

THE EXPERIENCE OF
MORTGAGE DISTRESS
IN WESTERN SYDNEY

**URBAN RESEARCH CENTRE
UNIVERSITY OF WESTERN SYDNEY**

© 2010 Urban Research Centre, University of Western Sydney

ISBN 978-0-9808241-1-7

Investigators from the University of Western Sydney:

Professor Phillip O'Neill, Urban Research Centre
Dr Olga Camacho Duarte, Urban Research Centre
Dr Jessica Casiro, Urban Research Centre
Dr Gabrielle Gwyther, Social Justice and Social Change Research Group
Professor Peter Phibbs, Urban Research Centre

Investigators from the University of Sydney:

Professor Dick Bryan, Department of Political Economy
Dr Michael Rafferty, Workplace Research Centre
Dr Fiona Allon, Department of Gender and Cultural Studies

ACKNOWLEDGEMENTS

The Urban Research Centre would like to acknowledge and thank the community organisations, and not-for-profit financial counselling services in Western Sydney who contributed valuable ideas and helped disseminate information and generate awareness of the study.

We also extend our deeply felt appreciation to the research participants who volunteered and shared their experiences.

Our thanks and gratitude go also to the Reserve Bank of Australia for the provision of financial assistance, information and data resources.

CONTENTS

Executive Summary	06
1. Introduction	09
2. The geographical incidence of mortgage distress	11
The US experience of mortgage defaulting	11
The Australian geographic experience of mortgage arrears	12
3. The Financial Context of Mortgage Distress	15
Risk shifting to households	15
Risk-shifting and household debt	17
4. Concepts of Mortgage Stress in Australia and their Measurement	19
Causes of mortgage stress	19
Benchmarks of individual stress	20
A range of criteria	20
Conclusion	21
5. The Socio-Cultural Context of Mortgage Distress	22
Information Deficit	23
Changes in Personal Circumstances	23
Aspirational Risk	23
6. Methodology	24
Data gathering tools	24
Recruitment process	25
7. Survey Findings	26
The definition of mortgage distress	26
The population affected by mortgage distress	27
8. The Complex Experience of Mortgage Distress	29
Relationship breakdown	30
Low-income earners	30
Loss of income	31
Effects of mortgage distress on quality of life	32
9. The Mortgage Distress Process	34
i. Deciding to get a mortgage	34
ii. The mortgage transaction	36
iii. Factors that lead to mortgage distress	40
iv. Coping strategies	43
v. The impacts of mortgage distress	44
vi. People's expectations for the future	46
vii. Looking back	47
10. Conclusions	48
11. Policy Implications	50
References	51
Appendices	54
1. Interview guide	54
2. Information Sheet	55
3. Consent Form	56
4. Community organisations consulted during this study	57
Figures	
Figure 1.1 Proportion of mortgages with 30+ days arrears by postal area, 30 September 2008	09
Figure 3.1 Household Debt Components, Australia 1990 – 2008	16
Figure 3.2 Ratio of household debt to household income, Australia, 1985-2009	17
Figure 7.1 Arrears compared to difficulty to make repayments	26
Figure 7.2 Understanding mortgage distress as a continuum.	27
Figure 7.3 Survey respondents by level of education	27
Figure 7.4 Survey respondents competence in English	28
Figure 7.5. Value of mortgages as reported by survey respondents	28
Figure 9.1. Respondents' assessment of lenders	40
Tables	
Table 2.1 Australian regions ranked by 30+ Day Arrears	13
Table 2.2 Western Sydney regions showing 30+ Day Arrears	14
Table 4.1 Financial Stress: Definitions, Measures and Causes	21

EXECUTIVE SUMMARY

INTRODUCTION

1. Mortgage distress is affecting a growing number of Australian households. Distress ranges from arrears in mortgage payments to defaults, foreclosures and repossessions. The impacts of mortgage distress are complex and include issues relating to the ongoing financial viability of the affected households, wider neighbourhood effects, and a range of psychological and social impacts. In recent years, mortgage stress has had a consistently higher prevalence in certain parts of Western Sydney than in any other region across Australia.
2. This study is an attempt to uncover the experiences of mortgage distress in Western Sydney and of mortgage holders' coping strategies. While not claiming to be a representative sample of mortgagors in distress, the report reveals much about the circumstances contributing to mortgage distress and its considerable impacts on the lives of those affected.

CHAPTER 2

3. A rise in the incidence of mortgage distress in Sydney can be sourced to the easy access to mortgage finance for once excluded households from the mid to the late 1990s. Not surprisingly, mortgage distress has higher incidence in those suburbs where there are higher concentrations of both lower socio-economic and recent migrant communities.
4. Experience of housing market collapse in US neighbourhoods alerts us to the potentially severe effects of mortgage defaulting on affected households and neighbourhoods as well as on the stability of a nation's financial system.

Unlike in the USA, large scale mortgage defaulting in particular neighbourhoods has been avoided in Australia. Household debt levels among lower income households have been contained; predatory lending practices are uncommon; housing price falls have been modest and sub-regional; and the nation's labour market downturn has not been severe. A US-style snowballing of mortgage defaulting and walkaways has thus been avoided in Australia.

5. Yet ratings agency data reveal higher than average incidence of mortgages arrears in Western Sydney in recent years. Six of Australia's poorest performing regions

in terms of mortgage delinquency were located in Western Sydney in September 2009. There is a high correlation between mortgage arrears in these districts and their worse-than-average labour market conditions.

Importantly, as noted, the co-incidence of mortgage arrears and poor labour market conditions has not resulted in mortgage defaulting of any significance. Our study found strong evidence, though, that the absence of significant defaulting is explainable by the extraordinary level of commitment maintained by households to servicing their dream of homeownership.

CHAPTER 3

6. An important context for understanding the issue of mortgage distress is the trend towards the assignment of risk to the level of the household. Whereas governments and a range of societal institutions like religious organisations and mutual societies once insured households against economic and financial risk, especially in relation to income protection, households are increasingly responsible both for managing their income profiles in their working and retirement years and for maintaining spending on physical, human and social capital items such as health, education and housing.
7. The shift of risk to households coincides with easier access to debt finance especially via the liberalising of the criteria for household access to debt. As leverage ratios rise however, households become increasingly vulnerable to events that disrupt household income. Typically these disruptions come from ill health, unemployment, relationship breakdowns and child birth. Thus mortgage distress is closely related to these events.

CHAPTER 4

8. There is a range of indicators that show mortgage stress is a growing problem. These indicators identify the range of stress being experienced, many of the attributes associated with stress, and its spatial and demographic distribution.

In addition, the terrains of the economy and the financial market in Australia have been altered in ways that suggest the preconditions for mortgage stress are always present, but their incidence varies among households over time.

Many data collection exercises are designed to monitor the effect of mortgage stress on the performance of financial products (e.g. a mortgage-backed security) or on the financial stability of lenders, rather than the viability or experiences of borrowers. Rarely do data sets capture households that regularly meet their mortgage commitments, yet find it more and more difficult to do so. Such people may not directly affect banks through arrears or defaulting, but they do suffer significantly from the pressures of financial stress. This unrevealed stress is vastly under explored.

CHAPTER 5

9. The pursuit of homeownership in Australia has powerful social and cultural origins. Historically, homeownership is given financial, including taxation, preference by governments over other forms of housing tenure. In a context of house-price inflation, homeownership has become an important vehicle for wealth creation.
10. The process of securing a home loan seems not to be a well-informed one for households most at risk of mortgage distress. Our study finds considerable information deficit at the time of mortgage search and procurement for those households who later experience mortgage distress. As well, there appears to be a veil over householders' objective judgement of an appropriate mortgage product, perhaps produced by rising aspirationalism across a range of socio-economic and cultural groups.

CHAPTER 6

11. Our study encountered major and unusual difficulties in recruiting participants. Our interpretation of an unwillingness to participate is that Australians are extremely wary of affirming any implication of failure in the homeownership task. Nevertheless, our study presents rich findings from 33 comprehensive survey responses and 16 detailed face-to-face interviews.

CHAPTER 7

12. Our survey recruitment process reveals much about the nature of mortgage distress in Australia. One insight is that indices of mortgage stress and distress – such as those produced in academic studies and ratings surveys – fail to reveal the complex and disturbing levels of difficulty encountered by households struggling to maintain mortgage repayments, even though these households might not actually be in mortgage arrears.

CHAPTER 8

13. The report captures the intensity of borrowers' experience of mortgage distress through the presentation of extracts

and summaries of their stories. The vignettes demonstrate the vulnerability of low income earners to mortgage distress, the crucial impact of income loss, and the complex relationship between a commitment to mortgage repayments and quality of life.

CHAPTER 9

14. These issues are explored systematically in chapter 9, which traces the steps of seeking and securing a mortgage and then of coping with mortgage distress.
15. The analysis confirms that the decision to borrow in order to purchase, rather than rent, is driven by an interplay of economic and cultural reasons.
16. Respondents acknowledged that in securing a mortgage they gave insufficient attention to understanding the mortgage contract and assessing their capacity to pay. Importantly, while our respondents were reluctant to accuse lenders and brokers of deceptive or unscrupulous behaviour, there was a common view that an institutional approval of a loan application constituted a judgement by the institution that the household was capable of meeting its mortgage repayment obligations.
17. Our findings confirmed the literature on the reasons for mortgage distress: that its incidence correlates highly with changes in household income, changes in personal or family circumstances and illness. The effects of these changes, not surprisingly, were compounded by pre-existing levels of over-commitment of income to servicing a mortgage.
18. Respondents revealed a complex and desperate range of strategies to confront rising levels of mortgage distress. These included debilitating efforts to minimise essential household expenditure, irrational use of credit cards, a range of fairly inadequate lender interventions, accessing superannuation savings, taking on supplementary casual work, and resort to independent advice and other assistance especially from non-government, community sector support agencies.
19. Individuals confronting mortgage distress revealed intense and ongoing negative impacts on their and their families' lives. The feeling of shame and failure pervades, as do loneliness and sadness to the point of depression. Driving these emotions is the perception that borrowers' lives have become entrapped by their debt.
20. Reflecting the strength of their commitment to homeownership, however, our respondents claimed a remarkable optimism about their capacity to resolve their current difficulties, should they still be in possession of a mortgage, or to resume a successful life where the dream of homeownership has ended.
21. The most common regret among distressed borrowers was their failure to gather adequate information to

make informed decisions about their capacity to meet contracted repayments.

CHAPTER 10

22. Our prime conclusion is that the vulnerability of households to financial and especially mortgage distress needs to become a central issue in the way we conceive of financial stability. The concept of financial stability must apply not only to financial institutions but to households as well. Such recognition requires that the process of financial regulation serves wider social needs than has hitherto been interpreted.

CHAPTER 11 (POLICY)

The report recommends the following:

1. There be more extensive research on household experiences of financial stress and mortgage distress, to discern further their patterns and causes. Currently, this research is being conducted on the one hand by housing researchers with no direct links to issues of financial regulation, and on the other hand by ratings agencies and financial institutions whose focus is on risk management, but without an understanding or agenda for addressing the social problems of financial stress and mortgage distress. The social problems of household financial stress and mortgage distress need to be seen as integral to financial regulation.
2. Monitoring of the causes, evidence and consequences of mortgage distress (and financial stress in general) need to be distinctive and discrete tasks within financial regulation. These are not matters that can adequately be covered under the responsibilities for the prudential supervision of financial institutions (APRA), or for financial literacy concerns (ASIC).
3. The community services, government and non-government organisations which deal with people in financial stress and mortgage distress possess enormous knowledge of householder experiences of mortgage distress and under-recognised source of generous and capable assistance. Together these assistance organisations should be regarded as more than the providers of assistance to those who have failed to leap the home ownership hurdle. These organisations are an important resource which needs to be brought inside mainstream management of financial stability.
4. The regulation of mortgage products needs to acknowledge the vulnerability of many borrowers:
 - a. More and better information resources need to be created in order to help people make better decisions about their mortgages. The value of this information is diminished, however, if exaggerated and uncontested claims about mortgage products are disseminated via the advertising campaigns of mortgage finance suppliers and agents.
 - b. Regulatory authorities should establish procedures for vetting mortgage product advertising, with the capacity to force advertising to be reviewed or withdrawn, before transmission, to ensure a quality information environment for decision making about mortgage products.
 - c. Mortgage finance contracts should be independently inspected and commented on by accredited financial advisers prior to conclusion.
 - d. A typical intervention would involve a one-hour documentary inspection and preparation of commentary and a one-hour client briefing if considered necessary. Accredited financial advisers should be drawn from suitably qualified persons with a variety of social and cultural backgrounds, including from the pool of financial counsellors employed by charity organisations and other NGOs.
 - e. A suitably resourced public agency should team with accredited financial advisers to coordinate and fill gaps in the supply of educational and other information resources to assist potential borrowers make informed decisions concerning mortgage products. Materials should be available face-to-face and on-line and be targeted at potentially vulnerable and information poor groups.

Mortgage distress is affecting a growing number of Australian households. Distress ranges from arrears in mortgage payments to defaults, foreclosures and repossessions. The impacts of mortgage distress are complex and include issues relating to the ongoing financial viability of the affected households, wider neighbourhood effects, and a range of psychological and social impacts. In recent years, mortgage stress has had a consistently higher prevalence in certain parts of Western Sydney¹ than in any other region across Australia.

Existing studies show that the incidence of mortgage distress is strongly influenced by the initial size of a mortgage relative to household income, especially if the mortgage was secured more recently. The incidence of mortgage distress is also strongly influenced by income-disrupting events including illness or injury to a key household income earner; the experience of unemployment, reduced working hours or unpaid maternity leave; and by a family break-up event. It should be recognised that the chances of these events occurring – especially disruptions to incomes – are greater in the sub-regions of

Sydney that are characterised by lower socio-economic status and by higher migrant intake rates. Not surprising, then, the combination of a downturn in economic activity in Sydney since around the mid-2000s, episodes of frequent interest rate rises, and higher levels of borrowing in an inflated housing market, generated high concentrations of mortgage distress the region.

Recognition of rising levels of mortgage distress in the mid to late 2000s led the research team to commence investigations into the nature and incidence of mortgage distress. Since the investigation commenced in mid-2008, mortgage-borrowing experiences have been further influenced by global financial crisis and recession and subsequently by dramatic reductions and rises in interest rates charged on mortgage borrowing. This report presents the findings of investigations conducted throughout these dramatic events. It focuses in particular on the experiences of household affected by mortgage distress. Not surprisingly, the study faced interesting and anticipated challenges. At one level, as described, the macro-parameters affecting mortgage borrowing changed markedly throughout

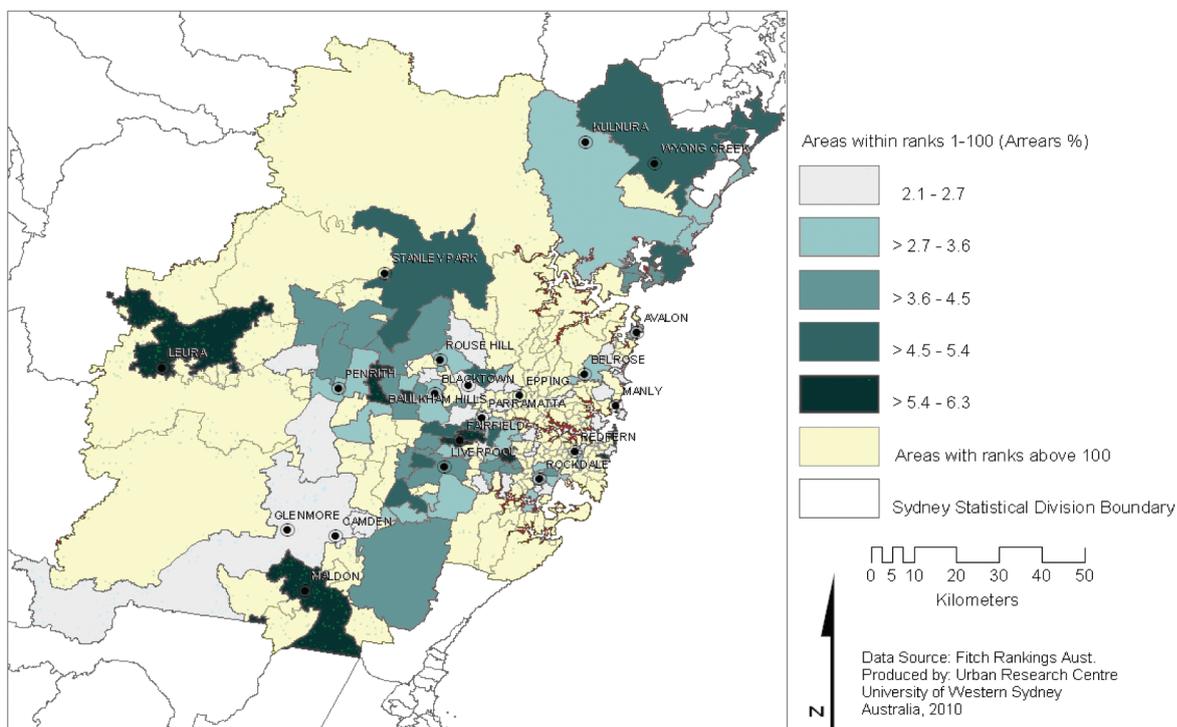


Figure 1.1 Proportion of mortgages with 30+ days arrears by postal area, 30 September 2008

¹ This report uses the term 'Western Sydney' to refer to the Local Government Areas of: Hawkesbury, Baulkham Hills, Blacktown, Parramatta, Holroyd, Fairfield, Bankstown, Liverpool, Camden, Campbelltown, Wollondilly, and the Blue Mountains.

the course of the study. At a different level, the study was forced to confront the difficulties of recruiting participants who were experiencing severe financial and social problems, which were generating significant loneliness and isolation, and which thereby militated against any willingness to be involved in the study.

The intensive efforts needed, then, to secure participants in this study cannot be underemphasised. Perseverance in recruiting, however, has led to the capture of revealing and, at times, distressing stories of hardship, perseverance and, unfortunately, of devastating outcomes.

Following this introduction, the next chapter provides a commentary on the geographic aspects of mortgage distress in Australia and identifies Western Sydney as the place that has been most significantly affected in recent years by the phenomenon. Chapter 3 then discusses key financial aspects surrounding the issue of mortgage distress. The chapter gives consideration to the issue of the distribution of financial risk in the contemporary financial system especially the elevated role of the household in holding and ameliorating financial risk. Chapter 4 explores the different definitions of mortgage distress including those developed by rating agencies and in academic research. Chapter 5 examines the social and cultural aspects related to mortgage borrowing and distress. The chapter also investigates the way information about mortgage products is supplied to the potential borrower, and the influence of the personal circumstances of borrowers and their aspirations on mortgage acquisition and subsequent repayment behaviour. Chapter 6 outlines the research design and methodology undertaken for the collection of data about borrowing and mortgage distress in Western Sydney. Chapter 7 presents a summary of findings from the survey. Chapter 8 presents extracts from the personal stories of research participants while chapter 9 presents the findings from the in-depth interview phase of the study and the analysis of the issues that lead households into mortgage distress. Chapter 10 presents a general discussion of mortgage distress and makes concluding remarks. Lastly, chapter 11 presents policy recommendations and implications.

The complex question of mortgage distress requires an understanding of intersecting issues relating to:

- access to housing finance,
- house-price inflation,
- rising income and wealth, and
- changes in housing demand arising from shifts in lifestyle and aspiration.

These questions are reviewed for the Australian context in Berry (2010); Berry, Dalton, & Nelson (2009); Berry, Dalton, Engels, & Whiting (1999); House of Representatives (2007, 2008), La Cava and Simon (2003), Yates & Milligan (2007), and Allon (2008), and for overseas by many including Smith (2009); Wyly et al. (2007); and Wyly et al. (2009).

In brief, easier access to finance in Australia over the last decade has enabled once excluded householders to secure mortgage finance. By definition, this group has included people whose financial circumstances and histories meant that they failed to satisfy either the standards or the criteria to qualify for a loan. Of course, there are specific individual and household scale consequences when mortgage distress and defaulting arise. There are also significant neighbourhood and sub-regional property market implications. It is these that are the focus of this chapter.

There are established understandings about of the composition of cities that tell us how households become concentrated into different suburbs. The most important drivers of urban concentrations are socio-economic status (especially income), demography (especially life cycle stage) and cultural characteristics (especially ethnicity) (Kaplan, Wheeler, & Holloway 2004). Often, these characteristics coincide geographically. Lower income households are more likely to live in Sydney's western suburbs since, by definition, these households are less able to compete for housing located in more desired locations. Lower incomes usually arise from having lesser or unrecognised occupational skills, from limited workplace experience, and from poor communication skills. Members of new migrant communities often demonstrate more than one of these labour market characteristics and so are more likely to receive lower household incomes; and, therefore, gravitate to cheaper housing neighbourhoods in Western Sydney. Likewise modest income households with children to support are more likely to be found in the lower-cost housing areas of Western Sydney.

Every city's housing market reflects such neighbourhood differentiation, but Sydney's housing market probably more than most because of its relatively fixed supply of housing

in the leafy northern suburbs, and in the much sought after beach and harbourside suburbs in the east and inner city.

It is important to note that easier available mortgage finance enabled lower income households to become home purchasers. Within Sydney, this meant that many groups previously excluded from access to mortgage finance became borrowers of significant sums of money. As defined above, these groups included those with less secure attachments to labour markets, lower-income new migrant groups and household with budgets stretched by the presence of children. It is reasonable to presume that all these groups of new borrowers came from neighbourhoods with previously lower rates of owner-occupied and mortgage-occupied households. In these neighbourhoods, therefore, an easing of the conditions for gaining access to mortgage finance produced rising numbers of householders with approved mortgage access in areas where there was a higher-than-average supply of cheaper, available housing.

The good sense of a transfer of large numbers of households from renter to home-buyer status relied on a continuation of many factors. These included ready access to secure employment, and protection from the income-disruptive effects of sickness and maternity leave. The good sense also relied on the guarantee that the value of the dwelling transacted as a result of the mortgage contract would not fall to the extent that a borrower might judge that continuing to repay the mortgage was not worthwhile.

