeowners, especially those on lower incomes, exhibited more conservative behaviour in the mortgage market than homeowners across the UK, making less use of interest-only loans, subprime loans and remortgaging.
- Lower income homeowners in Northern Ireland engaged with remortgaging later in the market cycle. At the peak of the market, a lower proportion of homeowners in Northern Ireland engaged with remortgaging for consumption or 'other' purposes than homeowners across the UK, but also switched to better interest rates less frequently.
- A greater proportion of all Northern Ireland mortgagors (14 per cent) experienced negative equity between 2008/9 to 2010/11 than across the UK (9.5 per cent). The mean estimated value of that negative equity was also greater in Northern Ireland (£35,162) compared to the rest of the UK (£17,485).
- Single people, couples under pension age with no children, households in smaller homes and in intermediate or professional occupations who bought after 2005 or remortgaged experienced negative equity more frequently in Northern Ireland. Those in the bottom income quintile held the greatest estimated value of negative equity.
- Lower proportions of Northern Ireland's homeowners held current accounts or savings accounts than across the UK.

Introduction

To contribute to an assessment of the strengths and limitations of housing wealth in the region, this section draws upon the Family Resources Survey (FRS) to provide a profile of Northern Ireland's homeowners and how their circumstances, use of mortgage finance and their housing equity has changed throughout the housing market cycle. The circumstances of Northern Ireland's homeowners are contrasted with those of all UK homeowners.

Figure 4.1 illustrates how pooled data from the FRS has been used, according to whether it represents the years when the housing market was rising, at its peak or was falling.

Figure 4.1 Standardised Average House Prices in Northern Ireland (£) 2002-2011



Source: NI RPPI NISRA

Profile of homeowners in Northern Ireland

Extent of homeownership

The last decade has produced growing concerns that UK homeownership is in decline. Anxieties centre on unfulfilled aspirations, the lack of access and security in other tenure and the financial consequences for particularly younger and lower income households over the life course (Resolution Foundation, 2013; Shelter, 2013; Lloyd, 2012).

As mentioned, Northern Ireland's housing market has not been immune to the recent seismic shifts in housing tenure that has seen homeownership fall and private renting grow rapidly (Figure 3.8). The 2011 Census, records 67 per cent of households as homeowners, compared to 68 per cent in 2001, but more frequent estimates of tenure suggest that the census data fails to capture the increase and subsequent decrease in the proportion of homeownership in the region in the intervening period. The FRS records that the average proportion of households in homeownership was 72 per cent during the period 2002/3 to 2007/8, but fell back to 66 per cent during the period 2008/9 to 2010/11. Using the same data, the tenure shifts have been less pronounced across the whole of the UK, where 70 per cent of households were in homeownership during 2002/3 to 2004/5, 69 per cent in the period 2005/6 to 2007/8 and 68 per cent during 2008/9 to 2010/11.

The 2011 Census reflects the decline in new entrants to homeownership in Northern Ireland and suggests the ageing of the tenure, as the proportion of outright owners increased from 29 per cent to 32 per cent between 2001 and 2011, and the proportion of mortgaged homeowners decreased from 39 per cent to 35 per cent over the same period (NI Assembly, 2013).

Social Class

Homeownership is not a homogenous tenure and although often associated with more affluent higher income groups, as the dominant tenure, homeowners encompass a diverse set of households across all social classes and income groups. Indeed, half of all poor households reside in homeownership (Burrows, 2003; Tunstall *et al.,* 2013). Nonetheless, across the UK as a whole the changing distribution of tenure in the last decade has seen a reduction in lower income homeowners. It appears a similar upward shift in the households that reside in homeownership in Northern Ireland, however, is less apparent.

Compared to homeowners across the UK, a greater proportion of Northern Ireland head of households who are homeowners have been and still are in the lower supervisory/technical and semi-routine/routine social classes and this has been relatively stable throughout the period of the housing market cycle (Table 4.1). During the period 2002/3 to 2004/5, 31.8 per cent of Northern Ireland homeowners were in these social classes, this decreased to 29 per cent at the market peak between 2005/6 to2007/8 and then rose again to 30.8 per cent between 2008/9 to 2010/11. In contrast, across the UK the proportion of heads of household who were homeowners in these two occupational classes fell throughout the market cycle from 29.5 per cent to 25.9 per cent. The proportion of small employers/own account who were homeowners in the UK remained stable throughout the period, but fell in Northern Ireland, although the proportion of self-employed homeowners in Northern Ireland remains considerably higher than across the whole of the UK in each market stage. Table 4.2 shows occupational class by income quintile and indicates that small employer/own account (self-employed) workers are the most likely to be represented in the bottom income quintile. It is notable that the proportion of household references persons who had never worked grew during the recession, but possible explanations may include youth unemployment and/or the proportion of older women in later life who now live alone. The higher rate of low income self-employed homeowners in Northern Ireland is a concern due to their difficulties in accessing Support for Mortgage Interest in the event of income shocks and mortgage payment difficulties (Ford *et al.*, 2001).

Table 4.1: Social class for homeowners in NI and UK through the market cycle (%)

	NI Homeowners			UK Homeowners		
HRP NS-Sec 5 class	**Rising**	**Peaking**	**Falling**	**Rising**	**Peaking**	**Falling**
Managerial/ Professional	40.9	40.9	41.8	49.7	51.4	52.9
Intermediate	8.4	9.5	8.3	9.0	8.5	9.0
Small employers/ own account	17.1	16.0	15.1	10.3	10.4	10.1
Lower supervisory/ technical	12.3	10.0	10.1	11.0	10.0	9.4
Semi-routine/ routine	19.5	19.0	20.7	18.5	17.4	16.5
Never worked	1.9	4.5	4.0	1.5	2.2	2.1

Source: Family Resources Survey

Table 4.2: Social class homeowners in Northern Ireland 2008/9 to 2010/11 (%)

	Household income quintiles (AHC)					Total
	Bottom	2nd	Middle	4th	Top	
Managerial/professional	15.1	16.7	25.8	42.8	68.3	41.8
Intermediate	3.5	9.1	7.6	10.3	7.6	8.3
Small employers/own account	38.7	21.6	20.8	9.3	8.4	15.1
Supervisory/ technical	2.6	9.2	11.8	13.0	8.3	10.1
Semi-routine/routine	22.4	34.0	29.3	23.0	6.7	20.7
Never worked/LT UB	17.6	9.2	4.6	1.6	0.6	4.0

Source: Family Resources Survey (AHC = After Housing Costs)

Household income

Across the piece households in Northern Ireland, including homeowners, have lower household incomes compared to households across the UK, although homeowners have slightly higher incomes than households across all tenure (Table 4.3). During the three periods of the housing market cycle household incomes rose by around a fifth for all households, but the rise was slightly less pronounced for homeowners in Northern Ireland, whose income before housing costs rose 18 per cent between the periods 2002/3 to 2004/5 and 2008/9 to 2010/11, compared to the 20 per cent increase for homeowners across the whole of the UK. Before housing costs are taken into account, household incomes in the bottom quintiles for households in all tenure across the UK rose by 26 per cent, compared to only 23 per cent in Northern Ireland, but the household income for bottom income quintile homeowners in Northern Ireland grew the least, by only 18 per cent across the same period, compared to 23 per cent for lowest quintile homeowners across the UK. After housing costs are taken into account the income gap between Northern Ireland's homeowners and their counterparts across the UK narrows, no doubt due to the historically lower housing costs in Northern Ireland; the household income of the lowest quintile homeowners in Northern Ireland rose by 22 per cent, marginally below the 23 per cent rise in the household income after housing costs of the lowest quintile homeowners across the UK. These data do not reflect inflation during this period that has seen prices increase at a higher rate than incomes, thus reducing households' purchasing power (Resolution Foundation, 2014).

Using the ratio between the household incomes at the 20 per cent and 80 per cent mark as an indicator of inequality, the gap between the richest and the poorest is slightly greater in the UK than in Northern Ireland, especially for households across all tenure compared to just households in homeownership, (Table 4.4). Moreover, this indicator of social distance reduced slightly between the periods of the rising and falling market.

Table 4.3 : Total household income, before and after housing costs

Housing market stage			UK				NI			
			All tenures		Owner occupiers		All tenures		Owner occupiers	
			BHC	AHC	BHC	AHC	BHC	AHC	BHC	AHC
Rising market	Median (£pwk)		411.94	377.16	489.54	458.62	361.19	337.86	426.00	404.00
	Quintiles (£pwk)	20	234.00	198.28	271.64	258.62	213.07	187.93	249.00	237.00
		40	341.79	310.34	414.00	387.86	307.46	283.68	369.17	347.03
		60	494.00	456.00	572.00	537.93	420.30	395.07	492.47	465.52
		80	730.83	684.48	813.43	770.65	609.20	578.00	686.00	650.00
	N.		25,155,187		17,690,368		648,441		467,862	
Peaking market	Median (£pwk)		459.70	419.17	543.28	504.00	406.00	374.46	467.00	435.62
	Quintiles (£pwk)	20	264.18	222.41	302.00	283.33	238.81	210.34	268.22	256.00
		40	384.29	345.00	456.00	426.76	344.00	313.00	397.11	373.24
		60	552.00	505.00	636.00	592.00	476.88	441.15	544.44	511.41
		80	819.55	758.33	914.93	854.93	680.60	639.66	762.09	715.71
	N.		25,770,351		18,020,208		668,547		481,855	
Falling market	Median (£pwk)		501.00	455.17	585.07	553.45	438.00	406.34	504.48	481.52
	Quintiles (£pwk)	20	295.00	244.69	333.00	317.00	261.19	229.00	293.00	284.69
		40	421.00	376.67	497.01	468.97	373.13	341.85	435.00	411.73
		60	594.00	547.00	688.00	648.28	510.75	475.35	585.07	555.17
		80	878.57	823.00	988.72	935.87	719.40	679.58	811.00	775.71
	N.		26,476,685		17,939,306		699,380		466,331	
Notes: Analysis of the FRS. Household incomes have been equivalised (using the modified OECD and companion scales). Rising market = 2002/03, 2003/04, 2004/05; Peaking market = 2005/06, 2006/07, 2007/08; Falling market = 2008/09, 2009/10, 2010/11. Figures are weighted to give three-year national level estimates for each of the three housing market stages.										

Source: Family Resources Survey

Table 4.4: Ratio between 80 per cent and 20 per cent of household income

Housing market stage	UK All Tenure 80/20 ratio BHC	UK All Tenure 80/20 ratio AHC	UK HO 80/20 ratio BHC	UK HO 80/20 ratio AHC	NI All Tenure 80/20 ratio BHC	NI All Tenure 80/20 ratio AHC	NI HO 80/20 ratio BHC	NI HO 80/20 ratio AHC
Rising	3.12	3.45	2.99	2.98	2.86	3.08	2.76	2.74
Peak	3.10	3.41	3.03	3.02	2.85	3.04	2.84	2.80
Falling	2.98	3.36	2.97	2.95	2.75	2.97	2.77	2.72

Source: Family Resources Survey

The proportion of heads of households who are unemployed and homeowners in Northern Ireland is smaller than that across tenures, but has risen as a result of the market downturn (Table 4.5). During the period of the falling housing market 2008/9-2010/11, the 4,620 heads of households who were unemployed homeowners represented a significant proportion (29 per cent) of all unemployed in Northern Ireland, slightly higher than the 27 per cent across the UK as a whole.

Table 4.5: Head of household unemployed by tenure and country

Housing market stage		NI All tenure	NI Home-owners	UK all tenure	UK home-owners
Rising	Rate (%)	1.90	0.80	1.90	0.90
	No.	12,564	3,838	483,853	157,070
Peak	Rate (%)	1.30	0.50	1.90	0.70
	No.	8,637	2,400	480,466	127,763
Falling	Rate (%)	2.30	1.00	2.60	1.00
	No.	15,840	4,620	698,874	187,128

Source: Family Resources Survey

Household Composition

Table 4.6 shows the household composition of homeowners in Northern Ireland compared to all households during the period 2008/9 to 2010/11, and Table 4.7 focuses on households with or without children. A lower proportion of homeowners are single (19 per cent), compared to households in all tenures (25.6 per cent). The proportion of single pensioners is slightly lower in homeownership (10.1 per cent) than across all tenures (11.8 per cent), but as homeownership is the dominant tenure, homeowners represent more than half of single pensioner households. The proportion of single pensioner homeowners has also increased slightly from 8.9 per cent during the period 2002/3 to 2004/5 compared to 10.1 per cent during the period 2008/9 to 2010/11, reflecting the ageing of the homeownership sector. Lone parents are also under-represented in homeownership as they comprise seven per cent of all households but only three per cent of homeowners. Working age couples, with or without children, are slightly over-represented in homeownership, comprising 22 per cent and 16.5 per cent of all households, but 25.4 per cent and 17.6 per cent of homeowner households respectively. Couples with at least one member above pension age are over-represented in homeownership, comprising 17.5 per cent of homeowners and 13.9 per cent of all households. Pensioner couples in homeownership comprise almost a quarter of the bottom two income quintiles.

