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# The “*unrevealed casualties*” of the Irish mortgage crisis: Analysing the broader impacts of mortgage market financialisation

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ABSTRACT

Since 2008, extensive research has examined the impacts of mortgage market financialisation, particularly the socio-spatial patterns of mortgage defaults and foreclosures. However, these standard statistical indicators of mortgage difficulty only capture the ‘overt casualties’ of the crisis, overlooking the mass of households who meet their mortgage commitments, but do so at considerable cost to quality of life. The impacts of the crisis on these ‘unrevealed casualties’ has received insufficient attention within the literature. As such, this article develops a framework to assess mortgage stress levels using standard and atypical indicators of mortgage payment difficulty. This framework differentiates between the ‘overt’ and ‘unrevealed’ casualties and is applied through a case study of suburban Dublin mortgagors to examine the characteristics of these groups, determine the key factors driving their mortgage stress and assess how their attitudes towards homeownership are being reshaped. The results suggest the impact of the mortgage crisis is much larger than previously considered, affecting a more diverse range of suburban households, many of whom may be one financial or non-financial trigger event away from developing a more serious payments problem. Banks’ reckless lending practices are among the strongest predictors of mortgage stress, demonstrating how the failure to adequately regulate banking practices has had detrimental financial impacts for households at the suburban scale. Attitudes toward homeownership and its investment function are increasingly negative, demonstrating how the primary rationale for homeownership expansion (i.e. its potential for wealth creation) is being revaluated by mortgaged households in the wake of the crash.



## 1. Introduction

In the aftermath of the Global Financial Crisis of 2008, a significant body of literature has emphasised the role of financial deregulation, the expansion and empowerment of financial markets, particularly mortgage markets, and excessive risk taking by financial institutions in driving the economic bubble that fuelled the crisis and the ensuing global recession (Aalbers, 2012; Harvey, 2011; Wolfson and Epstein, 2013). As mortgage markets were expanded, their function became transformed from markets designed to facilitate borrowers seeking credit for home purchase to markets which facilitate strategies for global investment in which homes and homeowners could be exploited for financial sector gain. This ‘*high risk revolution*’ within mortgage lending saw the expansion of highly-leveraged mortgages among economically more vulnerable households and those with less developed credit histories who traditionally were housed in the private or social rented sectors (Immergluck, 2011; Ashton, 2008). As lenders cultivated an increased appetite for risk accumulation as part of profit-maximising strategies, they utilised mortgage funding (*e.g. securitisation*) and lending (*e.g. subprime mortgages, 100% LTV loans*) innovations to expand the scale and extend the reach of mortgage debt encumbrance. However, following the financial crisis, the household-level effects of this massive expansion and extension of mortgage lending have been stark. Rapidly falling house prices trapped many homeowners in negative equity, while the wider economic recession, falling incomes and rising unemployment created the conditions for mortgage default and foreclosure crises across advanced economies (Andritzky, 2014).

In Ireland, this paper’s empirical focus, the impact of the financial crisis has been particularly severe. Fuelled by deregulatory practices within the areas of economic management (Kirby, 2010), banking (Nyberg, 2011; Regling and Watson, 2010), housing (Waldron and Redmond, 2014) and urban planning (Murphy et al., 2014), one of the largest, speculative property bubbles among

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advanced economies emerged in Ireland. Between 2000 and 2008, the Irish housing market saw huge increases in residential construction, rapidly inflating house prices and an enormous expansion in mortgage credit, as per capita mortgage debt increased fourfold from €8620 to €33,810 (European Mortgage Federation, 2010, DOECLG, various). However, the reliance of the Irish economy and banking sector on the domestic property market was to be exposed, with disastrous economic and social consequences. The bursting of the finance-led property bubble resulted in the bailout of the Irish banking system (€64bn), which in itself resulted in the subsequent bailout of the Irish State by the IMF, ECB and European Commission (€67bn). Wider economic recession saw GNP decline by 8.5%, unemployment rise to 15% and household incomes decline by 17.5% between 2008 and 2012 (CSO, 2014). Given the extraordinary levels of outstanding mortgage indebtedness, a mortgage arrears crisis quickly developed and is considered Ireland's primary social and economic challenge (Government of Ireland, 2013). By mid-2014, 126,000 mortgages (*16.5% of total residential mortgages*) were in arrears and crucially, half of these cases (61,000) are in long-term arrears of more than one year. The value of accrued arrears is approximately €2.4bn or almost €27,000 per arrears case. Having failed to address the issue, the Irish banks are increasingly seeking to repossess property through the Courts system and to date some 3865 home repossessions have occurred (Central Bank of Ireland, various).

