Latest mortgage arrears figures - some facts

5 September 2011

The latest quarterly figures on the extent of mortgage arrears and the level of court proceedings and repossessions in relation to such arrears, released on Monday 29 August by the Central Bank, seem to have been interpreted in different ways by different commentators. For the record, we set out below FLAC's interpretation of these figures, which we have consistently tracked since the first set was released for the third quarter of 2009.

1. Firstly, these figures refer only to mortgages on principal private residences, that is, where the mortgage holder is living in the property in question. It must be added however that arrears on mortgages/housing loans from local authorities are <u>not</u> included in these figures.

2. At the end of 2010, one in ten mortgages was in trouble. By March 2011, it was one in nine. Now we see almost one in every eight mortgages is struggling - 12.24 per cent of the total number of residential mortgages from commercial lenders.

This calculation is arrived at by adding the number of mortgages in arrears to the number of restructured mortgages that are said to not be in arrears[1].

	Arrears	Restructured (but not in arrears)	Total	Percentage of existing mortgages
December 2010	44,508	35,205	79,713	10.14% (of 786,164)
March 2011	49,609	36,662	86,271	11.03% (of 782,429)
June 2011	55,763	39,395	95,158	12.24% (of 777,321)

These restructured mortgages that are not in arrears have been described by some as 'fully performing'. However, they are only performing according to the terms of the restructuring arrangement; it is worth noting that the Central Bank in its own footnotes states that "the data collected on restructures relate solely to those principal dwelling house mortgages restructured due to financial distress". It is hardly overstating the case, therefore, to describe these mortgages as being in trouble.

[1] Note that if the number of restructured mortgages said to be in arrears was also added to this figure, this would be double-counting. Note also that a figure for restructured mortgages was only produced for the first time at the end 2010. Thus, we have only three quarters to compare – Quarter Four 2010 and Quarters One and Two 2011.

3. Almost 72 per cent of the mortgages in arrears have been in arrears for more than six months and the average amount of arrears for households in this category is over €21,000.

The average arrears figure here is got by dividing the number of accounts that are six months in arrears into the total amount of those arrears. It should be noted here that the average amount of arrears for the 28 per cent in arrears for over three but less than six months is over €5,500. What this means is that to get these mortgages back on track according to the original terms of the mortgage loan, the borrower/s would have to recommence paying the original monthly instalment and start reducing the arrears over time. In the current economic climate, paying off an average of €5,500 in arrears over time is a huge ask. Paying more than €21,000 looks impossible without a major transformation in the borrower's financial circumstances.

4. Despite the relatively low level of repossession cases, mortgage lenders now hold 809 repossessed properties, up from 692 in March 2011.

Over the two years of quarterly figures, the number of repossessed houses returning to lenders (whether as a result of a court order or a voluntary surrender/abandonment by the borrower) has steadily increased quarter upon quarter. Put simply, more houses come back to lenders in each quarter than they are able to sell on the housing market. For example, in this particular quarter, 173 properties came back to lenders (54 repossessions, 119 surrenders) but only 56 of the existing stock of repossessed houses were 'disposed' of, i.e. sold.

We would suggest that a combination of properties currently being hard to sell and the likelihood that many of those in chronic arrears are in negative equity so that any repossession will lead to a substantial shortfall after the repossessed property is sold, is one of the principal contributory factors in the comparatively low level of court proceedings currently being brought.

5. Fifty-four properties were repossessed on foot of a court order during the second quarter of 2011.

The Minister for Finance, Michael Noonan TD, stated on Morning Ireland (31 August) that "over the last period of time for which the figures are available, there have only been 58 possessions through the courts, which is quite small". There is some confusion evident in this statement. It is not clear whether the Minister was referring to the number of Possession Orders granted by the courts during 'the last period' (i.e. April to June 2011) or the number of houses actually repossessed on foot of a court order during this time. According to the Central Bank figures, there were in fact 54 (as opposed to 58) repossessions on foot of a court order during that three-month period, but a total of 124 new Possession Orders were granted during this period.

It is important to distinguish between these two categories, as over the course of the 24-month period for which we have figures, a far larger number of Possession Orders have been granted by the Circuit and High Courts than have been followed through by lenders resulting in actual repossession of a dwelling. Over the two-year period for which we have figures (July 2009 – June 2011), 909 Possession Orders have been granted in total, with 263 actual repossessions taking place. There is clearly evidence here that in a number of cases lenders are obtaining orders but not executing them. Again, the depressed state of the property market and the spectre of negative equity may well explain this.

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