Table 4.6: Northern Ireland household types by tenure and income quintile 2008/9 to 2010/11

		NI All Tenure						NI Homeowners					
		Income quintiles (AHC)						Income quintiles (AHC)					Total
		Bottom	2nd	Middle	4th	Top	Total	Bottom	2nd	Middle	4th	Top	
Single pensioner	Count	13837	29270	21525	13553	4593	82778	6711	14218	11837	10376	4170	47312
	% hhld type	16.7	35.4	26.0	16.4	5.5	100.0	14.2	30.1	25.0	21.9	8.8	100.0
	% quintile	11.4	20.9	13.6	8.7	3.7	11.8	14.4	17.9	11.3	8.3	3.7	10.1
Single non-pensioner	Count	27839	12851	17974	17692	20059	96415	5783	3928	6339	9604	15796	41450
	% hhld type	28.9	13.3	18.6	18.3	20.8	100.0	14.0	9.5	15.3	23.2	38.1	100.0
	% quintile	22.9	9.2	11.3	11.3	16.4	13.8	12.4	4.9	6.1	7.7	14.2	8.9
Pensioner couple*	Count	14405	23756	26471	20695	11903	97230	10874	18563	21158	19456	11586	81637
	% hhld type	14.8	24.4	27.2	21.3	12.2	100.0	13.3	22.7	25.9	23.8	14.2	100.0
	% quintile	11.8	17.0	16.7	13.2	9.7	13.9	23.3	23.3	20.3	15.6	10.4	17.5
Non-pensioner couple	Count	12394	13034	18679	34797	36751	115655	5562	8359	10561	24710	32684	81876
	% hhld type	10.7	11.3	16.2	30.1	31.8	100.0	6.8%	10.2	12.9	30.2	39.9	100.0
	% quintile	10.2	9.3	11.8	22.2	30.0	16.5	11.9	10.5	10.1	19.9	29.3	17.6
Couple with children	Count	19928	29780	37967	35918	30446	154039	10055	18815	28611	31513	29367	118361
	% hhld type	12.9	19.3	24.6	23.3	19.8	100.0	8.5	15.9	24.2	26.6	24.8	100.0
	% quintile	16.4	21.3	24.0	22.9	24.8	22.0	21.5	23.7	27.4	25.3	26.4	25.4
Lone parent	Count	20748	14563	6532	4207	1425	47475	2021	3591	2801	2707	1247	12367
	% hhld type	43.7	30.7	13.8	8.9	3.0	100.0	16.3	29.0	22.6	21.9	10.1	100.0
	% quintile	17.0	10.4	4.1	2.7	1.2	6.8	4.3	4.5	2.7	2.2	1.1	2.7
Multi adult	Count	12646	16774	29227	29667	17474	105788	5674	12048	23084	25961	16562	83329
	% hhld type	12.0	15.9	27.6	28.0	16.5	100.0	6.8	14.5	27.7	31.2	19.9	100.0
	% quintile	10.4	12.0	18.5	19.0	14.2	15.1	12.2	15.2	22.1	20.9	14.9	17.9
Total	Count	121797	140028	158375	156529	122651	699380	46680	79522	104391	124327	111412	466332
	% hhld type	17.4	20.0	22.6	22.4	17.5	100.0	10.0	17.1	22.4	26.7	23.9	100.0
	% quintile	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source: Family Resources Survey [*Couple with at least one pensioner]*

Table 4.7: Households with children by tenure and market cycle in Northern Ireland

Market stage of housing cycle			NI all tenure						NI Homeowners					
			Household income quintiles					Total	Household income quintiles					Total
			Bottom	2nd	Middle	4th	Top		Bottom	2nd	Middle	4th	Top	
Rising	No Children	Count	106,293	90,440	89,588	75,590	53,424	415,335	50,960	53,953	68,631	68,473	51,010	29,3027
		% no children	25.6	21.8	21.6	18.2	12.9	100.0	17.4	18.4	23.4	23.4	17.4	100.0
		% of quintile	63.8	62.5	61.8	63.7	72.7	64.1	68.6	57.5	57.3	62.4	72.6	62.6
	Children	Count	60,397	54,192	55,355	43,080	20,082	233,106	23,337	39,802	51,112	41,284	19,299	174,834
		% quintile	36.2	37.5	38.2	36.3	27.3	35.9	31.4	42.5	42.7	37.6	27.4	37.4
Peaking	No Children	Count	86,918	91,599	91,696	92,618	74,483	437,314	44,557	57,126	64,015	78,557	68,638	312,893
		% no children	19.9	20.9	21.0	21.2	17.0	100.0	14.2	18.3	20.5	25.1	21.9	100.0
		% of quintile	62.9	63.9	61.7	67.6	73.5	65.4	69.6	62.9	56.8	65.8	72.3	64.9
	Children	Count	51,270	51,812	56,973	44,359	26,818	231,232	19,496	33,701	48,663	40,744	26,358	168,962
		% of quintile	37.1	36.1	38.3	32.4	26.5	34.6	30.4	37.1	43.2	34.2	27.7	35.1
Falling	No Children	Count	75,496	88,708	100,744	107,670	86,426	459,044	31,379	51,929	62,642	81,603	76,633	30,4186
		% no children	16.4	19.3	21.9	23.5	18.8	100.0	10.3	17.1	20.6	26.8	25.2	100.0
		% of quintile	62.0	63.3	63.6	68.8	70.5	65.6	67.2	65.3	60.0	65.6	68.8	65.2
	Children	count	46,300	51,321	57,631	48,860	36,224	24,0336	15,301	27,592	41,749	42,724	34,778	162,144
		% of quintile	38.0	36.7	36.4	31.2	29.5	34.4	32.8	34.7	40.0	34.4	31.2	34.8

Source: Family Resources Survey

Table 4.7 shows that around a third of households in Northern Ireland include children. The proportion of homeowner households containing children overall has reduced slightly from 37.4 per cent to 34.8 per cent between the periods 2002/3 to 2004/5 and 2008/9 to 2010/11. Following on from the finding that two parent families are more likely to be in homeownership, even in the bottom income quintiles, the proportion of homeowner households that contain children in the bottom income quintile has risen very slightly between the periods 2002/3 to 2004/5 and 2008/9 to 2010/11, from 31. 4 per cent to 32.8 per cent, but has fallen in absolute terms from 23,337 families to 15,301 as the proportion of homeowners has reduced. Nonetheless, in the period 2008/9 to 2010/11, a third of the 46,300 households with children in all housing tenure in the bottom income quintile lived in households headed by a homeowner.

Mortgage finance

Mortgages in Northern Ireland are regulated by the UK Financial Conduct Authority, formerly the Financial Services Authority (FSA). The recent Mortgage Market Review (FSA, 2012) reflected concerns that regulatory oversight was weak during the period of the housing market boom, and that borrowers and lenders were left vulnerable in the market downturn due to exuberant patterns of lending and borrowing. Of particular concern were high loan-to-values, high loan-to-incomes, interest-only loans and self-certified lending. This section provides some evidence from the FRS to examine some of these concerns in the context of Northern Ireland.

Type of mortgage

Interest-only loans are now considered to be problematic because, unless they are accompanied by a sound repayment vehicle, which is often not the case, then there is a risk that the loan will not be repaid at the end of the mortgage term. The use of interest-only mortgages has declined as the regulators have been concerned about their habitual use in the market place and the ability of households to repay their loans. A recent review suggests that around half of all homeowners with interest-only mortgages in the UK will suffer shortfalls in their repayment plans (Experian, 2013; GfK, 2013).

Across the whole of the UK and in Northern Ireland the use of interest-only mortgages fell between the period 2002/3 to 2004/5 and 2008/9 to 2010/11, but their use remains greater in the UK (Table 4.8). Overall, in Northern Ireland, interest-only loans represented 41.7 per cent of all loans during the period of rising housing markets but fell to 19.8 per cent by the third period. In the UK, the fall has been less pronounced, reducing from 41.3 per cent to 27.4 per cent. In the early period of rising markets in Northern Ireland, homeowners with incomes at or below 60 per cent of median income held a lower proportion of interest-only loans than those with incomes above this poverty threshold, whereas in the UK the use of interest-only loans was very similar for all homeowners. However, by the period when housing markets were falling, in the UK and Northern Ireland, poorer homeowners more frequently held interest-only mortgages than homeowners not in poverty – 23.9 per cent of poorer homeowners in NI compared to 19.2 per cent homeowners not in poverty and 32.2 per cent of poorer homeowners in the UK compared to 26.9 per cent not in poverty.

Table 4.8: Mortgage types by 60 per cent median household income for the UK and Northern Ireland by housing market stage (%)

		NI				UK			
		Housing market stage			Total	Housing market stage			Total
		Rising	Peaking	Falling		Rising	Peaking	Falling	
Household income less than 60 per cent median income (AHC)	Repayment	60.4	74.4	75.8	70.1	57.5	65.3	67.2	63.2
	Interest (all types)	38.5	24.8	23.9	29.1	41.0	34.1	32.2	35.8
	Other	1.1	0.8	0.3	0.7	1.6	0.6	0.6	0.9
Household income 60 per cent of median income or greater (AHC)	Repayment	57.5	74.7	80.6	70.2	57.7	68.5	72.5	66.0
	Interest (all types)	42.1	25.1	19.2	29.5	41.3	30.9	26.9	33.3
	Other	0.4	0.2	0.3	0.3	0.9	0.6	0.6	0.7
Total	Repayment	57.8	74.6	79.9	70.2	57.7	68.2	72.1	65.8
	Interest (all types)	41.7	25.1	19.8	29.5	41.3	31.2	27.4	33.5
	Other	0.5	0.3	0.3	0.4	1.0	0.6	0.6	0.7

Source: Family Resources Survey

This suggests that while Northern Ireland's homeowners, lower income homeowners in particular, made less frequent use of interest-only loans than in the UK – and this is confirmed in analysis by Experian (2013) - as the housing market fell more affluent homeowners have been able to convert to repayment loans at a greater rate than lower income owners, who are more frequently left on interest-only terms with the incumbent risk of non-repayment.

Table 4.9 provides further illustration that poorer homeowners more frequently retain interest-only loans and that there is a social gradient to the type of mortgage loan held across the income quintiles. Across the UK, there was little difference in the use of interest-only loans between homeowners on different incomes during the period of rising markets, but by the third stage of the market cycle and falling house prices lower proportions of more affluent homeowners used interest-only loans. This is reflected in Northern Ireland, with one exception, that a slightly greater proportion of homeowners in the top quintile use interest-only loans than in the middle and fourth quintile (Table 4.9). Of concern are the 4.2 per cent of all loans in Northern Ireland that the FRS records as interest-only but are not linked to any investment vehicle to repay the capital, although this is half the proportion across the UK as a whole (9.8 per cent) (not shown).

Table 4.9: Type of mortgage loan by income quintile 2008/9 to 2010/11 (%)

	Household Income Quintiles (AHC)					**Total**
	Bottom	**2nd**	**Middle**	**4th**	**Top**	
UK						
Repayment	60.4	68.3	71.7	73.0	74.3	72.1
Interest (all types)	38.6	31.2	27.8	26.5	25.1	27.4
Other	1.1	0.6	0.4	0.6	0.5	0.6
Northern Ireland						
Repayment	70.2	77.1	82.3	83.8	78.3	79.9
Interest (all types)	29.3	22.9	17.5	15.6	21.7	19.8
Other	0.6	0.0	0.3	0.6	0.0	0.3

Source: Family Resources Survey

The FRS does not record the use of subprime loans, possibly because they are hard to identify. Subprime loans are generally considered to include self-certified loans and credit impaired lending. These loans emerged in the 1990s and were priced to reflect the higher risks involved, enabled new cohorts of homeowners into the market and facilitated borrowers to rehabilitate their credit history (Munro *et al.*, 2005). Subprime borrowers were four times more likely to experience default than borrowers in the mainstream market (Stephens and Quilgars, 2007) and during the first year of the Mortgage Rescue Scheme in England, subprime loans constituted between 60-80 per cent of all applications for support (Wilcox *et al.*, 2010). Keasey and Veronesi (2012) map the geography of subprime lending and found that the number of people with subprime loans placed Northern Ireland in the mid-range of exposure to such loans, in comparison to similar areas in England, such as the North East and Midlands where the take up of subprime loans was higher.

