

Mortgage effectiveness review: arrears findings

Research Report

Prepared for:

Financial Services Authority

Prepared in compliance with the international quality
standard covering market research, ISO 20252 by:



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EXECUTIVE SUMMARY

This report details the arrears findings of the qualitative consumer research undertaken for stage 2 of the Mortgage Effectiveness Review, which was published in March 2008.

Summary: experience / treatment in arrears

Context

The depth of arrears experienced by consumers varied from a minor, short-term 'blip' to major, long-term fundamental problems, which impacted on consumers' perceived likelihood of resolving the arrears situation.

Attitudes to lender response

In principle, consumers understood the ultimate penalty of arrears, and lender contact meant that the gravity and reality of the problem soon 'hit home'. However, some respondents were surprised by the depersonalisation of the process, the limited options available to resolve the issue, and the speed at which the case was progressed to the courts.

As such, there was a perceived lack of flexibility on the part of the lender. Lenders perceived unwillingness to accommodate or provide alternative options for resolution was a particular frustration, particularly to those respondents who were experiencing minor arrears.



However, on reflection, most consumers felt that the lender response, although disliked, was deemed reasonable, in the sense that they understand the lender needs to take action to secure their money. However, lenders were not seen as willing to engender a 'managed' solution, it was more a case of 'when are we getting out money'. Indeed, the experience of attending court often provides, to the surprise of consumers, an opportunity to personalise the situation – explain and take account of their particular circumstances – and then initiate a plan to help resolve the situation. A case could be argued that perhaps the lender also sees court proceedings as beneficial – a means by which to ascertain whether the arrears is a minor 'blip' or major 'chronic' problem.

Fair treatment

The research raised questions relating to the treatment of consumers in arrears, namely:

- Can lenders be expected to assess the 'grey areas' that consumers are in?
- Is initiating court proceedings (a 'black and white' blanket approach) sooner rather than later expedient?

Court proceedings were considered ominous by consumers, but it was also seen as providing them with an opportunity to address the situation when they are unable to pay the required amounts requested by the lender.

1.1 Research objectives

For consumers in arrears, the research sought to cover three key areas:



- *The Process:* Understanding the consumer approach to and experience of dealing with arrears, including reasons for falling into arrears and what consumers thought about the types and frequency of information and communication, and accommodation they received.
- *The Ability:* Establish the level of consumer understanding and the use of information received, specifically to gauge understanding of the consequences of being in arrears and the ability of consumers to interpret information, and use it constructively to resolve their mortgage issues.
- *The Expectations:* Investigate consumer perceptions of being treated fairly, with a view to comparing the degree of congruence between consumer and FSA's expectations of 'fair treatment'.
- Additionally, the research aimed to establish any variation in the experience of handling arrears between customers of sub-prime and mainstream mortgage lenders.

1.2 Methodology

The research consisted of 40 face-to-face depth interviews with consumers who were currently, or had recently been, in arrears on their mortgage. Respondents were recruited from a sample provided by the FSA and interviews were conducted in the South, Midlands and North of the UK. Interviews lasted approximately one hour and took place between 14th September and 5th October 2007. The exact profile of the sample structure achieved for each research component is detailed in the table below.

**Table 1: In arrears sample structure**

	Current or previous experience of arrears: 40 interviews		
Length of time in arrears	Mainstream lender	Sub-prime lender	Total
Less than 3 months	6	6	12
3 – 12 months	6	6	12
12+ months	4	4	8
No longer in arrears	4	4	8
Total	20	20	40

As can be seen above, the interviews included an even split of individuals who have current or recent experience of arrears with either a sub-prime mortgage lender or a mainstream mortgage lender. The sample also included a spread of: age; gender; financial sophistication; and amount of mortgage.

1.3 Interview structure

In arrears interview structure

Interviews with consumers in arrears first sought to identify the perceived reasons which respondents believed had contributed to them falling into arrears, as well as establish the degree to which respondents understood the different consequences of being in arrears. The discussion then moved on to identify what consumers thought about the types (and frequency) of information, correspondence and communications they had received from their mortgage lender; specifically, was the communication viewed as timely, clear and helpful, or were there any perceived shortfalls or misunderstandings. This section of the interview also asked consumers to discuss how they felt about the response of the lender to any proposals they had made to deal with the arrears, and the degree to which the proposals were deemed acceptable or unacceptable.



Consumers were then asked to recall what they had understood and interpreted from any information that had been provided by the lender, and whether this information had been used in a constructive way to resolve their mortgage problems. Arrears charges were also discussed here, including how consumers felt about the level of additional charges involved and how charges were applied.

For the final section of the interview, respondents were asked to discuss their attitudes towards the lender treatment they had experienced. Specifically, this was to ascertain whether consumers regarded the treatment they had received as having been 'fair'.