As we now know from US experience, where a number of borrowers default on their mortgages, or decide to leave their properties because of repayment difficulties, then a downward housing price spiral is induced. Prolonged and significant house price deflation induces further mortgage severance as capable and disciplined borrowers dispose of 'underwater' mortgages, that is, those where total amounts owing exceed market value of the property.

There is no evidence to date in Australia of such second-level effects of mortgage distress. In the USA, though, these second-level neighbourhood and district effects have become pronounced.

THE US EXPERIENCE OF MORTGAGE DEFAULTING

Emerging research shows the extent of neighbourhood concentrations of new borrowing and subsequent defaulting in many US cities. Wyly (2007; 2009) and Immergluck (2008) among many others observe how subprime lending was

disproportionately concentrated among racial and ethnic minority households and neighbourhoods. In a climate of steadily rising home values, says Wyly (2009), even the worst risk assessment processes and lending practices yielded satisfactory investment outcomes for borrowers and lenders, with defaulters readily processed through re-financing or distress sales without need for foreclosure.

Housing markets in neighbourhoods with high concentrations of sub-prime mortgages, however, produced alarming negative outcomes from about the second half of 2007. As poorly regulated labour markets faltered in a new context of slowing economic growth, many households experienced difficulty meeting mortgage repayments. Then as housing prices fell – arising from a halt in new housing demand alongside continued input of new-built housing stock – the numbers of defaults and foreclosures increased dramatically. We now know that neighbourhood after neighbourhood passed tipping points where not just defaulting mortgagors walked away from houses now worth considerably less than contracted value, householders without histories of arrears also walked away from mortgages as equity slipped into negative territory.

The geographic variation in the experience of mortgage defaulting across US cities is instructive. A summary of the US experience is available from Crump et al. (2010). The research reveals the following:

- In districts with high rates of sub-prime mortgage lending that suffered little house price deflation, there has been significantly lower rates of mortgage defaulting. These districts are more likely to be found in the so-called “gulf states”, the states around the Gulf of Mexico, especially Louisiana and Texas, where regional economies have been more resilient and increases in unemployment less severe.
- In inner parts of the older industrial cities, especially in Minnesota, Michigan and Ohio, where sub-prime lending intersected strongly with African-American communities, and where recession and unemployment have been pronounced, there have been widespread defaulting, foreclosure and walkaways. Inner city housing markets in cities like Minneapolis and Toledo, for instance, and in parts of Chicago, have ceased to function as market instruments due to the large number of vacant properties for sale, many of which have fallen into disrepair.
- In the so called “inland empires” of California and Nevada, the sites of much new housing construction in the 2000s, a new-build boom fed by accessible finance, there have been large scale foreclosures and walkaways. Both the Californian and Nevada economies are very high rates of unemployment, compounded by severe downturn in construction sector, long since a source of economic stimulus in these states. The combined impacts of foreclosure and walkaways, general economic downturn and specific construction sector gloom have caused significant housing price falls and ongoing low turnover in housing markets generally.

THE AUSTRALIAN GEOGRAPHIC EXPERIENCE OF MORTGAGE ARREARS

Unlike in the USA, large scale mortgage defaulting concentrated in particular neighbourhoods has been avoided throughout Australia. Household debt levels among lower income households has been contained; predatory lending practices were uncommon; housing price falls have been modest and contained; and the nation's labour market downturn has not been severe. A US-style snowballing of mortgage defaulting and walkaways has thus been avoided in Australia.

The main data source for examination of the geography of mortgage distress in Australia is the structured finance reports from Fitch Ratings (2008; 2009). The Fitch Ratings reports process data from Australian home loans that have been financed through securitisation. The September 2009 Fitch Ratings report surveyed about 730,000 loans totalling over A\$118 billion in balances, an estimated 12% of the total value of housing loan stock in Australia. As such the data is seen to provide strong representation of the performance of the Australian residential housing sector.

The Fitch Ratings data are used here to help identify those areas where mortgage distress is likely to be concentrated geographically. This knowledge was important for locating and recruiting respondents for the study's data collection exercises.

Table 2.1 shows the 20 worst performing regions as shown by the Fitch Ratings ranking of mortgage performance by region in Australia for 30 September 2008, which was the data used to guide the study's search for respondents. It also shows data for 30 September 2009, data which were released after our field studies were concluded. These data are included here for enrichment purposes.

Table 2.1 Australian regions ranked by 30+ Day Arrears, September 2008, 2009

Rank	Region	State	30 Sep 08 (%)	30 Sep 09 (%)
1	Fairfield - Liverpool	NSW	4.1	4.0
2	Gosford - Wyong	NSW	3.9	2.8
3	Outer South Western Sydney	NSW	3.6	2.2
4	Outer Western Sydney	NSW	3.5	2.6
5	Newcastle	NSW	3.5	2.6
6	Central Western Sydney	NSW	3.3	1.9
7	Wollongong	NSW	3.3	2.2
8	Blacktown	NSW	3.2	2.3
9	Canterbury - Bankstown	NSW	3.1	2.4
10	Gold Coast East	QLD	2.8	2.1
11	Gold Coast West	QLD	2.7	2.0
12	East Metropolitan	WA	2.5	1.9
13	South Eastern Outer Melbourne	VIC	2.5	1.7
14	Melton - Wyndham	VIC	2.3	1.7
15	Sunshine Coast	QLD	2.3	1.8
16	Central Northern Sydney	NSW	2.2	1.7
17	South West Metropolitan	WA	2.2	2.0
18	Caboolture Shire	QLD	2.1	na
19	Northern Beaches	NSW	2.1	1.5
20	Northern Outer Melbourne	VIC	2.1	na
21	Inner Western Sydney	NSW	2.0	2.0
22	Greater Hobart	TAS	2.0	na
23	Eastern Suburbs	NSW	2.0	1.6
24	St George - Sutherland	NSW	1.9	1.6
25	South East Metropolitan	WA	1.9	2.1
26	Logan City	QLD	1.9	1.4
27	Northern Adelaide	SA	1.7	1.3
28	Ipswich City	QLD	1.7	1.3
29	North Metropolitan	WA	1.7	1.6
30	Western Melbourne	VIC	1.7	1.1

Source: Compiled from Fitch Ratings 2008, 2009

The table reveals the higher-than-average incidence of mortgage arrears in Western Sydney. Six of Australia's ten poorest performing regions in terms of mortgage delinquency were located in Western Sydney in September 2009. These regions were (with their September 2008 and September 2009 ranks shown in brackets) Fairfield-Liverpool (1, 4), Outer South Western Sydney (3, 8) Outer Western Sydney (4, 2), Central Western Sydney (6, 14), Blacktown (8, 6) and Canterbury-Bankstown (9, 5).

Table 2.2 Western Sydney regions showing 30+ Day Arrears, and unemployment, September 2008, 2009

Region	30 Day Arrears 30 Sep 2008 (%)	Unemployment rate Sept 2008 (%)	30 Day Arrears 30 Sep 09 (%)	Unemployment rate Sept 2009 (%)
Fairfield - Liverpool	4.1	7.3	4.0	9.5
Outer South Western Sydney	3.6	7.0	2.2	9.2
Outer Western Sydney	3.5	n.a.	2.6	n.a.
Central Western Sydney	3.3	6.1	1.9	8.3
Blacktown	3.2	n.a.	2.3	n.a.
Canterbury - Bankstown	3.1	6.0	2.4	7.3

Source: Compiled from Fitch Ratings 2008, 2009

Table 2.2 shows unemployment rates and arrears rates for these poorly performing Western Sydney regions. The unemployment rates are derived from ABS Labour Survey data (not seasonally adjusted). Corresponding regional data are not available for the Outer Western Sydney and Blacktown regions and so these are marked n.a. (not available).

The table reveals the high correlation between mortgage delinquency and regional unemployment (measuring $r = 0.95$ in September 2008). Each of the six Western Sydney regions has an unemployment rate significantly above both state and national averages. In September 2008, the state and national unemployment rates were 4.6% and 4.0% respectively. In September 2009 they were 5.6% and 5.5%. As is discussed elsewhere in this report, interruptions to income are a significant cause of mortgage distress. The data from these tables, then, indicate a significant degree of likelihood that high degrees of mortgage distress in the six poorest performing Sydney regions in terms of mortgage delinquency have a close relationship to the poor regional labour market conditions.

Yet, these poor labour market conditions, which no doubt have subjected the budgets of many mortgage-holding households to severe stress, haven't generated large-scale mortgage defaulting; nor, subsequently, have these areas experienced widespread, significant house price deflation, the critical ingredient to housing market failure in many US cities, as we have seen.

The next chapter examines the financial context of mortgage distress, especially the risk shifting to households seen as underpinning both householders' quest for housing equity but also their vulnerability to mortgage distress and default. It shows that Australian households are increasingly responsible for the assessment and containment of financial risk. The desirability of this aside, Australian households' capacity to handle financial risk, even in time of severe economic stress, seems to have been a major factor in containing housing market failure. This capacity is discussed in chapter 5.

As is explained in detail in subsequent chapters, financial distress associated with the pressures of meeting mortgage repayments has its origins in particular circumstances with differential impacts on individuals and households. However, we can also point to more general trends and processes that weigh heavily on the issue of mortgage distress, particularly when concentrations of mortgage distress become capable of threatening financial stability at wider economic and institutional levels. This chapter explores these wider concerns.

In its April 2005 Financial Stability Report, the International Monetary Fund (2005: 89) made a striking statement about the role of households in global financial markets:

“Overall, there has been a transfer of financial risk over a number of years, away from the banking sector to non-banking sectors, be they financial or the household sector. This dispersion of risk has made the financial system more resilient, not the least because the household sector is acting more as a “shock absorber of last resort”.

Three years later, as the global financial crisis rolled out, the IMF's focus on the links between financial system risk and the ability of the household sector to absorb systemic shocks proved prescient; although the IMF's account of the nature and direction of these links was rather inaccurate. The sensitivity of financial markets to the falling value of mortgage-backed securities revealed the limitations of households as financial risk absorbers. Starkly, it became clear that the financial behaviours of households were a social as well as an actuarial issue.

The general issue raised by the IMF, however, prompts consideration for two dimensions of mortgage stress: the process of systematic risk shifting towards households; and the ways risks are shifted and managed within households.

RISK SHIFTING TO HOUSEHOLDS

The proportion of household income committed to homeownership has been rising steadily in Australia, as in many other nations. There is contested research on the extent to which this increasing proportion is due to falling in housing affordability, or to rising home ownership aspirations, or to the funding of home renovations through mortgage loans, or to increased interest in mortgage-based investments. One consensus is that all of these are contributing factors (Battelino 2008; Richards 2009). In any event, the rising level of commitment is directly

associated with increased levels of mortgage distress across all sections of society. For first home buyers, Chris Lamont (2008) of the Housing Industry Association notes that:

“...one in every two first homebuyers faces mortgage stress and the house price to income ratio is now approaching 9.1 compared with 5.3 in 1997” (2008, p. 194)

Yates suggests that this is in fact part of a longer and more general trend:

“Between 1960 and 2006 real house prices increased at an average of 2.7 per cent per annum, ahead of a 1.9 per cent per annum growth in per household real incomes” (2008, p. 200)

Clearly then, one of the major contributors to mortgage stress – rising spending on mortgage repayments in a context of declining housing affordability – has been high and rising throughout Australia, although the path from increased risk to servicing difficulties, repayment default, or other forms of financial stress, is contingent on movements in incomes and financing costs with details largely unknown.

We do know, though, that the household is increasingly responsible for managing its financial exposures, in the context of a withdrawal of risk protection of households in many domains by governments and state agencies (Calder 1999). Governments were once the major protector of incomes, for example, via its administration of a system of industrial awards and by guaranteed entitlements to unemployment and sickness benefits. Yet employment contracts in Australia have become more flexible with employees having certainty about income flows. There is also a raised level of responsibility for financial provisioning at the household scale for medical and education needs and for superannuation savings. In the latter, there is a growing responsibility on unit holders to choose investment portfolios based on selected risk profiles. Such developments can be seen as a general process of risks shifting to households, exemplars of the IMF's depiction of households as shock absorbers of last resort.

In respect of household financial behaviours, rising marketisation and competitiveness within the financial sector in the last three decades have seen households needing to make increasingly sophisticated decisions about financial products. In home purchasing, households take decisions about the proportion of (expected) income to dedicate to mortgage payments, the time profile of loans, the choice between fixed or floating rate loans and other interest rate options, intersections

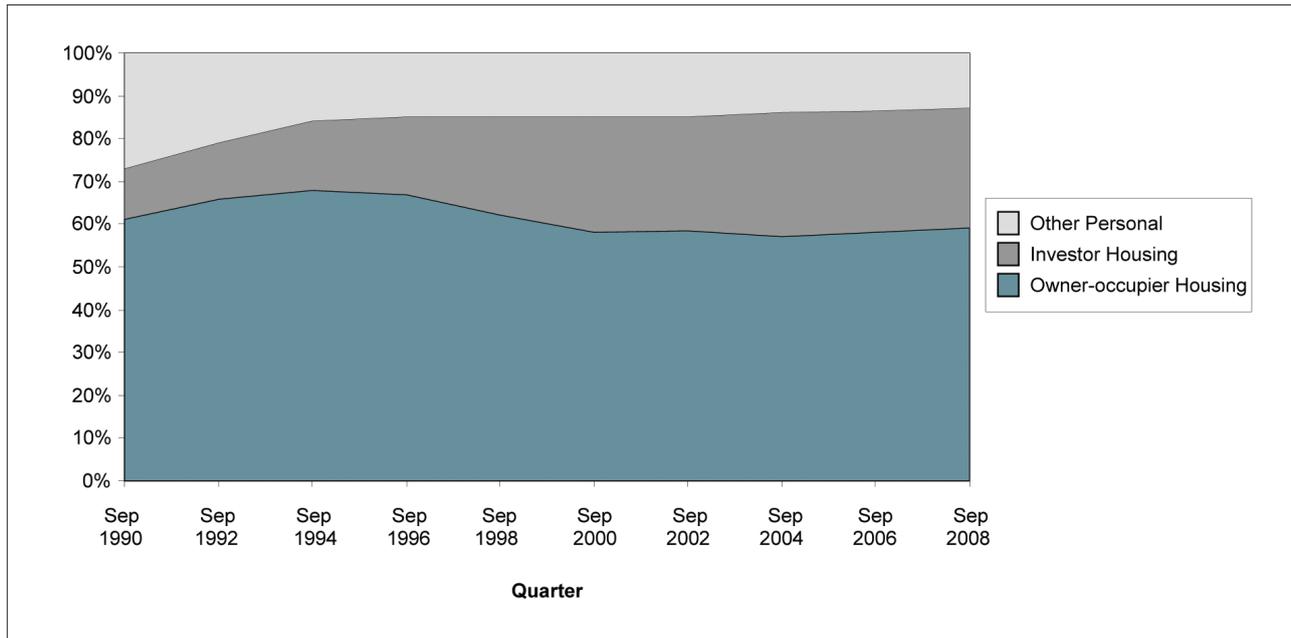


Figure 3.1 Household Debt Components, Australia 1990 – 2008

Data Source: RBA Bulletin Statistical Tables B21 and D02, ABS 2009

with other consumer credit options and other accounts held with a financial institution, and so on. In each calculation, there are better and worse choices – but these are only knowable retrospectively – requiring the household to be financially savvy, to know how to evaluate the range of financial risk exposures and how to manage them.

These decisions apply to both owner-occupied and investor housing. Figure 3.1 shows the dominance of owner-occupied housing within household debt, and that the share of investor housing has been growing.

Investor housing reflects the expectations of Australians to accumulate assets for retirement. Owner-occupied housing occupies an important position in the risk-shifting process, although it is an ambiguous position (Hacker 2006). The securitisation of mortgages has enabled housing to be transformed into a highly liquid asset on financial markets. Yet for most households, while housing is the single largest asset, it is a relatively illiquid asset since it is the place where a household lives. Households thus hold their main stock of wealth – the house – as an illiquid asset with the debt obligations behind the house – the mortgage – circulating in financial markets where asset liquidity is an important quality. Should personal or wider financial crisis occur, households can be stuck, holding a fixed financial position. This has been demonstrated starkly in the United States, where falling house prices translated as un-hedged losses of wealth for vast numbers of households, in many cases producing household insolvency. In Australia, where house prices have been more resilient, the illiquidity of the house as an asset class has not been damaging to households, although this is not uniformly the case; and in certain suburbs, and especially in western Sydney, falling house prices seem to have been the source of some household insolvency.

RISK-SHIFTING AND HOUSEHOLD DEBT

The incentive for Australians to purchase a housing property has become stronger for many reasons. Chapter 5 examines the socio-cultural reasons behind the desire for home ownership. There are also compelling financial reasons, including that households have had to become more reliant on private assets capable of conversion to income for old age. Alongside rising savings in superannuation assets, housing is seen as a prime investment asset capable of delivering retirement income, and not simply something that delivers a housing service. The rise in the ratio of household debt to household income reflects this perception. Research shows that this ratio has increased from 100% in 2000 to 157% at the beginning of 2008, before falling slightly (Davies 2009, p19-20) with nearly all the growth in the ratio attributable to increased housing debt, as shown in Figure 3.2.

The general presumption of Australian households, like households in many developed nations, was that housing was a secure asset class. The global financial crisis and the US sub-prime crisis have demonstrated, however, that housing value is susceptible to erosion, just like other asset classes and financial products. Moreover, the events surrounding the global financial crisis and recession demonstrate the close relationships between the market value of housing assets and the value of financial products in general, and that fluctuation in the value of one correlates closely with fluctuations in the value of the other. Moreover, we can now observe that heightened levels of household-based mortgage distress can significantly affect general financial stress; and that there are feedback effects from financial markets, such as through fluctuating asset values and shifts in interest rates, that bear directly on levels

of household mortgage stress. In other words, acquisition and management of a mortgage is no longer simply a household education and private behaviour matter.

Knowledge of the dynamics of the relationship between systemic and household financial risk, however, is insufficient to explain mortgage stress at any point in time, or the likelihood of particular individuals to experience mortgage stress. Nonetheless, a tendency to increase the rate of lending to households carries some inevitable increase in risk, particularly for lower wealth and income borrowers, albeit within bounds that appear entirely consistent with financial institution conventions of risk management.

In lending practice, there has been a shift away from the use of debt servicing ratios (See Chapter 4) in favour of net income surplus assessment models. As described by John Laker, Chairman of the Australian Prudential Regulation Authority (APRA) (2007 p.3):

“These models require the borrower to have a minimum surplus of net after-tax income after taking into account debt servicing, other fixed payments and a basic level of living expenses. In contrast to the debt servicing ratio method, these expenses do not vary with the borrower’s income. . . At the same time, net income surplus models can in principle allow a higher level of borrowing than the debt servicing ratio method for borrowers with the same characteristics”.

The task for lenders and regulators then is the calculation of ability to pay within the net income surplus framework (Persson 2009). The immediate issue for lenders is the calculation of

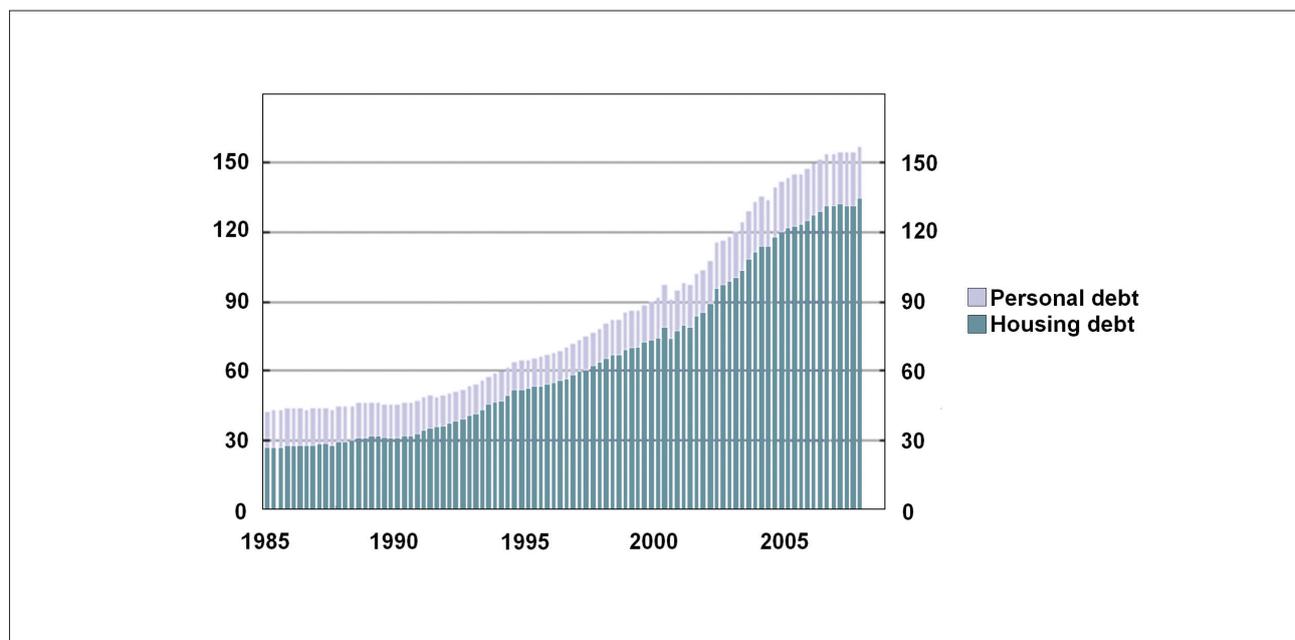


Figure 3.2 Ratio of household debt to household income, Australia, 1985-2009

Note: The household sector excludes unincorporated enterprises. Household disposable income is after tax and before the deduction of interest payments.