Remortgage activity

As discussed in Chapter 2, the use of mortgage equity withdrawal increased during the last housing market boom. Homeowners may remortgage while remaining *in situ* to obtain better interest rates on their loan and/or to withdraw equity for a variety of reasons. Equity withdrawal and the reasons for it are indicators of the extent to which homeowners have engaged with their home as a financial asset.

The FRS asked respondents whether they had remortgaged in the current year. The analysis shows that remortgaging activity increased during the period of the rising housing market, but reduced only slightly following the market fall (Table 4.10).

Remortgaging activity in Northern Ireland has been consistently below that across the UK. A total of 37.6 per cent of homeowners across the UK remortgaged when the market was rising, which increased to 42.1 per cent at the peak of the market, falling back slightly to 41.6 per cent in the third period of falling markets. In contrast, only 24.3 per cent of homeowners in Northern Ireland remortgaged in the first period, rising to 30.9 per cent by the market's peak, and reducing only slightly to 30.1 per cent as the market fell. Across the UK as a whole and in Northern Ireland, lower income homeowners had a lower incidence of remortgaging than middle and higher income groups. Moreover, despite homeowners in the bottom two income groups comprising a fifth of the remortgaging activity (21.1 per cent) in Northern Ireland, compared to only 15.3 per cent of remortgaging across the UK as a whole - no doubt reflecting the greater number of lower income homeowners in Northern Ireland – lower income homeowners in Northern Ireland remortgaged less than their counterparts across the UK at each stage of the cycle. Furthermore, lower income homeowners in Northern Ireland overall also remortgaged less frequently than middle and higher income groups.

Table 4.10 also demonstrates that lower income homeowners came late to remortgaging in Northern Ireland, with the greatest proportions of the bottom quintile groups remortgaging when the market was falling (29.6 per cent), rather than when the market was rising (17.8 per cent) or at its' peak (20.2 per cent). This contrasts to other income quintiles in the UK and in Northern Ireland that, rather than remortgaging in greater numbers as the markets fell as these bottom income groups did, maintained or even reduced their level of remortgaging as the cycle progressed. The differential activity of lower or higher income groups is further illustrated by considering remortgaging by whether the homeowners were at or below 60 per cent of the median household income (Table 4.11). This table shows that in the UK, lower income homeowners had remortgaged during the rising housing market as well as at its peak, but in Northern Ireland the poorest homeowners only remortgaged in any numbers later in the market cycle; at the peak or as the markets fell.

Table 4.10: Remortgaging activity by income quintile and housing market stage for UK and Northern Ireland (%)

	UK						NI					
	Household Income Quintiles (AHC)					Total	Household Income Quintiles (AHC)					Total
	Bottom	2nd	Middle	4th	Top		Bottom	2nd	Middle	4th	Top	
Rising	31.1	35.1	38.0	39.2	38.7	37.6	17.8	22.7	26.2	24.5	26.6	24.3
Peaking	37.4	40.1	44.0	43.5	41.6	42.1	20.2	32.8	32.6	31.3	31.3	30.9
Falling	39.9	41.2	42.1	43.5	40.5	41.6	29.6	24.3	27.7	32.0	32.8	30.1
Total (% remortgage)	6.8	8.5	16.4	26.5	41.7	100.0	8.2	12.9	21.6	28.6	28.7	100.0

Source: Family Resources Survey

Table 4.11: Remortgaging activity by above or below 60% median household income and market cycle in UK and NI (%)

	UK				NI			
	Market stage of housing cycle			Total	Market stage of housing cycle			Total
	Rising	Peaking	Falling		Rising	Peaking	Falling	
Household income less than 60 per cent median income	1.8	1.7	0.7	1.4	0.5	1.5	0.8	0.9
Household income 60 per cent of median income or greater	6.8	5.6	3.1	5.1	3.9	4.0	1.4	3.1
Total (% market stage)	5.9	5.0	2.7	4.5	3.2	3.5	1.3	2.7

Source: Family Resources Survey

Homeowners may remortgage for a variety of reasons, such as withdrawing equity from the home, or to pursue better interest rates. It is therefore difficult to interpret whether high rates of remortgaging are acceptable or whether they represent risks to the homeowners and therefore undermine their resilience. The FRS asks the reasons why homeowners have remortgaged and these data are shown in Table 4.12. We have seen that Northern Ireland's homeowners remortgage less frequently than homeowners across the UK, but there are also marked differences between the reasons UK and Northern Ireland's homeowners advance for remortgaging. A greater proportion of Northern Ireland homeowners have consistently used remortgaging activity to fund home improvements in each period of the housing market cycle, compared to all homeowners across the UK. In addition, a smaller proportion of Northern Ireland's homeowners have used remortgaging to switch to better interest rates less often and have also made significantly less use of the 'other' category.

Notably, greater proportions of Northern Ireland homeowners used remortgaging to purchase items and for 'other' reasons in the falling market than in the rising or peak of the market, possibly reflecting that for some homeowners in Northern Ireland they engaged with remortgaging later than their counterparts in the UK.

Not all reasons for equity withdrawal are comparable and, as mentioned, it is difficult to interpret. For example, remortgaging to obtain better interest rates is entirely favourable towards building homeowners' financial resilience as it reduces housing costs; and using equity withdrawal to fund home improvements may add or maintain the value of the home in a way that using equity withdrawal to purchase consumption goods would not. Parkinson *et al.* (2009) analysed panel data that revealed equity withdrawal activity for 'other' reasons was associated with key life events, like the birth of children or job loss. Homeowners in Northern Ireland have engaged significantly less with this category of remortgaging than homeowners across the UK, although its use did increase during the market cycle but it is unclear what may have prompted this activity, possibly debt consolidation in the recession. In addition, fewer Northern Ireland homeowners switch mortgages to find better interest rates and because of this other studies have noted that lower income homeowners end up paying more than required for their homeownership experience (Belsky *et al.*, 2003). There are too few cases to disaggregate the reasons for mortgage equity withdrawal by income quintiles.

Several indicators suggest that Northern Ireland's homeowners adopted a more conservative approach to mortgage finance in comparison to homeowners across the whole of the UK. Homeowners in Northern Ireland displayed moderate levels of subprime loans, despite higher rates of self-employment and a greater proportion of lower income homeowners than across the UK; had lower remortgaging rates and lower rates of interest-only loans, not least those without a repayment vehicle. Lower income homeowners did engage with remortgaging later in the market cycle, but converted to repayment loans at a lower rate than more affluent borrowers. The most frequent reason for remortgaging in Northern Ireland was for home improvements. On balance, this suggests that lower income homeowners were less exposed to riskier products, which may have mitigated the impact of the market downturn.

Table 4.12: Reasons for remortgaging by housing market stage in the UK and Northern Ireland (%)

	Improvements		Purchase items		Interest rates		Business		Buy Out Share		Essential repairs		Flexible mortgage		Other	
	UK	**NI**	**UK**	**NI**	**UK**	**NI**	**UK**	**NI**	**UK**	**NI**	**UK**	**NI**	**UK**	**NI**	**UK**	**NI**
Rising	59.7	69.3	8.3	7.7	23.4	15.7	3.7	3.0	6.0	4.3	2.6	2.6	7.3	5.1	15.1	8.1
Peaking	59.3	72.6	10.4	8.8	22.8	11.9	3.5	2.9	5.7	4.1	3.1	4.0	7.2	4.3	17.1	9.5
Falling	57.0	66.5	9.7	11.2	23.0	13.2	3.2	3.4	6.9	2.9	3.3	2.3	6.1	2.6	17.0	13.3

Source: Family Resources Survey

Housing equity in Northern Ireland

As illustrated in Chapter 3, proportionately, Northern Ireland has suffered the most sustained decline in house prices compared to the UK as a whole since the financial crisis began in 2007. This section uses the FRS micro-data to consider the extent and size of changes to homeowners' housing equity.

The approach adopted here to examine negative equity is outlined in Chapter 1. The following analysis of the proportion of homeowners in Northern Ireland in negative equity is broadly similar to those of the Council of Mortgage Lenders (Purdey, 2011), but differs in key ways. The relevant uplift in value based upon the Halifax House Price Index is applied to the respondents' recollection of the purchase price of their home to estimate the current property value. Then the homeowner reported outstanding mortgage debt is deducted from the estimated current value to provide an estimate of the amount of equity, or otherwise, that was remaining by 2010/11. However, the Council of Mortgage Lenders estimates of negative equity use extensive loan book data supplied by lenders, with exact purchase prices and exact outstanding loan amounts, rather than those recalled by survey respondents as in this analysis. Moreover, the Council of Mortgage Lenders have been able to adjust the loan balances by deducting exact contractual mortgage repayments over time as well as accounting for any arrears or charges, which the FRS data does not support. The number of respondents from Northern Ireland in the FRS is also smaller than that available from lenders. Nonetheless, the results are broadly in line with the most recent estimates of negative equity, and uniquely using FRS data means that the accompanying household data provides a richer description of the circumstances of households in negative equity than mortgage data alone. Moreover, the Council of Mortgage Lenders data uses only loans advanced from 2005/6 onwards, rather than all mortgagors as in the FRS.

Using the method outlined above, the FRS suggests that 14 per cent of Northern Ireland's mortgagors were estimated to be in negative equity by 2010/11 compared to 9.5 per cent across the UK (Table 4.13).

Table 4.13: Negative equity in the UK and Northern Ireland, 2010/2011

		NI	UK
In negative equity	Count (weighted)	29,593	782,711
	% within region	14.0	9.5
	Mean negative equity	£35,162	£17,485
	Median negative equity	£18,942	£10,173
Not in negative equity	Count (weighted)	181,744	7,479,401
	% within region	86.0	90.5
	Mean positive equity	£89,408	£111,101
	Median positive equity	£76,064	£74,793
Total	Count (weighted)	211,337	8,262,112

Source: Family Resources Survey

At this time (2010/11) almost 30,000 homeowners in Northern Ireland owed more on their mortgages than their homes were worth. The mean negative equity held by homeowners in Northern Ireland was twice that of UK homeowners at £35,162 compared to only £17,485 in the UK. There was a wide variation in the value estimates of negative equity and so the median figures were lower at £18,942 and £10,173 respectively. As noted in Chapter 3, the housing market continued to fall between 2011 and 2013 and it is likely that the incidence and magnitude of negative equity in Northern Ireland will have deteriorated further since these data were recorded. Nonetheless, this analysis represents the first examination of the circumstances associated with negative equity in Northern Ireland.

Table 4.13 used the FRS data for 2010/11 to establish the extent of the negative equity. This 2010/1l sample includes too few Northern Ireland cases to permit further detailed analysis, so data for the three 'falling market' years - 2008/9 to 2010/11 - are pooled to provide sufficient numbers to examine who and to what extent households are affected by the falling market. Table 4.14 shows the incidence of negative equity among household with different characteristics. The incidence of negative equity is greatest in Northern Ireland among households who live in two bedroom properties (19.4 per cent), one bedroom properties (17.9 per cent),were single and never married (17.5 per cent) or who were couples under pension age with no children (16.8 per cent). A broadly similar pattern to the households with negative equity was also evident across the whole of the UK, except that lone parents and married but separated households also had elevated rates of negative equity, although the rates were generally lower across the whole of the UK. Curiously, couples with one person above pension age were broadly *as* likely to be in negative equity in the UK (4.2 per cent) as in Northern Ireland (3.8 per cent). Across the UK as a whole, negative equity was more evenly spread among households in different income quintiles compared to Northern Ireland. A social gradient to households with negative equity was more evident across occupation classes in Northern Ireland than across the UK. Although in Northern Ireland intermediate occupations were the most likely to be in negative equity (13.9 per cent), the managerial and professional class was also more likely to carry negative equity (11.2 per cent) compared to the routine and manual and never worked classes (7.7 per cent and 8.8 per cent respectively). Again this may reflect the fact that lower income homeowners have been retained in greater proportions in the Northern Ireland market than across the whole UK. Overall, these data suggest that an earlier life stage and higher occupational class are important indicators of households in negative equity in Northern Ireland, so homeowners with no children, singles or couples, in small properties, and in intermediate and professional or managerial jobs. This is consistent with the CML lending data for Northern Ireland that records the higher incomes used by first time buyers who secured homes at the peak of the market compared to now.