SECTION B: IN ARREARS MORTGAGE REVIEW



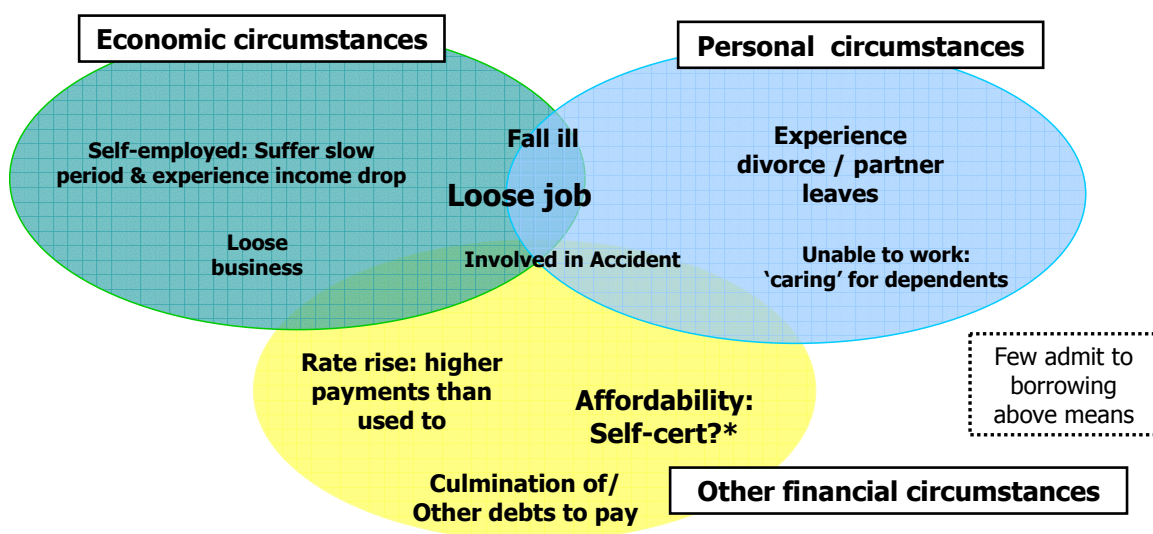
2 IN ARREARS MORTGAGE REVIEW

2.1 Context: Factors contributing to arrears and depth of perceived problem

Unforeseen circumstances

The research found that in most instances falling into arrears was often largely due to unforeseen circumstances. There were numerous contributory factors cited by respondents as to why they had fallen into arrears on their mortgage, and often, circumstances were inter-related (for example, the loss of a job, following a period of ill health). Figure 1 below details the range of reasons identified by respondents for falling into arrears.

Figure 1: Reasons for falling into arrears



*Proportion of respondents with self-cert mortgages, even though salaried not self-employed?



A spectrum of arrears

The degree of arrears experienced amongst respondents varied from more major arrears (typically characterised by more longer-term, fundamental financial problems) to more minor arrears (which was often seen as a more short-term 'blip' in their financial circumstances). The extent of arrears often impacted on the degree to which consumers felt that they were in control of the situation and confident about resolving their debt issues.

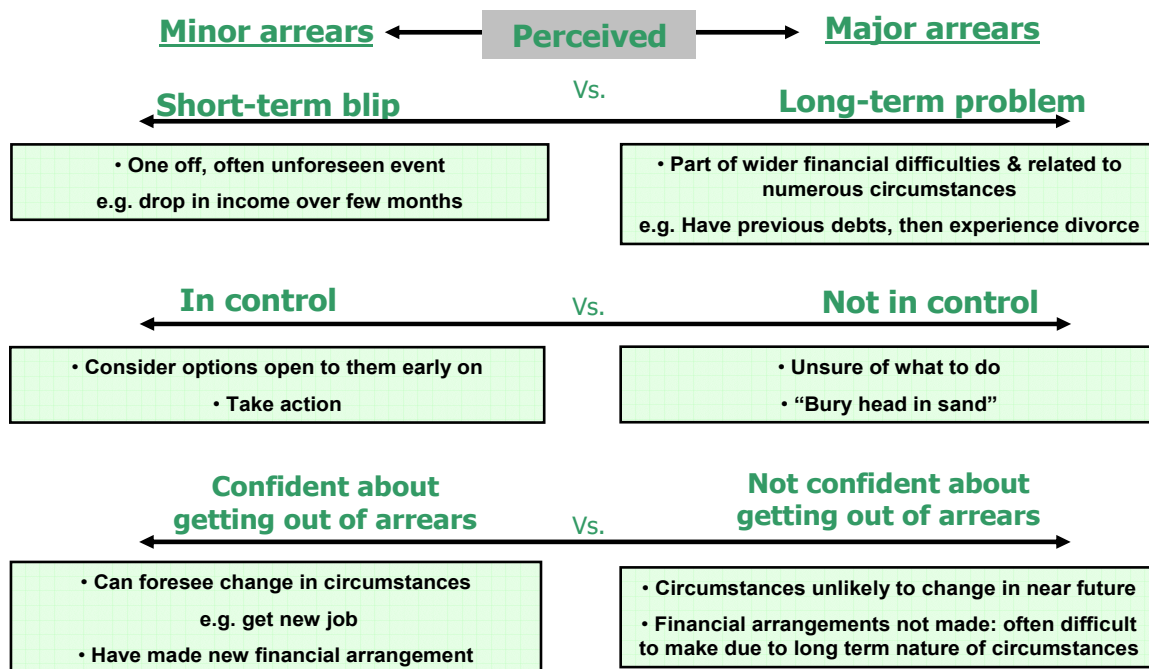
Consumers dealing with minor arrears were commonly experiencing difficulties resulting from a one off, unforeseen event and, as a result, had experienced, for example a drop in income in preceding months. These consumers were generally more in control of the situation, considering the options open to them early on, and were attempting to take what they see as appropriate action. As a result, these respondents were typically more confident about getting out of arrears. They could foresee a genuine change in circumstances, for example, by getting a new job, and were looking to, or had already taking steps to put in place new financial arrangements.

On the other hand, consumers dealing with major arrears were often experiencing more long-term problems. The mortgage arrears was often part of wider financial difficulties; difficulties which were often related to a combination of circumstances, for example, they had previous debts prior to falling into arrears and then experienced divorce. These individuals tended to feel less in control of their situation, unsure of what steps to take and often opting for the approach of 'burying their head in the sand'. Confidence about getting out of arrears was often quite low; the perception was that their circumstances were unlikely to change in the short-term. These people stated that there were few options open to them in terms of tackling their arrears given the more chronic long-term nature of the change in their circumstances.



The spectrum of arrears and associated levels of anxiety are illustrated in Figure 2 below.