Source: Davies 2009, p.20

basic living expenses for households, the remainder perceived as the 'surplus' potentially available for debt-servicing. Laker (2007) explains:

“[M]ost ADIs [authorised deposit-taking institutions] use either the Henderson Poverty Index (HPI) or (the higher) Household Expenditure Survey (HES) data from the Australian Bureau of Statistics as the basis for their living expense calculations. Around 20 per cent of ADIs add a margin to these calculations to account for error in the estimates. Our review indicated that many lenders were, at the time, using estimates of living expenses below the HPI or were not regularly updating their estimates”. (Emphasis added)

The use of net income surplus models enabled a widening of the pool of potential borrowers of housing finance and the amounts borrowers could be lent, but at the costs of increasing other risks. For example, within a net income surplus loans assessment framework:

- households could potentially commit to mortgage repayments to the point where their level of basic needs consumption is driven downwards toward a socially-constituted poverty line;
- households could substitute mortgage repayments for payments for other payments which would diminish household risks, for example, payments for health insurance, car insurance, and income protection; and
- households could access alternative sources of credit, such as via credit cards, to maintain a certain desired level of consumption.

The raised possibility, then, is that circumstances of ill health, unemployment, or even car breakdown, can have a substantial negative effect on a household's capacity to meet mortgage repayments.

Stress-testing on such scenarios is now common though for the purpose of credit risk management of financial institutions rather than for concerns about the personal circumstances of borrowers. One of the lessons for Australia of the US sub-prime crisis beyond lessons for the management of institutional risk, where Australian institutions have performed better than elsewhere, is that individual experiences of financial hardship cannot be summarised or predicted by aggregated actuarial calculations. On the one hand, we can now see that the qualities of household assets as well as the motivations and methods of household decision making do not mirror assets and behaviours of financial markets. On the other hand, we now know that there is a direct link between household financial behaviours and the risk decision making management of risk. An evaluation of risk must, in summary, recognise the dilemma that for the household, housing is an illiquid asset, and the way households manage that asset is unlikely to comply with conventional risk management models.

A high incidence of mortgage stress has been reported in Australia from at least the early 2000s. Recent evidence suggests that across all loan types around 17,000 borrowers are 90 or more days in arrears (Reserve Bank of Australia 2008).

One precondition for rising mortgage stress has been growing household debt relative to income levels. As at 2000, Genworth data identified the ratio of total household debt to disposable income to be 96.6 per cent; by 2007 this had climbed to 160.4 per cent. In other words, the average Australian household now owes approximately \$160 in debt, for every \$100 in disposable income (Genworth Financial 2008). Most of this debt was unsecured (58 per cent was credit card debt). Mortgage and personal loan debt represented 39 per cent and 18 per cent respectively (Genworth Financial 2008).²

These data demonstrate that households experience two related types of stress: financial stress refers to the broader pressures on household budget arising from debt repayment obligations while mortgage stress refers to the problems arising from mortgage repayment obligations in particular. Hence while financial stress is a wider category than mortgage stress, it must be recognised that the two are closely related, albeit in ways that are difficult to pre-determine. Case studies later in this report, however, provide insights into the connections.

As interactions between the financial sector and households intensify, the sources, risks and extent of financial stress change. Obviously, there is not a clear distinction between mortgage stress and financial stress.

The definition of mortgage stress varies according to its use: whether mortgage stress is being defined and measured to inform different aspects of government economic and social policy; to rate the risk of mortgage backed securities; to estimate the mortgage insurance implications of repayment default trends; or to consider the soundness and stability of the banking system. The different agendas at stake in mortgage

stress mean that a range of definitions and associated measurements exist. A starting point in considering the empirical accounts of stress is to acknowledge the different range of interests involved.

The following sections tackle the definitions of mortgage stress, looking at its causes, its quantification, and the criteria used in its measurement by a range of institutions.

CAUSES OF MORTGAGE STRESS

Financial and mortgage stress tend to be concentrated among those households³ with at least one of the following characteristics (Breunig & Cobb-Clark 2006; Headey 2007; Headey et.al 2005; Marks 2007):

- lower income
- high initial loan to value ratio
- recent purchasers of home
- low assets/wealth
- lower labour market participation (especially due to unemployment)
- jobs of lower occupational status
- lone parents
- young children
- in low SES areas, especially those in areas with low or slow rates of economic growth
- have experienced a significant change in household income or costs esp. due to job loss, significant health issue or relationship breakdown
- loan supplied in low doc form

Despite the list of potential sources or attributes of stress, it is important at this point to caution against a conclusion that simply attributes financial and mortgage stress to poverty and/or disadvantage. Financial and mortgage stress is much more mainstream.⁴ Rather, financial stress can be thought of as coming from the growing financialisation of life across the range of household types, as was elaborated in chapter 3.

² It bears noting at this point that about two thirds of Australian households have no mortgage debt, either because their housing tenure is via rented accommodation, or because the household owns their home outright. The issue of interest here is those (one third of all) households with mortgage debt.

³ Adding complexity is that the term 'household' is changing in its meaning. There has been an increasing fragmentation of household types, depending on family structure, demographic attributes, labour market experience (wage and labour contracting type along with the better known widening income disparities), the significance of other fixed costs such as childcare, and so on.

⁴ If for no other reason that it excludes those people living in rental accommodation, a group with a much higher proportion of people living with low income and other attributes of disadvantage.

BENCHMARKS OF INDIVIDUAL STRESS

National Housing Inquiry (1990) and the National Housing Strategy (1991) have been highly influential in shaping understandings of what represents housing stress, and thereby the evaluation of mortgage stress.⁵

The National Housing Strategy proposed a 30% repayment threshold as an indicator of housing stress, that is, where the costs of housing (repayments, rent) exceed 30% of household income.⁶ The 30% figure is adjusted for income range by the Ontario or 30/40 rule where the stress threshold of 30% is confined to the bottom 40% of households by income distribution. This adjustment excludes higher income households who have the capacity to service higher debt to income ratios without experiencing undue hardship. High income earners in particular who invest heavily in housing could exceed the 30% threshold but still have sufficient disposable income to service a mortgage in times of hardship (Stevens 2008), or have the option of down-sizing their housing without the need to leave home ownership completely.

The 30% benchmark has featured in state housing policy including in calculations of public housing need and rent assistance (e.g. NSW Department of Housing 2008⁷) as well as in academic and policy studies of housing stress. For example, in applying the 30% threshold, a AMP/NATSEM study (Tanton, Nepal & Harding 2008) identifies the following economically vulnerable groups:

- first home buyers are the most vulnerable to housing stress, with 62% of first home buyers exceeding the 30 per cent threshold;
- one third of sole parent households and single person households are also in a state of housing stress;
- couple households show risk of housing stress with only 15% of couple households above the 30% threshold.⁸

The use of benchmarks to define housing stress are increasingly contested however. Marks & Sedgwick (2008), for instance, see the benchmarks as “essentially arbitrary” with different households having markedly different capacities to cope with different housing cost ratios. There is also a growing argument that the 30% rule does not reflect the profoundly different profile of the Australian housing market that has emerged in the post 1990s period where among other things spatial access to services and amenity increasingly affects household expenditure patterns, meaning housing expenditure can substitute for other household expenditure categories, and so exceed the 30% threshold without further stressing a household budget.

Higher income growth over the past decade generally across the population “has allowed households to devote a larger proportion of their income to housing, while still maintaining their living standards more generally” (Battellino 2008). People expecting income growth can reasonably exceed 30% housing costs in the short run. In addition, purchasing a dwelling can reasonably include forced retirement savings, especially for higher income households (Senate Select Committee 2008, p. 37). Moreover, the prevalence of high gearing among younger households is associated increasing participation by those households in the paid labour market in terms of number of jobs, hours worked and delayed child bearing (Richards 2009).

A consequence of the failure of analyses to coalesce around the 30% rule is the emergence of a variety of alternative measures. Some commentators and statisticians challenge the notion that stress can be denominated as known threshold proportion of income. Fujitsu consulting, for instance, argues that a “...higher proportion of gross income spent on mortgage repayments is a necessary, but not sufficient condition towards mortgage stress.” Fujitsu advocates a segmented analysis of the data (on proportion of income repayments and household type) to identify the income bands where stress points are likely to exist (Fujitsu Consulting & JP Morgan 2007).

Others, observing that the 30% rule has been a poor indicator of actual mortgage defaults, have developed measures of mortgage stress that do not rely at all on income thresholds. Fitch, Moodys and others, for instance, prefer to use trend data on mortgage arrears, using different lengths of arrears and forms of disaggregation.

A RANGE OF CRITERIA

Mortgage stress, therefore, is increasingly measured in a number of ways ranging from statistical financial measures at the national level (e.g. debt to income ratios, debt service ratios), to household specific statistical data (such as loan arrears, defaults or likely defaults, repossessions), to surveys of households of their perceived capacity to meet mortgage payments or the adjustments households make to consumption in favour of meeting debt repayments. Here, we identify the criteria adopted by 6 monitoring agencies, made up of four credit rating institutions (Fitch, Fujitsu Consulting, Genworth, and Moodys) and two government funded research agencies (NATSEM and HILDA).

⁵ According to the NSW Department of Housing, the term ‘housing stress’ was first used in Australia by the National Housing Strategy (1991/92) to refer to lower income households with high housing costs.

⁶ As a recent Senate inquiry on housing affordability notes, the 30 per cent threshold became the influential and long standing benchmark for understandings of housing stress (Senate 2008: 35).

⁷ This report uses a broader measure than the Ontario rule. It considers a group of households who have gross incomes below 120% of the median household income and who are paying more than 30% of their household income to meet their housing costs

⁸ More comprehensive studies conducted by NATSEM further define the characteristics of households likely to experience housing stress. These are single parent families, families where the head is aged 30-39 years, and buyers or renters located in NSW (NATSEM 2004). An APRA survey of owner occupier debt found that the median debt servicing ratio for owner-occupier housing lending was 21 per cent. Over a quarter of new loans were provided at ratios above 30 per cent. Only 9 per cent of these new loans had ratios greater than 40 per cent (APRA 2008).

Table 4.1 Financial stress: definitions, measures and causes

Provider	Definition	Measurement used	Causes and evidence
Fujitsu Consulting	Attitudinal/experiences – survey (“Stress-o-Meter”) and analysis of credit data with JP Morgan	Range of questions rate the respondent into two groups: ‘mild stress’ or ‘severe stress’	Evidence on arrears and re-prioritised spending
Genworth	Default or likely default (2000 adults surveyed annually)	Broad survey of attitudes and experiences with housing	Mixed reasons for declining affordability and stress
Fitch	Missed a payment/loan arrears	>30, >60, >90 days in arrears for securitized mortgages	Evidence on arrears in securitised mortgages matched by postcode
Moodys	Loan delinquency	>30 days & >60 days in payment arrears	Data drawn directly from banks and lenders (RMBS – prime lending market)
NATSEM	>30 per cent of income used to meet housing costs defined as meeting ‘housing stress’ criteria	ABS survey of income and housing (ten year observation period)	Housing costs versus income
HILDA	Attitudinal/experiences – survey (mortgage difficulties, hardship)	Behind schedule on mortgage repayment; Could not meet repayment; Having to forgo other consumption to meet repayments; House for sale in last 4 years because of difficulty in meeting repayments	Evidence on reported difficulties in meeting or missed repayments

Source: Agency websites

While this range of criteria provides a valuable diversity in mortgage stress estimation, they also present obstacles to comparative and time series analysis. A major problem is inconsistency in the use of categories. This is often a failure to disaggregate between wealthy and poorer households falling into stress categories. Some surveys fail to differentiate between mortgage and rental payments, combing them simply as ‘housing payments.’ Forms of loans are often not disaggregated by purpose (e.g. owner-occupier versus investment). Financial institutions are required to classify their loans according to purpose, but the range of loan products is extensive and it is not always clear what specific liabilities debt is being used to service. Often mortgage debt is re-financed to consolidate a range of other debts, and often this will see borrowers liable for significant fees to new lenders (Australian Securities and Investment Commission 2008; Hall 2008). It is, therefore, difficult to disentangle mortgage debt for from other household debt. Another problem of comparison arises from different survey techniques. In particular there are differences in the time spreads of the measures, and differences between measurement of actual arrears and repossessions, versus reported difficulties in meeting repayments. As a result, surveys generate divergence in the estimated degree of mortgage stress.

CONCLUSION

There is a range of indicators that show mortgage stress is a growing problem. These indicators identify the range of stress being experienced, many of the attributes associated with

stress, and its spatial and demographic distribution.

In addition, the terrains of the economy and the financial market in Australia have been altered in ways that suggest the preconditions for mortgage stress are always present, but their incidence varies among households over time. Many data collection exercises are designed to monitor the effect of mortgage stress on the performance of financial products (e.g. a mortgage backed security) or on the financial stability of lenders, rather than the viability or experiences of borrowers. Rarely do data sets capture households that regularly meet their mortgage commitments, yet find it more and more difficult to do so. Such people may not directly affect banks through arrears or defaulting, but they do suffer significantly from the pressures of financial stress (Wesley Mission 2009). This unrevealed stress is vastly under explored.

It is clear that Australia’s avoidance of the worst effects of the global financial crisis has reduced the probability of widespread mortgage distress and defaulting. Yet a resumption in house price inflation and the subsidised entry of new-home buyers into the markets, alongside RBA-led interest rate rises, have raised the probability of financial stress in households and increased the possibility of higher rates of mortgage arrears and defaulting (JP Morgan & Fujitsu 2010).

Of course, the desire for home ownership and the commitment to maintaining mortgage commitments are influenced by a wider range of social and cultural factors. The following chapter explores this broader context of mortgage distress in Australia.

Owning a home is a goal that powerfully shapes the lives of large number of people in Australia. However, purchasing a house to live in and, hopefully, pay off and own, is much more than a financial decision, it is also a social and cultural ideal (Paris 1993; Greig 1995; Allon 2008). Home ownership is a powerful force in shaping individual and collective identity. Home ownership also plays a major role in forming citizenship and national identity. Owning a home is also linked strongly to individual virtue and character and identity. Owning or purchasing a home is perhaps the most concrete illustration of an individual's commitment to citizenship, the community and to the Australian nation.

Historically, Australia has had a high level of home ownership. However, a number of important cultural shifts have taken place that have served to redefine the so-called dream of home ownership in significant ways. Housing is increasingly sought after for its prestige and status value with the result that rising numbers of home buyers are choosing to buy larger, better-appointed and more expensive dwellings. There is also increased expenditure on renovations to existing dwellings, further driving up household indebtedness (Lowe 2010). The combined effect of these housing trends has been to increase the proportion of household incomes spent on housing to historical highs (Battelino 2009).

The "Australian dream" of home ownership rests on the proposition that Australians desire home ownership or home buying, over renting. However, there is nothing preordained about owner-occupation as a form of tenure in Australia or in other advanced societies. Rather than being a natural form of expression within a system of free choice, home ownership is consistently promoted by governments and other authorities over alternative forms of housing provision. The sustained, government-led drive to encourage home ownership throughout the 20th century relied on a construction of the home owner-occupier as an enterprising, autonomous and secure citizen. Images of the homeowner were contrasted against images of the insecure and dependent renter and the public housing tenant who was seen to be reliant on the welfare of the state. The identity of the homeowner was thus framed in terms of private initiative and independence, and defined in opposition to images of public reliance and dependency.

The long term preferential treatment given by state and federal governments to owner occupation over other tenure forms has resulted in an advantaged treatment of the family home for tax purposes on one hand, and a smaller, residualised social housing sector on the other generous first-home-buyer assistance encourages both young and lower income

households into home ownership. And as we have seen in chapter 3, increased pressure on households to achieve self-funded retirement drives an eclectic housing investment sector and a tendency towards short-term and less-secure rental-lease arrangements and, often, substandard or inappropriate housing quality and services, particularly for more vulnerable households.

The owner-occupied home, then, is being re-cast as a vehicle for wealth creation that can be leveraged for further consumption and investment. In this sense, homes are no longer simply properties to own and occupy, and the means to demonstrate upstanding citizenship, and community and national belonging. Its role is being extended in explicitly financial terms as an asset, an investment, a store of wealth.

This shift in the culture of housing and home to incorporate a wider investment culture marries with the shifts described in chapter 3 where the individual household is assumed to be increasingly autonomous, responsible for the security and welfare of its members, with an accompanying de-collectivisation of responsibility for risk. Although home ownership has generally been seen as a sound financial investment, this quality has generally been seen as secondary to the benefits of having a guaranteed entitlement to a place to live. Contemporary trends suggest, however, that homeowners and buyers are increasingly conscious of the investment returns that can be derived from mortgage-based investments, and are regarding purchasing a dwelling as an entrepreneurial and financial strategy as much as a way of addressing a housing need. In 2004, for example, The Productivity Commission into First Home Ownership found that "...the aggressive marketing of housing investment *opportunities*" was a key contributor to Australian house price inflation as well as to levels of household indebtedness (Productivity Commission 2004).

In addition to increasingly viewing their homes as stores of wealth able to be unlocked as required, homeowners depend on investment returns from their homes in other ways. They see housing wealth as a form of self-insurance, and as a future supplement to retirement income, or as income insurance in general. Yet, as we have seen in chapters 3 and 4, there are risks to households of assuming house price appreciation either as a form of asset-based security insurance, or as debt-leveraged investment.

Whether the desire for home ownership is driven by the want for security of tenure, the establishment of a retirement asset or the pursuit of investment gains, the elevation of home ownership as having irrefutable logic bears most heavily on the more vulnerable members of our society. It is no surprise that

mortgage distress arose earlier and in larger numbers in lower socio-economic areas. As described in chapter 2, housing distress in Sydney was most visible in an arc across the culturally diverse, lower socio-economic communities stretching from Bankstown in the south-west, through Fairfield and up to Auburn in mid-west Sydney. Chapter 4 has described the demographic and economic categories most associated with mortgage distress. There are also social and cultural catalysts. These catalysts can be divided into three broad but interrelated categories:

- Information deficit
- Changes in personal circumstances
- Aspirational risk

INFORMATION DEFICIT

Information deficit refers to the lack of information for optimum decision making. It can arise from poor financial literacy and poor understanding of property markets. Information deficits are compounded by inadequate information provision from financial institutions and related agencies. One of our research participants experiencing mortgage distress realised that although he had undertaken research into mortgage options prior to taking out his home loan, he had failed to ask the *right* questions of his financial institution. Low levels of financial literacy mean that decisions are often based on incorrect assumptions and beliefs. Broader economic parameters, particularly interest rate fluctuations, are inadequately assessed leaving householders vulnerable to exploitation from mortgage brokers, financial institutions and property developers.

Importantly, inattention to an information deficit comes from the nature of property itself with property seen somehow innately as a secure investment that, unlike (say) shares, is incapable of losing value. The apparent physicality of property unwittingly increases trust and disguises risk as in both mortgage and investment contracts.

CHANGES IN PERSONAL CIRCUMSTANCES

Changes in personal circumstances of households can be difficult for individuals to predict and protect against. Yet, as we have seen in chapter 3, even minor changes in personal or household circumstances can tip a household into mortgage distress. The loss of income through illness, the arrival of a child or the loss of a job can expose a household to mortgage distress. Refinancing mortgages and other debt following family breakdown is also a common route into mortgage distress, particularly for lower-income females who often attempt to keep a family home to lessen the impact relationship break up on children.

Although changes in personal circumstances can affect anyone, lower socio-economic households are less likely to have assets and resources to draw on when their capacity to make mortgage repayments is diminished.

ASPIRATIONAL RISK

In recent years, the idea of “aspirationalism” has been used (often disparagingly) to describe practices over-consumption and extravagant asset accumulation (Gwyther 2008). Aspirationalism is seen to be linked closely to more accessible debt finance, the “democratisation of finance” (Shiller 2003). Yet aspirationalism is qualitatively different to the ‘affluenza’ that popular commentators have diagnosed. Aspirationalism has become embedded in the everyday spaces, practices, activities and identities of the household, not just its saving, borrowing and investment practices.

Aspirationalism seems to have been prevalent in Australia across the range of socio-economic and cultural groupings. Its effect on lower income households, however, has been especially severe arising from the stagnation of house prices in Western Sydney and a slowdown in the area’s economy (see chapter 2). Aspirationalism was an important factor in influencing all household types to seek larger mortgages in the post-1990s period. Yet changed income circumstances exposed low income households in particular to mortgage stress.

In summary, then, it is important to factor in the social and cultural origins of mortgage stress. We see in the chapters that follow, how householders’ reactions to mortgage stress in recent years have been remarkably different just as outcomes and resolutions have been widely different. In the chapter that follows, chapter 6, we outline the methods that used to seek out participants for our study. The difficulties we encountered in the recruitment process should not have been surprising for us. At the very least, they confirm the deep commitment to the ideal of home ownership that its social and cultural origins have instilled.

The objective of this project is to understand the experiences of mortgage distress from the perspective of borrowers in the neighbourhoods where there are higher concentrations of mortgage distress in Sydney. The study sought to examine the reasons for taking up a mortgage, the influence of procedures surrounding the mortgage transaction, the factors that caused borrowers to struggle to make repayments, the coping strategies once in mortgage distress, and the impact of mortgage distress on borrowers' lives.

The target area for the study, Western Sydney, has been identified by the Reserve Bank of Australia and rating agencies as the region with the highest concentrations of mortgage arrears and defaults. While the experiences of Western Sydney are neither homogenous nor necessarily typical of all Australia, they were found by the study to be extraordinarily diverse and capable of illustrating the problem of mortgage distress in Australia more generally.

The research design involved a mixed method approach composed of two parts: first, a self administered survey; and, second, in-depth interviews. The survey sought general context information to generate a snapshot of the experience of mortgage distress. The in-depth interviews were designed to illuminate households' circumstances leading into mortgage distress, the actual experiences of mortgage distress, and their coping strategies. In in-depth interviews also enabled borrowers to discuss alternatives for managing mortgage distress and the barriers they perceived as impeding access to these alternatives. The in-depth interviews also allowed the possibility of new perspectives not considered in the interview design especially by drawing on the direct experiences of the interviewees.

Originally, several screening questions were devised to be used in the selection of the study's participants. These screening questions had the intention of limiting participants sample to those who had been three months or more in arrears on mortgage repayments. However, we very soon realised that many individuals considered themselves to be in mortgage distress, even though they had remained current with their monthly repayments. We decided therefore to broaden our sampling frame to include not only those who had recently been in arrears, but also those who were struggling to meet their mortgage debt obligations.