Table 4.15 provides the estimated equity holdings of households with different characteristics. The greatest estimated value of negative equity in Northern Ireland was found among homeowners in the bottom income quintile (£72,379). This compares the estimated mean value of negative equity of £25-30,000 for other income groups where between 9 and 11 per cent of homeowners were affected.

Table 4.14: Characteristics of all mortgagors in UK and Northern Ireland with negative equity, 2008/9 to 2010/11 (%)

	UK	Northern Ireland
Household composition		
Single pension age	2.7	0.0
Single under pension age	9.4	12.8
Couple at least one member pension age	4.2	3.8
Couple under pension age no children	13.2	16.8
Couple under pension age with children	9.8	8.5
Lone parent	10.5	8.9
Multi adult =/no children	7.9	5.0
Mean equity value by Income Quintiles		
1 Bottom	12.6	13.0
2	11.9	9.3
3	11.5	8.5
4	11.1	11.2
5 Top	8.1	9.3
Marital Status		
Single never married	15.5	17.5
Married living together	8.3	8.9
Married and separated	10.8	5.7
Divorced	8.1	6.1
Widowed	4.5	8.3
Employment class		
Managerial/professional	8.9	11.2
Intermediate	12.5	13.9
Small Employers/ own account	11.5	10.6
Lower supervisory/ technical	11.5	10.4
Routine/manual	12.6	7.7
Never worked/LT UB	5.7	8.8
No. of Children		
Zero	10.3	12.3
1	10.7	9.1
2	8.7	8.5
3+	10.4	6.0
No. of bedrooms		
1	17.1	17.9
2	14.6	19.4
3	10.1	11.2
4+	4.9	6.4

Source: Family Resources Survey

Table 4.15: Characteristics of all mortgagors and their equity in UK and Northern Ireland, 2008/9 to 2010/11 (£)

	UK		Northern Ireland	
	Negative equity	Positive equity	Negative equity	Positive equity
Household composition				
Single pension age	18,076	117,170	0.0	93,097
Single under pension age	12,188	82,934	21,040	90,441
Couple pension age	56,548	155,989	9,283	88,938
Couple under pension age no children	15,264	102,877	21,997	96,481
Couple under pension age with children	19,077	116,822	36,429	114,257
Lone parent	15,839	93,390	43,274	83,545
Multi adult =/no children	29,213	134,744	68,937	126,255
Mean equity value by Income Quintiles				
1 Bottom	27,153	104,306	72,379	94,185
2	21,577	84,347	25,895	91,870
3	14,723	82,258	25,003	93,333
4	153,000	94,566	25,385	101,385
5 Top	19,589	135,386	29,841	135,639
Marital Status				
Single never married	12,945	73,779	21,553	70,781
Married living together	22,155	127,912	36,670	116,805
Married and separated	20,578	97,702	31,216	98,555
Divorced	19,242	100,091	27,311	105,507
Widowed	15,775	122,224	4,952	90,423
Employment class				
Managerial/professional	18,340	106,010	31,798	123,785
Intermediate	13,610	86,159	20,422	84,544
Small Employers/ own account	28,220	114,899	46,393	112,680
Lower supervisory/ technical	20,218	78,876	21,401	100,486
Routine/manual	13,513	70,897	28,942	86,616
Never worked/LT UB	24,313	106,699	68,289	117,831
No. of Children				
Zero	17,784	105,306	21,938	98,558
1	17,438	107,242	45,804	112,414
2	21,072	123,077	43,679	117,445
3+	18,275	136,030	33,688	114,741
No. of bedrooms				
1	9,618	56,604	2,628	43,639
2	13,402	65,586	17,201	58,576
3	17,201	89,944	23,932	84,154
4+	40,005	191,389	61,609	152,651

Source: Family Resources Survey

Other homeowners in Northern Ireland with large amounts of estimated negative equity were homes with four or more bedrooms (£61,609), couples with one or two children (£45,804 and £43,679), small employers (£46,393) and lone parents (£43,274). Homeowners with the lowest estimated negative equity were those in one bedroom properties (£2,628) - even though the incidence of negative equity among these owners was high - and intermediate occupations (£20,422). Couples with one member over pension age in the UK were carrying large amounts of negative equity (£56,548) although there was a wide variation that may influence the mean.

The FRS only ask mortgagors to provide the original purchase price of their home, and therefore estimates of positive equity only relate to mortgagors and do not include outright owners. Interestingly, the estimated values of mortgagors' positive equity did not differ markedly between Northern Ireland and the UK as a whole. Indeed mortgagors in the UK in the second, third and fourth income quintiles had lower amounts of positive equity than those in Northern Ireland, although those in the bottom quintile in Northern Ireland held lower sums of housing equity (£94,185) than their counterparts across the UK (£104,306). The equity held by mortgagors in the top quintile did not differ between the UK and Northern Ireland. Mortgagors who were in the top income quintiles, managerial/professional employment, multi-adult households without children and families and those with larger homes held the greatest amounts of housing equity, in Northern Ireland and across the UK.

Further characteristics of homeowners in negative equity are shown in Table 4.16. Across all years homeowners who remortgaged were estimated to be almost twice as likely to be carrying negative equity as those who had not, and this was the same across the whole UK and Northern Ireland. The proportion of repayment loans in negative equity was also higher than the proportion of interest-only loans and again similar for Northern Ireland and the UK. This is interesting as interest-only loans are considered more risky, and arguably advanced more towards the housing market peak, but do remain the minority of loans. In Northern Ireland, younger cohorts of homeowners are slightly *less* likely to be affected by negative equity than in across the UK. Homeowners who purchased property from 2005 onwards show the greatest propensity to be carrying negative equity.

Table 4.16: Mortgagors in negative equity 2008/9 to 2010/11 (%)

	UK	**NI**
Remortgaged	7.1	7.3
Did not remortgage	3.9	3.9
Age 16-34 years	3.2	2.5
Age 35-55 years	2.8	2.8
Age 56 years and above	1.9	1.5
Interest only loan	4.0	3.9
Repayment loan	5.7	5.2
Year of purchase 2004 or before	3.4	2.7
2005 or after	13.7	19.0

Source: Family Resources Survey

Other assets

Hellebrandt *et al.* (2009) suggest that homeowners may increase their savings and investments to compensate for the loss of housing assets. This section considers whether this is the case in Northern Ireland. An overview of the other assets held by Northern Ireland's homeowners is provided in Table 4.17.

Current accounts are a conduit to financial inclusion, allowing access to cost savings through paying bills by direct debit, for example. Only 89 per cent of homeowners in Northern Ireland held a current account between the periods 2008/9 to 2010/11 compared to 97 per cent across the UK during the same period. Outright homeowners in Northern Ireland, who largely include older people, have even lower rates of participation with current accounts (86 per cent) compared to mortgagors in Northern Ireland, where 92 per cent hold a current account, still below the UK average.

As in the UK, the most common forms of savings in Northern Ireland were held in ISAs (a tax free form of saving), building society accounts, and stocks and shares. Across the UK, nearly a quarter of homeowners also hold Premium Bonds but this is not apparent in Northern Ireland. However, a lower proportion of homeowners in Northern Ireland had savings in each asset class in comparison to the UK as a whole. Furthermore, the proportion of homeowners in Northern Ireland holding each asset class declined across the housing market cycle, and this was most pronounced in the decline in building society accounts. Across the UK, the proportion of homeowners with building society accounts fell from 62 per cent to 56 per cent between the periods 2002/3 to 2004/5 and 2008/9 to 2010/11, and for all homeowners in Northern Ireland the proportion fell from 42 per cent to 26 per cent during the same period. Stocks and Shares holdings fell from 26 to 20 per cent of homeowners in the UK and from 17 per cent to 11 per cent in Northern Ireland. The one exception to this general decline in asset holding products, which may offset the decline in building society accounts, is that the proportion of homeowners who held ISAs in the UK increased during the housing market cycle. In the UK, the proportion of homeowners with ISAs rose from 37 per cent to 43 per cent. However, the rise in ISAs was not witnessed in Northern Ireland. The proportion of outright homeowners holding ISAs in Northern Ireland fell from 29 per cent to 24 per cent and for mortgagors the proportion holding ISAs fell from 23 per cent to 20 per cent.

Approximately, a quarter of adults in Northern Ireland were contributing to a pension during 2011/12 (DSD, 2013b). Employees were more likely to contribute (48 per cent) than self-employed people (26 per cent). Similar figures are reported for each category in the Annual Survey of Hours and Earnings in 2012, and these are the lowest proportions since 1997 (ONS). Public sector employees do contribute to pensions more often (83 per cent) than private sector employees (32 per cent), which may benefit Northern Ireland as there are greater numbers of public sector employees. However, between 2008 and 2010 spending on pension contributions was the lowest in Northern Ireland compared to England, Scotland and Wales (DETINI, 2013). Auto-enrolment of pensions began its roll-out from 2012 so it is uncertain to what extent this situation will be reversed in the future.

Other assets have also suffered during the financial crisis with historically low interest rates and poor stock market performance, which may be an explanation for fewer homeowners holding assets. However, the figures do suggest that homeowners in Northern Ireland have not adjusted their savings behaviour to compensate for the loss of housing wealth.

Conclusions

This chapter has shown that Northern Ireland homeowners are on lower incomes, in more routine occupations and have made less use of interest-only loans and remortgaging products than those in the rest of the UK. The use of subprime loans in Northern Ireland has also been lower than in comparable regions in the UK. Lower income homeowners did engage with remortgaging later in the housing market cycle, however, but less often than more affluent homeowners. Following the market downturn, lower income homeowners have been unable to convert interest-only loans to more secure repayment loans at the same rate as more affluent households. Single people, couples with no children, those in one or two bedroom properties and in intermediate or professional occupations experience negative equity most frequently in Northern Ireland and those in the bottom income quintile hold the greatest estimated value of negative equity. It does not appear that homeowners in Northern Ireland have compensated for the loss of housing wealth by increasing their other asset holdings. Overall, these data suggest a more conservative approach to household finance and towards the mortgage market, in particular, than across the UK. Engaging less with innovative products in the mortgage market may have been to Northern Ireland's homeowners' advantage, certainly in respect of remortgaging; however, a lower take up of other financial products is also an indicator of greater financial exclusion.

Table 4.17: Proportion of homeowners holding other assets by country, housing market stage and whether home owned outright or with a mortgage (%)

	UK			NI All homeowners			NI Outright			NI Mortgagors		
	Rising	Peak	Falling	Rising	Peak	Falling	Rising	Peak	Falling	Rising	Peak	Falling
Current accounts	96.8	96.9	97.0	90.4	88.9	88.9	85.7	84.0	86.4	93.8	93.1	91.8
Gilts	0.2	0.3	0.4	0.6	0.3	0.2	1.4	0.5	0.4	0.1	0.1	0.0
ISAs	36.9	40.0	43.3	25.5	21.5	22.2	29.1	22.0	24.4	23.0	21.2	20.0
National Savings	1.5	1.3	1.2	2.1	1.9	1.3	4.2	2.8	2.3	0.6	1.3	0.2
BS Accounts	62.2	57.3	55.6	42.5	31.9	26.3	43.1	31.4	28.8	42.1	32.5	23.8
PEPs	6.9	4.8	1.8	5.7	2.9	2.4	8.5	3.7	3.8	3.7	2.2	1.0
PO Accounts	5.9	4.3	4.0	4.0	3.2	3.8	4.5	3.7	4.9	3.7	2.8	2.4
Premium Bonds	24.0	24.4	23.1	7.3	7.3	6.3	10.5	9.0	8.4	5.0	5.9	4.1
Save as You Earn	1.1	1.0	0.9	0.5	0.5	0.1	0.3	0.2	0.3	0.7	0.8	0.0
Share Club	0.5	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.0	0.2	0.3	0.5
Stocks/Shares	26.1	22.1	19.5	16.6	11.6	10.6	20.2	12.8	12.5	14.0	10.8	8.6
TESSAs	5.7	0.0	0.0	7.1	0.0	0.0	11.2	0.0	0.0	4.2	0.0	0.0
Unit Trusts	4.3	3.8	2.8	3.1	2.3	2.1	4.5	3.0	3.3	2.2	1.6	0.9

Source: Family Resources Survey

5: ATTITUDES TO FALLING HOUSE PRICES

- Interviews with Northern Ireland homeowners further demonstrated a significant strand of financial conservatism in the housing market, seen in the previous chapter.
- Regardless of the magnitude of housing equity losses, attitudes towards the market downturn rested on whether homeowners prioritised the use-value or asset-value of their property.
- Seeing the house as a home, rather than a financial asset to be used, offered a protective quality to homeowners in adverse economic circumstances.
- Those who had incorporated their housing equity into their financial plans, or expectations, were the most anguished by the housing market downturn.
- Many homeowners in negative equity had complex arrangements to overcome negative equity, but those with the most resources had greater opportunities to overcome constraints placed on their mobility, for example.
- Other homeowners were severely hampered by their inability or unwillingness to sell and/or incur shortfall debts, felt financially insecure and saw limited chances of the situation changing in the near term.