Figure 2: Depth of arrears and degree to which feel in control



Resolving arrears in the short-term

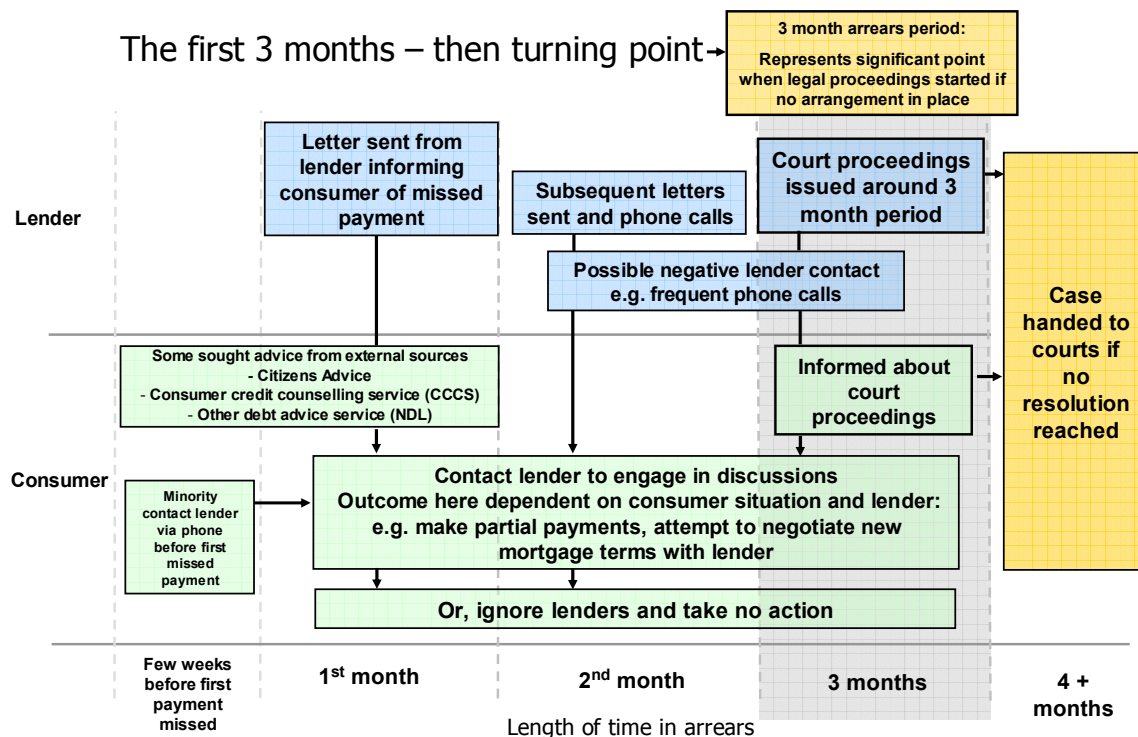
As indicated, the level of arrears being experienced by consumers was often related to wider personal circumstances. Consumers who were dealing with major arrears were more likely to have experienced other instances of mortgage arrears in the past and commonly had other credit problems in addition to their mortgage difficulties. Furthermore, consumers with major arrears had generally experienced events that were having a longer-term impact on their financial situation. Consumers who were currently, or had previously, been dealing with more minor arrears, had often experienced more short-term changes in their circumstances and overall were less likely to have experienced credit difficulties in the past.



The length of time that respondents believed that they would require to resolve their mortgage arrears was very much dependent on their particular individual circumstances. It was evident that the often longer-term 'fundamental' nature of major arrears made resolving the situation substantially more difficult in comparison to those experiencing more short-term changes or 'blips' in their financial circumstances. However, the majority of consumers, whether experiencing major or minor arrears, had failed to resolve the problem fully within three months. (Although this was, of course, linked to the fact that people were recruited on the basis of being in arrears for different lengths of time). The three month mark often appeared to represent a 'turning point' for consumers in arrears; the seriousness of the situation was heightened by court proceedings being initiated.

2.2 The experience of being in arrears: contact with the lender and process of finding a resolution

Figure 3: The first three months in arrears





Initial expectations... gravity quickly dawns for most

Virtually all consumers appeared to be fully aware of the ultimate penalty of being in arrears on their mortgage, namely, that their home could be repossessed. Consumers often claimed that their attention was drawn to this at the point of the mortgage purchase. Although throughout the process all consumers had (increasingly) come to acknowledge that the situation they were facing was serious, not all respondents had expected repossession to be the final outcome. For many respondents, initial assumptions about their lender (prior to arrears contact) were generally positive. Many expected their lender would be understanding of their circumstances and would help them resolve the problem. Respondents had often rationalised the situation to believe the lender would understand their circumstances and be accommodating of their needs:

- *"It's just a short term problem that can be resolved"*
- *"I've lived here for years, they can't just make me leave"*
- *"I can pay something towards the mortgage, even if it's not the full amount"*

However, the research found that lender involvement did not generally match up to consumers' initial expectations. Personal circumstances appeared to have little impact on the action that had been, or was currently being taken by the lender, and the speed at which the case was progressed was of particular surprise to many consumers.

Engaging with the lender

A number of consumers had obtained advice and information from other sources, prior to any contact with the lender. This included approaching organisations such as National Debtline or the Consumer Credit Counselling Service for general debt information; here, consumers pointed out that they were advised that mortgage



payments were a priority debt. Some stated that they had sought other consumer advice, for example, details about benefit allowance for periods of ill health.

The majority of respondents were keen to speak to their lender early on, particularly those who had experienced what they considered to be some form of more 'short-term' difficulty. Consumers generally claimed that they had made the first move to engage in verbal contact with the lender; this was with a view to getting across 'their story'. Many claimed that they had approached the lender with potential solutions in mind (for example, a payment holiday or making reduced payments). Many consumers felt that early contact would help to diffuse the seriousness of the problem, or prevent it from escalating any further. There appeared to be a genuine desire to take control of the situation.