DATA GATHERING TOOLS

Self Administered Survey

The self administered survey consisted of a questionnaire

divided into four parts. The first part sought to gather general information about the borrower's level of mortgage distress, the characteristics of the mortgaged property, such as its value and location, and the name and type of the mortgage lender. The second part of this survey attempted to get information about the borrower in terms of educational level, competence in English and employment status. The third part included questions about the mortgage transaction itself, focusing on the mortgage search process, the information flow between borrower and lender, and the nature of their relationship during the transaction. The fourth and last part of the survey explored the circumstances under surrounding the mortgage distress and attempted to identify the coping strategies of borrowers when dealing with mortgage distress.

The survey was available to participants in two ways: online and by paper copy. The survey was available online through a dedicated page on the Urban Research Centre's web site. Paper copies of the survey were supplied with self addressed prepaid envelopes. Even though self-administered questionnaires can raise the chance of misunderstanding, it was felt their use would diminish the influence of the potentially high level of embarrassment associated with mortgage distress by enabling a participant to fill out a questionnaire discreetly without having to talk to a researcher.

The self administered survey was completely anonymous. At the end of the survey there was an invitation for people to participate in a one-hour face-to-face in-depth interview. Potential participants were informed that interviews could be held at a place and time convenient to them, and that a grocery voucher to the value of \$50 would be given to interviewees as compensation for their time. Those willing to be interviewed could provide their contact details in strict confidence.

In a period of four months, though, we gathered just 42 completed online surveys, out of which 33 could be used for analysis, while the remaining 9 had to be disregarded due to insufficient data. This small response was despite a major, targeted paid-advertisement and media publicity campaign to promote response to the survey. Reasons for the low response rate are discussed below.

In-depth Interviews

The in-depth interviews had the purpose of expanding on the topics covered in the self administered survey. They were semi-structured interviews organised around the project aims and research questions focussing on the household context, the mortgage transaction and the mortgage experience. An interview guide was developed following an extensive review of the issues identified in the literature as having an impact on

mortgage distress. However, interviews were not limited to pre-identified matters and a number of new themes emerged from participants' personal accounts and experiences.

The interview participants were a subgroup of those who responded to the survey. All survey participants who provided their contact details by the end of August 2009 were contacted by the researchers. Up to three attempts were made to contact those who had showed interest in being interviewed. The scheduling of interviews took from two to four communications between the interviewee and the researchers. Three potential interviewees could not be reached and did not return calls and/or emails, while two decided not to participate after initial contact.

There were 16 interviews conducted between the months of May and August 2009. One interview involved a household couple while the rest of the interviews were with individuals. The interviews were conducted either at the Urban Research Centre's offices, or in accessible places such as cafes chosen by interviewees. The length of the interviews ranged from 45 to 90 minutes. Following approval from interviewees, interviews were recorded and transcribed. One interview was conducted in Spanish and this interview was translated following transcription.

RECRUITMENT PROCESS

When considering different sampling possibilities for this research project, it was acknowledged that, although desirable from a statistical practices viewpoint, a random sample approach would not be a feasible field option. Even if it had been possible to build a list of potential participants from which to select candidates randomly, this approach would have not been cost-effective. Therefore it was decided that a snowballing technique was a second best choice.

The research project presented a challenge in terms of recruitment of participants for several reasons. First, the issue of mortgage distress is a highly sensitive personal experience with affected borrowers reluctant to talk about it. Second, borrowers experiencing mortgage distress exhibit diverse demographic, socio-economic and cultural backgrounds making the design of a sampling frame very difficult, especially given the difficulty in recruiting to such a frame from a potentially small volunteer population. Third, confidentiality, anonymity and privacy issues were important ethical considerations that constrained researchers in contacting potential participants directly as a result of identification from the records of a third-party agency such as a financial institution, agent or an assistance organisation.

The recruitment process evolved in stages, based on a trial-and-error approach. In a first attempt to recruit participants, paid newspaper advertisements ran for two weeks in April 2009 and two weeks in May 2009 in free circulation suburban newspapers and ethnic community newspapers in the three most common ethnic languages in the targeted area (Turkish, Arabic and Chinese). These newspapers were circulated

weekly. The advertising material was published four times in a period of eight weeks. On the first occasion, the advertisement was accompanied by a feature article on mortgage distress, designed to raise awareness about the issue and provide background information about the project, and so entice participation. An invitation to participate was printed below the feature article. The very limited response arising from the newspaper advertising campaign forced the development of a revised recruitment strategy.

With the help of advisory discussions with a number of community workers in the region, we realised that we had underestimated the difficulty of recruiting people to talk about the sensitive topic of mortgage distress. We became aware of the need to build a relationship based on a high level of trust with potential participants in order to increase their willingness to contribute their stories to the project. Hence, our revised recruitment strategy involved seeking the support and assistance of local community organisations which had involvement with advising or counselling people experiencing mortgage distress in the targeted districts. Our focus was on generalist organisations or networks of organisations and those with a large migrant and multicultural clientele. We initially contacted twenty organisations that seemed to have a client base that potentially matched the characteristics of those we sought to interview. Help was sought in a number of ways including by the display of posters carrying project information and the distribution of paper copies of the survey to clients in a discreet manner such as during a time spent in a waiting room.

The managers or equivalent of chosen organisations were contacted by email and subsequently sent, or had delivered in person, a mortgage pack consisting of laminated display posters and ten to twenty paper copies of the survey with pre-paid self-addressed envelopes.

A further phase of the revised recruitment campaign took place during July 2009. This second phase focused on contacting financial counsellors in Western Sydney. These personnel were typically from the Salvation Army, Wesley Mission, and other not-for-profit organisations. Twenty financial counsellors were visited in person or sent a mortgage pack.

Even after all recruitment initiatives, we were still able to interview only nine females and eight males. Five of these participants learned about the project through an advertisement and/or the news commentary in a Fairfax community newspaper. Ten of contacted us after receiving information about the project from a staffer at a community organisation or from a financial counsellor. One participant found out about the project through a web contact and another from a work colleague. The diversity of the sample of interviewees can be appreciated in more detail from the interview vignettes placed throughout this report.

The main purpose of this project is to understand the experience of mortgage distress from a borrower's perspective. The Western Sydney area has been identified consistently in recent years as containing suburbs with Australia's highest rates of mortgage arrears; hence this metropolitan region was our geographical focus. Between the months of May and August 2009 we surveyed 33 individuals in mortgage distress and held in-depth interviews with 17 of these. In this chapter we present the findings from this data collection survey. Two important preliminary findings concerning the definition of mortgage stress which emerged at the recruitment stage of the project are:

- Mortgage distress and financial stress more broadly are perceived as the same problem; people who experience either or both do not think of them as separate issues.
- There is a risk of underestimating mortgage distress by focusing on arrears instead of accepting a wider more contextualised definition of the problem.

These preliminary findings have shaped the way in which this study was designed and conducted. We have attempted to investigate mortgage distress as an issue often associated with other types of financial stress. In addition, we explored the meanings that research participants attached to mortgage distress. Our findings support recent reports calling for a more comprehensive definition of mortgage distress (Yates & Milligan 2007; Berry, Dalton et al. 2009).

THE DEFINITION OF MORTGAGE DISTRESS

As noted in chapter 6, our initial intention was to recruit people who were 90 days or more in arrears in mortgage repayments. We soon realised, however, that most of those who volunteered

to be part of the study had never, or very rarely, missed a mortgage repayment. In spite of this, they defined themselves as being in mortgage distress. They revealed that they were finding it difficult to make their mortgage repayments, and they were putting a lot of effort and creativity into not falling behind.

Such accounts highlight many of the shortcomings of conventional definitions of mortgage distress and the measurement of mortgage distress in terms of arrears and defaults rates as discussed in chapter 4. Moreover, these accounts further confirm the difficulty of thinking about mortgage distress and financial stress as separate issues, when they are in reality highly interconnected.

At the time of interview, most people in our sample could be classed as desirable clients in their lenders' books, given that they had never missed a monthly instalment. Figure 7.1 shows that at the time of the survey, 27 out of 33 survey respondents were not in arrears in the previous three months. However, the figure also shows that 25 respondents had found it difficult to make monthly repayments at some stage during the previous 6 months.

These responses suggest a problem which has the prospect of worsening should the efforts by borrowers to keep up to date with mortgage repayments become unsuccessful as a result of households experiencing further financial difficulties, or if the present levels of disciplined repayment behaviour cannot be sustained. Latent threats to systematic stability aside, the respondents' stories of difficulties in managing mortgage debt tell of major impairments to the Australian social fabric and probably to selected suburban property markets. The social and community costs of mortgage distress are significant and widespread. These costs include the costs of economic, social, health and emotional impacts at

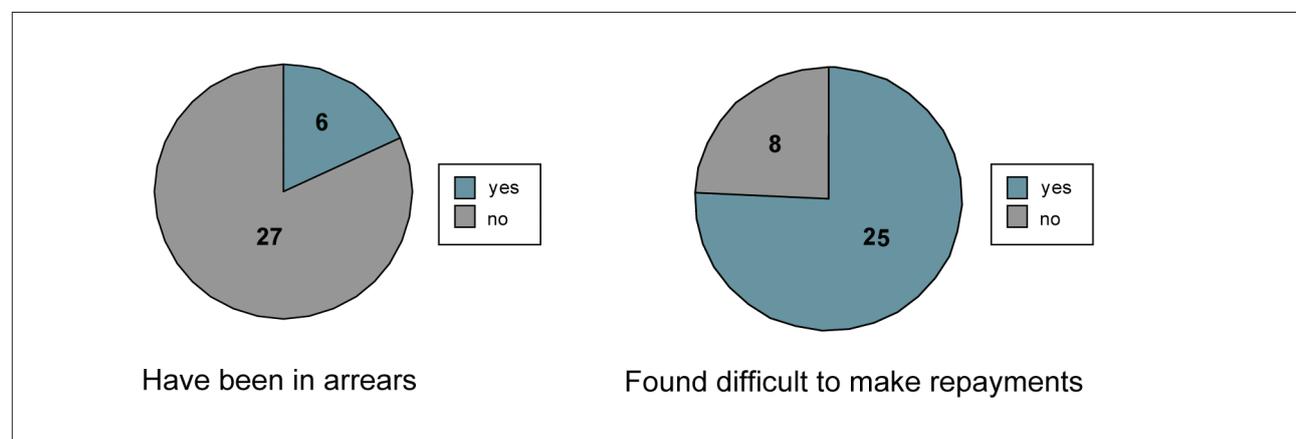


Figure 7.1 Arrears compared to difficulty to make repayments

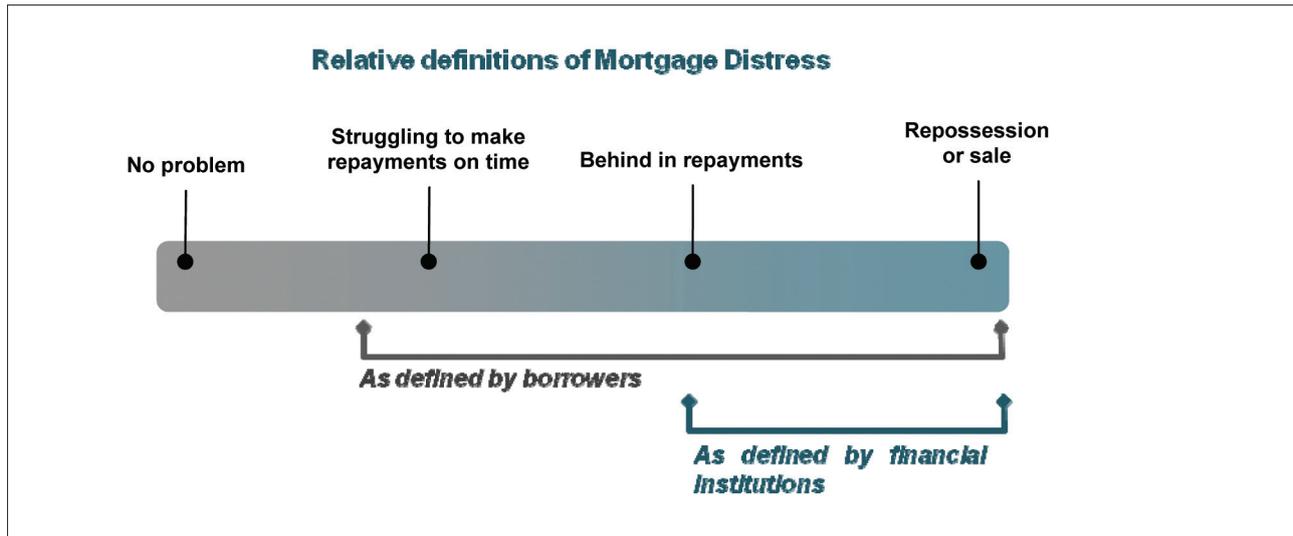


Figure 7.2 Understanding mortgage distress as a continuum

individual household scales. They also include the economic, social, health and emotional costs that are borne at broader community levels, an issue brought to the attention of the researchers in discussions with community services and non-profit organisations (see also The Wesley Mission 2009). These organisations (see appendix 4) reported a heightened demand for their services from those experiencing mortgage and financial stress pressures. This demand has been difficult to satisfy due to its unusual nature and extent.

As noted, to overcome the limitations of technical definitions of mortgage stress and their concentration on measuring rates of arrears and defaults, our recruitment strategy not only included people in arrears but also those self-defined as being in mortgage distress. The aim was to capture the issue of mortgage distress in a more comprehensive way and one that corresponded more closely to householders’ actual life experiences. Our approach, then, was to see mortgage distress as a circumstance in a household that could be positioned within a continuum ranging from “facing difficulties to make monthly repayments” to “facing repossession or selling the property.”

THE POPULATION AFFECTED BY MORTGAGE DISTRESS

A second survey finding is that respondents in mortgage distress are very diverse in term of socio-demographic characteristics. Respondents reported very different levels of educational attainment; they vary widely in terms of English language competence; and the value of their mortgage commitments varies significantly, from under \$100,000 to nearly \$700,000 (figure 7.5). The diversity of the subjects who answered the survey is illustrated in figures 7.3 and 7.4. Yet despite these variances, the survey data shows that a reasonable level of competence could be assumed for most who entered mortgage contracts. Around 70% of respondents claimed to have completed secondary studies, while almost 70% of respondents claimed to be native English speakers with the great majority believing their competence in English to be good.

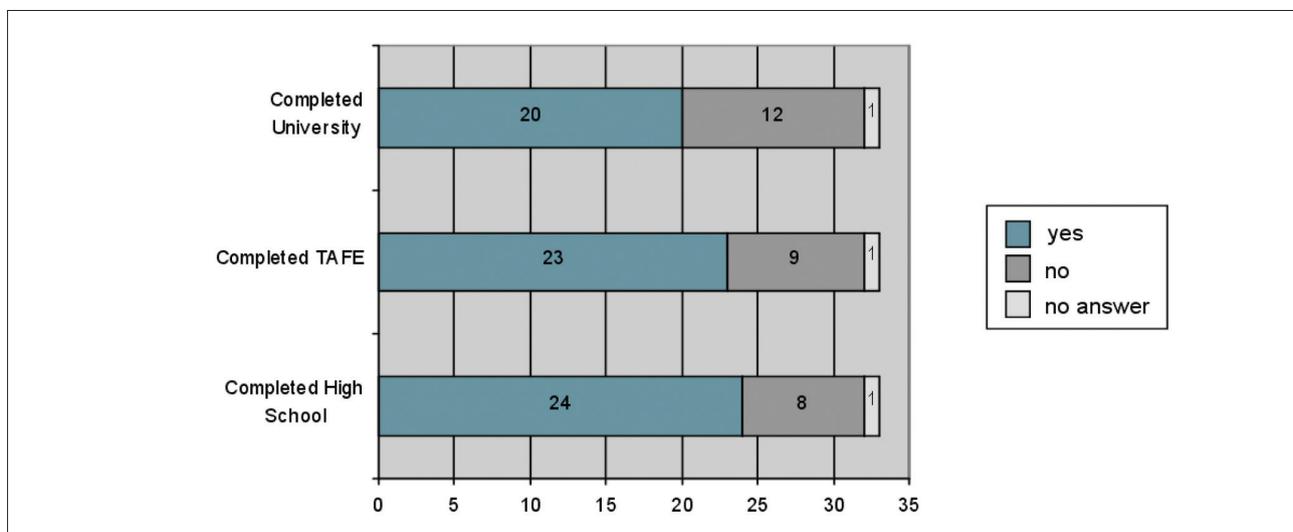


Figure 7.3 Survey respondents by level of education

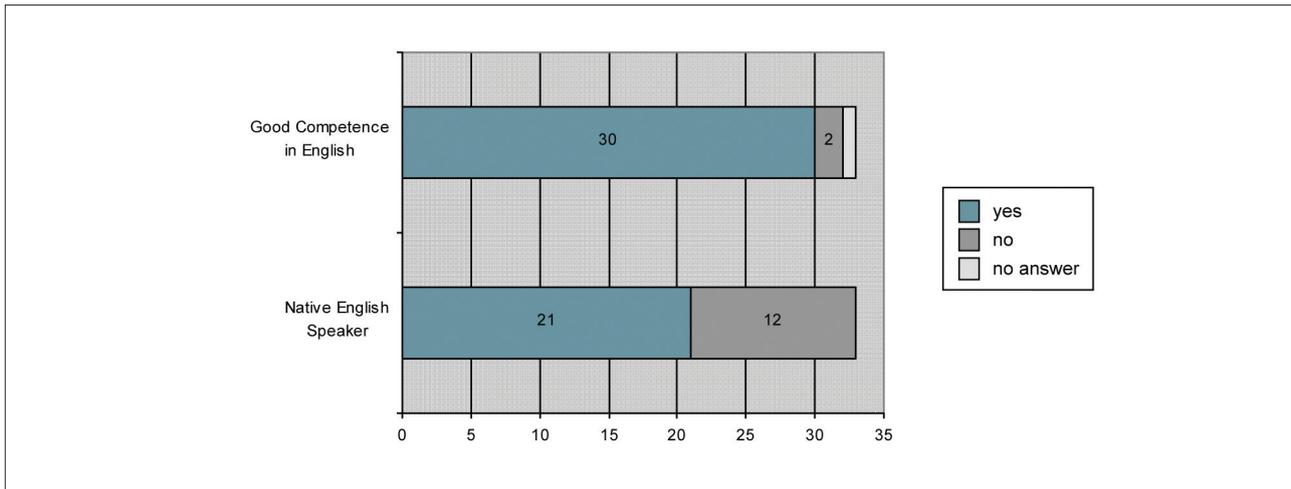


Figure 7.4 Survey respondents competence in English

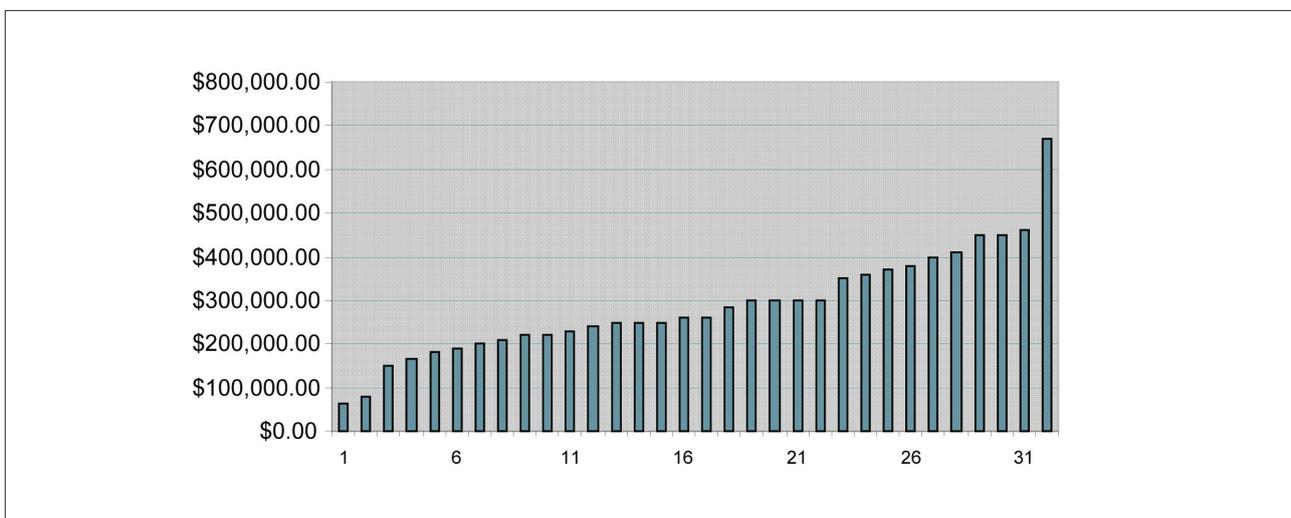


Figure 7.5 Value of mortgages as reported by survey respondents

Note: Of 33 survey respondents, 6 had mortgage debt of less than \$200,000 and 5 had a debt of \$400,000 or more. The mortgage debt of the remaining 22 respondents lay between these values.

The heterogeneity of survey participants is also reflected in in-depth interview data. That said, most of the individuals participating in the in-depth interviews belong to one of two categories:

- People who have never missed a mortgage repayment, and
- People who have already lost or sold their properties.

Obviously, there is a substantial unravelling of mortgage distress between these two sets of circumstances. There are also other outcomes, including pathways where households achieve a successful housing and mortgage outcome. In the highly stressful period where a mortgage might be unravelling, though, we now recognise the very real impediments to participation in a mortgage distress study. As one respondent reflected:

I wouldn't have been able to come to this interview if I was in the middle of that tunnel. There was no way. And I would have been crying the whole time...

[CHARLENE]

The respondent interview data are presented in two ways in this report. Chapter 8, which follows, presents vignettes that illustrate the stories of many of the participants. These vignettes are grouped in four themes identified consistently in the literature and through our observations as common triggers of mortgage distress. It is important to note, however, that mortgage distress is a complex mix of cause and effect circumstances. This complexity is confronted in chapter 9 which presents a systematic analysis of the themes and issues underpinning mortgage distress more generally.