Introduction

This chapter examines the attitudes of homeowners in Northern Ireland towards the falling market and the use of housing equity, drawing on the qualitative interviews with a range of homeowners and market professionals. Although Northern Ireland has suffered the most extreme market adjustment of the UK since the financial crisis, the interviews confirmed that there was generally a moderate approach to the financialisation of the home, which has had, in certain respects, a protective quality for homeowners. Of course, some homeowners have been left exposed to significant house price falls and have been left financially challenged. Even for those who are otherwise sanguine about the house price falls, the significant negative equity in the context of a weak economy does leave a cohort of homeowners vulnerable to significant debt should they be unable to sustain homeownership; or with limited residential mobility.

The chapter begins by looking at attitudes towards and the personal impacts of house price change, considers homeowners' responses to the market fall and concludes with an assessment of the use of housing equity in the future. There were 51 in-depth interviews undertaken with homeowners, 34 of which were explicitly drawn from the bottom two income quintiles, and with 10 housing professionals in Northern Ireland.

Perceptions of house price change

Reasons for house price change

Some people were unsure about why house prices became so volatile in Northern Ireland. Some cited the peace process and people returning to the region increasing housing demand, but the banks, estate agents, developers and greedy 'others' were all seen by the majority as culpable. A minority said that they had considered the boom unstable, but for most homeowners the housing market crash was largely unanticipated. While, for a majority of homeowners, the drivers of the market were external to them, others spoke of how they felt compelled to participate in homeownership and its investment potential.

> *"I always thought it wasn't real, it didn't feel real- over here we had low house prices for years" (Homeowner no.24).*

> *"It was driven by estate agents and the banks and builders and all that. It was people being greedy and forcing the prices, it was driven by them to make money and the solicitors and all. They all cashed in on it and they made money." (Homeowner no.23).*

> *"Every time you went into the bank they were firing at you…the banks were encouraging you to spend money you didn't really have- it was invisible money." (Homeowner no.15).*

> *"Experts were saying it couldn't last, couldn't go on, but there was no evidence of it stopping and it stopped so suddenly. My parents owned property…I instilled in our children the view that it was good to own your own home. People wished they owned homes, especially in Ireland. They build their own homes on land daddy gives them and wouldn't dream of renting. Sure it's changed now." (Homeowner no.50).*

> *"Wanted to have some sort of asset, just for the future. I assumed it would increase in value and I'd have sort of benefit there…just thought renting was dead money, it'd never be mine and a home would be in time." (Homeowner no.36).*

There was a strong narrative from professionals, echoed among homeowners, of other people drawing down equity to fund consumption.

> *"People used equity withdrawal; spend, spend, spend, a lot of the time."*

> *"Anyone I came across for remortgaging was consumption spending…they rushed out and spent £5000 on a new kitchen and couldn't cook any better!"*

As reflected in the FRS analysis in the previous chapter, the rate of remortgaging did increase during the housing market peak but Northern Ireland homeowners actually remortgaged less than homeowners in the rest of the UK; especially lower income homeowners, who remortgaged the most during the period of the falling market. Remortgaging was associated with an increased incidence of estimated negative equity, but there was limited evidence to support a relationship between equity borrowing and the housing market crash. This is especially so given the lower engagement with remortgaging products in Northern Ireland but a greater housing market downturn when compared to the UK.

Market professionals said that their own views had been more cautious, noting that the overheated market had been unsustainable. On the one hand there was a view that greed and speculation had fuelled an asset bubble, and therefore any consequences of other people's 'failed' investments were not to be lamented as it was the individuals' responsibility. On the other hand an acknowledgement that the promotion of homeownership by governments, and indeed of the House Sales scheme by the Northern Ireland Housing Executive, facilitated by easy credit from the lenders and competition from speculators, meant that people had felt a sense of panic at not achieving homeownership: *'getting on the ladder before someone came along and pulled it up'*. The investment potential was evident with rising capital gains. *"It felt like a safe investment, definitely a mindset that you couldn't lose for a while."* The presumed ubiquity of equity consumption was reflected in the narratives of professionals, but housing advisors suggested that for lower income homeowners, this spending was limited to home improvements rather than consumer spending, as demonstrated in the FRS analysis in the previous chapter. Whether these funds were actually spent on home improvements is another matter, but this is a measurement error that would exist across all homeowners, not just those in Northern Ireland.

The absence of previous housing market downturns in Northern Ireland was also noted by market professionals, which combined with the view that the legacy of political conflict could no longer depress the market.

> *"For historical reasons we hadn't experienced the booms and busts you [the UK] had, we were inexperienced, and didn't realise there would be an inevitable downturn."*

> *"When house prices started going up, there was a feeling that we were now back where we should have been."*

Impacts of falling house prices

As noted in Chapter 3, the proportion of first time buyers in the market reduced significantly at the market's peak. Several market professionals noted that this squeeze on first time buyer activities at the peak of the market limited the adverse impact of the falling prices and prevented more households from entering negative equity after the crash. The impact of the falling prices on the market was therefore viewed as minimal.

One market professional argued that price falls are desirable to realign house prices with local incomes, that further falls would be welcome, and they thought that the greatest impacts were felt by developers and prospective buy-to-let landlords.

> *"There was a sharp up, now there's a sharp down. Dry your eyes get over it. There are some that have been caught and that is very sad, but there are many that should have known better."*

One lender noted the impact of the market downturn on lenders, where poor market practices in the region had been exposed, such as questionable valuations and poor conveyancing leading to defective property titles (which impedes the sale of property), as well as their own poor lending decisions. While lenders did not undertake regional analysis, they did not perceive the incidence of mortgage arrears to be worse than in Great Britain, not least as the proportion of their overall loan books secured on property in Northern Ireland is small, but the losses the lenders incurred were greater in Northern Ireland due to the size of negative equity. *"We've no bespoke strategy on Northern Ireland; we just know we're going to take a big hit."* Other lenders were less exposed to the local market, having a smaller portfolio in the region or having entered the local market after the market downturn. Their views, therefore, downplayed any adverse impacts of the falling market, in contrast to the lender with a high volume of loans in Northern Ireland who suspected that all lenders were affected by the fallout from the crash in Northern Ireland in some way. There are possible implications for existing homeowners of adverse impacts on lenders, such as lower loan-to-values for homeowners remortgaging in the Northern Ireland market compared to in the rest of the UK, although this may change if the market relaxes.

> *"Banks have had financial pain from Northern Ireland and changed processes in the UK, few banks [are] lending in NI now, few problems, it's a genuine concern."*

The long duration of the housing market downturn saw some sentiment towards its impact change. Early conversations with several market professionals held in early 2012 downplayed the impact, but by late 2013 there appeared to be a sea change in responses as recognition of the "*dysfunctional market skewed towards first time buyers*" and blocked by existing homeowners unable to move on has increased.

> *"Easy access to affordable homes in whatever tenure, cheaper house prices are for the better! I don't think it's a huge issue. I feel sympathy for those who over borrowed, but there is moral hazard and a day of reckoning." Spring 2012.*

> *"Those first time buyers today, where are their second homes going to be? …then we get quickly to the glass ceiling that is negative equity. Unless we have government intervention and lender support about how to help people in negative equity, this market will not function for a generation." Winter 2013.*

The dominant response by the homeowners interviewed was also that they had not been affected by the fall in house prices at all, even though all of their homes had substantially fallen in value. These homeowners were aware of the impact of the housing market downturn and recession on others, but felt impervious themselves to the market adjustment. As Forrest *et al.* (1998) found in their study of negative equity in Great Britain in the 1990s, many homeowners interviewed for this study held strong narratives about other people's circumstances - their culpability in the house price volatility and the subsequent impacts on people of immobility, repossession and debt - but this was not part of their own personal story.

> *"Not affected in anyway, we weren't looking to sell or buy a second house to rent out." (Homeowner no.32)*

> *"No not really [had an impact] the base rate being low is a positive, but house prices not really. We know people who can't sell and are in negative equity but we don't need to move, even if we had a baby." (Homeowner no.61)*

> *"I just feel luck that I didn't dip into it because a lot of people did…" (Homeowner no.57)*

> *"I know it's an impact on those wanting to move and can't get the price and have to rent. I feel ok at the minute." (Homeowner no.56)*

For this set of homeowners, some of whom had experienced substantial gains and losses of housing equity and a few of which were in negative equity, they were remarkably sanguine about the housing market fall. Occasionally wistful about not cashing in on the market at its peak, they were largely ambivalent and felt untouched by the housing market downturn. However, many of these homeowners were in precarious financial circumstances, with no savings, pensions and/or lacking secure employment, in which case the removal of significant assets could be important. This set of owners resisted feeling vulnerable as they were currently employed, had no wish to move, and had been in the market for some time, or had been self-builders and thus had achieved lower loan-to-values than would be expected for their year of entry into homeownership. The attitudes they held towards the financial potential of their home were also significant and are discussed later in this chapter.

In contrast, a minority of homeowners interviewed felt profoundly affected by the housing market downturn. Retirement plans were shelved, moving plans abandoned, starting families delayed and their sense of financial security and wellbeing had been undermined. Those homeowners that had actively built housing equity into their financial plans for the future felt the fall in house prices most acutely. This minority of interviewees had either actively planned to play the market, buying, selling, and trading up to accumulate equity, or had held more modest plans to downsize on retirement and release equity to support their children. They held anxieties about abandoned dreams of later life and their fears for their children's futures were palpable. The gulf between their imagined outcomes of involvement in the housing market and the present reality caused them to be apprehensive about their finances.

> *"I felt financially secure and I felt that I could retire early and that I would have enough money to live on, but now I am completely the opposite way…." (Homeowner no.23).*

> *"We always thought whenever we were going to buy it that it was going to make us money…whereas now if we wanted to sell it'd lose money." (Homeowner no.58).*

> *"I was going to sell the house and use it for retirement, get a wee flat. But can't do anything now, can't even change the mortgage, they wouldn't give me a better deal." (Homeowner no.60).*

> *"What I think has replaced that sense of confidence is a feeling of vulnerability. Not just for people who are actually in debt, but people who see that asset diminish before their eyes." (Housing Adviser).*

> *"I haven't been able to pay one penny towards my daughter going to college, not a penny. She's going to be up to her eyes in debt and I won't be able to do it for the second one either." (Homeowner no.23).*

For advisors the key issues were negative equity and repossessions. The interviewees from advice agencies identified insufficient advice and support available for homeowners in negative equity. If they were not in arrears or other housing stress then advice to resolve their particular situation, be it mobility or how to pay down the mortgage, was largely unavailable, although it was an issue causing great numbers of people anxiety. There were also calls for direct intervention, notably in the form of mortgage guarantees so borrowers could port their mortgages, and in effect their negative equity, to another property.

"Some sort of assistance for those not in arrears, to get the market up and running again. If people do need to move. There is no government assistance to facilitate them to do that." (Advisor).

"Needs a guarantee to cover the negative equity part of the loan. It would be fairly arrogant of the lender who contributed to, or allegedly contributed to, the negative equity position to demand anything off government, but I think lenders and government need to work together if they want this market actually moving." (Lender).

As claims for mortgage possessions in Northern Ireland have not declined as in the UK, advisors indicated that local politicians needed to review the support available to Northern Ireland's homeowners. While not directly related to falling house prices, mortgage default in a climate of negative equity means that borrowers are likely to incur high shortfall debts, and as seen in Chapter 4, the magnitude of negative equity in Northern Ireland is greater than in the UK. Borrowers are also less likely to be able to voluntarily sell their home to remedy the default situation, and are likely to remain unable to sell without incurring large shortfall debts for some time. And yet advisors highlighted the lack of initiatives such as mortgage rescue or the Preventing Repossession Fund that could limit the impact of possession or avoid it altogether, not least when the support offered by the UK government in the form of Support for Mortgage Interest has been curtailed and is likely to be further reduced under Universal Credit.