However, a small minority of consumers with short-term problems wished to resolve their arrears independently, over time, and were more reluctant to engage in discussions with the lender. These consumers generally felt that they were in control of the situation, that time would help to rectify the problem, and that lender contact was merely an additional 'hassle'.

Those respondents who were experiencing longer-term issues were generally more likely to at least initially ignore or not engage in lender contact early on. These consumers were unable to see a way out or a solution to their problems; stating that their life generally was (increasingly) becoming a 'nightmare'.

Lender contact a disappointment

The majority of consumers that had contacted (responded to) the lender had done so with a view to proposing a short-term arrangement that suited their current situation. Partial repayments, a payment holiday or adding the arrears to the mortgage were cited as common suggestions at this point of contact. However,



most respondents claimed that lenders were unwilling to accommodate such suggestions and had generally not been forthcoming in providing any alternative options. For many, it was felt it was ultimately a case of 'make the full payments or facing the consequences' (i.e. if missed payments continue, court proceedings will be initiated – as indicated, escalation to court proceedings often occurred after three months of missed payments). However, there did appear to be some leniency evidenced towards consumers who were able to make partial payments, mainly amongst customers of mainstream lenders. On the whole, there was a general perception amongst customers of there being no flexibility on the part of the lender. It was felt that lenders were unwilling to consider the personal circumstances of the individual (a particular frustration amongst those who stated that they were just suffering a short-term, cash-flow problem). Many respondents held the impression that lenders appeared to just simply 'follow a set procedures'.

Consumers stated that there had been varying levels of perceived 'understanding' on the part of the lender. Some respondents commented that lender representatives reacted sympathetically over the phone, even if they could not produce a helpful solution. Other lenders were perceived to have been more 'hard nosed' about the process. A small number of respondents reported that they had experienced intense lender contact that they deemed as 'threatening'.

Lender reactions to consumers' proposed solutions

Payment Holiday

No lenders appeared to accommodate any suggestions of a 'payment holiday' under any circumstances, with the resulting outcome being for consumers to pay in full or face legal proceedings.



Add arrears amount to mortgage and increase term of mortgage

Lenders were generally not receptive to the suggestion of adding the arrears amount to the mortgage and increasing the mortgage term when this was proposed by consumers in the first few months of arrears. Consumers were again told they would face legal proceedings if full payment could not be made. However, this was the final outcome in some instances, usually after the case had been passed to the courts, or once the consumer had made some progress in paying back a certain level of arrears.

Make partial repayments

Reactions to making partial payments were dependent on the lender; some lenders were more willing to accept this than others. The outcome often appeared to be dependent on the level of partial payment being made and the lender themselves. Some lenders had pursued court proceedings regardless of partial payment, while others had not and negotiated with the consumer until the arrears were repaid. Mainstream lenders generally appeared to be more willing to accept partial payments than sub-prime lenders.

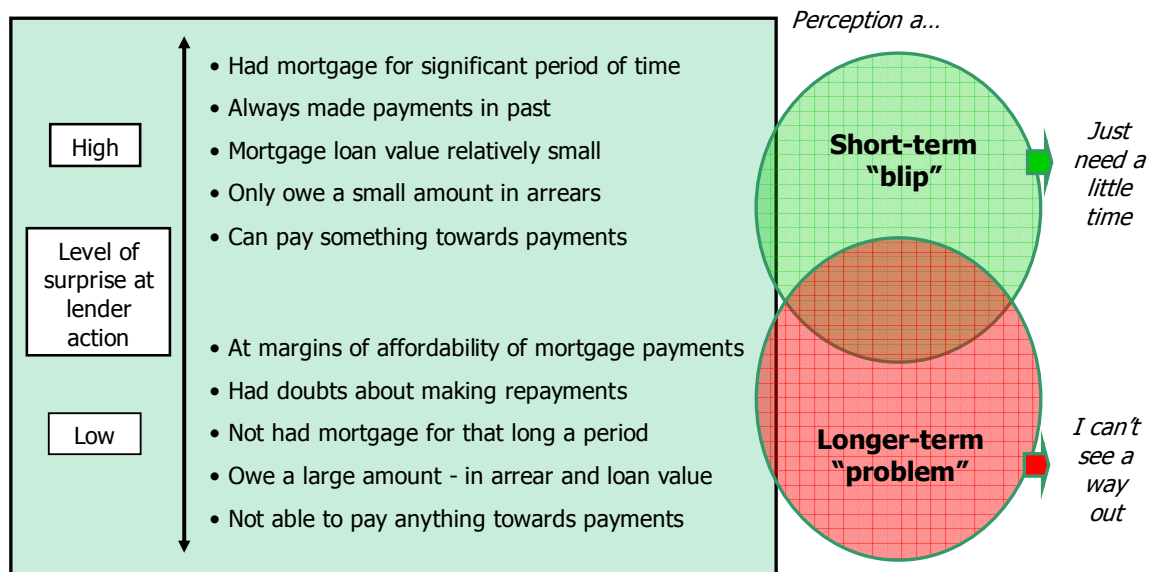
Changing mortgage deal e.g. to fixed rate, interest only

Changing mortgage deals did not appear to be a straightforward option once consumers had fallen into arrears and was often dependent on fulfilling some initial criteria, for example, repaying arrears and then keeping up with current payments for a set period, such as six months. Some consumers also mentioned penalty costs are incurred when changing mortgage deals.

As outlined in Figure 4 below, the intensity of surprise at the lender action taken was a symptom of one or a number of factors.



Figure 4: Intensity of surprise at lender action



Telephone contact

Most contact with lenders had taken the form of verbal conversations conducted over the phone with a specialist 'arrears department'. Some respondents did complain that they were required to 'repeat their story' every time contact was made. The personality of the telephone advisor was considered important; some were viewed as more helpful and sympathetic than others.