The vignettes in this chapter capture some of the participants' experiences of mortgage distress. Whereas Chapter 9 presents an analytical breakdown of the interview data in order to better understand the processes that lead to mortgage distress, this chapter presents some of the individual stories. Their presentation shows that it is very difficult to establish direct cause-effect connections in accounting for mortgage distress. Instead, the stories show the complex variables and uncertainties that in combination lead to people into mortgage distress.

As noted in chapters 6 and 7, the process of recruiting volunteers for this study, establishing contact and rapport, and then conducting the interviews, proved to be challenging especially given the sensitivity of the mortgage distress topic. The wording of the vignettes is kept as close as possible to the language used by the research participants with adjustments to preserve confidentiality. The names of the participants have been changed, any information that could be related to their name, address or lender has also been modified. Fortunately, and perhaps as a direct result of the painstaking recruiting efforts of the project's field investigators, the transcript of each interview shows the particular richness of each individual story. And because the stories are drawn directly from respondents' experience of mortgage distress, their language is laden with stress and other emotions.

The vignettes are grouped under headings that denote the reason for the onset on mortgage distress. However, aside from the convenience of sorting the vignettes into categories based on various reasons for mortgage distress, it should be noted that in each case the nominated reason was only one of the myriad of issues that contributed to falling into mortgage distress.

RELATIONSHIP BREAKDOWN

The two vignettes in this section show the personal circumstances of two women in different life stages. The first vignette shows the case of a divorced working mother of three. Even though Morna has a professional occupation background and stable employment, heading up a single income household and paying high interest rates on her mortgage is extremely challenging. The second vignette shows the case of a young female whose aspiration to own her home changed significantly after the experience of mortgage distress. Gabrielle nominates drastic changes in lifestyle and the breakup of her relationship as negative outcomes of that experience.

Morna is in her early fifties and is a higher education employee with two postgraduate degrees. In 1998 her "husband left her for another woman, leaving her alone to raise three children" aged ten, five, and three months old. She originally had a joint mortgage with her then husband, which she refinanced on several occasions. Although her gross annual income is above \$70,000, and her mortgage is not too big (around \$260,000), she has been struggling financially for the last eleven years. She spends 75% of her salary on her mortgage monthly repayments (interest only), a car loan, credit card debt, and insurance. She has been unable to make her mortgage repayment only once, because she needed the money "to celebrate her oldest son's 21st birthday." But even though, in the bank's records she appears as a near perfect client, she juggles every month to make ends meet. "When her husband left her, she thought that the emotional part of it would be the worst." She never imagined that eleven years later she would still be struggling financially because of it. And the stress is affecting her health: she finds it difficult to sleep at night, and she drinks more than she would like to. If she had known how hard it was to support three children on her own, she says she would have thought more carefully before getting a divorce. She is currently locked into a three year fixed interest loan with an 8.7% interest rate. She regrets having decided to fix the rate in 2008, only a month before interest rates started falling. But, at the time, she was afraid that if the rate would continue to rise, she would have to default on her mortgage. For her, keeping the house is priority number one; "this is what her kids will get if something happens to her."

Gabrielle is a thirty year old single woman, working in the not-for-profit sector. In 2005 Gabrielle and her then partner of four years decided that “it was time to take the next step and buy a house. At the time they felt it was the natural thing to do.” They searched for a house and a mortgage for more than a year, until they finally found a bank that offered them some small advantages compared to the other banks, and a house that they could get for \$50,000 less than the advertised price. The bank was willing to give them a \$380,000 loan, and even encouraged them to get a \$500,000 loan (which they refused because they were unsure of their ability to repay it). Gabrielle was surprised and flattered to be treated as such a “safe” client, in particular when she had only graduated from university a few months before, and had only been at her job (her first job as a graduate) for three months. They were paying just over 5% interest rate for the first year. And even though between 40% and 50% of her salary was going to the mortgage repayments, they were doing fine. Her partner had a well paid but at times unsteady job as a contractor but he was also contributing significantly to their expenses. In 2006, as interest rates continued to increase, they started struggling to make the monthly repayments. They were never more than two weeks late, but in order not to fall behind, they started spending more on the mortgage-linked credit card, being more careful with their grocery shopping, and finding additional sources of income (such as babysitting). The stress arising from difficulties paying the mortgage “was partially what brought Gabrielle’s relationship to an end after seven years together.” They are currently trying to sell the house. She wishes she had been able to see in 2005 what she clearly understands now “that being a homeowner is not the only way in which to move forward in life”; and that to compromise her lifestyle and future dreams to service a mortgage is not what she considers a “fulfilling life.”

LOW-INCOME EARNERS

These two vignettes show particular cases in which the borrowers are in very low income brackets, and supported financially in part by welfare payments. Yet both Hugo and Martha found financial institutions willing to provide home loans approved. Both households now face great difficulties in meeting mortgage repayments especially as debt levels rise.

Hugo migrated to Sydney in 2003. Although in Australia he does not “need to worry about the ethnic violence of his home country”, his life here has not been as he had expected. With a family comprised of fourteen members (including his own children, a nephew, and a grandchild), it was almost impossible for Hugo to find a place to rent. Most landlords were not willing to let a three-bedroom unit to a large family such as his. He finally found a place to stay, but a year later he “was given an ultimatum”; he had to vacate the house in a month. Following a friend’s advice, he researched the possibility of getting a mortgage. With his low and unstable income it was not easy to find a lender, but finally he was able to buy an old four-bedroom house in a suburb with little facilities and services. He felt confident about his ability to make the \$600 a week repayments, because he had been promised a permanent full time job at the company he was working for, and because he believed that his daughter (a nurse in her twenties) could help him with repayments. However, he was never given the permanent position, and his daughter stopped helping him financially as soon as she got married and started saving for her own mortgage. Hugo has managed not to miss a payment so far, but with his \$900 per fortnight salary and the additional \$500 he gets from Centrelink, he only has \$200 left per fortnight to pay all the other bills and get food for his large family. He can only make his mortgage repayments by accumulating other unpaid bills and by having his family on a low-cost diet: dominated by semolina and rice. He is hoping to get a better-paid job soon, but he is not too optimistic. He is “very disappointed with his life” and he is anxious about the future and how to keep providing shelter for his family.

Martha is in her late forties. She has two teenage children and another son in his twenties; she has been divorced for a few years. In 2004 she was living with her three sons in a semi rural rented property about 5 kilometres away from the next suburban centre. The rent was not expensive, but she was spending a lot on petrol. She decided to use the \$80,000 that she had saved from the sale of the family home after the divorce as a down payment to buy a house. She talked to two different mortgage brokers, and both of them told her that her options in terms of lenders were very limited, given that most lenders would not take into account child support as a source of income. Given these limitations, she opted for the broker that got her the lowest interest rate loan available to her. She is currently on a 7.4% fixed rate loan and 100% of her income as a child care worker goes to her mortgage monthly repayments. She has never been in arrears, but only because she heavily depends on a credit card on which she currently has a \$15,000 debt. In addition, she has had to cut down on basic needs such as clothes and food. Her adult son sometimes brings some food to the house but this is not a regular arrangement. A few months ago she “was in panic about her credit card debt, but when she phoned the bank, she was told that most people have more than one card and a larger debt than hers, hence, this had made her feel more relaxed.” When one of her sons turns 16 next year, the parenting payments for him will end, and without that additional source of income, Martha is afraid that she will struggle to make her mortgage payments. She will try to work longer hours, but as a child care worker she does not know how many more hours she can get, and whether her already “mature body will allow her to work longer days.”

LOSS OF INCOME

The next three vignettes show people affected by unforeseeable circumstances that have limited their ability to work and therefore their capacity to maintain the level of income necessary to make the required mortgage repayments. All involve illness as a prime cause of work interruption. In the first vignette the main income earner in the household, George, became sick and could not continue with his job. Because his employment contract was not stable, George lost his income which compromised his ability to repay

the mortgage. In the second vignette, the loss of income was a factor in the mental illness of Charlene’s husband, which compounded income difficulties until it became impossible for the household to keep up with mortgage repayments. In the third case, a large portion of the income of the respondent, Michael, was dedicated to pay medical bills of his ill partner. This diversion of income created mortgage distress in the household as meeting repayments became increasingly difficult.

George was born in the United Kingdom 55 years ago, but he has lived in Sydney for most of his adult life. He is married and has 7 adult children (only the youngest one living with him at the moment) and 11 grandchildren. For many years he lived in an inner west suburb of Sydney. His wife had grown up in this area too, and hence they had many friends and an active social life there. In February 2006 George and his wife decided that it was time to sell the house, pay off the debt and get a new, smaller mortgage. George is a first aid and health and safety instructor, in the vocational education sector. This type of job is seasonal which means that he enjoys times receiving large incomes but times of no income at all. On top of that this type of job does not have any leave entitlements. This being the case, he had to get a mortgage broker to find him a lender who was willing to give him a loan. The mortgage was small (\$180,000) and he was able to get a flexible deal (he made extra payments when he could and made no payments when he couldn’t). Everything was going as planned until last year, when he had to spend some time in hospital due to a heart condition. At that time he got behind with payments and had to access superannuation to get back on track. A few months later he had an accident that left him in a wheel chair, with two broken arms and a brain injury. He has been out of work ever since and the bank has already sent him the sheriff with a repossession order apparently without any previous notice. George has currently asked the bank for a moratorium for five months, when he hopes to get back to work. But the bank employees have been extremely rude to him and not in the least helpful. He is optimistic about the future because he thinks there are many jobs available in his field; however, this has been a very bitter experience for him, not only because of the emotional stress that is attached to mortgage distress, but also because of the unnecessary bad treatment that he has received from most of the lender’s employees. Being a red cross and scouts’ volunteer, it is hard for George to understand why someone would treat a struggling human being with such malice, instead of genuinely trying to help.

Charlene is a middle aged mother of four. She used to work at her husband's very successful real estate business. A few years ago they decided to sell their home and move to a different suburb. However, the person who was supposed to buy their old house pulled out at the last minute, so Charlene and her family moved to the new house and rented the old one. For the first three years Charlene husband's income was more than enough for them to make their monthly repayments on their two mortgages comfortably. The financial struggle began when Charlene's husband started battling with depression as a result of stress caused by difficulties experienced in his business. He was unable to work for two years. The couple first sold their investment property, then they accessed superannuation and asked for a bank's moratorium, but finally, in June 2008 their house was repossessed. They are now renting a smaller house in the same neighbourhood, and with Charlene's husband back to work, she can finally see the light at the end of the tunnel. She hopes that one day they will be home owners again, but this time they will get a loan small enough that they can pay it back, even if they have no jobs, are on social security or Centrelink incomes.

Michael is in his mid forties. In the late 1980s he was living with his parents, when his father started experiencing some financial problems which resulted in them losing the family home. Michael decided that, after so many years of being helped and supported both financially and emotionally by his parents, it was time for him to take care of them. This is why he signed on a mortgage to build a new house on a small piece of land that his parents owned. He lived in this house with his parents until both of them passed away. It was only very recently that Michael started finding it hard to make his mortgage repayments. For the last few years, a large portion of his salary has been used to buy expensive medicine for his partner who has been diagnosed with cancer. To make matters worse, the small company for which he works was sold eighteen months ago, and the new owners cannot afford to pay him the overtime rates that he was used to before the change of management. Without this additional source of income, Michael cannot make his monthly repayments on the mortgage, and he is currently three months in arrears. He has been trying to look for a second job, but his search has so far been unsuccessful. He feels like the weight of the world is on his shoulders and he believes he has failed his parents and his partner. A lot of people have advised him to sell the house, but he cannot do that. The house, which Michael and his dad built with their own hands, is the last tie he has to his father and he would be devastated to let it go.

EFFECTS OF MORTGAGE DISTRESS ON QUALITY OF LIFE

In the cases presented so far, the negative impacts of mortgage distress are associated with negative impacts on lifestyle, quality of life and mental health. The two vignettes in this last section show particular cases in which professional people have taken up mortgages with the idea that they would improve their lifestyles. The accounts of these participants

reveal feelings of failure, insecurity and loneliness produced as a result of trying to cope with circumstances of mortgage distress. Despite the fact that these participants reported very strong feelings of disappointment they also reported that they have learnt a lot from the experience including an awareness of valuing what they see as the most important things in their lives.

Peter is in his early thirties. He recently immigrated to Australia, leaving his parents behind in his home country. He is a software contractor at a multinational company. His income is unsteady although whenever he does work he is paid well. Peter brought \$10,000 with him when he first arrived to Sydney, and in a couple of years he has been able to save some more. He did not want to keep all his savings in a bank account; and in addition, he was paying a lot on rent. This is why he decided to get a mortgage for a dwelling of his own. He researched for three or four months and realized that he could not afford to get a large house or even an apartment in the inner city. He preferred to be cautious and get the smallest mortgage he could get, even if this meant buying a small unit in an unpopular suburb. He got a \$235,000 mortgage with a major bank and has never missed a payment so far. However, he is worried about how he will manage to make his monthly repayments if he fails to get a renewed long term employment contract with the company for a long period of time. He is spending most of his salary on the mortgage and sending some money back home to support his parents. This means that he has to cut down on everything else, including some basic needs. He feels isolated and wonders if he will ever be able to establish a long term relationship, given that, due to his imposed frugality, his social life is limited to the few friends that every now and then visit him at his suburban unit. Even if he found a partner he worries that he would never be able to afford to have children. He says if he had known the rules of the game before getting into the mortgage, or if he had been able to get some financial advice beforehand, he would have done things differently. At the time he signed the mortgage papers he asked many questions, but now, he thinks, he did not even know what the relevant questions to ask were. He is afraid to let the bank know that he is having a hard time making his monthly repayments. He fears that if he does, the bank might start pressuring him about his loan. But he knows that in the near future he might have to inform the bank.

Kamesh is an academic born overseas, in the early 60s. He moved to Australia twenty years ago, after getting a degree from an Ivy League university and working for a company in North America for a few years. He got married in Sydney and currently has two teenage children, and a very large mortgage that he has struggled to repay as interest rates rose in the last two years. To avoid falling behind on his monthly repayments, Kamesh and his family have cut down on expenses such as eating out or buying new clothes. They have also relied heavily on seven credit cards, amassing a \$20,000 debt at one point which he has profoundly regretted in retrospect. Kamesh grew up in poverty and remembers his parents valued education and health over all things; the limitations he experienced as a child have shaped Kamesh's own view of what is important in life. He would not hesitate about selling the house if this was necessary so that his kids could get a university degree, and he would never cut down on expenses that might compromise his children's nutrition and health. However, cutting down on what he considers luxury spending such as clothes, mobile phones, or television, is, in his view, not only a good way to avoid defaulting on his mortgage but also a valuable lesson for his children; according to Kamesh, in Australia people spend on unnecessary things; while a frugal life can be more fulfilling than a life focusing on consumerism. Kamesh knows that interest rates might go up again; hence he is now saving money just in case. He argues that getting such a large mortgage was a mistake, and one that caused such a strong emotional stress that at one point he was having suicidal thoughts. He does not want to go through that again and, hence, he will continue to buy second-hand clothes, he will keep the ban on soft drinks and popular brand products at home, and even now that he has managed to weather the storm.

Chapter 9 now presents the analysis of the findings that emerge from the 15 in-depth interviews. The interviews were structured to gather information on five topics, which can also be thought of as five stylised chronological steps down the mortgage distress path.

Our study's entrance point was the pursuit of reasons behind the decision to buy a house leading to the mortgage application and signing process. Second, we investigated the mortgage transaction process in order to understand how a lender (or its agent) and a mortgage product were selected; the level of knowledge and understanding present at the time of signing the mortgage; and the power relationship between lender and borrower, including the potential existence of predatory practices. Third, we sought to understand the process of entering mortgage distress and the reasons behind the passage into distress. Fourth, we were interested in understanding the coping strategies that people put in place to avoid and or deal with mortgage distress. Fifth, and finally, we asked about the impact that mortgage distress has on people's lives.

The five steps in which we divided the mortgage distress experience, then, are:

- i. the decision to buy a house,
- ii. the transaction,
- iii. the reasons behind mortgage distress,
- iv. the coping strategies, and
- v. the impacts of mortgage distress.

The interviews also included questions designed to explore two additional issues:

- vi. expectations for the future, and
- vii. regrets, and advice for others.

The discussion which follows is organised according to this breakdown. Excerpts from the interviews are used for clarification and to support the findings. As in chapter 8, personal information that might identify interviewees has been altered or omitted for confidentiality reasons,

I. DECIDING TO GET A MORTGAGE

An opening question in the in-depth interviews was: "Why did you decide to buy a house?" Answers to the question point to three main reasons for buying a house:

- cultural reasons,
- economic reasons, and
- a lack of alternatives.

Cultural Reasons

As discussed in chapter 5, there has been a strong cultural tradition of home-ownership in Australia for over a century. One of the milestones of migrants and locals alike was to own their home. The cultural ideal of home ownership has thus become an important part of the housing careers of Australians.

The traditional tenure pathway of Australians involves leaving the parental home in a person's early 20s, before securing a mortgage to buy a home to support family life in the late 20s or early 30s. This traditional pathway has been changing in recent decades due to a number of factors, including labour market instability, housing affordability pressures and a generational change in expectations and lifestyles (Flatau, Hendershott et al. 2004). Despite these factors, the end goal – home-ownership – remains cemented in the mindset of most Australians; and, as we discuss in more detail below, Australians go to great lengths to achieve this goal.

Our interviews confirm the commitment of householders to home-ownership as an inevitable life-cycle stage. Several interviewees described buying a house as a natural path, as if life was designed in steps, and buying a house was a key step in moving forward:

"No, no, because we were always taught that never rent, buy yourself a house, have your own home."

[STELLA]

"I suppose it was just something that you do, you know, you get to a point, you're in a relationship you're moving forward, you buy a house to settle down for the future. It's been...it's always been something that I wanted to do."

[GABRIELLE]

Economic Reasons

Most interviewees referred at least one economic reason for buying a house. Households typically view buying a house as a smarter financial option than renting. Our respondents confirm that house purchases are pursued not just with the aim of securing a housing service, but as a deliberate and major part of long-term financial planning. This is consistent with Susan Smith's claim for the emergence of a "new financial order of housing" (Smith 2008, p521) where owner-occupied homes are recast as vehicles for wealth creation and accumulation. When the financial dimensions of housing become prioritised, home purchasers bring a specific set of expectations to the mortgage transaction, viewing the home as a financial asset requiring ongoing maintenance and improvement alongside debt and strategic participation in marketplace activity. Such skill and diligence is assumed to ensure rising asset value thereby providing economic security during life's key steps: early working life, child rearing, the empty-nester years, retirement, and the aged-care twilight years.

Hence we now have a complex view of what a dwelling is, with raised expectations in particular about the financial performance of housing, expectations which may prove to

be unrealistic in many circumstances. The contradiction, as we point out in chapter 3, is that a competent framing of the dwelling as a financial instrument should involve an ongoing assessment of its performance within a financial risk versus financial reward calculation. Yet, more commonly, borrowers see increased household leverage as a good idea based on the strong belief that real house values inevitably appreciate at high-end rates. Our interviews revealed that home buyers commonly lack the skills to properly assess the risks involved as a long-term mortgagor:

“To increase my asset because that...yeah, because the rent is just wasting money, that’s what I thought. To buy a house if I pay certain amount, the house will be mine.”

[STELLA]

The attractiveness of the home as a secure financial investment is also encouraged by the discourse of individual autonomy rather than collective responsibility in the pursuit of positive life outcomes. As argued in chapter 3, there is growing pressure in Australia for self-management of risk and for taking private responsibility for personal development and attainment. This corresponds to diminishing enthusiasm among governments for comprehensive social safety nets and for the provision of universally available public goods and services. This elevation of private responsibility includes growing responsibility for retirement income and support. From this perspective, the home has become a central instrument in achieving household autonomy including for so-called “independence” for household members in the future including in their retirement years.

“...like rents are about \$400 or \$380 so, you know, I’m not paying that much more than a rent and I’m still hoping that sort of you know my house is an asset to me if...for the future because like when we split up, I didn’t have any ...I hadn’t been working much so, I didn’t have any super. So that’s sort of...my house is my super really.”

[MARTHA]

“...we were blind, deaf, and dumb, because we were caught first by the investment...one always thinking about the future...thinking we came here as adults, thinking we don’t have enough superannuation... specially thinking of our daughters...I was always thinking about the future and when they [BROKER/ LENDER] said, ‘If you renovate the house you will have more opportunities, more money for tomorrow.’ “

[MERCEDES]

The period of the housing boom in Australia arising from around the mid-1990s coincided with a large increase in the number of households purchasing residential dwellings as discrete investments. Again, what is observable here is the way in which housing has become defined as an entrepreneurial activity available to everyday borrowers. Owner-occupiers are encouraged to mobilise their housing equity as an investment stake, with housing, again, as the vehicle, a tax favoured investment in an appreciating market.

“I was working there full time every week. My husband got a good job so because we were in a good situation, this accountant told us ‘Why don’t you buy an investment?’ My husband was afraid, I mean, he didn’t want to do that but thinking of the girls’ future...well, we got into the investment in 2003.”

[MERCEDES]

“...you can’t keep your money as a cash reserve in...like if you want to keep it as money in the bank you will get taxed on whatever interest you get...so I had \$10,000 worth in cash...so I decided to invest in some...some kind of real estate or property...”

[PETER]

Another economic rationale reported by interviewees was the desire by parents to leave a fully owned residential property to their children as their legacy, so that their children would have their own launch pad into the housing market and a safety net for their future. People who were parents or wanted to become parents saw paying the mortgage and keeping the property as the main way not just to secure their children’s current housing stability but also to secure their children’s future especially in case of unforeseen circumstances. Some respondents mentioned that their parents made efforts to secure a home for them when they were children and they wanted to do the same for their own children.

“...[selling the house] that would be last resort...I just want to have something that’s a bit secure, and also it’s about having something if anything happens to me; it’s about having something for the boys, because their father is renting and he doesn’t have any money, and he doesn’t have life insurance or you know all of that sort of stuff, so there’s nothing.”

[MORNA]

Lack of alternatives

Some of the people interviewed decided to buy a house because they found it more convenient than renting; that is, home-ownership was preferred for practical rather than economic reasons. Renting was seen consistently as unable to provide security of tenure and very limiting in terms of being able to adapt a dwelling to suit personal and aesthetic needs.