Attitudes to housing equity

Attitudes towards housing equity gains and losses were often contingent on homeowners' attitudes towards the financialisation of home - the asset accumulation and opportunities to spend the assets stored in the home - and reinforced the point that housing markets are imbued with emotions and sentiment. Many were risk averse and did not seek to crystalise the gains made at the peak of the market, although not all people who bought towards the peak were explicitly risk-takers. However, existing evidence suggests that adopting asset-based welfare through housing equity provides income-smoothing and financial protection in times of need, but this was not evident among the homeowners interviewed. The majority of homeowners interviewed unequivocally saw their house as home rather than an investment to be spent, and it was this dominant view that provided the most comfort in the face of market adversity.

For simplicity, the in-depth interviews suggest that homeowner attitudes to the financialisation of the home can be typologised as homeowners who viewed the property:

- as a home (asserted the use-value of the property),
- as a financial security (recognised the home was an asset over the long-term, but prioritised the use-value), or
- as an investment (conscious of the asset-value of the property in the short-term and actively incorporated their housing assets into their financial planning).

The strongest theme to arise from the interviews was that perceiving property as primarily a home and prioritising its use-value rather than asset-value and this formed a protective quality to homeowners in the market downturn. Despite suffering large house price falls, people who could sustain their mortgage payments could continue to enjoy their home and did not report anxiety that their home or financial security had been threatened. They were still receiving the qualities or services from their home they had sought at the outset of their purchase.

Moreover, interviews indicated that Northern Ireland's homeowners, even if younger, were often committed to leaving the home as a bequest to their children, and so the view that the house was a home was intertwined with notions of family. Rowlingson (2005) found that younger cohorts of homeowners in Great Britain were more willing to consider spending the equity in the home in retirement if required, compared to older cohorts of homeowners who remained committed to leaving the home as a bequest to family members. However, in Northern Ireland, rather than the home bequest representing a financial resource, there was a strong expectation for some that the property would also remain a family home in which one of the children's families would actually reside. This was particularly the case for rural homeowners who had inherited property or land on family farms. The thought of tapping into equity in the home was anathema to many homeowners regardless of age as this could jeopardise the property, which would have a role in the family beyond them. Some of these homeowners could barely conceptualise the home having any financial value let alone one that could be utilised.

> *"Definitely not, no…this is our home for life and we want to have our mortgage paid off early in life so we can be mortgage free." (Homeowner no.8).*

> *"I just want to be rid of the debt and leave my house to my two children as their inheritance…" (Homeowner no.1).*

> *"We had three children and I was just an ordinary working man, so no, we lived on a moderate budget you know…it's more of an inheritance for my family, so I'm keeping it. I don't really want to break into it, if you see what I mean. I am trying to keep it so that I can spend it amongst them." (Homeowner no.22).*

> *"Once we get the big family home we'd keep it. I'd rather spend my days in it and pass it on. That's how it is over here. That's what my parents would do and what my grandparents would've done." (Homeowner no.58).*

> *"We could sell it and buy…but I want it to be our home home, we're not planning on selling, it's a home home, for the next generation, when it's their turn they can have it." (Homeowner no.65).*

These narratives accord with the findings of Murphy *et al.* (2013) who found rural homeowners in the Republic of Ireland were the most conservative and less engaged in the exuberance of the housing market compared to city dwellers prior to the financial crisis.

Another group of homeowners shared the view that the home offered a range of benefits, including stability, especially when associated with family meanings, but were conscious of the asset-value of their properties and derived a sense of security from this. The investment qualities of the home were less important than the housing services the property provided, but the asset-value also offered security. Almost two-thirds of homeowners could never really contemplate using housing equity for any purpose, and of the 14 homeowners who had used housing equity, almost exclusively for home improvements, only four would consider doing so again. For those homeowners who considered the home as a financial security, they appreciated that they could use the equity if proverbially *'anything happened'*. Notably, none had done so although several had experienced unemployment and were currently experiencing challenges in managing their household budgets, during what has been the longest and deepest market downturn the UK has experienced.

> *"Always at the back of my mind, we always had it there if you need it. I wouldn't like to go down that road, if anything did happen, as you have to pay it back". (Homeowner no.26).*

> *"It made me feel more secure and yes, it was more of an asset, but just happy that it was worth more than we paid for it". (Homeowner no.20).*

A minority of homeowners had incorporated their housing equity and/or expectations of housing equity into their financial planning and consequently was feeling the adverse effects of the downturn the most. That the market had not performed as they had anticipated had left these homeowners feeling vulnerable or aggrieved, even if they were maintaining the mortgage, did not wish to move and did not have to crystalise the loss of equity.

> *"Thought it was great, when I retire this house is going to be worth a small fortune. The money would help, I'm not clear, but maybe a few holidays, maybe downsize." (Homeowner no.40).*

> *"I'm not making money, I'm losing money, and I expected to make money. I would never buy again, because we've never made any money…I feel stranded at the minute, if we had a realistic valuation I wouldn't feel trapped to be here, it wouldn't feel so bad." (Homeowner 1AC).*

> *"The mortgage adviser made it sound so easy to get the money, but it was the worst thing I could've done…with hindsight I could've done without it, but they made it so easy. Taking money out for not much more payments, too good to be true." (Homeowner 62).*

> *"Always been told it's 'safe as houses'…I know at that stage before the boom times [could] double your money. We didn't envisage any risk, we just didn't." (Homeowner 2AC).*

> *"It's a wee bit of security, financial security in your home, but it's not worked out like that." (Homeowner no.50).*

The gap between homeowners' expectations of the market and the current market position was not the only source of anxiety, however. Homeowners were also feeling the impact of the downturn as life plans were being thwarted as residential mobility was constrained. These homeowners who wished to move but could not afford to crystalise the shortfall debts resulting from negative equity had entered complex relationships with former partners, friends or with siblings who still resided in their former homes, or had let the properties sometimes below the cost of the mortgage, which is discussed further below.

Attitudes towards negative equity

Homeowners held a range of views about negative equity, some quite ambivalent,

> *"I take the view that if you are not moving anywhere then it doesn't really matter…so if you are happy where you are living, it doesn't really matter if your house has fallen in price." (Homeowner no.1).*

There was a strong narrative that even if they were unaffected by negative equity, homeowners interviewed were aware of the impact on others.

> *"I know people who have lost out badly and some have gone bankrupt, but people don't really talk about it over here- it's just accepted that we are all in a big hole over here and people don't talk about it openly- how much their house is worth or how badly they got stung." (Homeowner no.57).*

> *"He's [her son] only 25 and I feel bad for pushing him to buy a home. The market is a mess, but we never thought that this would happen. House prices have fallen so much. He says 'if you never pushed me to buy, I wouldn't be in this mess." (Homeowner no.50).*

Others felt great anxiety about being in negative equity, particularly if their household circumstances led them to want to move. Some people had unresolved anxieties, and occasionally anger at the situation they found themselves in. Data analysis in the previous chapter demonstrated that those owners most affected by negative equity were those in smaller properties in early adulthood or middle age. Reflecting this, the interviews revealed that people had met new partners and wanted to move or wished to secure a home more suitable for bringing up children or to be near good schools. Instead, several remained in small starter homes in negative equity in areas they wanted to leave and with their hopes of a home as an investment unrealised.

> *"I felt financial secure and I felt that I could retire early and that I would have enough money to live on, but now I came completely the opposite way. I am skint and I feel like I am going to have to work until I die and my children are going to be worse off." (Homeowner no.23).*

> *"I'm angry in a way, it's frustrating. I've got my head around it that the market is not going to pick up, but my husband can't settle. I've got my head round being here a few years, and [can make] some home improvements. My husband doesn't want to spend more, he doesn't want to be here. So we have two different ideas of what is going on with the house." (Homeowner no. 75).*

> *"We're stressed, friends and family, they've not slept, upset about it. They're in a house just outside Lisburn but want to move for good schools and they can't move because of negative equity. The stress is extreme, as someone has done wrong to them, the government, the banks. Friends all doing the same thing, there were no warning signs." (Homeowner no.78).*

Responses to falling house prices

Some people in negative equity or lacking mobility options were less constrained than others, often by virtue of their higher salaries, but also because by default the household had come to own additional properties because of the inability to sell when new households were formed.

Acquiring additional properties due to an inability to sell

A minority of interviewees had problems relating to the ownership and maintenance of mortgage payments on previous property because they were unable, or often unwilling, to sell and incur a large shortfall debt due to negative equity. This occurred due to either relationship breakdown or where people had been anxious to '*get on the property ladder*' and had purchased property with siblings or friends. The FRS analysis in the previous chapter noted that multi-adult households had some of the greatest levels of negative equity. People had subsequently met partners and wished to form new households, but could not dispose of the property without incurring debt, the other party was unable to afford to buy them out, or in the case of relationship breakdown, they lived precariously with the former partner meeting the mortgage payments until a resolution could be achieved. In the case of two single people coming together, the previous homes were sometimes rented out, although occasionally rental payments fell significantly short of the mortgage payments - let alone the maintenance costs - and there was a risk of having no monthly income to meet the mortgage on the retained home during void periods. Where siblings were still in residence, one homeowner was reluctant to force a sale or stop their mortgage payments in respect of their previous home, as the sibling would have to return to renting, was on a low income and, despite paying a mortgage on the current home too, this situation had already persisted for some years.

Where one member of a couple had a repayment mortgage in respect of a previous property, as long as the mortgage payments were maintained then, through a combination of the debt reducing over time and a rising market, the home would eventually become a useful asset, despite any current negative equity. Although an unplanned situation, some couples had considered that this option could actually work in their favour in the long run. Where the loan was an interest-only mortgage then only a rising market could reduce the negative equity and unless the owner could afford to convert their mortgage to a repayment loan then interviewees suggested they just had to wait until the market rose sufficiently for them to sell at an acceptable price, carrying the burden of the additional property in the duration.

Only one person reported that they had made enquiries with mortgage lenders to see if they could port their mortgage – and their negative equity- to another property but they were refused. Schemes such as this were available to mortgage borrowers in the 1990s and have emerged again in Great Britain (Lloyds Banking Group, 2012) but it is unclear to what extent, if at all, Northern Ireland homeowners are able to use such facilities to support movement within the housing market.

Paying down debt and/or saving

The scale of negative equity is different for people who entered the market in different years but some of the amounts are large and difficult for people to pay down to save their way out of debt. One homeowner interviewed had negative equity of £87,000, but the sums among this sample of homeowners were more commonly in the tens of thousands. The FRS analysis in the previous chapter found a similar mean estimate of £35,162 for Northern Ireland homeowners, although the median was lower at £18,942.

> *"I have sisters who are in negative equity – one is by £30,000 and the other by £70,000 – it's a lot of money isn't it?" (Homeowner no. 63).*

One couple in negative equity were higher earners and took an opportunity to work in London for a few years to save additional funds to pay down their mortgage debt and reduce the negative equity. In that way, they would then be able to move and start a family as originally planned. Another made alternative arrangements to save as they no longer had the cushion of housing equity to secure themselves financially. However, many other homeowners were unable to convert their loans to repayment and neither could they afford to save, and would then be left exposed to the market for the foreseeable future.

The interviews revealed that only a small minority of homeowners interviewed had sufficient (three months) savings to tide them over if they were to experience a break in their income. Another higher earner was saving more to make up for the lost investment in the home, but the majority view was one of overstretched finances, with rising fuel bills, lower incomes and therefore, an inability to make alternative financial arrangements.

> *"We haven't got enough savings to buy our way out to move on." (Homeowner no.75).*

Although there was a minority of households where both partners had occupational or private pensions, it was commonplace for only one partner to have a pension and several had formerly paid into pensions in previous jobs but no longer did so. Those that did have some pension arrangement were uncertain if it would be adequate to ensure their financial security in retirement.

Several homeowners had become more cautious in their spending as not only were their finances constrained by lower incomes and higher outgoings, but they were also conscious that the lack of housing equity meant there was nothing for them to fall back on. If wealth effects increase people's propensity to spend in the wider economy, so it seems a reduction in wealth undermines confidence in the economy and wellbeing (Ratcliffe, 2010). Although it is difficult to untangle people's vulnerability in the recession from the specific effects of negative equity, people had cut back on expenditure.

The Co-Ownership scheme in Northern Ireland allows people to purchase a share in a property and pay rent on the remaining portion. While shared purchasers are limited in their accrual of equity in rising markets, they are also limited from exposure to house price falls. One Co-Ownership purchaser did not understand the terms of her lease and was concerned that she would take the full burden of negative equity should she sell, where in fact her negative equity was proportionately reduced in accordance with her share of the property. This risk reducing feature of shared ownership had not been understood. Another co-owner had staircased up to full ownership at the height of the market in 2007 and therefore now suffered significant negative equity.