A very small proportion of respondents mentioned that they had face-to-face contact with lender representatives or were referred to a debt councillor, but this was the exception to the norm. Referral to debt councillors was mentioned by only a few, typically customers of mainstream lenders. Face-to-face contact with a lender representative was often at the request of the consumer. A number of consumers cited the cost of a face-to-face meeting as being prohibitive.

On the whole, the responsibility was placed on the consumer in terms of establishing contact. Missed payment letters requested consumers call the arrears



department. Although, perhaps unsurprisingly, lenders did contact the consumer in instances where this request had not been met.

Nature of lender contact

The main duty of the lender appeared to centre on informing the consumer about the arrears process, rather than actively 'managing' the situation. The role of the lender did not involve presenting the consumer with a range of possible options to deal with the arrears. As such, many consumers did not perceive the lender as having been pro-active in dealing with their situation. Consumers generally arrived at the belief that lenders were not in a position or possibly not willing to take account of personal circumstances. The perception was held (the impression they got was) that the reasons for falling into arrears was irrelevant from the lender perspective. Consumers felt that this often meant the lender over-looked crucial information which had hindered resolving the situation.

- "It's just a short-term problem and I've always made the payments in the past"
- "I only owe a really small amount"

Frequency of lender contact experienced by different consumers was varied. In some instances it was up to the consumer to maintain contact and provide the lender with regular progress updates. In other cases consumers had received regular contact from the lender, while some experienced such frequent contact it was felt to border on 'harassment'.

Key differences between mainstream and sub-prime lenders

- *Flexibility / Willingness to accommodate solutions proposed by consumers*



Generally, from the consumers' perspectives, both mainstream and sub-prime lenders were viewed as inflexible and unwilling to negotiate with consumers or accommodate short-term proposed solutions. However, some mainstream lenders appeared to have shown more leniency to consumers who were able to make partial payments (in comparison to sub-prime lenders who typically pursued court proceedings if payment was not made in full).

- *Overall approach and tone of arrears 'advisor'*

The tone of mainstream advisors was felt to vary. Some advisors were considered to be 'sympathetic' and / or helpful, and in some instances made referrals to debt counsellors. Sub-prime advisors were generally perceived as having taken a more 'hard nosed' approach, although this was perhaps a symptom of the fact that sub-prime customers were more likely to be dealing with major arrears and more longer-term financial difficulties.

- *Engaging in 'threatening behaviour'*

On the whole, action that had been taken by mainstream lenders was not perceived to have been threatening; although some respondents felt that letters that were sent warning of repossession were of a threatening nature. One or two examples of intimidating contact were cited from customers of sub-prime lenders, including having experienced frequent phone calls at inappropriate times of the day demanding payment, or calls warning of bailiff action.

- *Level of contact*

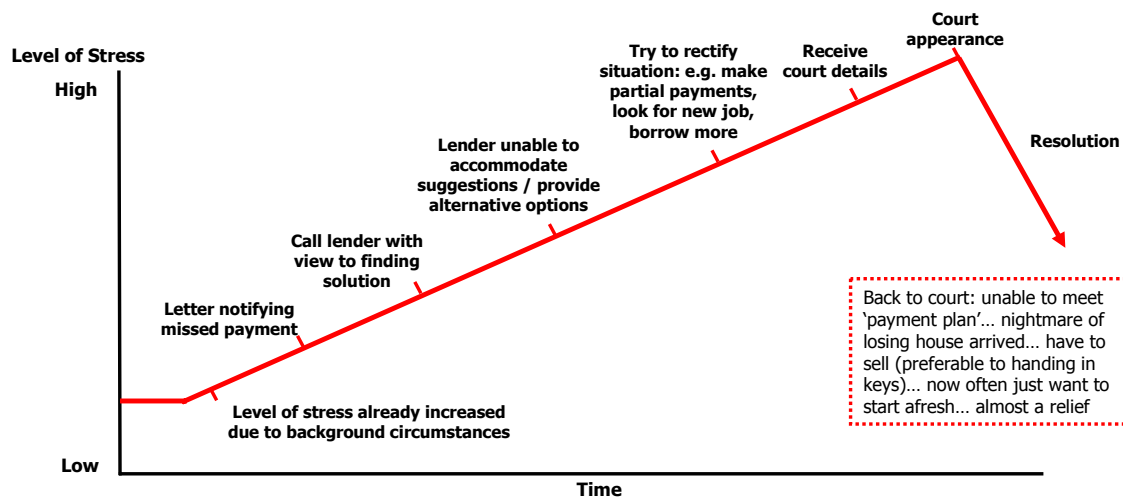
Customers of sub-prime lenders tended to have experienced more frequent contact than consumers with mainstream lenders; levels of mainstream lender contact was more varied.



Impact on well-being

Perhaps unsurprisingly, many stated that being in arrears was a stressful experience. Many respondents had fallen into arrears during an already traumatic time in their life (such as going through divorce or being made unemployed). The point was frequently made that they had become increasingly anxious throughout the period of being in arrears, in part, because of the uncertainty of how the situation would eventually be resolved. The level of stress experienced by consumers was felt to increase as the period of arrears was prolonged, often up to the point of court involvement. Interestingly, the court appearance, where a resolution was commonly found, provided some sense of relief.

Figure 5: Impact on well-being throughout arrears



Going to court

Many consumers were surprised by the speed at which court proceedings were initiated, especially amongst those individuals who stated that they were in arrears



to a relatively small amount (for example, one or two months). Indeed, for those who stated that they only owe a small amount, the process of going to court and the threat of repossession were viewed as unnecessary and unreasonable. Court initiated proceedings were largely met with negativity; respondents felt anxious about attending and what the outcome would be. However, it was felt that the court involvement often proved beneficial. It either led to a complete solution to the problem, or bought them more time with which to rectify the situation.