“I just thought no, I just want somewhere that’s mine and I don’t have to worry about moving, because a couple of times we had to move because they were selling.”

[KATE AND JOSH]

“...first the problem who pushed me to get the mortgage is the large family I have. Because when I came to Australia in 2003 I came...we were a family size of 14...it was very hard to find a landlord who could accept...to... to rent us a house.”

[HUGO]

This quotation presents an exceptional case that is linked directly to the household’s recent immigration. Limited accessibility to appropriate housing pushed this migrant family

to get into a mortgage that involved high risk. In the interview, the householder revealed that his family comprised 14 people, mostly dependent children of varying ages, and was reliant on a single income plus government transfer entitlements. The interviewee claimed he did not have an alternative to purchasing a house since the household was ineligible for public housing and because landlords did not want to rent to a family of such size.

II. THE MORTGAGE TRANSACTION

One of the goals of this study is to understand the transaction process surrounding the acquisition of a mortgage. Our examination has involved three areas:

- research conducted by householders before deciding on a lender and the mortgage make-up,
- borrowers' knowledge and understanding of the mortgage papers,
- the relationship between borrower and lender, including the existence of any predatory practices.

Deciding on a mortgage broker and lender

In investigating a borrower research activity and how a decision is taken on a lender and the mortgage make-up, we were concerned with these questions:

- How much effort do people put into researching alternative lenders and mortgage options before signing mortgage papers?
- What influences a final decision?

Most interviewees admit they did not put enough time or effort into researching mortgage options before making a decision. Another common behaviour was to delegate the decision about mortgage make-up to a mortgage broker especially by trusting a broker's recommendation without any serious scrutiny. Several interviewees indicated that their broker offered them a couple of options with strong advice on which one was the best to choose. This advice was always taken.

In many cases we observed that the mortgage search was not so much about finding the best lender or best mortgage option but about finding a lender – whether mediated by a broker or not – that that would make mortgage finance available after other financial institutions had declined their applications. In general the interviewees in this situation were people with less stable incomes or had significantly low income levels, or both. Knowing that mainstream institutions were not willing to offer a loan, mortgage seekers often took the only option that they were given.

"A friend, or an acquaintance basically gave us the number of a mortgage broker, and so we rang the person, the person came around and we talked about what we wanted to do...Yeah, basically he came up with two possibilities and he went through the pros and cons of each one with us, why this particular one we went for was better than the other one, and it was the best of what

was available for our particular situation because we had periods of unemployment where we couldn't pay at all, so we had to make lump sum payments here and there to sort of cover things and it should work out. So that's what we went for....So it's basically based on the easiest mortgage to get considering my working situation."

[GEORGE]

"We've got a loan with them before...and so we went through the mortgage broker to get the loan, like all set up and it was actually a low doc loan...I suppose because they were happy to loan us the money, we were happy to accept their offer."

[CHARLENE]

"...the only one that we could find that would deal with a mortgage on flood prone land which is where it is; it's a one...one to 100 year flood prone land; and at that stage I was not working full time because the baby was only three to six months old and I was still finishing my masters' degree. So at that stage I didn't have a great income. It was through [BANK] which is a Queensland bank. So that's what I...who I went with."

[MORNA]

For those who did have borrowing options, common factors influencing a decision to choose a particular lender were:

- a previous personal or family history of banking with a lender;
- a brand name they knew and trusted;
- the opportunity to speak with an actual person;
- the offer of flexibility in terms of how and when repayments were to be made; and
- the interest rate schedule compared to other lenders.

As the following extracts from interviews show, usually more than one of these factors coexisted in making an option the most attractive:

" My...my parents used to bank with [BANK], so I thought I'll just do what my parents did, I'll just...you know they're our family bank, so yeah..."

"We researched a little bit...we looked for about a year... more than a year. ...different banks and had a few interviews at different banks but we settled on [BANK]. Because I had banked with them for my personal banking and I was happy with their service and their conditions and they gave us, you know, a few...a few...you know extra, like a 0.5% discount on the interest rates..."

"...whether there was a bank nearby that you could actually go in and talk to somebody if something was going on. That was important to me, I didn't want to have a faceless, you know, organisation. So...yeah, things like that and we... you know the flexibility with...we have... like we have a withdrawal facility, so we had the option of you know putting in a lot of money into our mortgage and then taking it out if need be..."

[GABRIELLE]

But even those interviewees, who seemed to have done some research before signing mortgage papers, admit that receiving information about different mortgage options, and really understanding the financial and legal jargon in that information, are two different things. The aspect of the diversity and complexity of mortgage products was mentioned by most interviewees regardless of their level of education, understanding of the English language, age or even time spent doing research on mortgages. The diversity and complexity of mortgage products made comparability a complicated exercise. As a result, interviewees claimed that they became trusting of the person or institution that seemed to provide the most complete information or that gave them personalised attention and customer service.

Knowledge and understanding

This theme explored the question of how well borrowers understood the mortgage contract. Usually, interviewees who accessed their mortgage through a broker delegated the information gathering and interpreting to the broker:

“I really relied on the broker I think because I hadn’t dealt with the big money before. You know I’d just dealt with the family budget and I didn’t really deal with the house stuff before...before I split up. So yeah it was a bit new, and daunting and scary.”

[MARTHA]

Yet those who were more involved in the information gathering process typically believe they were not provided with enough quality information to make their selection wisely. However, this realisation came in retrospect with borrowers only discovering the limitations of their loans once they were facing disruptive circumstances.

“...he didn’t explain two things. The first thing was he sort of didn’t really talk about interest rates as such, but if he’d said to me, if you fix your rate and change...and you want to change back to variable, it’s going to cost you a lot of money, I would have probably said no. And he didn’t also tell me that when you’ve got a variable rate, you can fix it any time you want...”

[MORNA]

“As a first-time buyer, I didn’t know what the rules, what the responsibilities, and if something got delayed I would have been losing my 10% of money, and there is no guidance...you can check in online, there are some blogs say about how to deal with that, but it is not advice, it’s like what they experience...I didn’t have much experience on what kind of questions I need to ask them, and unless you know what to ask then, they don’t tell you, and that is the...where the difficult part is.”

[PETER]

Others did not ask too many questions because they basically trusted whatever the lender or broker or developer (as in the case below) said. The following quotation relating to an investment borrower shows how some people failed to differentiate a sales pitch from sound financial estimation:

“They told me rent will be \$650 a week and ...rent was \$340...it wasn’t really a water view, it was on the side and the air conditioning was blocking the water view. And the place was so small...”

I didn’t investigate that...because I believed the word they said.”

[LAURA]

Most interviewees blame themselves for not having done their homework thoroughly and for failing to read the detail in a mortgage contract. Some acknowledged that they let emotion overshadow reason when deciding to take on a mortgage:

“We knew what we were getting into. Had we known what we know now though, we would have seriously read through the loan contract, all the small print in far greater detail. And we may not have entered into the loan contract had we known what the small print says in the loan contract...”

...Oh I think emotions play a big role actually...because it’s all exciting and oh this is going to be wonderful having our own home, instead of really seriously considering the worst case scenario that could easily happen once interest rates start to rise again, all they can see is the now and the immediate. Oh, we can afford it, this is going to be great, it’s our own home, look what we’ve got.”

[CHARLENE]

The difficulty to understand mortgage products is not the only challenge in the decision to take a mortgage. Strong desire and other emotions limit clear-headed and rational decision making. An understanding that recurs throughout the interviews is that the mortgage decision occurs in a context where all parties involved downplay the high risks involved. Yet while the majority of the survey participants acknowledge that they are in mortgage distress because they did not make the right decision and that they should have known better, they do not blame the broker or financial institution even if they express the view that they may have been misled by them.

The lender/broker and borrower relationship

In exploring the relationship between a borrower and a lender or broker, we found interviewees for the most part were satisfied with the performance of brokers or lenders during the transaction period:

“Well, the broker was good. He was a nice guy. He worked it all out, gave us a bit of advice in nice simple terms. I thought the broker was very good. He rang up about two or three months after we got the house to make sure everything was okay...And the [NON-BANK LENDER] people we first took out the mortgage, not that we had much contact with them, but whenever we had any contact with them were nice and polite.”

[GEORGE]

However, in some of the interviews, mortgagors indicate that the relationship between borrower and lender can sometimes go from “grooming” to “bullying”. A recurring complaint against lenders related to the rude treatment given by them to customers after mortgages entered arrears:

And they also invited me down to [HOTEL] and [it] was big party with champagne and everything and they tried to convince me that I can buy another property and another and they put [some figures] on paper to show me that I can...

...I just say, you know what the situation is and I can't repay. What he going to do? And he didn't reply and I wrote another letter, another letter, another letter, he didn't reply. And I rang and secretary, [NAME], she was so rude to me...

[LAURA]

And didn't even get a phone call. We got the boom, legal action things...They were quite nasty and mean and horrible. The lady I spoke to was really obnoxious...

[GEORGE]

...Like the further this dragged on, I think the nastier they became... Like they would say if we don't have... if we haven't faxed them the doctor's certificate by this afternoon, you know, they'll be sending us a default notice tomorrow...

They were highly aggressive and it really affected my husband with his condition, like he continued to go downhill into a blacker hole...the closer it got to the end, the more aggressive and the more violent they became with their nastiness and I mean everyone knew what was going to happen but there was no sympathy or...there was no...they were not flexible.

[CHARLENE]

The interviews allowed us to identify three different attitudes that borrowers have towards their lenders:

- not caring too much about building a relationship with the broker or lender,
- making efforts towards building a relationship with the broker or lender, and
- taking a confrontational attitude towards the broker or lender.

The prevalence of these different attitudes among respondents seem to depend on the way people react to a lack of customer service, bad treatment, rudeness or bullying, following the onset of mortgage distress. One of the most common attitudes was to seek information elsewhere to make up for the lack of customer service within the broking house or lending institution:

“...the bank broker he...he's not doing it like, he's not working any more, doing that. So I had to go to sort of like...like if I wanted to get some idea about interest

rates and fixed and variable at the moment, then I went through someone else.”

[GEORGE]

“They give me another mortgage broker who lives in Melbourne, I don't know him and I'm not in communication...I don't communicate with him. For me the relationship with the broker is not important because what is important is to pay...”

[KAMESH]

Other more specific responses referred to a borrower trying to play along with what they saw as antagonistic advice, or simply focus on being attentive and polite. Others responded with a defiant attitude to the bad customer service and rudeness they encountered:

“I've been, you know, putting a little bit of money here and there for him as well to make everyone happy, and I ring them and I say, 'Listen I just put \$100 in your account,' and they say, 'Oh thank you.' So they don't get angry by sending me letters all the time you know; so I make sure that I ring them all the time.”

[STELLA]

“...and if you don't react the way that they [the bank] want you to react, then they take control by becoming abusive and threatening, so that they can have control of the conversation. So my husband's taught me now that when I hear from them this time around, I'll be informing them that I'm going to be recording the conversation for quality and coaching purposes just to let them know that they'd better be careful of every word they say to me so that I can throwing the ball back at them rather than them, you know, throwing the ball at me.”

[CHARLENE]

An important issue that arose in the interviews relates to the guardedness of participants to communicate “changed circumstances” to the lender even though many mortgage products have clauses requiring such notification. For example, one participant was afraid to tell her lender that she was facing difficulties making repayments because of a fear of retaliation or bad treatment. Another participant believed he was not obliged to disclose information about changed circumstances to the lender and that making the lender aware of a change in employment could prejudice the possibility of negotiating any future changes in their loan repayments schedule. In general so long as these participants felt they could manage to make loan repayments on time they were unlikely to tell the lenders that they were having difficulties.

“Because we were concerned that because we were high risk when they took us on, we thought if too soon into it we go in and say look, oops, you know, we need to drop payments or whatever, they're less likely ...and certainly they haven't said anything, it's just how we feel, they'd be less likely to be flexible with us...”

...I mean we're not legally obliged to tell them that we're

out of work at the moment because we're making the payments, so it's not a problem. And we weren't legally obliged to tell them that Josh was temping because it didn't affect anything..."

[KATE AND JOSH]

An unexpected finding of our study is that most interviewees do not think that their lenders have behaved in a deceiving or unscrupulous way. Instead, as noted above, the complaints of our respondents about lenders or brokers tend to be related to the way lenders or brokers have treated them, or they relate to the financial system in general.

That said, while our interviewees do not accuse lenders of being unfair, we have identified some practices from interviewees' accounts in our view are questionable. These include:

- accepting child support as an income source;

"There were only a couple of lenders that would take into account child support..."

[MARTHA]

- installing a credit card as a compulsory part of the 'mortgage product';

"...we got a credit card with our mortgage as well... and now I understand why they do that. At the time, you know, it wasn't something we asked for but it was part of the package and yeah, we relied on that heavily."

[GABRIELLE]

- offering a higher credit limit to borrowers already in credit card debt;

"...it's the credit card that's been my problem because I get towards the limit and then they offer me another \$1,000 and then I take it because I panic if something happens, how will I pay for it [the mortgage]?"

[KAMESH]

- not disclosing the full range of ameliorative options to clients who suffer mortgage stress;

"...They really should tell you upfront when you ring up and say okay, what can I do about this. I'm having problems; they should give you everything; send out to you all the options you have. Some of the things you find out by accident."

[GEORGE]

"No, and I don't really think...I don't think we've ever been told that [about hardship assistance] in all the times gone before that we've had a mortgage, or went to apply for a new mortgage. And even when we did come into hard times, I don't know if I'm jumping the gun too early but the lender, our lender did not offer any information whatsoever. Like, we had to find it all out for ourselves. Yeah."

[CHARLENE]

- not informing borrowers of mergers or acquisitions affecting financial institutions that are holding borrowers' mortgages;

"...until we got the letter saying they had taken over from [LENDER], you know, still advertising as [DIFFERENT LENDER]; oh I didn't know they existed. I had never heard of them."

[GEORGE]

"Whenever I've gone back to...to fix it like it's actually changed companies...the mortgage company has been bought out by someone which I wasn't notified at the time."

[MARTHA]

- providing misleading information to customers;

"So it's [the credit card debt] got up to \$15,000 now that I owe and I only...and I rang the bank up only this week because I was worried and the lady there seemed to think that that was perfectly normal. She says...she said, 'No.'...cause I was thinking I'm really strange owing that much. She says 'No, you're not,' she said. 'Yeah,' she said, 'Most people.' And she said, 'You've only got one card. Most people have three or four owing that much.' So that made me feel better."

[MARTHA]

"...they kept pointing out, like oh you guys are fine, we loan to people...we loan 100% to people who have debts and blah, blah, blah. So you're in a perfect position, you can, you can...you know we were offered...to borrow more money. We...we could have borrowed more...more money in terms of what the bank said. But for what we knew we could afford for our standard of living, we...we...we knew the maximum that we wanted to borrow..."

[GABRIELLE]

Yet these practices that we see as questionable were not usually defined as such by the interviewees. In a similar vein, our responses show that when participants were asked to agree or disagree with the following statements:

- "The lender arranged a mortgage that was a close fit with my needs," and
- "The lender convinced me to sign a mortgage that I wasn't able to afford."

Only five respondents considered they had been persuaded to sign a mortgage they could not afford; while 21 participants thought that the mortgage they signed was a close fit to their needs, even though this judgment coincided with their admission of having been in mortgage distress (figure 9.1).

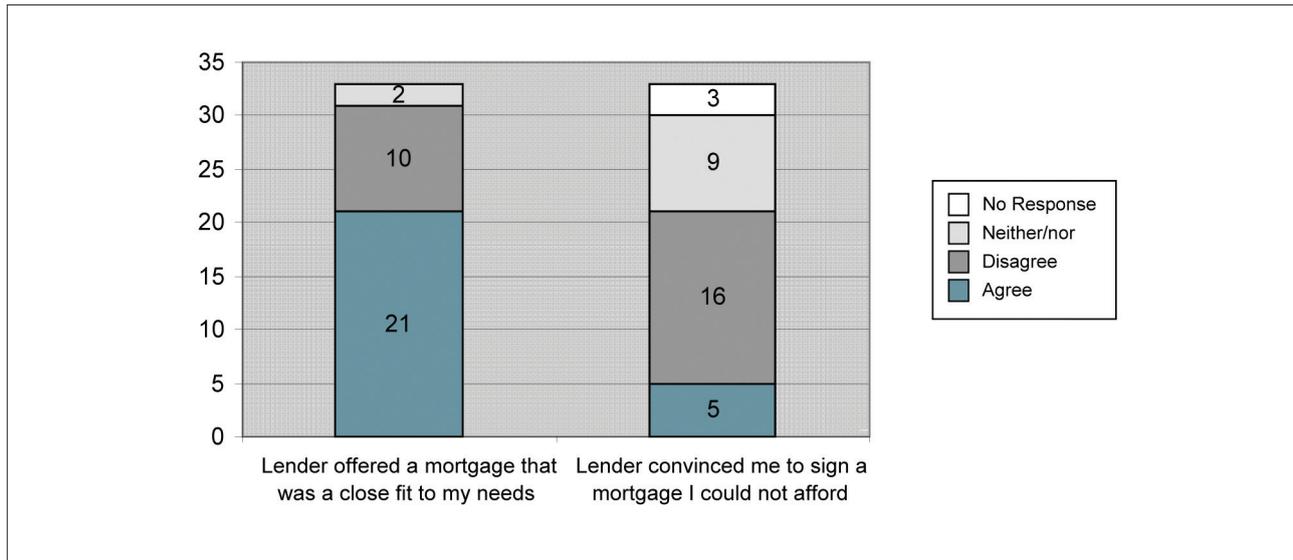


Figure 9.1 Respondents' assessment of lenders

III. FACTORS THAT LEAD TO MORTGAGE DISTRESS

The interview data show that two or more factors, rather than one, combine to make mortgage repayments difficult. The main factors leading to mortgage distress appear to fall into three categories:

- changes in the broader economic or financial context (such as an economic downturn or rises in interest rates),
- changes in personal context (such as changes in the amount or consistency of income due to changes in employment, illness, death or injury of a household member; relationship breakdown; or other change in family situation), and
- over-commitment at the time of signing the mortgage papers.

Furthermore, the interview data show that once a person or household enters mild mortgage distress, the factors leading to mortgage distress can snowball, even before the person or household can respond in ways that might reverse or relieve the situation.

Changes in economic or financial context

Changes in broader economic or financial conditions, external to individual or household circumstances, seem to have affected most people in our sample in one of two ways:

- by enlarging repayments due to a rise in interest rates, or
- by reducing disposable income due to changes in employment status caused by an economic downturn.

In the majority of our cases, the experience of mortgage distress intensified in the three or four years prior to October 2008, a period when interest rates rose by around 4% in a relatively short period of time.

“...we originally signed up for we could afford, but we didn’t...we put in the variable rates, we didn’t lock...we didn’t fix the rates in. So yeah, for the next kind of two

years we had... you know a number of interest rate rises and that... we... you know, that was very challenging.”

[GABRIELLE]

The interest rate rises in this period posed a particular challenge to those in marginal employment arrangements and those with larger mortgages, for whom a small increase in interest rates translated into a large increase in monthly repayments. Some respondents reported making hasty decisions to transfer to fixed interest rate contracts when rates were above 7% and they now regret their decisions.

An interesting observation is how unexpected and surprising the rise in interest rates was for some of the participants.

“And we sort of understood that interest rates move and they go up, but you didn’t...nobody expected them to go up as much as they did, and how much trouble it would cause.”

[KATE AND JOSH]

The economic downturn left many of the study’s participants jobless and others in unsteady work, which in turn affected their ability to service their mortgages:

“...it’s because of the recession; work is a bit slow... quiet. So now yeah, it’s a bit...getting a bit hard to pay, to make the repayments...because of this recession I haven’t got steady work, just on and off casual work.”

[DANIEL]

The economic downturn also affected some respondents who thought they had behaved conservatively and sensibly when getting their mortgages. The slowing of the economy introduced job instability or insecurity to these households, thereby making their mortgages riskier than they had appeared in the past:

“It was a beautiful house. So when they said you can get \$525,000, I can have my dream house, and it would

have been so easy to go for that. And then was just afterwards we thought that's ridiculous, you know, on what we're earning we can't ...we could have made the payments but it wouldn't...but just something going wrong, getting sick or something would have made it useless for us. So we thought no, we'll be sensible and we'll borrow what we can afford to pay off. And as it happened it was good because the day after we signed on the dotted line and we couldn't get our deposit back, we found I was made redundant."

[KATE AND JOSH]

Changes in personal context

Most of the study participants were affected by changes in their personal circumstances. These changes, in turn, have impacted on the participants' capacity to make their mortgage repayments, usually by affecting their participation in paid work. Personal circumstances often manifest as an intricate set of problems and challenges that contribute to mortgage distress in a snowballing manner. For instance, long term sickness brings escalating medical expenses, as well as job loss, which in turn leads to a significant loss of income. Or, over commitment on a home loan leads to increased credit card debt, requiring the working of extra overtime; this leads to personal anxiety, relationship stress, and sometimes to mental depression.

The reader will notice that the following section presents personal circumstances in a largely detached manner. Yet as shown in the vignettes in chapter 8, any of the personal circumstances listed below can be a trigger for other personal problems producing compounding negative effects.

Some of the changing personal circumstances referred to in our interviews include:

- illness, injury or disability;
- relationship breakdown;
- career change; and
- change in family situation.

These are now referred to in turn-

- an illness, injury or disability to one of the household members

Such events tend to induce mortgage distress by affecting the subject's ability to work.

"Turns out I've got a problem with my heart, got a few blockages in arteries around the body, which is a bit of a worry, and lost a bit of time off work because of that, and got behind in my payments...Then at the beginning of this year I had an accident, fell on the stairs and ended up in a wheelchair...And I haven't worked ever since."

[GEORGE]

"Yeah, I mean, at the time our business was doing really well and affording both the repayments weren't a problem for us. And then my...until my husband became unwell, then things, the income that we were used to

bringing in started to go down more and more each month, and then we started experiencing problems."