Strategic default as a response to negative equity?

An advice worker noted that some owners with interest-only loans and negative equity had been making a strategic decision to default. This was not evident in the homeowner interviews, but is worth highlighting as the consequences could be significant. According to the advice worker, homeowners had been encouraged to take on interest-only loans when they purchased on the basis that their careers would improve over time and they could convert to repayment loans after a short time. As the labour market has also been adversely hit by the market downturn, an increasing number of homeowners cannot afford to convert to a repayment loan.

Consequently, a number of homeowners in this position were, apparently, making rational calculations that it would be advantageous for them to be repossessed and claim bankruptcy to avoid paying the large shortfall debt that would be incurred from the sale of the house. In the meantime, they could be renting a similar property for £200-300 a month less than their mortgage payments. After seven years, they would be released from bankruptcy and free to pursue homeownership again without the negative equity and the shortfall debt cleared. In contrast, it is suggested that homeowners on interest-only loans who still could not afford a repayment loan, would be unable to repay any debt and in seven years could be in similar amounts of negative equity as now, with limited avenues to resolve the situation, and having incurred higher housing costs throughout the period. The advice worker suggested that this was becoming the preferred route by people in these circumstances, although it was unclear how widespread this practice was; in contrast to opting to become a landlord or voluntarily selling the property, which were actions reflected in the homeowner interviews.

> *"If they're on interest-only they might be paying £700 per month for the house that is £100K in negative equity. It's a common scenario, but they could rent that house for £500 per month, but to convert to a repayment might cost £1000 per month.[They think] 'I'm never going to afford to repay this mortgage so I'm going to give the house up'….it's catching on as an idea, once someone has done it, others follow". (Advice Worker)*

The advice worker suggested that this approach was adopted across the board not just by the lowest paid, but did consider that the lower income homeowners had smaller amounts of negative equity than higher earners as low income owners had bought at the lower end of the market where the proportionate house price falls had been smaller in absolute terms. A mortgage lender concurred with this view that the greatest losses were incurred by those higher up the 'property ladder' or income spectrum. A large lender agreed, noting that *""it's not a gilt edged book but it's not the cheap stuff that's in possession"*. The analysis in the previous chapter found homeowners in the bottom income quintile had the highest amounts of negative equity, but may be less visible as they comprise a much smaller part of the market overall than middle and higher income homeowners.

The analysis of the FRS is unable to identify the extent of homeowners adopting this strategic default remedy to negative equity, not least as it is cross-sectional and does not include figures for mortgage arrears. However, individual insolvencies started to rise prior to the financial crisis, but have grown significantly since 2007, with a total of only 835 in 2003, rising to 1,899 in 2006 and again to 3,189 in 2012, spread between bankruptcies, debt relief orders and individual voluntary arrangements[2]. It is unclear, however, to what extent negative equity has contributed to the incidence of insolvency. The interviews provided no other evidence that people were making strategic decisions to default on their mortgage.

Commitment to homeownership

Fewer younger cohorts are entering homeownership and thus the sector is ageing and contracting. This has implications for public policy in that homeownership attracts significantly lower housing costs in later life and lifts some people out of poverty, as well as satisfying household aspirations. The housing market recession in the 1990s in Great Britain led to a reduction in support for the tenure, which soon bounced back as the market improved, although there was a lag for younger households. It is unclear how the market and the reach of homeownership in Northern Ireland would be affected by this significant market adjustment. Market professionals noted the increasing affordability of Northern Ireland's housing, albeit access to home buying remains constrained by larger mortgage deposits. Nonetheless, the housing market fall has seen greater numbers of first time buyers purchasing. The interviews reflected mixed views, suggesting that a few people had reappraised their commitment to homeownership as it had not turned out as they had expected, but others thought lower house prices meant that now was a good time to buy and would still advise young couples starting out to do so.

Perceptions of the future

Sentiment towards the housing market is intertwined with the effects of the downturn in the wider economy. Some homeowners recognised that the economy and housing market were not strong but felt themselves secure in their employment and were managing their household budgets reasonably well. However, homeowners also reflected concerns and were often despondent about the possibility of change coming in the near future.

> *"There's no money to spend. People aren't going out, they're afraid to spend, as the house prices have dropped so much. Everyday living costs have gone up and everyone is cautious as there's no security in the house, like there was a few years ago. You can't fall back on money." (Homeowner no.26).*

> *"But the fact that the house prices dropped and the building trade went to the dogs…it's because people lost their jobs and they lost their homes…" (Homeowner 11)*

> *"The kids don't get what they used to and they don't understand why not. Everything has gone up, to heat the house has gone up, fuel has gone up, food has gone up and my wages have actually gone down well from [my] last job." (Homeowner no.15).*

[2] http://www.insolvencydirect.bis.gov.uk/otherinformation/statistics/201308/table6.pdf

Obviously such negative sentiments have a recursive effect on the housing market. Many homeowners thought the market was beginning to show some signs of recovery, but others did not believe there would be substantial change for some time. A section of people felt very vulnerable and pessimistic and others thought things could only improve.

Conclusions

The interviews confirmed that Northern Ireland's homeowners adopted a more conservative approach to housing finance, which was shown in the survey data analysis in the previous chapter, with some owners unable to conceive that their home held value let alone that they could use the assets stored within their home. It was apparent that this limited the exposure of some households to the vagaries of the market and left many ambivalent to the market downturn. Prioritising the use-value of the home, rather than the asset-value, reduced anxieties at the loss of housing wealth and the security of the home provided a protective quality against adverse economic conditions. In contrast, a minority of owners, people who had bought at the peak or who explicitly viewed their home as a financial asset or investment, had been left in challenging circumstances. Higher income owners were most affected but had greater remedies available to resolve negative equity and any need to move. A significant cohort appear to be vulnerable to future shocks as they have little or no savings or pensions and, even despite any reluctance to spend the home, their most significant asset has diminished in value and/or their access to its value has been undermined.

6: Conclusions

Summary

- Following a peak to trough decline in house prices of between 50-60 per cent, homeowners in Northern Ireland are estimated to have experienced a greater incidence and magnitude of negative equity than those across the UK as a whole.
- Prior to the financial crisis, homeowners in Northern Ireland engaged less frequently with innovative products in the mortgage market – interest only loans, subprime loans, remortgaging - than their counterparts in the UK, but suffered a worse housing market crash. Homeowners' relatively limited engagement with the mortgage market may, however, have been to their advantage.
- During the longest and deepest market downturn in the post-war period, this study found little evidence that low-income homeowners in Northern Ireland used their home to smooth income and manage external shocks to their household finances. Nonetheless, homeownership did offer security and control through the market turmoil, when the use-value of the home was prioritised above the asset-value.
- Although the impact of the housing market downturn was less than anticipated at the outset of the study, there were, nonetheless, households who had been adversely affected by the market fall. The ramifications of the market downturn on residential mobility, negative equity and mortgage arrears or possession were deeply felt by a minority and were viewed as critical issues by professionals.
- Policy implications of the study in the short-term comprise using the opportunity afforded by the newly constituted Housing Repossessions Task Force to consider the extent of unsustainable homeownership in the region and identify measures to support local homeowners in negative equity while sharing the risks between all parties involved: lenders, homeowners and government.
- In the longer term, the use-value of homeownership should be reasserted. Policy solutions to constrained funding based on utilising individual homeowners' housing equity may be inadvisable. Housing equity is unevenly distributed suggesting people with more wealth or in certain locations can obtain access to greater services, and public policy becomes skewed by the requirements to support the housing market. Moreover, such measures undermine the values of homeownership that people value, notably security and control.
- Nevertheless, homeowners are sitting on large sums of, largely unearned, housing assets that could be usefully deployed to support public policy, but could be equitably accessed by placing greater emphasis on the reform of land and housing taxation.

Introduction

Following the onset of the financial crisis from 2007/8, the fall in house prices in Northern Ireland was profound. This study demonstrates that a greater proportion of homeowners in Northern Ireland were estimated to be carrying negative equity, which was also significantly greater in value, compared to homeowners across the UK as a whole. Where homeowners and market professionals had a view as to why the housing market had been so unstable, they cited speculation, greed, lax lending and consumption spending on the back of rising house prices. However, analysis of the Family Resources Survey, as well as the interviews with homeowners, showed that Northern Ireland's homeowners adopted a more conservative approach to lending and households finances than their counterparts across the UK, and yet still experienced a greater housing market crash. Arguably, the reasons behind the global financial crisis and the culpability of housing and mortgage markets will be debated for some time. However, it appears that Northern Ireland homeowners' relatively limited engagement with the mortgage market has been to their advantage, as by resisting the financialisation of the home large proportions of homeowners had increased their resilience to the market fall.

During the longest and deepest market downturn in the post-war period, this study found little evidence that low-income homeowners in Northern Ireland had used their home to smooth income and overcome income shocks, although there was an upturn in remortgaging activity for Northern Ireland's homeowners during the period of the falling markets. The strongest story was, however, that homeownership had offered comfort to households through the market turbulence when the use-value of the home was prioritised over the asset-value of the property as an investment. No renters were interviewed so whether low income social renters with long term security of tenure also view their home as a buffer against adverse conditions is unknown, and this could possibly form part of future research. It could be that the data used was unable to reveal incidents when homeowners did use their home in this way, nonetheless, the succor offered by the security and control of the house purchased as a home, over the vulnerability in the falling market of a house purchased, wholly or in part, as an investment was apparent and was an approach to home finance echoed in the data analysis.

Managing the impacts of the housing market downturn

The minority of homeowners who had incorporated their home and its peak value into their financial plans were the most anguished by the fall in Northern Ireland's housing market. Long term plans to support children's education or retirement in the future were shelved and these homeowners felt financially weak as their equity cushion had been removed, even if they were maintaining their mortgage and had no plans to move house. Ambitions for those who did wish to move home to access better schools, larger properties or more desirable neighbourhoods were thwarted for several homeowners and there was a sense that their lives were on hold until they could resolve how best to move on and/or extricate themselves from part ownership of their previous homes. The spectre of shortfall debts should they default on their mortgage was also a concern for a minority. Although the loss of housing wealth was less of an issue for homeowners than anticipated at the outset of the study, the ramifications of the market downturn on residential mobility – not least for existing homeowners; the large sums of negative equity carried by many homeowners and the stubbornly high level of mortgage possessions were critical issues for many, including market professionals who felt there were limited tools and advice to provide for homeowners in these adverse circumstances.

It is clear that residential mortgage possessions in Northern Ireland, or certainly the readily quantifiable claims made in the local court service for possession on the grounds of mortgage arrears, are not declining as they have done across the UK as a whole. Existing evidence notes the dislocation experienced by households, including children, who face losing their home making it an important policy concern, not least as a rise in the Bank of England base rates is, at the time of writing, unlikely to be deferred for much longer. Further data and information is required to determine the exact circumstances and scale of the problem, perhaps with the support of lenders.

The funding of the Mortgage Debt Advisory Service has been effective in providing advice to struggling homeowners and there has been little drop off in the homeowners seeking its services, but there are fewer remedies available to advisors and lenders in Northern Ireland than currently exists across other jurisdictions of the UK, but the persistence of mortgage default through the downturn and the scale of negative equity force a re-examination of local policy. The establishment of a new Housing Repossessions Taskforce Northern Ireland announced by the Minister for Social Development Nelson McCausland in February 2014 is, therefore, a welcome opportunity to consider policy responses to support struggling homeowners. The Taskforce represents an opportunity to understand more about the risks of unsustainable homeownership in Northern Ireland, revisit debates about mortgage rescue type schemes, and consider ways in which existing homeowners who need to move and can afford to do so are supported.

There is a need to improve the local evidence base by examining:

- the extent of the risk of mortgage default,
- the balance and impact of buy-to-let and residential possessions within the existing data (although buy-to-let mortgage default also has consequences for the local housing market and tenants),
- the circumstances of struggling homeowners,
- the incidence of negative equity among homeowners (and among those at risk of default), and
- the support required to prevent or mitigate the impact of possessions.

There may be a range of tools to consider such as:

- the provision of short-term relief when financial shocks have been temporary (not least to overcome deficiencies if the waiting period for Support for Mortgage Interest is changed to 39 weeks and/or weakened under Universal Credit);
- mechanisms to engage borrowers with their lenders' forbearance policies and limit the adverse impacts on vulnerable families in sustainable circumstances, by

widely communicating the support available, reducing their share of the property by converting to an affordable rent or an equity share arrangement; or

- consider how partnership arrangements can share the risks and costs of such initiatives between lenders, homeowners and government. There are precedents here with the UK Government's New Buy guarantee where lenders, builders and government underwrite equity loans for home purchase (Stephens and Williams, 2012) and the negotiated write-offs of shortfall debts incurred when homeownership was exited in negative equity (Wilcox *et al.,* 2010; Wallace *et al.*, 2011).

