

FINAL

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Home repossession claims in low income areas growing 84% faster than in high income

Court actions launched by UK lenders to repossess homes have risen 84% faster in low income areas than in high income areas over the last five years*, according to statistics obtained by Sweet & Maxwell, the leading legal information service.

Over the last five years court cases to repossess property have increased by 118% in low income* areas from 2.06 per 1,000 households to 4.49 per annum. However, in higher income areas the growth has been much slower – from 1.27 court cases per 1,000 households five years ago to just 2.09 now.

Sweet & Maxwell says that despite Government intervention to discourage repossession actions by sub-prime lenders, the impact of the credit crunch through repossessions has been felt far more acutely in low income areas even though they will have lower levels of home ownership than more affluent areas.

However, Sweet & Maxwell also says that without FSA action and a new set of court protocols to slow legal action by sub-prime lenders the gap between repossessions in higher and low income areas could have been even more dramatic.

As in the US, the credit crunch in the UK saw a dramatic reduction in sub-prime lending that prevented many low income families from refinancing their mortgages to take advantage of the Bank of England's emergency cuts in interest rates.

With sub-prime lending much harder to obtain, low income workers faced the slowing economy without the major boost to disposable income provided to middle and high earning individuals by the resulting dramatic cuts in rates for prime mortgages.

Jobs in lower income areas also tend to offer lower redundancy payments relative to earnings than jobs in the professions. Combined with a lower level of savings, job losses amongst those on low incomes will create more financial stress than job losses amongst higher income families – leading to a quick build up in mortgage arrears.

With relatively lower levels of wealth transferred between generations in low income areas, properties in these areas will be owned with lower levels of equity. The low level of equity held in properties owned by a low income individual who falls into arrears might encourage a sub-prime lender to try and repossess and sell a property before a falling market destroys that equity cushion.

Corby had the highest claims for house repossessions in the year to Dec 31 2009, with 8.48 per 1,000 households. Barking and Dagenham (8.32), Newham (7.72) and

Knowsley (7.65) appeared just below Corby as the local authorities with the highest rate of legal claims to repossess properties.

At the other end of the scale, the Cotswolds had the lowest repossession rate (0.99 per 1,000 households per annum), followed by Camden (1.02), Cambridge (1.07) and West Dorset (1.13).

It could also be the case that sub-prime lenders were naturally more aggressive in pursuing repossession through the court than lenders to middle and higher income earners.

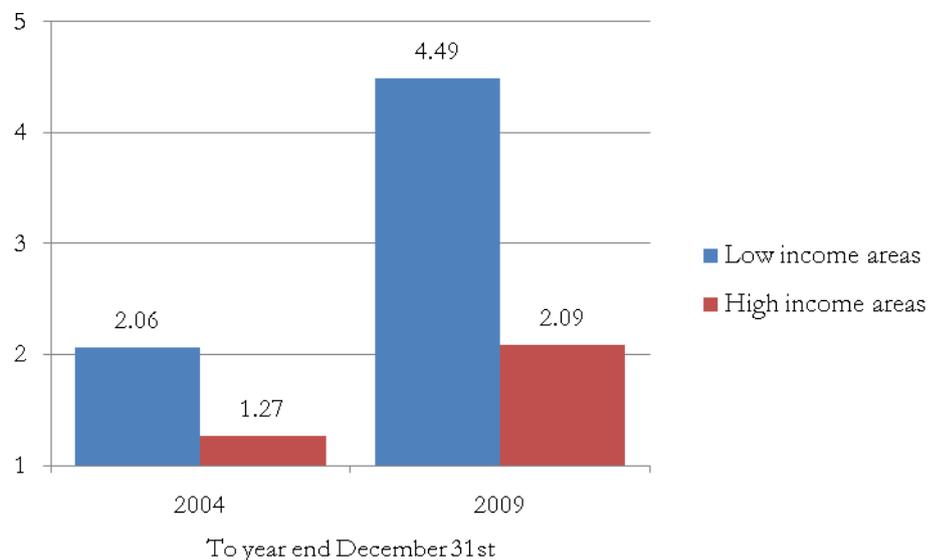
Measures taken to try and reduce repossessions

The Civil Justice Council helped put in place a pre-action protocol laying out the steps that should be taken by lenders before they start a legal action to repossess. In part this protocol was designed to discourage borrowers from taken early action and to resolve the problem by

- Extending the term of the mortgage
- Adding the arrears owed on the mortgage back into the capital sum of the mortgage

The FSA informed all mortgage lenders of the steps they expected mortgage lenders to take to ensure that they were treating borrowers fairly.

Repossession claims per 1,000 households



* Low income areas – the lowest 10% of local authorities by average income.
High income areas – the highest 10 % of local authorities by average income.

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Notes to Editors:

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