The courts were generally perceived by respondents to have been more lenient and understanding than the lenders. It was widely felt that the courts took account of their individual, personal circumstances and resolved the situation by the means initially suggested by the consumer to the lender (this was particularly the case for those with perceived short-term problems).

Ultimately, consumers were therefore grateful for the assistance that was provided by the court, given that it had often turned feelings of 'misery' into some degree of optimism. For many respondents, contact with the courts was felt to be the first time, since experiencing arrears, that anyone was able to listen to them and actively help and proffer a 'managed' solution.

In Figure 6 below we outline the respondent experience from the perspective of those who were attempting to resolve what they considered to relatively minor and in Figure 7 the experience from the standpoint of attempting to resolve major arrears. As can be seen, the majority of those in situations of resolving minor arrears were of the view that they could see 'light at the end of the tunnel'. For those in major arrears, some were of the opinion that the only realistic solution was to sell their home (although far from ideal, it was seen as a relief in that it was a way out of their current misery).



Figure 6: Resolving minor arrears

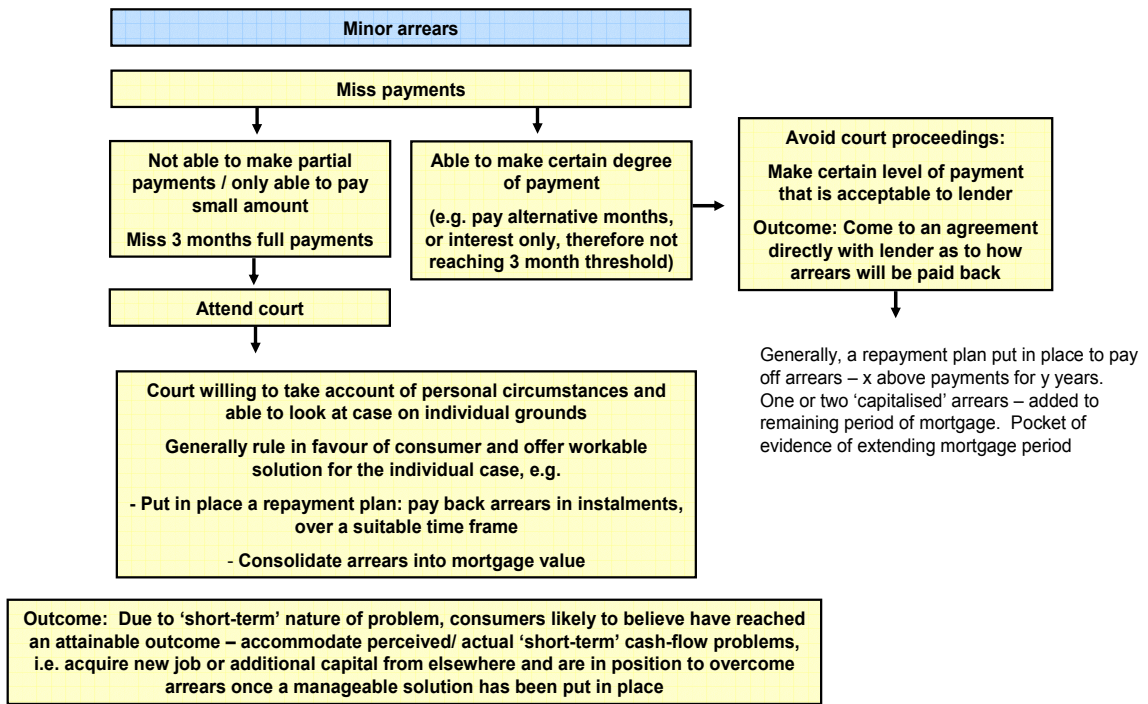
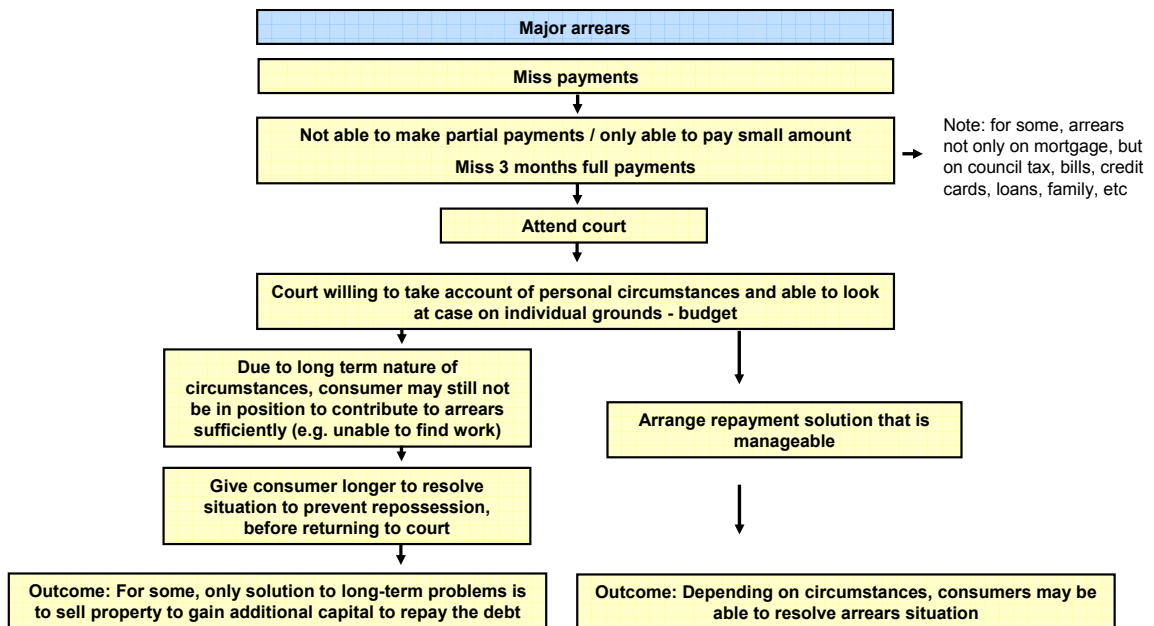