Despite a burgeoning critical literature on the socio-spatial impacts of mortgage market financialisation, a number of key gaps are evident. Firstly, Wainwright (2010, 782) identifies "... *a lacuna of geographical knowledge focusing on local-scale and national-scale studies, at present, outside of the US*..." which may hinder the development of policies and practices to mitigate mortgage payment difficulties. Secondly, research has focused on the "*standard statistical indicators*" of mortgage stress (*i.e. defaults and foreclosures*) to analyse the "*overt casualties of the housing- market crisis*," while overlooking the mass of households who manage to meet their mortgage commitments, but do so at considerable cost to quality of life (Forrest, 2011, 9). These '*unrevealed casualties*' are not afforded the same level of policy concern and are rarely captured by official data. Thirdly, O'Neill et al. (2010) have conceptualised '*mortgage stress*' as a continuum of mortgage difficulties ranging from 'struggling to make repayments on time' to 'home repossession', but there remains a lack of clarity as to how to precisely define and measure households along this continuum. Fourthly, it remains unclear how mortgagors' perceptions of homeownership and its financial benefits have been reshaped and are changing (or not) in the aftermath of the financial crisis.

Hence, this article seeks to advance the literature regarding the local level impacts and households' experiences of mortgage market financialisation and the recession through an analysis of the extent of mortgage stress at the suburban scale in Dublin. A series of standard and atypical indicators of mortgage payment difficulty are utilised to further develop O'Neill's et al.'s (2010) framework of mortgage stress in a manner than can differentiate between the '*overt*' and '*unrevealed*' casualties of the crisis. This framework is then applied using household level survey data drawn from Dublin suburban mortgagors ($n = 433$) to examine the characteristics of these groups, determine the key drivers of their mortgage payment problems and examine how their attitudes toward homeownership and its investment function are being reshaped in the wake of the crisis. Before outlining the approach utilised, the next section situates the research within the financialisation and mortgage indebtedness literature. Thereafter, the methodological approach is outlined before it is applied in the results sections. In conclusion, the implications of the research findings for the literature and the future of Irish homeownership are discussed.

## 2. Mortgage market financialisation and the experience of mortgage stress

The volatility created by the rising levels of defaults and foreclosures in the subprime mortgage market in the United States in 2008 fed quickly into wider financial markets, causing a seizing of the global financial system and disrupting the flow of interest-bearing financial capital to the productive economy (Rude, 2013). Faced with the collapse of the global financial architecture, Governments intervened with extraordinary responses to stabilise national financial systems, thereby transforming the financial crisis into a fiscal crisis and producing the longest post-war recession across advanced economies. Harvey (2011) contends the crisis is rooted in the liberalisation and empowerment of finance capital from the 1980s and the creation of speculative asset bubbles, particularly in the property market, by switching capital from the primary circuit of capital accumulation (*i.e. investment in the productive economy*) to the secondary circuit of investments in the built environment as a means of compensating for the lack of alternative investment opportunities. A growing body of literature has examined the role of financialisation, referring to the shift in gravity of economic activity from production to finance (Foster, 2007), within mortgage markets, whereby the mortgage market is no longer just a facilitator of credit for households but has become a facilitator of global investment where homeowners and houses are viewed as assets which are financially exploitable (Aalbers, 2008; Chima and Langley, 2012; Forrest and Hirayama, 2014). Research has examined how mortgage credit liquidity was massively expanded as a result of securitisation practices and the linking of local housing/mortgage markets to global financial markets (Gotham, 2009; Wainwright, 2009) and how mortgage lending was increasingly extended down the income/social class gradient through mortgage product innovations, like subprime mortgages and 100% LTV loans (Scanlon et al., 2008), the increased usage of risk calculation practices, like credit scoring and risk-based pricing (Langley, 2008) and greater risk acceptance by banks (Kelly, 2014). This combination of factors served to dramatically increase mortgage indebtedness levels, particularly among households in the lowest income groups (Girouard et al., 2006), and fuelled rapid house price appreciation, which in turn led to ever rising levels of mortgage indebtedness as the mortgage market created its own expansion (Aalbers, 2009).

In the wake of the crash, the critical literature on financialisation has emphasised the need for research regarding the geographies of asset creation and destruction, the geopolitical consequences and socio-spatial impacts of financialisation, particularly as the impacts have not been homogenous across space (Lee et al., 2009; Martin, 2011; Engelen et al., 2010). Importantly, with respect to this paper, the literature regarding the socio-spatial impacts at the local scale has focused on the geographies of the fallout from the subprime mortgage crisis in the United States, where mortgage companies targeted individuals and neighbourhoods that historically had been 'redlined' and excluded from accessing mortgage credit (Ashton, 2008). A number of studies have examined the connection between subprime lending and higher rates of mortgage defaults and foreclosures (Immergluck, 2009; Agarwal et al., 2011; Schloemer et al., 2006), particularly their socio-spatial concentration among households within low-income neighbourhoods, racial minorities and borrowers of high-cost, high-risk mortgage products (Crump et al., 2008; Wyly et al., 2009; Kaplan and Sommers, 2009; Newman, 2009; Allen, 2011; Niedt and Martin, 2012; Rugh, 2015). Additionally, research has examined the negative externality effects of concentrated clusters of foreclosures within communities, including impacts on surrounding property values (Immergluck and Smith, 2006a; Schuetz