The housing market stabilised during 2013, but there is likely to be a 'long tail' of issues arising from the market crash. There was evidence of blockages in the local housing market arising from negative equity that limits mobility among existing homeowners, unless they incur complex arrangements of renting; part owning property in which they no longer reside; or selling and crystalising their loss. There were calls for the Taskforce to also consider steps that could facilitate existing homeowners to port their mortgages, perhaps by offering guarantees on loan-to-values above a certain threshold. This would enable homeowners with sustainable loans to move within the market and reduce the risks that lenders would limit their investment in the region. Again consideration should be given to sharing the risks and costs of such guarantees among lenders, government and homeowners.

How can housing assets be used to support households?

Returning to the loss of housing wealth over the long term and homeowners' reticence in spending the home there are two things to consider. Firstly, the evidence presented here suggests that promoting the use of housing assets may undermine the very values that provide security to homeowners in adverse conditions. The use-value of homeownership should therefore be reasserted, and policy responses to funding shortfalls should avoid solutions that rest on individual homeowners' housing equity. Although the financial conservatism of Northern Ireland homeowners was evident, more widely emphasising the housing services obtained from a home over the potential for equity gains is possibly not an easy idea to reverse, now that the potential for asset-accumulation and the mortgage market enabling of equity withdrawal in situ are firmly established parts of the UK housing market. The fresh mortgage market regulation from April 2014 and macro measures discussed by the Bank of England may take some heat out of any future rising markets, but it is uncertain how homeowners' (or lenders') sentiment will respond. What proportions of people will remain hesitant to engage with home equity in the future, especially in any future exuberant markets? Secondly, and perhaps in opposition to the above statement, some homeowners sit on significant sums of housing equity that in a period of state retrenchment could be used to effectively overcome weaknesses in savings and pensions behaviour and the public provision of services. However, existing evidence suggests shifts towards property-based asset based welfare meaning that those without housing assets lose out – a particular concern if fewer people are able to achieve homeownership in the future - and also that public policy gets skewed towards supporting the housing market (Doling and Ronald, 2010). Squaring this circle provokes a reconsideration of land and housing taxation that could equitably access these, mostly unearned, housing assets and deploy them to support social safety nets, as well as moderate unbalanced housing markets (Stephens and Williams, 2013).

Reforming housing taxation would present an opportunity to limit instability in the housing market, move some way towards overcoming wealth inequalities, limit affordability pressures in the market fuelled by expectations of capital gains, make the occupation and distribution of housing as a scarce resource more efficient and create a more level playing field in terms of tenure choices (Crawshaw, 2009). Current property taxation, notably the exemption from main residences from capital gains tax, fails to capture windfall gains made during property transactions and is estimated to cost the Treasury between £5.1 billion to £6.5 billion a year in 2007/8 (ibid.). Current property taxation through council tax, inheritance tax or stamp duty land tax are either highly regressive, as the more affluent pay a disproportionately low share of their wealth and/or income; only serve a small portion of estates; or are inefficient, causing prices blockages and dampening mobility in the market. There are many proposals for encompassing reform of housing and land taxation aimed to both reflect the value held in housing, property or land and more equitable methods of capturing it that include:

- combining property taxes that reflect wealth with local income taxes to ensure receipts are tied to owners' ability to pay;
- shifting inheritance based tax from a *donor*-based tax to a *recipient*-based tax;
- land value taxes to capture the value of the land on which property sits;
- greater taxation of second and empty homes; increasing the number of bands at the top and bottom ends of council tax;
- removing the 'slab' system associated with stamp duty, where once over the value threshold the whole sum is taxed at the higher rate; or
- abolishing stamp duty altogether in favour of reforming capital gains taxes on main residences (Leishman *et al.,* 2014; Hills *et al.,* 2013; Crawshaw, 2009);

Northern Ireland does not of course have a local council tax and local rates are based on recent re-valuations of local property. Nor does Northern Ireland have extensive tax raising abilities or the power to reform taxes independently. Nonetheless, discussions are required across the UK regarding how to utilise the value of housing assets without jeopardising individual homeowners' security.

Poverty and homeownership

Another issue raised by the study is that homeowners can be poor as well as renters. Most homes will, certainly in the long run as mortgage debt is paid down, have accrued housing equity and yet low income homeowners are largely disinclined to risk their home by accessing this wealth even if mortgage markets would permit. Therefore, anti-poverty strategies should consider how to support homeowners, including those with children as one third of children who live in poverty households live in homes headed by a homeowner. This may have implications for area-based initiatives that may fail to include low-income homeowner households, although even former Executive estates are through the House Sales programme now likely to be mixed tenure. This may also prompt consideration of the support offered through the social security system as mentioned above. Currently support with housing costs is much more limited to owners than renters, and is this situation is likely to continue under Universal Credit proposals. Moreover, a significant proportion of poorer homeowners are retired and the minimal housing costs associated with a completed mortgage reduces the incidence of poverty later in life (Tunstall *et al.,* 2013). This is a significant advantage of homeownership, but should not be pursued unsustainability and this study, as well as Boyle's (2008) study of the potential for equity release in later life in Northern Ireland, demonstrates the reluctance of local people to engage with these types of products. Another consideration for future public support for an ageing population is what it might mean for low income households' housing costs in later life if fewer people enter homeownership?

Conclusion

The study suggests that housing wealth is not a short cut towards increasing lower income households' resilience to adverse economic shock, although, in the context of offering security and control homeownership may be beneficial. It is beyond this study to confirm how the experiences of the homeowners reported here may or may not differ from renters with long term security of tenure, or to homeowners' experiences in other parts of the UK with different market experiences and/or cultural values. What can be said is that a more conservative approach to finance paid psychological dividends to homeowners in a turbulent market period. The study suggested that the behavioural and attitudinal responses of homeowners to rising and falling home equity are as important factors to include in policy making, as quantifiable estimates of aggregate housing wealth. Overall, it was not the financial value of the assets stored in the home that could be drawn upon in times of need that offered homeowners support, but the succor gained from enjoying the use-value, security and control their home offered. Although promoting the asset-value of homeownership increased homeowners' perceived or actual vulnerability to market shocks, for many homeowners the investment qualities of property comprised part of their motivations to own a home, and so culturally, it may be a difficult view to reverse. These were the people who felt the greatest impact from the loss of housing wealth and for whom policy should look to foster a degree of support.

The study implies a limit to the value of asset-based welfare policies in increasing households' resilience to economic shocks, certainly those based on the potential of housing wealth. The potential risk involved from spending the home for lower income owners, meant that the sustainability of the home is jeopardised for the present owners and their families, and undermines the attributes of home that people value –security, control and the opportunity to leave home as a bequest. It is, therefore, difficult for housing policy alone to overcome the weaknesses in other aspects of modern economies, such as the labour market and the provision of effective social security safety nets across the life course and across tenure. In the short-term, promoting savings behaviour and limiting volatility in housing markets may be beneficial. Over the long-term, despite a lack of appetite among the public and politicians for reform, land and housing taxation may contribute further to social goals and provide funds to support households to manage in uncertain conditions. The evidence here suggests that such moves should be explored further as an effective way to deploy housing assets as a resource.

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APPENDIX 1: TOPIC GUIDE HOMEOWNERS

Introduction

Thank you for agreeing to help with the project.

- Restate aims of project and where they fit in.
- Confidentiality and consent
- Confirm ability to withdraw from interview without consequence at any time
- Length of interview (aim for 40 minutes)
- Permission to record interview

Background

Before we discuss your experiences of the house price falls in the region, can I just quickly run through some basic information? This will help us make sense of what you tell us later on.

1. Age group? (from address/consent form)	
2. Region? (from address/consent form) East/West/Belfast	
3. House sales/Co-ownership? (from address/consent form)	
4. Household type? (couple with 3 children; single etc)	
5. Employment status: working full/part time; unemployed; long term ill-health; retired (for both partners if couple)	
6. What type of employment sector? Retail, warehouse, factory, call centre, council, health service etc. (for both partners if couple)	
7. Do you receive any benefits? If so which ones?	
8. Type of property? (2 bed terrace, 3 bed semi etc)	
9. It would be helpful for us to know something about when and how you purchased your home.	
a. When did you buy your house?	
b. How much did you buy your house for?	
c. How much is it currently worth (roughly)?	
d. Still got a mortgage/loan secured on property (from form)?	
e. *If still got mortgage*. How much did you have to borrow to purchase the property?	
f. What is roughly the amount of mortgage outstanding now? (note if involved remortgaging)	
g. Who is/was your lender or lenders?	
h. Are/were there any other loans secured on the property? How much do you owe those lenders?	
10. Can I just ask quickly about other financial products? Do you have any forms of **savings**? Are they enough to cover you in an emergency? i.e Would they cover three months salary or unexpected bills?	
11. Do you have /or do you pay into a **pension**? What kind? Private final salary, state only etc. Is/ will it be sufficient for you to get by?	
12. Do/did you have any other types of unsecured **debt** like loans or credit cards? How much do you owe, roughly?	

13. Have you ever received an **inheritance** (in the form of a property or money from the sale of a property? a) How much roughly and when? b) Do you expect to inherit anything in the future?	
14. Any other financial products not mentioned?	

Expectations of homeownership?

1. How did you arrive at the decision to buy a home? What particular qualities attracted you to homeownership? (security, monthly costs, control, rising markets, decorate it, equity, better home or neighbourhood etc) Prompt for meanings of things they put forward, examples.
2. Did you ever consider renting? Briefly explore reasons either way.
3. At the time of the purchase, how important to you was the opportunity to accumulate equity in your property? Why? If important, how did they see themselves benefiting from the equity?

Expectations of house prices in general

4. Thinking back to before the recession, what did you think when house prices really started to take off?
5. Why do you think house prices went up so much?
6. Did house price rises change the way people behaved? (consumption, BTL, credit/loans, remortgaging, FTBs?)

Attitudes towards and experiences of using housing equi*ty*

7. Casting your mind back a bit, did you think about your home being worth a lot more? Did that have any effect on your own behaviour?
8. Was there anything you *did* because your home was worth more, anything you didn't think you were in a position to do before?
    a. Have you ever remortgaged, or used equity? What did you use this money for? How many times? to give to family member, fund purchases, repay debts, support you when you lost work, needed additional funds in home, repairs? Get examples, details of how they acted on rising equity
9. Was there anything you *planned to do* because your home was worth more? e.g. anything you didn't think you could afford to do before? Retirement planning, go to college, pass money on to family, have a holiday, pay off debts etc.
10. Did the rising equity change the way the way you felt about your home, life or your finances? If so, in what way? E.g. sense of security etc.

Recession and falling prices

11. Thinking more broadly than housing, the recession has gone on for some time now. Can you tell me how it's affected you? Or your family? Prompt for job security, loss of confidence, rising prices, lower wages, debts, mortgage arrears?
12. So after 2006/7 as house prices have fallen and continue to fall. How have people been affected?

13. Has the fall in house price meant people have changed their plans or altered their behaviour or expectations at all? Now or for the future? Prompt to talk generally about situation before talking about whether same for them.
14. Earlier you indicated that your home had fallen in value. How has the fall in house prices affected you?
    a. Has the fall in house values stopped you doing or planning to do something in the future? Affected mobility, retirement planning, debt consolidation, plans to pass to children, plans for their home?

    If negative equity:
    a. I notice that you (along with many others) are in negative equity? How do you view this?
    b. Has negative equity stopped you doing or planning to do something (refer to earlier thoughts)? If so, how, get examples. Moving, drawing on equity, debts , repairs?
    c. What are or might be the consequences for you not being able to draw on any equity for some time?
15. Did the fall in house prices and housing equity change the way the way you felt about your home, life or your finances? If so, in what way?

Future plans

16. What do you think will happen to house prices in the future? What might be the long term implications, if any, of this fall in house prices? If prices bounce back? If price remain much lower?
17. Have your views on owning a home changed at all since you made your first purchase? Why? What things have become more or less important?
18. Anything else that you'd like the researchers to know about how the fall in house prices has affected people in your position in Northern Ireland?

Would it be ok if we contact you again next year to see how you are getting on and if anything has changed?

THANK YOU FOR GIVING ME YOUR TIME. CONFIRM NAME AND ADDRESS AND REASSURE WE'LL SEND VOUCHER