Figure 7: Resolving major arrears





Arrears charges

Respondents identified a number of additional charges which they associated with falling into arrears, including:

- Charges for letters (and visits where applicable)
- Additional interest owed on arrears payment
- Penalties for missed direct debit payments
- Charges for mortgage statements
- Court charges

Charges were disliked, considered irritating and were thought to ultimately compound the problem. However, to a degree, consumers did accept them as an inevitable consequence of the situation they were in. Although the value of the additional charges was thought to be 'astronomical', for many respondents, they were also to a degree considered inconsequential. With the financial difficulties that respondents faced, additional penalties and charges represented 'just another thing to pay'. The point was made that they had already reached a financial 'threshold', whereby they were missing mortgage payments, and this was just an added layer of annoyance.

In addition to the charges detailed above, some respondents had accrued further expenses through transferring their mortgage or selling their property. For some, 'early redemption' penalties had represented a major cost (e.g. £11,000).

Written literature: 'What to do' document

Very few respondents could recall having received the FSA advice leaflet: "What to do when you can't meet your mortgage payments". For those respondents who had received this leaflet, it was felt the issuing of the document was unsuitably timed. Some respondents stated that the leaflet was provided at the point of mortgage purchase (but that they had not necessarily read it at this time or kept it



for future reference). Other respondents stated that they had received the leaflet after having been in arrears for some time (by which point it had been too late to be given advice on how best to handle the situation). In the absence of the FSA leaflet, respondents did not recall any other general written advice being provided by the lender, unless they had approached other external agencies (e.g. Citizens Advice / CCCS / National Debtline).

On being presented with the FSA leaflet during the interview, many respondents remarked that such information would have been welcomed and considered useful. Some respondents stated that they were not aware of all the options for paying off mortgage arrears that were detailed in the leaflet, and could have presented these to the lender. The list of contacts was also felt useful. The 'complaints' section was also interest; particularly to those respondents who stated that they had been unduly 'harassed'. Some respondents also felt that the advice to avoid taking out additional loans (or credit cards) to repay the debt would have been beneficial to them at the point of falling into arrears.

2.3 Expectations of fair treatment

Fair treatment: A mixed picture

Most consumers stated that they were unhappy with the lender treatment they had experienced during the period of being in arrears. Many respondents felt that the lender could have been more understanding and more accommodating of their particular individual circumstances, which could have helped to resolve the situation sooner.

The research found that the concept of 'fairness' on the part of the lender was not a straightforward principle. Here, certain aspects of the process were thought to

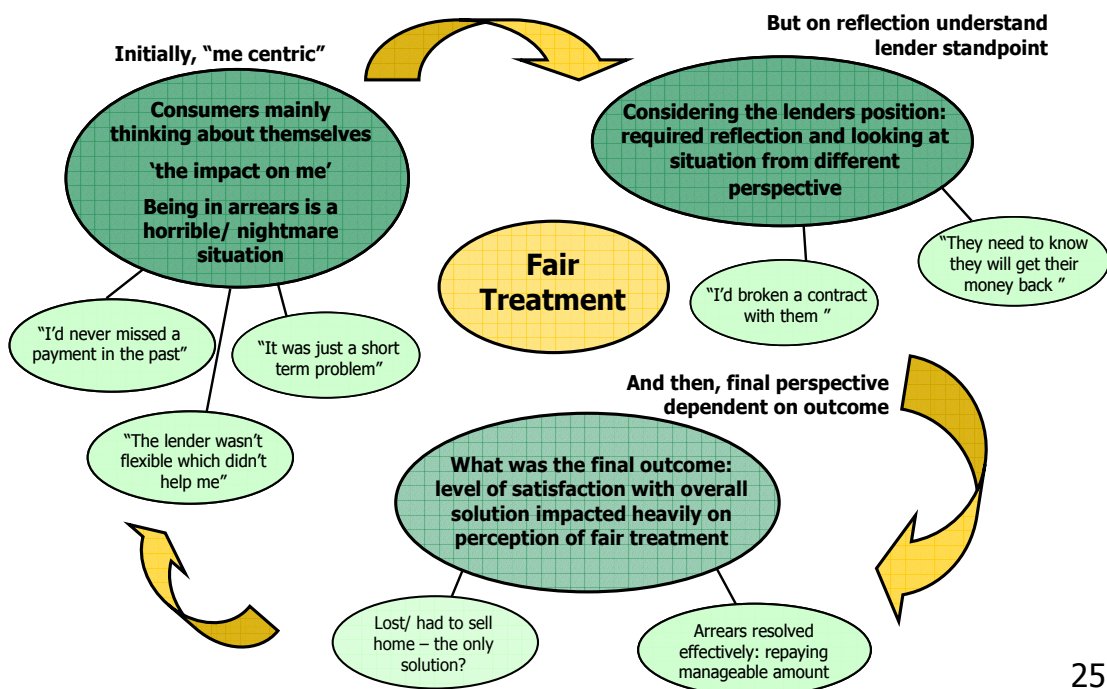


be more unjustified than others. Specifically, additional charges and 'threatening behaviour', where it had been experienced, were deemed unreasonable.

The perception of fair treatment was to some extent dependent on certain variables, in particular the degree of consumer satisfaction with the final outcome (largely, whether, or not, the respondent was able to keep their house). However, on reflection, most consumers did feel that overall they had been treated fairly by the lender. Ultimately, the point was often made that they had broken a contract with the lender, and as such, they could understand the lender position, namely, that they needed to be reassured that they would get their money back. Furthermore, some consumers could see the treatment as being 'fair' (or reasonable) if they had been in a different situation or taken a different attitude, for example, "I had just not wanted to make the payments, then I'd understand the action that they took".