[CHARLENE]

But an illness or injury to the borrower or the borrower's partner might also impact on the ability to service the mortgage by reducing household income available to service a mortgage, even without changed employment circumstances, if a lot of money is spent on medicine or other treatment.

"My partner is going through cancer...with her medication over the last three and a half years, with no income from her... a pay goes basically all to her medication."

[MICHAEL]

- relationship breakdown

A relationship breakdown has strong financial impact on borrowers' even after the passage of several years. Study participants who experienced mortgage distress as a result of relationship breakdown were typically female; and we observed a number of instances where a relationship breakdown led to women becoming sole custodians of their children, and then single parent householders with mortgage distress. Parent support payments often do not take into account mortgage or full rental costs. In a few of our cases, income from support payments was considered in the assessment of capacity to pay in a home loan application. Yet such income is necessarily inconsistent and uncertain into the future. Furthermore, parental support typically ceases when a child turns 16 years even though many children at that age have not finished school and are unable to contribute in any significant sense to household income. Two of the single mothers in the interview sample have teenage children living in the house without their making any financial contribution because they don't have income from which to contribute, or they choose not to do so, or their offers are rejected by the mother.

"...if somebody had said to me probably you know when...when my ex-husband first left, obviously it was very traumatic because you know it was only a...a six month old baby and I was 41 when I had the baby so I'm an old mother. I would...I would...if somebody had said to me - 10 or it's 11 years this year - that the financial worry of the repercussions of that divorce has actually caused more stress than the actual fact of being divorced, I would have said that's not going to happen, that would be untrue."

[MORNA]

Some interviews demonstrated that mortgage distress can also become one of the causes of relationship break up. The stress of maintaining mortgage repayments builds pressure on relationships; with the presence of mortgage distress seen, somewhat ironically, as undermining the opportunity to acquire a home as a foundation of a solid and long term relationship.

"We've split up now and we're selling the house. So... and I think yeah a lot of it has got to do with being...yeah

stressed and tied...the pressure to pay.”

[GABRIELLE]

- career change

One participant had taken on a mortgage while studying for the purpose of making a career change. Her enrolment prevented her from working full time. The respondent faced a major dilemma, then, between maintaining her mortgage repayments in order to ensure security in dwelling tenure; or maximising her educational outcomes to ensure a successful career change.

“...I start to study again the different...different profession, so yeah, I just do part time work.”

[HYO SHIN]

- change in family situation

When deciding to take on a mortgage, some interviewees trusted that another person would assist them financially. But when that help ceased they started to struggle to make monthly repayments:

“Two years after – no, one year after – my daughter got married...she stopped helping me with the mortgage...”

[HUGO]

“...next year when my son turns 16 and the parenting payment cuts out for him...so I'll have to, you know, think about doing something...something because also when that cuts out, all the perks and things you get with a pension payment cut out too, like train fares and reduced fares and rego and stuff that you don't have to pay. That will come...that'll be a big shock having to pay those things again...”

[MARTHA]

The literature identifies the factors identified above as major contributors to mortgage distress. An additional factor – the birth of a child – is also identified in the literature, although none of our respondents reported a child birth event as a factor in their experience of mortgage distress. Our suspicion for this absence is that people who have recently had a child are less likely to have the time or willingness to be part of a research project. In fact, three people who filled out the online survey listed that one of the reasons for their being in mortgage distress was the birth of a child, but none of them provided contact details for an interview.

Over-commitment

Over-commitment is a key factor in generating mortgage distress. Four of our interviewees believe that if they had signed on to a smaller-sized mortgage they would not now be struggling. Yet they acknowledged they sought larger mortgages in order to buy the house they wanted, even though more modest purchases might have been more appropriate in retrospect.

Other participants over-committed by refinancing or acquiring a second loan because they thought they could increase their

wealth by renovating or by buying an investment property. They were hearing the many stories of people making handsome gains from such ventures and thought that it a good idea to become involved.

“... my husband was afraid, he didn't want to [take up another loan], but I thought that for the future for the girls' future... well, we got into the investment in 2003 which was the worst moment because of the skyrocketing prices... We were told that we could rent it in a certain way...They convinced us to get our daughters as signatories into the investment because they were both working...”

[MERDEDES]

A common problem leading to over-commitment is that borrowers fail to acknowledge significant household expenses when they evaluate their capacity to service a mortgage. The following interview extract shows a borrower's apparent surprise at the level and extent of her expenditure commitments which, in the case of her household, involved attempting to repay two mortgages, one of which was for an investment property:

“We had the house repayments, the car's fee, the van's fee, the girls' school fees, they went to private school...”

“And so we began to have the problem of paying both, the investment was already rented but we had to put much more money. The repayments were \$1900 dollars for the house and \$1400 or \$1500 for the investment. From the investment we had, I think we received \$900 rent and the rest, the difference, we had to pay it, plus the council, plus the water, plus the basic expenses and our expenses. And from then on, as we use to say, “We could not keep our heads above water.”

[MERCEDES]

A decisive observation is that most participants reported their belief that at the time the loan was approved they could afford the mortgage repayments. They trusted that approval was a marker of the financial institution's professional, expert judgement that they would be capable of repaying the loan.

The connection between over-commitment and the perception of risk from the borrowers' perspective is noteworthy. It appears that borrowers who over-commit to a mortgage believe that the property market will continue to yield capital gains at reasonable interest rates settings without questioning the strength of these assumptions. Borrowers also seem to enter a mortgage contract with a high degree of optimism, believing that there will not be impediments – unexpected or otherwise – on their capacity to repay. They are often motivated to enrol in the mortgage search process by the desire to buy the property they want; and this desire seems to limit their ability to assess the financial risks involved.

This returns our discussion to the need for quality information and its absence in many instances. Many interviewees signed up for mortgages that they would subsequently be incapable of repaying, often as a result of broader changes in the

economy or in financial markets, but also because of changes in their personal circumstances. In either case, it is evident from many of the stories collected that a significant factor in over-commitment was insufficient research and understanding on behalf of the potential borrower and, in the absence of this research and understanding, an unwarranted trust by the potential borrower in the advice and judgement of the broker or lending institution. The result of this communication breakdown is that a poor financial decision is taken on behalf of the lender, with major negative consequences for the affected household.

To sum up, the reasons behind people falling behind in their mortgage repayments are related to interest rises, changes in employment status due to a economic downturn or to disruptions caused by personal events such as illness, disability, injury or a death involving a household member; relationship breakdown; or changes within the household such as a child getting married or turning sixteen putting an end to child-support payments.

We now move to analysing the coping strategies that people enact when facing mortgage distress.

IV. COPING STRATEGIES

Overwhelmingly, people in our sample make enormous efforts to repay their loans according to prescribed schedules. They pay the mortgage repayment first and then juggle their other expenses subsequently.

“...we have about \$1,000 electricity bill we are not able to pay, I owe the water more than \$1,000 because with one...with \$900 per fortnight how can you pay the mortgage and eat properly and pay the bills and pay the electricity?...Yeah that [the mortgage] is my priority.”

[HUGO]

The coping strategies that were mentioned frequently in our research include:

- cutting back on essentials;
- relying on credit cards;
- accessing superannuation or asking for a moratorium;
- looking for additional sources of income; and
- getting independent advice.
- cutting down on luxuries or even basics

“...he now stopped going to before school care and after school care. I can't afford it...So in the end he was 11 and he's in Year 6 and I got him a mobile phone and we got a house key cut and he's been walking to and from school. It's about 3k... almost 3km”

[MORNA]

“I've been pretty good, I've, you know, I don't go out, I have a car that's from 1994, it's only a little car ... it doesn't take much petrol. I don't have it fully insured I only just have the normal insurance that, third party I think it's called you know. I don't even have insurances on my houses; and if anything happens like I...I can't

afford to insure them, I haven't got any excess money to insure my houses...

...I put water on my weat-bix just to get over this.”

[STELLA]

There were different levels of budgeting among interview participants. However, a majority of cases involved thrift and abstinence. Some went to extremes of compromising expenditure on basics such as food – such that our researchers found it difficult to imagine people maintaining such restrictions in the long term. The majority of interviewees though were positive that their current experience of mortgage distress was a passage they were passing through, while others commented they were anxious about how much longer they could sustain their limited lifestyles. Yet overwhelmingly they saw selling the house and repaying the mortgage as an option they were not willing to yield to.

- moving spending to credit cards while building larger debts at higher interest rates

“I always pay that [the mortgage] first...So it's [the credit card] got up to \$15,000 now that I owe.”

[MARTHA]

“I thought one way to do is to have a credit card. So you delay your expenses. So I had almost six or seven credit cards. ...Then I got very panicked...over \$20,000 credit card charge.”

[KAMESH]

Moving expenses to credit cards as a coping strategy is highly risky behaviour, leading to higher levels of household debt and exacerbated financial stress. Two patterns are observable in our interviews. One is that borrowers, pressed with anxiety over mortgage distress, opt for credit card spending with the (perhaps unrealistic) expectation they might repay the new debt before credit card interest and other charges are imposed. Another is that lenders create a credit card account as a part of the mortgage package; which gives ready access to expensive credit, an enticing option for borrowers experiencing mortgage distress.

- accessing superannuation, or asking for a moratorium

These are options that are only available in special cases. In respect of access to superannuation savings, the problem with this option is that the borrower and the household are left without the financial protection of their superannuation savings.

“I arranged to draw my money out of my super, so I applied to APRA [Australian Prudential Regulatory Authority] to get money to pay the arrears and everything. And that happened...I was asking for a moratorium on the mortgage.”

[GEORGE]

- looking for additional sources of income

“...so what I've done is I've gotten myself a second job now, right, so I work during the day 9:00 to 5:00 Monday to Friday at my job and then I go to [RSL CLUB] for three hours.”

[STELLA]

Finding other sources of income such as a second job can be a positive option in some circumstances; however, job instability and long hours of work can see this option have a negative effect on other aspects of a household or on the life of the worker involved.

- getting independent financial or legal advice

Only two interviewees mentioned that they had sought independent financial or legal advice. However, they did not such counselling was able to address the mortgage distress problem fully.

“I went to legal aid for assistance but the assistance, the assistance you can get there, is just counselling, talking. But the real assistance is...is to – because I am not in arrears – but the real assistance is to help me to pay the bills, which is...they...they can’t give you any money, you know, all they can give is just talk...talk.”

[HUGO]

“I don’t trust financial counsellors. They can’t really help. They said just...they just give advice how can I reduce the expenses, all that; and I did.”

[HYO SHIN]

Some interviewees did not know of the existence of free legal or financial advice until interviewers mentioned it. One respondent said she wanted to seek financial advice but felt she couldn’t because of her language limitations:

“Hundred times [I thought about going to one of these organisations which provide financial advice], but I’m always blocked because of the language, always blocked because of the language.”

[MERCEDES]

Information gained during our visits to counselling organisations suggests that many borrowers see financial advisors when most good intervention options have evaporated. Many also go with misinformed expectations. Even though research on financial counselling is scarce, some literature reports that the more hours of financial advice taken the better borrowers become at managing mortgages (Collins 2007). Delgadillo and Pimentel (2007) assess the effectiveness of counselling according to the types and outcomes of loans. They find that there are improved chances of beneficial outcomes when borrowers consult financial counsellors over a number of different periods of the mortgage contract and develop a relationship of trust with the counsellor or organisation involved.

- using multiple strategies to cope

In most cases, several of the coping strategies noted above were used simultaneously.

“we didn’t go out much...we used a credit a lot...and we got extra work...just little bits and pieces...baby sitting or work on the [incoherent]...he could fix things...”

[GABRIELLE]

The desperation of borrowers to meet their mortgage obligations using all available options and coping strategies relates directly to their unwillingness to sell their houses.

“I’d rather just pay off my tax bill and pay off my, my tax bill, my accountant and my visa card over the next four months or something like that where I...I don’t have those and I’m just going to just concentrate on it even if I have to go to a soup kitchen and eat for a few weeks, you know, just I’m not going to let them have my house.”

[STELLA]

Even the few with a more matter-of-fact attitude seek to retain their houses until they have little chance.

“Yeah, that’s our motivation [sending their daughter to university]. If there’s a problem I will sell the house. House is not important but their education is important.”

[KAMESH]

“So worst-case-scenario if it...if it doesn’t go well and my...if I don’t get a job and...and anything goes wrong, I have to sell the property, that’s a worst thing, but... yeah...”

[PETER]

Importantly, the end for many comes by way of formal resolution rather than legal dispossession. Two interviewees at some point decided that there was no option and they sold the house, and one ended up losing her house to the lenders.

“...because the investment hadn’t been sold, we put my house up for sale. And we sold my house first...the house was worth \$410,000 and we sold it for \$350,000. We paid the loan and I think we had \$20,000 or \$25,000 left to pay one of the credit cards’ balance.”

[CHARLENE]

V. THE IMPACTS OF MORTGAGE DISTRESS

Despite the differences between members in our sample – in terms of age, gender, level of income, reasons for buying a house, and so on – there are several things they share in terms of their personal experience of mortgage distress. Some of the issues that recurred during interviews were:

- shame and feeling of failure;
- loneliness;
- sadness and depression; and
- entrapment by debt.
- shame and feeling of failure

A large majority of interviewees feel ashamed to admit that they face mortgage distress. Regardless of the circumstances that led them into this situation, they have a sense of failure, of having disappointed themselves or others.

“...it was just horror and I didn’t want to tell anybody. I didn’t want to tell my children because I ...I always

wanted them to be proud of me and I ...I knew they couldn't help me; and I was so depressed sometimes I didn't want to come to work..."

[LAURA]

Although one of the interviewees commented how the economic downturn takes part of the shame away.

"Yeah, I think that's the thing, getting over the embarrassment of it. But having said that, I think it's easier for us this time because there's a recession on, so everybody's sort of...loads of people are on the same boat... [And later:] If it wasn't a recession, I'd probably be embarrassed about saying it because I think, 'Oh people think I got sacked cause I was no good,' you know."

[KATE AND JOSH]

- Loneliness

Due in part to feeling shame, most people in our sample went through the experience of mortgage distress in isolation. They have avoided talking about their experience of mortgage distress.

"There's not many people I can talk to about it, you know. We don't really have – in the main – really, really close friends. We have a lot of friends, like in the Scouts... But they're not really so close you can tell them personal details."

[GEORGE]

In some cases, because those affected see it as a taboo issue, people experiencing mortgage distress feel they are the only ones going through the experience; which makes them feel even more lonely. Being aware of others in a similar situation makes them feel "normal". One interviewee confessed that the main reason why she contacted us to become part of the study was to hear she was not alone.

"You know like I have to talk to the credit card lady, you know, just to say that I'm normal. And once you find out you are, and that other people are heaps worse, then you feel a bit better."

[MARTHA]

Those with the opportunity to share their mortgage worries with someone else seemed to have found that talking about their experience of mortgage distress was therapeutic and helped relieve their stress. However, because of the secrecy and shame around mortgage distress, the opportunities available are often not accepted.

"I actually went and got counselling, like I went and saw a psychologist for, about, I think six visits. And I think it was just good to be able to talk to somebody who didn't know, who didn't know me, I could tell the truth about things, too, and how I was feeling, and what was happening, and everything like that. So I think for children and parents, if they ever find themselves in a situation, it needn't be something, it's really important they're able to either tell a friend, a good ...a safe friend or go and see

someone that they don't know and just be able to tell somebody."

[CHARLENE]

"...and you have to have that safety net. If the worst comes to the worst and we lose the house, we're still going to have family. I know that my parents will come down and it'll be right, okay, spare room's ready for you, just move in that's it..."

...we were a very small team within a big company...if I went in one day and was really upset over something, oh, going to take Kate out for a hot chocolate and I'd cry on their shoulder sort of thing...so there was support at work.

[KATE AND JOSH]

Even for those who did not disclose the fact that they were in mortgage distress, the presence of social ties are an important assurance.

"One thing we did, I did is talk to my friends, not about my...this; other things, you know like music, you know; what do you think about that book? What do you...? And I read a lot, I read a lot of things. And that gives me...and so talking to my friends – not about the mortgage, other things – helped me to just not to think about it."

[KAMESH]

- sadness and depression

Several participants used the word "depressed" to define how they felt. Some talked about having suicidal thoughts.

"...but you know at some stage I was really, really thinking I can't go any longer. But then again I thought about children. No I can't do that [chuckle]."

[LAURA]

"...suicides ideation [sic] was a part of my...I mean I was thinking [sighs], 'I can't stand it. At least if I kill myself I don't have to worry.' Then when I was looking at the face of my children, I shouldn't...not planning it, but thinking it."

[KAMESH]

In particular, feelings of sadness and depression are common in the lives of those who end up selling or losing their houses:

"And the trauma that you walk through when you actually do lose your home to a bank or a lender is terrible. Like you wouldn't wish it on your worst enemy. Like I mean you have to keep picking yourself up every morning and having a positive outlook to be able to...you have to keep going, but the thought of suicide can be very real. And I can understand why people just get rid of themselves so they don't have to keep facing like another day of what they faced yesterday. Not that I ever felt like that but believe me, we've had our...we've had great night of tears all night long..."

[CHARLENE]

“...it’s almost like grieving for a family member, and that’s just the possession, and possessions should rule us and they’re really not important. But like it almost is a bit like that, like cause you’re losing something that you’ve really worked hard for, and put the best that you could into.”

[CHARLENE]

- entrapment by debt

Some interviewees describe the mortgage as something that has taken degrees of freedom from their lives. And this loss seems to be particularly hard to accept for young borrowers.

“But when you realise that’s every fortnight for year and years and years you start to go, ‘Oh, yeah.’ You can’t... you feel like you just can’t get ahead...it felt completely tied to the mortgage...trapped, yeah completely trapped.”

[GABRIELLE]

In addition to having a major impact on mental and emotional health, mortgage distress can also have a negative effect on physical health. Physical effects nominated by participants include inability to sleep or eat, poor nutritional intake and unhealthy consumption behaviours due to financial restrictions, and drinking problems.

“There was nights when I didn’t sleep all night and I would get up and write a letter, another letter, another letter. And sometimes I would send, other times not, but it helped me to write.”

[LAURA]

“What kind of food? It’s just semolina and rice, if there is no meat, nothing. But you can just cook the rice. If you are hungry you can eat the rice without anything. So the kids can eat like that, so it is really poor meal, poor dietary. But...but at least we are not outside...”

[HUGO]

“I had to find suddenly to get this molar out. Because I broke the molar and I couldn’t...they wanted me to have root canal therapy and then they want...if you have root canal therapy you’ve got to have a crown. And I said, ‘Well how much is that going to be?’ And they said, ‘Oh a couple of thousand.’ And I said, ‘You can forget it. No way in the world, take it out.’ ”

[MORNA]

Mortgage distress can also have a negative impact on an individual’s social life. Because of financial restrictions in particular, many interviewees claim that they are not able to see friends as often as they would like to. Some fear that it will be difficult for them to find a partner if their restrictions continue for too long:

“I had a lot of friends still from my theatre days, but they’re – a lot of them – are still single. But they live the life of the single person and they live in the city, right? They’re not going to trip out to where I live, I can tell you.

They don’t go that far for their holiday you know. So I’d have to be tripping into Paddington, and then there’d be brunch, and then there’d be lunch, and there’d be a film, and there’d be dinner. I couldn’t afford it, I couldn’t live their life. So gradually that sort of... you’d be sitting at home on those days, and you’d do the house work, and you’d go shopping, and you you’d, you know, tidy up and do the washing, and then you’d go and get a bottle of wine and you’d sit in front and watch the midday movie or a DVD, and you’d have a nap, and then you’d get up, and then you have another few more drinks, and then you nap again. And you’d do this over the weekend. And what were you doing, you know, you’re putting on weight, you’re putting on more weight, then you lose yourself respect, and you don’t achieve anything. And suddenly I thought this is crazy.”

[MORNA]

Finally, mortgage distress can effect decisions about having children: deciding not to have children, deferring the decision, or settling for having fewer children than desired. As discussed above, mortgage distress can lead to a relationship breakdown: or it can force a person to stay in relationship just for the sake of avoiding the loss of a home.

“And also in terms of like having children, we...that was always a factor... Like it was like we can’t have kids because we can’t afford them. So that, you know, is a big thing when considering a mortgage if you know... we were kind of ...didn’t have any children, and got the mortgage and then realised that we actually can’t ...can’t afford to have anyone else... It’s, like, it’s either got to be kids or the house.”

[GABRIELLE]

“...quite frankly if I knew how difficult it would have... would be in the last decade and ..and into the future. I mean nothing, you know, is going to change, to cope and do all this by yourself. Then I probably would have, you know, would have maybe not pressed so much for a divorce so...so early.”

[MORNA]

VI. PEOPLE’S EXPECTATIONS FOR THE FUTURE

Most people in our sample sounded optimistic about their futures when asked to assess the impacts of assistance measures like accessing superannuation, refinancing, obtaining a moratorium, on repayments; or the impacts of potentially damaging events like rising interest rates, job loss, or personal injury or illness. Most people do not see complete mortgage breakdown as possible even if it has already happened once.

“Like, but we’re both young enough and we both know that we’ve got enough working time on our side that we will recover pretty quickly...everything that’s happened to us, like we won’t let stop us from enjoying our life and

moving on. But we have learned a lot and we will be using what we've learned to help others.”

[CHARLENE]

though they buy a good house, with...with stressful life they can't be happy”

[HYO SHIN]

“...but is a good learning lesson. We don't buy junk food. I mean, before we'd buy Coke, MacDonald's, the kids love it. But we don't now; for the last five, six years, we don't go near to the MacDonald's...so we learned a lesson, but it's a good, positive thing.”

[KAMESH]

VII. LOOKING BACK

Do people have regrets?

Interviewees admitted to a number of regrets about their actions and decisions at the time of getting the mortgage including: not using a broker, doing more research, requesting a smaller loan, saving more for the deposit, and not fixing their interest rates. Despite the difficulties, however, people expressed determination in keeping their residential property. Only one respondent questioned the decision to buy a house and the consequences of a long-term mortgage obligation.

What would they do differently? What is their advice for others thinking about getting a mortgage? Many actions and strategies were raised repeatedly when interviewees responded to these questions. Many warned of over-committing. Most commonly, though, interviewees stressed the need for more information before committing to a mortgage; and of not relying so much on the advice given by the broker or lender.