Figure 8 below, summaries the factors that were taken into account by respondents in arriving at their views on perceptions of 'fair treatment'.

Figure 8: Unpacking perceptions of fair treatment





Is it 'fair treatment'?

It was difficult to be definitive on the extent of unfair treatment, if any, that had been experienced by consumers (in a research setting). This was because in the research only one side of the story was conveyed, albeit most respondents did seem to take a balanced view against the criteria set out.

Lack of flexibility on the part of the lender was the main issue for many respondents that had inhibited them resolving their arrears situation. That is, respondents felt that the lender could have been more accommodating, particularly in terms of accepting, in the short-term, reduced payments. Those who were experiencing minor arrears (i.e. a 'blip' in their financial circumstances) felt particularly strongly about this. Even those respondents who fully acknowledged the lender as having acted fairly, felt that more could have been done to enable them to have resolved the situation sooner, or prevent escalation/initiation of court proceedings. Many respondents felt that a repayment plan being put in place or consolidation of their arrears into their mortgage earlier on in the process would have been a sufficient resolution and avoided court attendance.

The research perhaps raises two key questions regarding lender involvement in terms of providing fair treatment:

- Is it perhaps unrealistic to expect lenders to immerse themselves in individual arrears cases?
- Is it possible for a lender to assess what is a short-term 'blip' versus a longer-term 'chronic' problem?

At present, it appears that consumers in arrears generally experience consistent treatment, so it could be argued that treatment is 'fair' in the sense that largely everyone is treated in the same way, i.e. lenders want their money. Having signed a contract, consumers view the power as resting with the lender; consumers



understand that the lender is playing 'by the book', but ultimately this means the odds are weighted against them.

Contributory negligence

Notwithstanding the issues surrounding the perceived lack of flexibility (that is, the lenders willingness to listen to or accommodate suggestions, or offer solutions themselves), the action taken by the lender did often seem to correlate with the conduct and situation of the consumer. It would seem that the behaviour of the lender tends to be more 'punitive' if the consumer had any of the following characteristics:

- Was not forthcoming / responsive in communication
- Failed to pay anything for a period of time
- Had low equity in their property
- Had a 'poor' job / income, or health history

In part, there did appear to be instances of consumer 'contributory negligence' at work; that is, consumers 'burying their head in the sand', and not facing up to the gravity of the problem quickly enough. However, this was often largely a symptom of being in 'dire straits', i.e. experiencing major arrears and suffering from fundamental, chronic, financial problems.

Examples of perceived 'unfair' treatment

A number of consumers who could be categorised as having experienced a short term 'blip' rather than suffering from longer term chronic problems cited examples where they felt they were not given sufficient time or options for dealing with their arrears. This included instances where a consumer had lots of equity in their property, and at any one time had only owed one month of arrears. These



consumers felt that it was highly likely that they would be able to 'catch-up' with their mortgage payments. It was felt that there was a high propensity of the problem which initiated the arrears being resolved relatively quickly i.e. my period of unemployment/ cash-flow issues with business are short-term). In these types of circumstances, some consumers questioned the fairness of the lenders response, raising the question of whether it is a 'one size fits all' approach. It was felt that perhaps the lender could have done more to gauge the appropriate action to take.

There were one or two examples of 'harassment' cited by respondents. These included instances of endless, repetitive phone calls from the lender, who had then refused to listen to the consumer's standpoint. Where complaints had been made about such instances, the 'harassment' did then stop. However, not all consumers had chosen to complain, and instead suffered in silence, and this can result in inappropriate actions being taken, for example, no response to contact approaches, or the taking out loans or additional credit cards.

However, most consumers, perhaps surprisingly, did appear to understand the position of the lender – albeit they were far from happy with the predicament they faced. It was just felt that an element of greater flexibility on the part of the lender was required in terms of dealing with their arrears, and as such, where possible, to more effectively resolve the situation.

2.4 Summary: experience / treatment in arrears

Context

The depth of arrears experienced by consumers varied from a minor, short-term 'blip' to major, long-term fundamental problems, which impacted on consumers' perceived likelihood of resolving the arrears situation.



Attitudes to lender response

In principle, consumers understood the ultimate penalty of arrears, and lender contact meant that the gravity and reality of the problem soon 'hit home'. However, some respondents were surprised by the depersonalisation of the process, the limited options available to resolve the issue, and the speed at which the case was progressed to the courts.

As such, there was a perceived lack of flexibility on the part of the lender. Lenders perceived unwillingness to accommodate or provide alternative options for resolution was a particular frustration, particularly to those respondents who were experiencing minor arrears.

However, on reflection, most consumers felt that the lender response, although disliked, was deemed reasonable, in the sense that they understand the lender needs to take action to secure their money. However, lenders were not seen as willing to engender a 'managed' solution, it was more a case of 'when are we getting out money'. Indeed, the experience of attending court often provides, to the surprise of consumers, an opportunity to personalise the situation – explain and take account of their particular circumstances – and then initiate a plan to help resolve the situation. A case could be argued that perhaps the lender also sees court proceedings as beneficial – a means by which to ascertain whether the arrears is a minor 'blip' or major 'chronic' problem.

Fair treatment

The research raised questions relating to the treatment of consumers in arrears, namely:

- Can lenders be expected to assess the 'grey areas' that consumers are in?



- Is initiating court proceedings (a 'black and white' blanket approach) sooner rather than later expedient?

Court proceedings were considered ominous by consumers, but it was also seen as providing them with an opportunity to address the situation when they are unable to pay the required amounts requested by the lender.

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