“I think probably get more advice about the options available and a bit more about what happens if things go wrong. I just don't think when you take a mortgage out you think you're going, things will go wrong... but you've got to be prepared for it...”

“...I wouldn't have put so much emphasis on home ownership...it doesn't really matter whether or not you own your home. I mean it's a good investment in lots of ways, but it...it actually ties you...ties you down, and it dictates the way you live your life...I realise that home-ownership isn't necessarily a given...that there are other ways to live.”

[GABRIELLE]

“I think if I did it a third time, I would try to do it myself rather than work through a broker...go and talk with somebody direct myself. Because I don't think they've always got the best interest of the customer in there... they think...you know they're always looking after themselves as well.”

[MICHAEL]

“Don't buy with huge mortgage, just whatever you can pay...I suggest they buy really careful with a budget, within a budget...Is this the best house? Because even

Our findings stand in stark contrast to the analysis of mortgage performance by ratings agencies and financial institutions where mortgage stress and distress are judged not be of concern in relation to the stability of the Australian finance industry or the national economy. Yet, as we have shown, where stress and distress occur they invariably involve great personal hardship. While in the recent past the incidence of mortgage distress has been substantially lower in Australia than in the US or Europe, this is little comfort for those involved.

Yet mortgage distress has been rising in Australia. How does Australian society in popular discourse and through its financial regulators perceive growing levels of mortgage distress, and financial stress in general?

There is a view that people in mortgage distress have over-reached their financial capacity. There is view, too, that some are in mortgage distress as a result of having speculated in the property market and lost. But there is also the contrary popular view: that otherwise cautious people in ways they cannot fully understand have found themselves agreeing to sign up for loans that left them insufficiently protected against even small changes in circumstances.

Our case studies show elements of each of these, and of combinations of them. This is not surprising. There is always a propensity for financial institutions, driven by a search for yield, to pursue lending to the limits of what is deemed feasible. And there is a propensity for borrowers to borrow to their limits.

In the real world, though, feasibility and limits are context specific. What is reasonable in one situation may not be reasonable in another. Every economic boom and downturn reminds us that contexts change rapidly and in uncertain ways. The question is how we allow for an uncertain future.

Following calamitous circumstances in Australia in the mid and late 1980s, risk management practices in Australia among both financial institutions and regulators seem to have performed well in a range of economic and financial circumstances. Notably, Australia's experience of the global financial crisis remained within manageable limits, albeit with the assistance of federal government guarantees and a substantial fiscal stimulus. A result is that the nation's financial institutions remain robust.

But households rarely devise and enact risk management strategies. Nor are they provided with state underwriting when they are financially fragile.

In a sense the comparison between financial institutions and households is false – for a crisis of financial institutions can be systemic, while crises within households are individually experienced and contained, usually with no wider ramifications. Accordingly, mortgage distress is generally seen as a private or personal problem, becoming a state issue only insofar as it may be associated with poverty, thereby triggering more general welfare concerns and societal obligations.

However, this report suggests otherwise. While mortgage stress and distress are private and personal, there are systemic explanations for their occurrence just as we can observe general patterns in their incidence. This report has shown that:

1. mortgage distress is geographically concentrated
2. it is likely to arise when income is disrupted especially by poor labour market conditions, illness, relationship breakdown and by child birth
3. its impacts are severe and ongoing.

While our survey of the experience of mortgage distress is not comprehensive, our recruitment difficulties reveal the intensity of personal shame felt by those experiencing mortgage distress. Most people are very reluctant to talk of their experience of mortgage distress. We had to adjust our survey expectations to deal with this problem, and a consequence is that our results should be seen as providing evidence – albeit strong evidence – for our claims rather than statistical proof. That we have exposed a profound problem indicates the need for more comprehensive research into the issue.

Moreover, insofar as this report brings forward evidence of patterns of events and likely causes that lie beyond the domains of private judgments, the reports reveals our need to re-think mortgage distress as a problem that travels beyond a person or household, to wider social processes and the stresses – risks, even – they generate.

Certainly there is a need for better financial literacy among borrowers as a complement to more vigilant prudential supervision of mortgage products, as an improved consumer protection package. Indeed our respondents argued strongly for such improvements.

Beyond the need for more informed mortgage acquisition processes to improve both individual and institutional decision making, our report provides strong evidence that households' experiences of mortgage distress – including the enormous efforts and sacrifices householders make to meet their mortgage contract obligations -- need to become a central issue in the way we conceive of financial stability. The

concept of financial stability must apply not only to financial institutions but to elements of society, including households that lie outside the formal financial sector. Such a re-conceptualisation requires that financial regulation serve wider social needs than it does currently.

It is an issue that warrants further consideration and wider debate.

Arising from its discussions in the chapters above, this report recommends the following:

1. There be more extensive research on household experiences of financial stress and mortgage distress, to discern further their patterns and causes. Currently, this research is being conducted on the one hand by housing researchers with no direct links to issues of financial regulation, and on the other hand by ratings agencies and financial institutions whose focus is on risk management, but without an understanding or agenda for addressing the social problems of financial stress and mortgage distress. The social problems of household financial stress and mortgage distress need to be seen as integral to financial regulation.
2. Monitoring of the causes, evidence and consequences of mortgage distress (and financial stress in general) need to be distinctive and discrete tasks within financial regulation. These are not matters that can be covered adequately within the Australian Prudential Regulation Authority's (APRA) responsibilities for the prudential supervision of financial institutions, or through the Australian Security and Investment Commission's (ASIC) programs for advancing financial literacy.
3. The community services, government and non-government organisations which deal with people in financial stress and mortgage distress possess enormous knowledge of householder experiences of mortgage distress and under-recognised source of generous and capable assistance. Together these assistance organisations should be regarded as more than the providers of assistance to those who have failed to leap the home ownership hurdle. These organisations are an important resource which needs to be brought inside mainstream management of financial stability.
4. The regulation of mortgage products needs to acknowledge the vulnerability of many borrowers:
 - a. More and better information resources need to be created in order to help people make better decisions about their mortgages. The value of this information is diminished, however, if exaggerated and uncontested claims about mortgage products are disseminated via the advertising campaigns of mortgage finance suppliers and agents.
 - b. Regulatory authorities should establish procedures for vetting mortgage product advertising, with the capacity to force advertising to be reviewed or withdrawn, before transmission, to ensure a quality information environment for decision making about mortgage products.
 - c. Mortgage finance contracts should be independently inspected and commented on by accredited financial advisers prior to conclusion.
 - d. A typical intervention would involve a one-hour documentary inspection and preparation of commentary and a one-hour client briefing if considered necessary. Accredited financial advisers should be drawn from suitably qualified persons with a variety of social and cultural backgrounds, including from the pool of financial counsellors employed by charity organisations and other NGOs.
 - e. A suitably resourced public agency should team with accredited financial advisers to coordinate and fill gaps in the supply of educational and other information resources to assist potential borrowers make informed decisions concerning mortgage products. Materials should be available face-to-face and on-line and be targeted at potentially vulnerable and information poor groups.

REFERENCES

- Australian Bureau of Statistics 2009, *Australian Social Trends*, cat. no. 4102.0, March, viewed October 2009, AusStats Database
- Allon, F. 2008, *Renovation Nation: Our Obsession with Home*, University of New South Wales Press, Sydney.
- Australian Securities and Investments Commission 2008, *Protecting wealth in the family home: An examination of refinancing in response to mortgage stress*, Report 119, viewed April 2009, <<http://www.asic.gov.au/reports>>
- Battelino, R. 2009, *Housing and the economy*, speech presented at the 6th National Housing Conference Melbourne, 25 November 2009.
- Battelino, R. 2008, *Background Notes for Opening Remarks to Senate Select Committee on Housing Affordability in Australia*, Melbourne, 24 April 2008.
- Berry, M. 2010, 'Housing wealth and mortgage debt in Australia', in S. Smith & B. Searle (eds.) *Blackwell Companion to the Economics of Housing: the Housing Wealth of Nations*. John Wiley & Sons Ltd. Chichester, UK pp. 126-146.
- Berry, M., Dalton, T., Engels, B. and Whiting, K. 1999, *Falling Out of Home Ownership: Mortgage Arrears and Defaults in Australia*, Australian Housing and Urban Research Institute AHURI Research Monograph, University of Queensland Press, Brisbane.
- Berry, M., Dalton, T. Nelson, A. 2009, *Mortgage defaults in Australia: Nature, causes and social and economic impact*, Australian Housing and Urban Research Institute, Positioning Paper no. 114, Melbourne.
- Breunig, R. and Cobb-Clark, D. 2006, *Understanding the Factors Associated with Financial Stress in Australian Households*, Australian Social Policy 2005, Australian Government Department of Families, Community Services and Indigenous Affairs, FaCSIA, Canberra, pp 13-64
- Calder, L. 1999, *Financing the American Dream. A Cultural History of Consumer Credit*, Princeton University Press, Princeton.
- Collins, J. 2007, 'Exploring the design of financial counselling for mortgage borrowers in default', *Journal of Family and Economic Issues*, vol. 28, no. 2, pp. 207-226.
- Crump, J., Walker, R., Ashton, P., and Hammel, D. 2010, 'End of the dream? Perspectives on the US housing crisis', *Association of American Geographers Annual Meeting*, Washington DC, April 14-8
- Davies, M. 2009, 'Household Debt in Australia'. In *Household Debt: Implications for Monetary Policy and Financial Stability*, Bank for International Settlements BIS, BIS Papers No. 46.
- Delgadillo, L. and Pimentel, L. 2007, 'Analysis of mortgage default clients and mortgage default counseling at a housing counseling agency', *Financial Counseling and Planning* Vol. 18 no. 1 pp. 24-32.
- Fitch Ratings 2008, *Australian Mortgage Delinquency by Postcode 30 September*, Structured Finance Fitch Ratings, Sydney, Australia.
- Fitch Ratings 2009, *Australian Mortgage Delinquency by Postcode 30 September*, Structured Finance Fitch Ratings, Sydney, Australia.
- Flatau, P., Hendershott, P., Watson, R., and Wood, G. 2004, *What drives Australian housing careers? an examination of the role of labour market, social and economic determinants*. Australian Housing and Urban Research Institute, Final Reports AHURI no. 68, Melbourne.
- Fujitsu Consulting and JP Morgan 2007, *Mortgage Stress - Are Australian Households In A Pickle?* Australian Mortgage Industry Volume 6, Asia Pacific Equity Research, Fujitsu Consulting and JP Morgan Securities Australia Limited, Australia.
- Genworth Financial 2008, *The Genworth Financial Mortgage Trends Report*, Genworth Financial and Retail Finance Intelligence RFI, Australia.
- Greig, A. 1995. *The stuff dreams are made of: housing provision in Australia 1945-1960*, Melbourne University Press, Carlton, Australia.
- Gwyther, G. 2008, 'Once Were Westies', *Griffith Review: Cities on the Edge*. Vol 20 pp. 153- 170
- Hacker, J. 2006, *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement -And How you Can Fight Back*, Oxford University Press, Oxford.
- Hall, K. 2008, *The Importance of Financial Literacy*. Address to the Conference on Deepening Financial Capacity in the Pacific Region, Sydney, 25 August 2008

- Headey, B. 2007, *HILDA's Household Financial Accounts: Their value for developing improved assessment of economic well-being & poverty*, July 19-20 2007: Third HILDA Users' Conference, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, Melbourne.
- Headey, B. Marks, G. and Wooden, M. 2005, 'The dynamics of income poverty in Australia: Evidence from the first three waves of the *HILDA Survey*', *Australian Journal of Social Issues*, Vol. 40, No. 4, pp. 541-552.
- House of Representatives 2007, *Standing Committee on Economics, Finance and Public Administration -Home Loan Lending: Inquiry into home loan lending practices and processes used to deal with people in financial difficulty*, Parliament of the Commonwealth of Australia, Canberra.
- House of representatives 2008, *Standing Committee on Economics, Finance and Public Administration -Home Loan Lending: Inquiry into Competition in the Banking and Non-banking Sectors*, Parliament of the Commonwealth of Australia, Canberra.
- Immergluck, D. 2008, 'From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosures', *Journal of the American Planning Association* Vol 74 no. 1 pp. 59-76.
- International Monetary Fund 2005, *Global Financial Stability Report: Market Developments and Issues*, April, IMF, Washington.
- JP Morgan and Fujitsu 2010, *Australia Mortgage Industry Report*, Volume 11, Asia Pacific Equity Research, Fujitsu Consulting and JP Morgan Securities Australia Limited, Australia.
- Kaplan, D, Wheeler, J, Holloway, S. 2004, *Urban geography*, Wiley Press, New York.
- La Cava, G. and Simon, J. 2003, *A tale of two surveys: Household debt and financial constraints in Australia*. Research Discussion Paper, Economic Research, Reserve Bank of Australia RBA, Sydney, Australia.
- Laker, J. 2007, *Credit Standards in Housing Lending - Some Further Insights*, The Institute of Chartered Accountants in Australia, Melbourne.
- Lamont, C. 2008, 'Housing Affordability Crisis: Fact or Fiction?' *Australian Economic Review* Vol. 41 no. 2 pp. 194-199.
- Lowe, P. 2010, *Some challenges for the future*, speech to the Urban Development Institute of Australia National Congress UDIA, Sydney, 10 March 2010
- Marks, G. 2007, *Income Poverty, Subjective Poverty and Financial Stress*, Social Policy Research Paper no. 29 Australian Government Department of Families, Community Services and Indigenous Affairs, FaCSIA, Canberra.
- Marks, G and Sedgwick, S. 2008, 'Is there a housing crisis? The incidence and persistence of housing stress 2001-2006', *Australian Economic Review*, vol. 41, no. 2, pp. 215-221.
- National Housing Strategy 1991, *The Affordability of Australian Housing*, Issues Paper 2, Australian Government Publishing Service, Canberra.
- Paris, C. 1993, *Housing Australia*, Macmillan Education, Melbourne.
- Persson, M. 2009, 'Household indebtedness in Sweden and implications for financial stability - the use of household level data'. In *Household Debt: Implications for Monetary Policy and Financial Stability*, Bank for International Settlements BIS, BIS Papers No. 46.
- Productivity Commission 2004, *First home ownership*, Inquiry Report No. 28. Productivity Commission, Melbourne.
- Reserve Bank of Australia 2008, *Financial Stability Review: March 2008*, Reserve Bank of Australia RBA, Sydney.
- Richards, T. 2009, *Housing Market Developments*. Speech to Committee for Economic Development Australia CEDA Housing Forum: A National Round-up, Sydney, 29 September 2009
- Senate Select Committee 2008, *A good house is hard to find: Housing affordability in Australia*, Parliament of Australia, Commonwealth of Australia, The Senate, Select Committee on Housing Affordability in Australia Senate Printing Unit, Parliament House, Canberra.
- Shiller, R. 2003, *The new financial order: risk in the 21st century*. Princeton University Press, Princeton.
- Smith, S. 2008, 'Owner-occupation: at home with a hybrid of money and materials', *Environment and Planning A* Vol 40 no. 3 pp. 520 – 535
- Smith, S. 2009, 'Managing financial risks: The strange case of housing' In Clark, G. Dixon A. & Monk, A. *Managing Financial Risk: from Global to Local*. Oxford University Press, New York, pp. 233-257.
- Stevens, G. 2008, *The Directors' Cut: Four Important Long-run Themes*, address to the Australian Institute of Company Directors Luncheon Sydney, 17 September 2008
- Tanton, R., Nepal, B., and Harding, A. 2008, *Wherever I Lay My Debt, That's My Home: Trends in Housing Affordability and Housing Stress 1995-96 to 2005-06*, AMP.NATSEM Income and Wealth Report Issue 19, National Centre for Social and Economic Modelling Pty Limited, March 2008.
- Wesley Mission 2009, *Financial Stress: The Hidden Human Cost*. Wesley Mission Research, Sydney, March 2009.
- Wyly, E., Moos, M., Foxcroft, H., Kabahizi, E. 2007, 'Subprime mortgage segmentation in the American urban system'.

Tijdschrift voor Economische en Sociale Geografie Vol 99 no.1
pp. 3-23.

Wyly, E., Moos, M., Hammel, D., Kabahizi, E. 2009,
'Cartographies of Race and Class: Mapping the Class-
Monopoly Rents of American Subprime Mortgage Capital'.
International Journal of Urban and Regional Research Vol 33
no. 2 pp. 332-354.

Yates, J. and Milligan, V. 2007, *Housing Affordability: a 21st
Century Problem*, Australian Housing and Urban Research
Institute AHURI, Melbourne.

Yates, J. 2008, 'Australia's housing affordability crisis',
Australian Economic Review, Vol 41 no. 2, pp. 200-214.

APPENDICES

1. INTERVIEW GUIDE

<p>INTRODUCTION</p>	<p>Explain that the project focuses on residential properties Have you had a mortgage on a residential property in the last 4 years? Why did you decide to buy a house? Can you describe how you made the decision that you wanted and could take up a mortgage? Tell us about that property: is it a house/flat? Where is it located? Do you still have the mortgage?</p>
<p>PART 1: THE MORTGAGE</p>	<p>What institution did you get that mortgage with?</p>
<p>PART 2: THE SIGNATORIES</p>	<p>Were you a signatory? Who were the other signatories?</p>
<p>PART 3: THE TRANSACTION</p>	<p>How did you choose a lender? How did you choose a particular mortgage option? Describe to us the meetings with the lender? Who attended those meetings? What type of relationship did you have with the lender? Tell us about the information that the lender gave you. Tell us about the information that the lender asked you to provide. What was your perception at the time about the mortgage you were getting? How confident were you at the time of your ability to repay it? Did you talk to the lender about what would happen if you would start finding it difficult to make your monthly payments? Can you describe this conversation to us? How easy/difficult was it for you and the other signatories to deal with the lender?</p>
<p>PART 4: MORTGAGE DISTRESS</p>	<p>When did you first start having difficulties paying the mortgage? What changed in your situation that made it difficult for you to make your monthly payments? When did you talk to the lender about it? Describe your conversations with him. What did you do when you realised you were having problems making your repayments? How has being in mortgage distress affected your life? What is your perception today of the mortgage you got? If you could go back in time, what (if anything) would you do differently? What would your advice be for someone who is thinking about getting a mortgage?</p>

2. INFORMATION SHEET

Project title: The experience of mortgage distress in Sydney's geographical hot spots

This is an invitation to participate in a study about the mortgage experience from the perspective of the borrower, in identified Sydney's suburbs where the occurrence of mortgage distress is high.

What is the study about?

The aim of the study is to explore the process that leads to mortgage distress from the perspective of the borrower in identified areas of Sydney considered geographical hot spots for the occurrence of mortgage distress. The results will contribute to develop a better understanding of the issues that cause mortgage distress and be able to identify early signs of poor mortgage practices.

Who is carrying out the study?

The study is being carried out by Professor Phillip O'Neill Director, Professor Peter Phibbs Academic Program Coordinator; Dr Olga Camacho, Research Project Officer and Dr. Jessica Casiro Research Officer, from the Urban Research Centre at the University of Western Sydney.

What does the study involve?

The in-depth interviews are the second part of this study. The first part is a self administered survey that you may have answered already. This in-depth interview involves you talking about your mortgage experience; the themes are similar to the survey questions but adding more detail and depth to the answers. The interview will approximately run for 45 minutes, and will take place at the Urban Research Centre offices in Parramatta CBD or a site that is convenient to you.

Is there any possibility of me experiencing risks, inconveniences or discomforts during my participation in the study?

There may be a slight possibility that by answering some questions you may feel some discomfort from answering questions that you may consider personal and private regarding your mortgage experience. However, you are free to choose when not to answer a specific question and the interview can take a different course whenever you consider it appropriate.

Can I withdraw from this study?

Being in this study is completely voluntary; you are not under any obligation to consent. If you agree to participate in the interview, you can refuse to answer some questions, postpone or stop the interview at any time without giving any explanations.

Will anyone else know the results of my surveys?

The results of the interviews will be added together, your name or identity will not be used in any case. We will be able to inform you about the results of the research if you wish.

Will the study benefit me?

The study will not benefit you directly or immediately. It will benefit the community at large because this study will provide a better understanding of the issues influencing mortgage distress. You will receive a \$50 grocery voucher to compensate you for your efforts to participate in the interview.

If there is any problem or further question you are invited to contact Dr. Olga Camacho Duarte on 02 8833 5901 or ol.camacho@uws.edu.au

Note: This study has been approved by the University of Western Sydney Human Research Ethics Committee. The Approval Number is H6794 If you have any complaints or reservations about the ethical conduct of this research you may contact the Ethics Committee through the Research Ethics Officers (tel: 02 4736 0883). Any Issues you raise will be treated in confidence and investigated fully, and you will be informed of the outcome.

3. CONSENT FORM

Project title: The experience of mortgage distress in Sydney’s geographical hot spots

Participant’s Name _____

Interviewer’s Name _____

In giving my consent I acknowledge that:

1. I have read the information sheet; I understand what the study is about, my involvement in the study and I am willing to participate.
2. I know that the interview will take about 45 minutes and that at any given time I can refuse answering a question, postpone or stop the interview without having to provide any explanation.
3. The risks, inconveniences and discomforts in this study have been explained to me.
4. I understand that my ideas will be used in combination with other participants’ ideas and that my identity will never be revealed in any document resulting from this interview.
5. All my questions have been answered to my satisfaction and my consent is freely given.

Signed by participant _____

Date _____

Signed by interviewer _____

Date _____

4. COMMUNITY ORGANISATIONS CONSULTED DURING THIS STUDY

Community Resource Network
Community First Step
Creating Links Co op
Credit Line Wesley Mission
Granville Multicultural Community Centre
Hawkesbury Legal centre
Lifeline Western Sydney Parramatta Mission
Lower Mountains Neighbourhood Centre
Macquarie Legal Centre
Men's Health Australia
Mid Mountains Neighbourhood Centre
Mountains Community Resource Network
Money Care Parramatta (Salvation Army)
Parks Community Centre
Rouse Hill Families Connect
South Penrith Youth & Neighbourhood Services Inc.
The Hills Community Aid & Info Service Inc
Woodville Community Services

